



**SHOAL POINT ENERGY LTD.
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JANUARY 31, 2020 AND 2019**

EXPRESSED IN CANADIAN DOLLARS

Independent Auditor's Report

Consolidated Statements of Financial Position

Consolidated Statements of Operations and Comprehensive Loss

Consolidated Statements of Changes in Shareholders' Equity

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Independent Auditor's Report

To the Shareholders of Shoal Point Energy Ltd.

Opinion

We have audited the consolidated financial statements of Shoal Point Energy Ltd. ("the Group"), which comprise the consolidated statement of financial position as at January 31, 2020 and the consolidated statement of operations and comprehensive loss, changes in shareholders' equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at January 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 to the consolidated financial statements which describes the material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other matter

The financial statements of Shoal Point Energy Ltd. for the year ended January 31, 2019 were audited by another auditor who expressed an unmodified opinion on those statements on May 29, 2019.

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the other information prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including

the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Diana Huang.

"Crowe MacKay LLP"

**Chartered Professional Accountants
Vancouver, Canada Canada
May 29, 2020**

SHOAL POINT ENERGY LTD.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian Dollars)

	January 31, 2020	January 31, 2019
ASSETS		
CURRENT		
Cash and cash equivalents	\$ 352,889	\$ 538,542
Accounts receivable	15,623	23,269
Prepaid expenses	7,182	8,653
	375,694	570,464
RECLAMATION DEPOSIT (Note 5)	50,000	50,000
OIL & NATURAL GAS PROPERTIES AND EQUIPMENT (Note 6)	1,047,749	2,105,120
	\$ 1,473,443	\$ 2,725,584
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 373,325	\$ 37,135
SHAREHOLDERS' EQUITY		
Share capital (Note 8)	61,566,208	60,323,128
Warrants (Note 8)	12,021,605	12,010,366
Contributed surplus (Note 8)	4,746,602	4,547,693
Accumulated other comprehensive loss	(2,410)	-
Deficit	(77,231,887)	(74,192,738)
	1,100,118	2,688,449
	\$ 1,473,443	\$ 2,725,584

GOING CONCERN (Note 1)

COMMITMENTS AND CONTINGENCIES (Note 9)

SUBSEQUENT EVENT (Note 8)

Approved on behalf of the board:

"Brian Usher-Jones"
Director

"Mark Jarvis"
CEO, Chairman and Director

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

SHOAL POINT ENERGY LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
FOR THE YEARS ENDED JANUARY 31, 2020 AND 2019
(Expressed in Canadian Dollars)

	January 31, 2020	January 31, 2019
Expenses		
Depreciation (Note 6)	\$ 1,966	\$ 2,099
Foreign exchange loss	5,398	-
Oil and natural gas property impairment (Note 6)	2,176,303	-
Investor relations	228,266	-
Management salaries (Note 10)	129,474	143,248
Office, general and administrative	143,592	122,151
Professional fees (Note 10)	109,420	50,063
Rent	30,418	34,967
Share-based compensation (Notes 8 and 10)	214,485	143,705
Loss from operations	(3,039,322)	(496,233)
Interest and other income	173	356
Net loss for the year	(3,039,149)	(495,877)
Other comprehensive loss		
Exchange differences on translation of foreign operations	(2,410)	-
Comprehensive loss for the year	\$ (3,041,559)	\$ (495,877)
Loss per share		
Basic and diluted* (Note 11)	\$ (0.06)	\$ (0.01)
Weighted average number of common shares outstanding*	50,984,249	41,032,026

* Post 25:1 share consolidation (Note 8)

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

SHOAL POINT ENERGY LTD.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Expressed in Canadian Dollars)

	Share capital		Warrants		Contributed Surplus	Accumulated Other Comprehensive Loss	Deficit	Total
	Number of shares*	Amount	Number of warrants *	Amount				
Balance, January 31, 2018	21,768,350	\$ 59,444,279	2,760,640	\$ 11,876,223	\$ 4,403,988	\$ -	\$ (73,696,861)	\$ 2,027,629
Shares issued for cash (Note 8)	21,770,810	1,088,541	-	-	-	-	-	1,088,541
Less: issuance costs - cash	-	(75,549)	-	-	-	-	-	(75,549)
Less: issuance costs - warrants	-	(134,143)	2,500,000	134,143	-	-	-	-
Stock-based compensation (Note 8)	-	-	-	-	143,705	-	-	143,705
Comprehensive loss for the year	-	-	-	-	-	-	(495,877)	(495,877)
Balance, January 31, 2019	43,539,160	60,323,128	5,260,640	12,010,366	4,547,693	-	(74,192,738)	2,688,449
Shares issued for cash (Note 8)	14,831,250	1,186,500	7,415,625	-	-	-	-	1,186,500
Less: issuance costs - cash	-	(25,920)	-	-	-	-	-	(25,920)
Less: issuance costs - warrants	-	(22,518)	295,500	22,518	-	-	-	-
Exercise of warrants (Note 8)	538,750	65,442	(538,750)	(11,279)	-	-	-	54,163
Exercise of stock options (Note 8)	400,000	39,576	-	-	(15,576)	-	-	24,000
Stock-based compensation (Note 8)	-	-	-	-	214,485	-	-	214,485
Comprehensive loss for the year	-	-	-	-	-	(2,410)	(3,039,149)	(3,041,559)
Balance, January 31, 2020	59,309,160	\$ 61,566,208	12,433,015	\$ 12,021,605	\$ 4,746,602	\$ (2,410)	\$ (77,231,887)	\$ 1,100,118

* Post 25:1 share consolidation (Note 8)

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

SHOAL POINT ENERGY LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JANUARY 31, 2020 AND 2019
(Expressed in Canadian Dollars)

	2020	2019
Cash flows from operating activities		
Net loss for the year	\$ (3,039,149)	\$ (495,877)
Adjustments not effecting cash:		
Depreciation	1,966	2,099
Oil and natural gas property impairment	2,176,303	-
Foreign exchange loss	5,398	-
Share-based compensation	214,485	143,705
Changes in non-cash working capital		
Accounts receivable	7,646	(18,593)
Prepaid expenses	1,471	15,457
Accounts payable and accrued liabilities	20,466	2,428
Cash flows used in operating activities	(611,414)	(350,781)
Cash flows from investing activities		
Purchase of equipment	(531)	(3,879)
Oil and natural gas properties	(804,643)	(99,311)
Cash flows used in investing activities	(805,174)	(103,190)
Cash flows from financing activities		
Repayment of loan	-	(35,547)
Proceeds from share issuances	1,186,500	1,088,541
Share issuance costs - cash	(25,920)	(75,549)
Exercise of warrants	54,163	-
Exercise of stock options	24,000	-
Cash flows provided by financing activities	1,238,743	977,445
(Decrease) increase in cash and cash equivalents	(177,845)	523,474
Effect of exchange rate changes on cash	(7,808)	-
Cash and cash equivalents, beginning of year	538,542	15,068
Cash and cash equivalents, end of year	\$ 352,889	\$ 538,542
The components of cash and cash equivalents are as follows:		
Cash	\$ 341,882	\$ 527,535
Term deposit	11,007	11,007
	\$ 352,889	\$ 538,542
Non-cash investing and financing activities		
Fair value transferred upon exercise of stock options	\$ 15,576	\$ -
Fair value transferred upon exercise of warrants	\$ 11,239	\$ -
Accounts payable related to oil & natural gas properties	\$ 315,724	\$ -

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

SHOAL POINT ENERGY LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
FOR THE YEARS ENDED JANUARY 31, 2020 AND 2019

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. The Company is headquartered 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 Canadian Securities Exchange ("CSE") under the symbol SHP.

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 (Note 8). All references to share and per share amounts in these consolidated financial statements have been retroactively restated to reflect the share consolidation.

The Company is in the exploration stage of exploring its oil and natural gas properties and has not yet determined whether these properties contain oil and natural gas resources that are economically recoverable, as a result, it is considered an exploration stage company. The recoverability of amounts shown for oil and natural gas properties is dependent upon the existence of economically recoverable reserves, securing and maintaining the title and beneficial interest in the properties, the ability of the Company to obtain necessary financing to complete the development and upon future profitable production or proceeds from disposition of the oil and natural gas properties.

The consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern. This assumes the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its obligations in the normal course of operations. The Company has incurred operating losses since inception, including \$3,039,149 for the year ended January 31, 2020 and has accumulated a deficit of \$77,231,887 as at January 31, 2020. As at January 31, 2020 the Company has cash of \$352,889 and a working capital of \$2,369.

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. Subsequent to January 31, 2020, there was a global pandemic outbreak of COVID-19. The actual and threatened spread of the virus globally has had a material adverse effect on the global economy and specifically, the regional economies in which the Company operates. The pandemic could result in delays in the course of business, including potential delays to its exploration efforts and programs, and continue to have a negative impact on the stock market, including trading prices of the Company's shares and its ability to raise new capital. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company's business or results of operations at this time. 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. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

2. BASIS OF PRESENTATION

Statement of Compliance

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

These consolidated financial statements were authorized for issue by the board of directors on May 29, 2020.

Basis of Measurement

The consolidated financial statements of the Company have been prepared on an accrual basis and are based on historical costs, modified where applicable.

Consolidation

These consolidated financial statements include the financial statements of the Company and its wholly-owned and controlled

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subsidiary, Shoal Point U.S.A. Inc., incorporated in Wyoming, USA on April 2, 2019.

Control is achieved when the Company has the power to, directly or indirectly, govern the financial and operating policies of an entity so as to obtain benefits from its activities. Subsidiaries are fully consolidated from the date on which control is obtained, and continue to be consolidated until the date that such control ceases. Intercompany balances, transactions and unrealized intercompany gains and losses are eliminated upon consolidation.

Use of estimates and assumptions

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

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

Significant judgments

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

FOREIGN CURRENCY TRANSLATION

The presentation currency of the Company is the Canadian dollar. The functional currency of the Company is the Canadian dollar. The functional currency of Shoal Point U.S.A. Inc. is the US 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.

Entities whose functional currencies differ from the presentation currency are translated into Canadian dollars as follows: assets and liabilities – at the closing rate as at the reporting date, and income and expenses – at the average rate of the period. All resulting changes are recognized in other comprehensive income as cumulative translation differences.

When the Company disposes of its entire interest in a foreign operation, or loses control, joint control, or significant influence over a foreign operation, the foreign currency gains or losses accumulated in other comprehensive income related to the foreign operation are recognized in profit or loss. If an entity disposes of part of an interest in a foreign operation which remains a subsidiary, a proportionate amount of foreign currency gains or losses accumulated in other comprehensive income related to the subsidiary are reallocated between controlling and non-controlling interests.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

SHOAL POINT ENERGY LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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FINANCIAL INSTRUMENTS

Recognition and classification

The Company recognized a financial asset or financial liability on the statement of financial position when it becomes party to the contractual provisions of the financial instrument.

The Company classifies its financial instruments in the following categories: at fair value through profit and loss (“FVTPL”), at fair value through other comprehensive income (“FVTOCI”) or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company’s business model for managing the financial assets and their contractual cash flow characteristics.

Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

Measurement

Financial assets and liabilities at FVTPL

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in profit or loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in profit or loss in the period in which they arise. Where management has opted to recognize a financial liability at FVTPL, any changes associated with the Company’s own credit risk will be recognized in other comprehensive income.

Financial assets at FVTOCI

Elected investments in equity instruments at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently they are measured at fair value, with gains and losses recognized in other comprehensive income.

Financial assets and liabilities at amortized cost

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in profit or loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

Derecognition

Financial assets

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in profit or loss. However, gains and losses on derecognition of financial assets classified as FVTOCI remain within accumulated other comprehensive income.

Financial liabilities

The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled or expired. Generally, the difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets, is recognized in profit or loss.

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OIL AND NATURAL GAS PROPERTIES (exploration and evaluation assets)

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

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

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

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

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

EQUIPMENT

Recognition and Measurement

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

Depreciation

Equipment is depreciated annually on a declining balance basis using rates of 20%-30% respectively.

Impairment

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

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.

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

SHOAL POINT ENERGY LTD.
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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 loss.

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

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.

WARRANTS

Proceeds from unit placements are allocated first to shares and then to warrants for any residual 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. Broker warrants issued separately are valued using the Black-Scholes Option Pricing Model.

RESERVES

Warrant reserve

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

Contributed surplus

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

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.

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

ACCOUNTING CHANGES AND RECENT PRONOUNCEMENTS

New and amended standards adopted by the Company

New and amended standards adopted by the Company

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 on February 1, 2019 did not have a material measurement or disclosure impact on the Company's consolidated financial statements.

4. FINANCIAL RISK AND CAPITAL MANAGEMENT

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board of Directors approves and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is provided as follows:

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. The Company's primary exposure to credit risk is on its cash held in bank accounts. All of the cash is

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deposited in bank accounts held with major banks in Canada. Since all of the Company's cash is held by two major banks there is a concentration of credit risk. This risk is managed by using major banks that are high credit quality financial institutions as determined by rating agencies.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. The Company ensures that there are sufficient funds to meet its short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash and cash equivalents.

Historically, the Company's sole source of funding has been the issuance of equity securities for cash, primarily through private placements. The Company's access to financing is always uncertain. There can be no assurance of continued access to significant equity funding.

Foreign exchange risk

Foreign currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency. The Company has operations in Canada and the United States and incurs operating and exploration expenditures in both currencies. The fluctuation of the Canadian dollar in relation to the American dollar will have an impact upon the results of the Company. A fluctuation in the exchange rates between Canada and the American dollar of 10% would result in a \$15,000 change in the Company's net assets. The Company does not use any techniques to mitigate foreign exchange risk.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company does not have any significant interest rate risk.

Capital Management

The Company's policy is to maintain a strong capital base so as to maintain investor and creditor confidence, safeguard the Company's ability to support the exploration and development of its exploration and evaluation assets and to sustain future development of the business. The capital structure of the Company consists of equity and debt obligations, net of cash.

There were no changes in the Company's approach to capital management during the period and no restrictions.

Classification of financial instruments

The following financial assets and liabilities are classified under Amortized cost: cash and cash equivalents, term deposit, reclamation deposit and accounts payable and accrued liabilities.

Fair value

The fair value of the Company's financial assets and liabilities approximates the carrying amount.

5. RECLAMATION DEPOSIT

The reclamation deposit consists of a \$50,000 deposit with the Department of Natural Resources of Newfoundland and Labrador posted in August 2016.

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6. OIL AND NATURAL GAS PROPERTIES AND EQUIPMENT

	Oil and natural gas properties	Equipment and software	Total
<u>Cost</u>			
Balance at January 31, 2018	\$ 2,000,000	\$ 24,909	\$ 2,024,909
Additions	99,311	3,879	103,190
Balance at January 31, 2019	2,099,311	28,788	2,128,099
Additions	1,120,367	531	1,120,898
Impairment	(2,176,303)		(2,176,303)
Balance at January 31, 2020	\$ 1,043,375	\$ 29,319	\$ 1,072,694

	Oil and natural gas properties	Equipment and software	Total
<u>Accumulated Depreciation</u>			
Balance at January 31, 2018	\$ -	\$ 20,880	\$ 20,880
Depreciation for the year	-	2,099	2,099
Balance at January 31, 2019	-	22,979	22,979
Depreciation for the year	-	1,966	1,966
Balance at January 31, 2020	\$ -	\$ 24,945	\$ 24,945

<u>Carrying Amounts</u>			
As at January 31, 2019	\$ 2,099,311	\$ 5,809	\$ 2,105,120
As at January 31, 2020	\$ 1,043,375	\$ 4,374	\$ 1,047,749

Newfoundland, Canada

The Company currently holds exploration license 1070 ("EL 1070") off the west coast of Newfoundland which totals approximately 150,000 acres. In November of 2013, the Minister of Natural Resources announced that applications for hydraulically fracturing wells would not be accepted which effectively imposed a moratorium. 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 and recommends, among other things, significant further study before hydraulic fracturing could be considered. The Company originally anticipated that it would use hydraulic fracturing to achieve commercial production. 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 the Company's application to drill a new well.

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 proposal was rejected by the C-NLOPB, and no substantive expenditure on further exploration has been planned; accordingly the previously capitalized cost of \$2,176,303 was written off.

Mount Evans, Kansas, USA

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 (paid), financing a 3D seismic shoot over approximately 5,700 acres at an estimated cost of US\$420,000 (paid), 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 (paid). 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. During the year ended January 31, 2020 the Company completed all earn-in requirements earning a 65% working interest in the joint venture.

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7. LOAN PAYABLE

During the year ended January 31, 2018, the Company received a total of \$35,000 from the former CFO of the Company. The loan was due on demand, unsecured, had no maturity date and bore interest at a rate of 10% per annum. During the year ended January 31, 2019, the Company repaid the outstanding balance of the loan in full.

8. EQUITY INSTRUMENTS

(a) Share Capital

Shares issued during the year ended January 31, 2020

On August 7, 2019, the Company closed a non-brokered private placement and issued a total of 14,831,250 units for total gross proceeds of \$1,186,500. Each unit, priced at \$0.08 per unit, consisted of one share and one-half share purchase warrant. Each full warrant is exercisable at a strike price of \$0.15 with an expiry on the third anniversary of the date of closing of the transaction. The Company incurred finder's fees of \$23,640 and share issue costs of \$2,280 associated with the private placement. The Company also issued 295,500 broker warrants, each entitling the holder to subscribe for one common share at \$0.08 per share until August 8, 2020. The fair value of these warrants was accounted for as a share issuance cost and has been determined to be \$22,518 and was estimated using the Black-Scholes Option Pricing Model with the following weighted-average assumptions: risk free rate of 1.39%; expected term of 1 year; exercise price of \$0.08 per share; volatility of 120%; and expected future dividends of \$nil.

During the year ended January 31, 2020, the Company issued 538,750 common shares pursuant to exercise of warrants for total gross proceeds of \$54,163. A value of \$11,279 was transferred from warrant reserve to share capital as a result. The weighted average share price at the dates the warrants were exercised was \$0.25.

During the year ended January 31, 2020, the Company issued 400,000 common shares pursuant to exercise of stock options for total gross proceeds of \$24,000. A value of \$15,576 was transferred from contributed surplus to share capital as a result. The share price at the date the stock options were exercised was \$0.11.

Shares issued during the year ended January 31, 2019

On March 13, 2018, the Company completed an equity rights offering (the "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. The fair value of these warrants was accounted for as a share issuance cost and has been determined to be \$134,143 and was estimated using the Black-Scholes Option Pricing Model with the following weighted-average assumptions: market value of underlying stock of \$0.06; risk free rate of 1.10%; expected term of 5 years; exercise price of \$0.06 per share; volatility of 186%; and expected future dividends of \$nil.

(b) 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 these financial statements have been retroactively restated to reflect the share consolidation.

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(c) Stock option plan and stock-based compensation

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

The following table summarizes information concerning the Company's stock options outstanding:

	January 31, 2020		January 31, 2019	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Options outstanding, beginning	3,860,000	\$ 0.24	1,660,000	\$ 1.25
Options granted	1,800,000	\$ 0.12	3,500,000	\$ 0.07
Options cancelled	(250,000)	\$ 0.07	(1,280,000)	\$ 1.07
Options exercised	(400,000)	\$ 0.06	-	\$ -
Options expired	-	\$ -	(20,000)	\$ 3.75
Options outstanding, ending	5,010,000	\$ 0.22	3,860,000	\$ 0.24
Options exercisable, ending	4,960,000	\$ 0.22	3,310,000	\$ 0.27

Details of options outstanding as at January 31, 2020 are as follows:

Weighted average exercise price	Weighted average contractual life	Number of options outstanding
\$0.13	1.54 years	100,000
\$1.25	1.55 years	560,000
\$0.10	2.37 years	500,000
\$0.13	2.54 years	200,000
\$0.07	3.12 years	2,350,000
\$0.07	3.30 years	100,000
\$0.06	3.72 years	200,000
\$0.13	4.55 years	1,000,000
\$0.22	3.13 years	5,010,000

The grant date fair value of share purchase options granted during the year ended January 31, 2020 has been estimated using the Black-Scholes Option Pricing Model with the following weighted-average assumptions: market value of underlying stock of \$0.12; risk free rate of 1.40%; expected term of 4.06 years; exercise price of the option of \$0.12 per share; volatility of 193%; and expected future dividends of nil, for a weighted average grant date fair value of \$0.11 per option. 1,500,000 of these stock options vested upon grant, and 150,000 of these stock options vest in two equal instalments every three month thereafter.

The grant date fair value of share purchase options granted during the year ended January 31, 2019 has been estimated using the Black-Scholes Option Pricing Model with the following weighted-average assumptions: market value of underlying stock of \$0.05; risk free rate of 1.70%; expected term of 5 years; exercise price of the option of \$0.07 per share; volatility of 203%; and expected future dividends of nil, for a weighted average grant date fair value of \$0.05 per option. 2,500,000 of these stock options vested upon grant, 700,000 of these stock options vest in four equal instalments with the first tranche vesting upon grant and the rest every six month thereafter, 100,000 of these stock options vest in four equal instalments with the first tranche vesting three months from the grant date and the rest every three month thereafter, and 200,000 of these stock options vest in eight equal instalments with the first tranche vesting three months from the grant date and the rest every three month thereafter.

During the year ended January 31, 2020, stock based compensation of \$214,485 was recognized (2019 – \$143,705).

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(d) Warrants

The following table summarizes warrants that have been issued, exercised or have expired during the years ended January 31, 2020 and 2019:

	January 31, 2020		January 31, 2019	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Warrants outstanding, beginning	5,260,640	\$ 0.18	2,760,640	\$ 1.25
Warrants issued	7,711,125	0.15	2,500,000	0.06
Warrants exercised	(538,750)	0.10	-	-
Warrants outstanding, ending	<u>12,433,015</u>	<u>\$ 0.16</u>	<u>5,260,640</u>	<u>\$ 0.18</u>

At January 31, 2020, the following warrants were outstanding:

<u>Exercise price</u>	<u>Number outstanding</u>	<u>Weighted average remaining contractual life (in years)</u>
\$0.08	235,500	0.52
\$0.08 - 1.25	2,325,600	0.56
\$0.08 - 1.25	235,040	0.74
\$0.08	40,000	1.12
\$0.06	2,375,000	1.12
\$0.15	7,221,875	2.52 ⁽¹⁾
	<u>12,433,015</u>	<u>1.81</u>

⁽¹⁾ Subsequent to January 31, 2020, 500,000 of these warrants were exercised.

9. 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.

10. RELATED PARTY TRANSACTIONS

Key management consists of the Company’s directors and officers. Details of key management compensation are as follows:

	January 31, 2020	January 31, 2019
Management salaries	\$ 97,280	\$ 118,547
Professional fees	11,517	13,990
Share-based compensation	59,257	97,879
	<u>\$ 168,054</u>	<u>\$ 230,416</u>

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11. 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. As the Company is in a loss position for the years ended January 31, 2020 and 2019, the inclusion of options and warrants in the calculation of diluted earnings per share would be anti-dilutive, and accordingly, were excluded from the diluted loss per share calculation.

12. 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	January 31, 2020	January 31, 2019
Oil and natural gas property	\$ 2,211,119	\$ 2,051,134
Cumulative eligible capital	33,818	37,013
Share issuance costs and other	18,299	20,353
Non-capital losses	14,096,661	15,474,427
	<u>16,359,897</u>	<u>17,582,927</u>
Deferred tax assets not recognized	(16,359,897)	(17,582,927)
	<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 26.5% (2019 - 30%) to the loss before income taxes as follows:

	January 31, 2020	January 31, 2019
Expected tax recovery	\$ (805,374)	\$ (148,763)
Stock based compensation costs and other non-deductible expenses	56,994	43,112
True-up	(78,569)	-
Change in tax rate and other	2,056,847	(602,309)
Change in deferred tax assets not recognized	(1,229,898)	707,960
	<u>\$ -</u>	<u>\$ -</u>

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As at January 31, 2020 the Company has Canadian non-capital losses of \$53,116,974 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		1,854,414
2031		772
2032		3,905,473
2033		730,261
2034		2,512,171
2035		730,551
2036		654,913
2037		558,385
2038		35,080,226
2039		1,318,272
2040		585,452
		<hr/>
	\$	53,116,974