



**SHOAL POINT ENERGY LTD.
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JANUARY 31, 2023 AND 2022**

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 (Deficiency)

Consolidated Statements of Cash Flows

Notes to the Consolidated Financial Statements

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 statements of financial position as at January 31, 2023 and January 31, 2022 and the consolidated statements of operations and comprehensive loss, changes in shareholders' equity (deficiency) and cash flows for the years 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, 2023 and January 31, 2022, and its consolidated financial performance and its consolidated cash flows for the years 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Other than the matter described in the Material Uncertainty Related to Going Concern section, we have determined there are no key audit matters to be communicated in our report.

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 30, 2023**

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

	January 31, 2023	January 31, 2022
ASSETS		
CURRENT		
Cash and cash equivalents	\$ 16,239	\$ 46,601
Accounts receivable	43,451	22,995
Prepaid expenses	11,099	10,384
	70,789	79,980
RECLAMATION DEPOSIT (Note 5)	50,000	50,000
OIL & NATURAL GAS PROPERTIES AND EQUIPMENT (Note 6)	9,337	2,849
	\$ 130,126	\$ 132,829
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities (Note 10)	\$ 473,354	\$ 174,634
GOVERNMENT LOAN PAYABLE (Note 7)	30,000	30,000
RECLAMATION OBLIGATION	-	38,157
	503,354	242,791
SHAREHOLDERS' DEFICIENCY		
Share capital (Note 8)	63,201,937	62,675,239
Warrants (Note 8)	11,906,321	11,903,439
Contributed surplus (Note 8)	5,031,991	4,923,720
Accumulated other comprehensive loss	(40,588)	(51,161)
Deficit	(80,472,889)	(79,561,199)
	(373,228)	(109,962)
	\$ 130,126	\$ 132,829

REPORTING ENTITY AND GOING CONCERN (Note 1)

COMMITMENTS AND CONTINGENCIES (Note 9)

SUBSEQUENT EVENTS (Notes 8 and 13)

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, 2023 AND 2022
(Expressed in Canadian Dollars)

	January 31, 2023	January 31, 2022
Revenues (Note 6)	\$ 48,614	\$ -
Lease operating expenses	(7,789)	-
Gross profit	40,825	-
Expenses		
Depreciation (Note 6)	855	1,344
Property investigation cost	92,174	113,277
Foreign exchange (gain) loss	(1,878)	3,116
Oil and natural gas property impairment (Note 6)	378,609	1,494,834
Management salaries (Note 10)	80,432	51,142
Office, general and administrative	174,921	114,057
Professional fees (Note 10)	88,985	27,661
Rent	30,561	30,567
Share-based compensation (Notes 8 and 10)	108,271	176,941
	(952,930)	(2,012,939)
Loss from operations	(912,105)	(2,012,939)
Interest and other income	415	10,094
Net loss for the year	(911,690)	(2,002,845)
Other comprehensive income (loss)		
Exchange differences on translation of foreign operations	10,573	(4,971)
Comprehensive loss for the year	\$ (901,117)	\$ (2,007,816)
Loss per share		
Basic and diluted (Note 11)	\$ (0.02)	\$ (0.06)
Weighted average number of common shares outstanding	44,133,290	36,220,497

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

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

	Share capital		Warrants		Contributed Surplus	Accumulated	Deficit	Total
	Number* of shares	Amount	Number of warrants	Amount		Other Comprehensive Loss		
Balance, January 31, 2021	32,563,072	\$ 62,063,986	6,744,437	\$ 12,016,267	\$ 4,746,779	\$ (46,190)	\$ (77,558,354)	\$ 1,222,488
Shares issued for cash (Note 8)	2,667,677	373,475	2,667,677	-	-	-	-	373,475
Less: issuance costs - cash	-	(2,550)	-	-	-	-	-	(2,550)
Less: issuance costs - warrants	-	(1,194)	18,214	1,194	-	-	-	-
Exercise of warrants (Note 8)	1,062,500	241,522	(1,062,500)	(114,022)	-	-	-	127,500
Expired warrants	-	-	(192,250)	-	-	-	-	-
Stock-based compensation (Note 8)	-	-	-	-	176,941	-	-	176,941
Comprehensive loss for the year	-	-	-	-	-	(4,971)	(2,002,845)	(2,007,816)
Balance, January 31, 2022	36,293,249	62,675,239	8,175,578	11,903,439	4,923,720	(51,161)	(79,561,199)	(109,962)
Shares issued for cash (Note 8)	9,058,334	543,500	9,058,334	-	-	-	-	543,500
Less: issuance costs - cash	-	(13,920)	-	-	-	-	-	(13,920)
Less: issuance costs - warrants	-	(2,882)	222,000	2,882	-	-	-	-
Expired warrants	-	-	(343,750)	-	-	-	-	-
Canceled warrants	-	-	(18,214)	-	-	-	-	-
Stock-based compensation (Note 8)	-	-	-	-	108,271	-	-	108,271
Comprehensive loss for the year	-	-	-	-	-	10,573	(911,690)	(901,117)
Balance, January 31, 2023	45,351,583	\$ 63,201,937	17,093,948	\$ 11,906,321	\$ 5,031,991	\$ (40,588)	\$ (80,472,889)	\$ (373,228)

* Effective April 3, 2023, the Company consolidated its common shares on the basis of one new common share for every two 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 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, 2023 AND 2022
(Expressed in Canadian Dollars)

	2023	2022
Cash flows from operating activities		
Net loss for the year	\$ (911,690)	\$ (2,002,845)
Adjustments not effecting cash:		
Depreciation	855	1,344
Oil and natural gas property impairment	378,609	1,494,834
Forgiveness of government loan	-	(10,000)
Foreign exchange (gain) loss	(1,878)	3,116
Reversal of reclamation obligation	(40,580)	-
Share-based compensation	108,271	176,941
Changes in non-cash working capital		
Accounts receivable	(20,456)	(7,383)
Prepaid expenses	(715)	(1,854)
Accounts payable and accrued liabilities	196,403	99,584
Cash flows used in operating activities	(291,181)	(246,265)
Cash flows from investing activity		
Oil and natural gas properties	(273,095)	(306,751)
Cash flows used in investing activity	(273,095)	(306,751)
Cash flows from financing activities		
Proceeds from share issuances	543,500	373,475
Share issuance costs - cash	(13,920)	(2,550)
Exercise of warrants	-	127,500
Cash flows provided by financing activities	529,580	498,425
Decrease in cash and cash equivalents	(34,696)	(54,591)
Effect of exchange rate changes on cash	4,334	(2,918)
Cash and cash equivalents, beginning of year	46,601	104,110
Cash and cash equivalents, end of year	\$ 16,239	\$ 46,601
The components of cash and cash equivalents are as follows:		
Cash	\$ 5,230	\$ 35,600
Term deposit	11,009	11,001
	\$ 16,239	\$ 46,601
Non-cash investing and financing activities		
Fair value transferred upon exercise of warrants	\$ -	\$ 114,022
Fair value of agents' warrants	\$ 2,882	\$ 1,194
Accounts payable related to oil & natural gas properties	\$ 102,317	\$ 1,168

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, 2023 AND 2022

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. V6C 1G8. 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. On February 27, 2023, the Company filed articles of continuance to British Columbia.

Effective April 3, 2023, the Company consolidated its common shares on the basis of one new common share for every two 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 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 \$911,690 for the year ended January 31, 2023 and has accumulated a deficit of \$80,472,889 as at January 31, 2023. As at January 31, 2023 the Company has cash and cash equivalents of \$16,239 and a working capital deficit of \$402,565.

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. The Company's business financial condition and results of operations may be further negatively affected by economic and other consequences from Russia's military action against Ukraine and the sanctions imposed in response to that action in late February 2022. While the Company expects any direct impacts of the conflict in Ukraine to the business to be limited, the indirect impacts on the economy and on the oil and gas industry and other industries in general could negatively affect the business and may make it more difficult to raise equity or debt financing. There can be no assurance that the Company will not be impacted by adverse consequences that may be brought about on its business, results of operations, financial position and cash flows in the future. 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 30, 2023.

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

SHOAL POINT ENERGY LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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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 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, and the recognition and valuation of provisions for restoration and environmental 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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FOR THE YEARS ENDED JANUARY 31, 2023 AND 2022

FINANCIAL INSTRUMENTS

Recognition and classification

The Company recognizes a financial asset or financial liability on the consolidated 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 credit risk on 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.

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

EXPLORATION AND EVALUATION ASSETS AND OIL AND NATURAL GAS PROPERTIES

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.

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.

When an area is determined to be technically feasible and commercially viable, the accumulated costs are transferred to oil and natural gas properties. Upon transfer to developed oil and natural gas properties, these E&E assets were assessed for impairment to ensure that they are not carried at amounts above their recoverable values. When an area is determined not to be technically feasible and commercially viable or the Company decides not to continue with its activity, the unrecoverable costs are charged to profit or loss as impairment of exploration and evaluation costs.

The oil and natural gas properties are subject to depletion. Costs accumulated within each area are depleted using the unit-of-production method based on proven plus probable reserves incorporating estimated future prices and costs. Costs subject to depletion include estimated future costs to be incurred in developing proven reserves. Costs of major development projects are excluded from the costs subject to depletion unless they are available for use.

Revenue and royalties from oil and gas operations are recognized at the time the oil is sold and gas is delivered and collectability is reasonably assured.

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.

SHOAL POINT ENERGY LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
FOR THE YEARS ENDED JANUARY 31, 2023 AND 2022

IMPAIRMENT OF NON-FINANCIAL ASSETS

The carrying amounts of the Company's non-financial assets, other than E&E assets and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For other intangible assets that have indefinite lives or that are not yet available for use, an impairment test is completed each year. E&E assets are assessed for impairment when they are reclassified to oil and natural gas properties, and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

The Company considers its Pratt County assets as a CGU. The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell ("FVLCTS"). Value in use is determined by estimating the present value of the future net cash flows expected to be derived from the continued use of the asset or CGU. FVLCTS is based on available market information, where applicable. In the absence of such information, FVLCTS is determined using discounted future net cash flows of proved and probable reserves using forecast prices and costs. An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount.

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 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 intends to make in the future, expenditures to comply with such laws and regulations.

At January 31, 2023, the Company estimated that the fair value of the reclamation obligation is \$nil (2022 – \$38,157). The fair value of the liability was determined to be equal to the estimated reclamation costs, net of the estimated recovery from selling the equipment.

LEASES

At inception of a contract, the Company assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control an identified asset for a period of time in exchange for consideration.

The lease liability is recognized at the lease commencement date at the present value of the lease payments that are not paid at that date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined, and otherwise at the Company's incremental borrowing rate. At the commencement date, a right-of-use asset is measured at cost, which is comprised of the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any decommissioning and restoration costs, less any lease incentives received.

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Each lease payment is allocated between repayment of the lease principal and interest. Interest on the lease liability in each period during the lease term is allocated to produce a constant periodic rate of interest on the remaining balance of the lease liability. Except where the costs are included in the carrying amount of another asset, the Company recognizes in profit or loss (a) the interest on a lease liability and (b) variable lease payments not included in the measurement of a lease liability in the period in which the event or condition that triggers those payments occurs. The Company subsequently measures a right-of-use asset at cost less any accumulated depreciation and any accumulated impairment losses; and adjusted for any remeasurement of the lease liability. Right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term, except where the lease contains a bargain purchase option.

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 or are canceled, 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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GOVERNMENT CONTRIBUTIONS

Government contributions related to expenses are recognized in profit or loss when there is reasonable assurance that the Company will comply with the conditions attached to the contributions and the contributions will be received.

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

Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)

The amendments to IAS 37 specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labour, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract). The adoption of this standard on February 1, 2022 did not have a material measurement or disclosure impact on the Company's consolidated financial statements.

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New and amended standards not yet adopted

Classification of Liabilities as Current or Non-current (Amendments to IAS 1)

The amendments to IAS 1 provide a more general approach to the classification of liabilities based on the contractual arrangements in place at the reporting date. These amendments are effective for reporting periods beginning on or after January 1, 2023 and are expected to have no significant impact upon adoption.

Amendments to IAS 8 – Definition of Accounting Estimates

These amendments clarify how companies distinguish changes in accounting policies from changes in accounting estimates, with a primary focus on the definition of and clarifications on accounting estimates. The distinction between the two is important because changes in accounting policies are applied retrospectively, whereas changes in accounting estimates are applied prospectively. Further, the amendments clarify that accounting estimates are monetary amounts in the financial statements subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy. These amendments are effective for reporting periods beginning on or after January 1, 2023.

Amendments to IAS 1 and IFRS Practice Statement 2 – Disclosure of Accounting Policies

These amendments continue the IASB's clarifications on applying the concept of materiality. These amendments help companies provide useful accounting policy disclosures, and they include: requiring companies to disclose their material accounting policies instead of their significant accounting policies; clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and do not need to be disclosed; and clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material. The IASB also amended IFRS Practice Statement 2 to include guidance and examples on applying materiality to accounting policy disclosures. These amendments are effective for reporting periods beginning on or after January 1, 2023.

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 deposited in bank accounts held with major banks in Canada and USA. 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.

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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 \$11,000 change in the Company's profit or loss. 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 there were no externally imposed restrictions.

Classification of financial instruments

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

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

	Exploration and evaluation assets	Oil and natural gas properties	Equipment and software	Total
<u>Cost</u>				
Balance at January 31, 2021	\$ 1,192,265	\$ -	\$ 30,657	\$ 1,222,922
Additions	307,919	-	-	307,919
Foreign exchange	(5,350)	-	-	(5,350)
Impairment	(1,494,834)	-	-	(1,494,834)
Balance at January 31, 2022	-	-	30,657	30,657
Additions	-	375,412	-	375,412
Foreign exchange	-	10,540	-	10,540
Impairment	-	(378,609)	-	(378,609)
Balance at January 31, 2023	\$ -	\$ 7,343	\$ 30,657	\$ 38,000
<u>Accumulated Depreciation</u>				
Balance at January 31, 2021	\$ -	\$ -	\$ 26,464	\$ 26,464
Depreciation for the year	-	-	1,344	1,344
Balance at January 31, 2022	-	-	27,808	27,808
Depreciation for the year	-	-	855	855
Balance at January 31, 2023	\$ -	\$ -	\$ 28,663	\$ 28,663
<u>Carrying Amounts</u>				
As at January 31, 2022	\$ -	\$ -	\$ 2,849	\$ 2,849
As at January 31, 2023	\$ -	\$ 7,343	\$ 1,994	\$ 9,337

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.

The EL 1070 in Newfoundland is considered to be an exploration and evaluation asset, as it is still in the exploration stage.

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 during the year ended January 31, 2020.

Subsequent to January 31, 2023, the Company has been engaging with the Government of Newfoundland and Labrador regarding compensation for its frustrated efforts to develop its hydrocarbon assets on the west coast of Newfoundland. While the Company is pursuing compensation from the Government of Newfoundland and Labrador, to date the government of Newfoundland and Labrador has declined to enter into negotiations with the Company regarding compensation and there is no certainty that a settlement will be reached.

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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 would 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 would be paid for by the Company proportionate to its 65% working interest. The Area of Mutual Interest was 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.

The Mount Evans project is considered to be an exploration and evaluation asset, as it is still in the exploration stage.

During the year ended January 31, 2021, the Company determined that its first well in the Mount Evans project had not performed as expected. In February 2021, the Company and its partner elected to plug and abandon the second well, which commenced drilling in February 2021. The third well, which commenced drilling in September 2021, at the Mount Evans project has also been abandoned. Due to the under performance of the wells at the Mount Evans project, the Company had decided to abandon the project and had written off the previously capitalized cost of \$1,494,834 during the year ended January 31, 2022. The wells have been plugged and a net recovery of \$48,473 was received for disposal of equipment, net of reclamation cost during the year ended January 31, 2023.

Pratt County, Kansas, USA

On March 10, 2022, the Company committed to participate in the first of three oil and gas prospects in Pratt County, Kansas, operated by Shelby Resources LLC. Participation in the first prospect gives the Company the option of participating in the other two prospects in the package. In April 2022, the Company exercised its option to participate in the second Pratt County prospect. In May 2022, the Company exercised its option to participate in the third Pratt County prospect. Total acquisition costs of US\$19,500 has allowed the Company to earn a working interest of 6.5% of an 81% net revenue interest in each of the wells and possible offset locations in the second and third Pratt County prospects.

The Pratt County project is considered a developed oil and natural gas property, as they have been determined to meet certain technical feasibility and commercial viability thresholds as determined by management.

Due to the underperformance of four of the six wells at the Pratt County project, the Company had decided to write down the previously capitalized cost to \$7,343, resulting in an impairment of \$378,609 during the year ended January 31, 2023. During the year ended January 31, 2023, the Company recorded \$48,614 (2022 – \$nil) in revenues. An impairment test was carried out on the Company's Pratt County project on January 31, 2023. The recoverable amount of the CGU was based on FVLCS and the fair value was determined based on net revenue recovered from the producing wells subsequent to January 31, 2023. Management expects the net salvage value of the equipment when the wells are plugged to be no lower than the cost of abandonment, as such, no reclamation obligation has been recorded.

7. GOVERNMENT LOAN PAYABLE

In April 2020, the Company received a loan of \$40,000 through the Canadian Emergency Business Account Program ("CEBA Loan"), which provides financial relief for Canadian small businesses during the COVID-19 pandemic. The CEBA Loan has an initial term date on December 31, 2023 (the "Initial Term Date") and may be extended to December 31, 2025. The CEBA Loan is non-revolving, with an interest rate being 0% per annum prior to the Initial Term Date and 5% per annum thereafter during any extended term, which is calculated daily and paid monthly. The CEBA Loan can be repaid at any time without penalty and, if at least 75% of the CEBA Loan is paid prior to the Initial Term Date, the remaining balance of the CEBA Loan will be forgiven. The Company expects to repay the CEBA Loan prior to the Initial Term Date and therefore has recorded a forgiveness of government loan for \$10,000 during the year ended January 31, 2022, reducing the outstanding balance to \$30,000.

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8. EQUITY INSTRUMENTS

(a) Share Capital

Shares issued during the year ended January 31, 2023

On March 22, 2022, the Company closed a non-brokered private placement and issued 9,058,334 units for total gross proceeds of \$543,500. Each unit consisted of one share and one share purchase warrant. Each full warrant is exercisable at a price of \$0.10 with an expiry on the third anniversary of the date of closing of the transaction. A finder's fee of \$13,920 and 222,000 Finders Warrants were paid pursuant to the private placement. Each broker warrant was exercisable at \$0.10 per share until March 22, 2023. The fair value of these warrants was accounted for as a share issuance cost and has been determined to be \$2,882 and was estimated using the Black Scholes Option Pricing Model with the following weighted average assumptions: risk free rate of 2.21%; expected term of 1 year; exercise price of \$0.10 per share; volatility of 94%; and expected future dividends of \$nil.

Shares issued during the year ended January 31, 2022

On February 24, 2021, the Company closed a non-brokered private placement and issued 2,667,677 units at \$0.14 per unit for total gross proceeds of \$373,475. Each unit consisted of one share and one share purchase warrant. Each full warrant is exercisable at a price of \$0.20 with an expiry on the third anniversary of the date of closing of the transaction. The Company incurred finder's fees of \$2,550 associated with the private placement. The Company also issued 18,214 broker warrants. Each broker warrant was exercisable at \$0.20 per share until February 24, 2022. The fair value of these warrants was accounted for as a share issuance cost and has been determined to be \$1,194 and was estimated using the Black Scholes Option Pricing Model with the following weighted average assumptions: risk free rate of 0.23%; expected term of 1 year; exercise price of \$0.20 per share; volatility of 114%; and expected future dividends of \$nil.

During the year ended January 31, 2022, the Company issued 1,062,500 common shares pursuant to exercise of warrants for total gross proceeds of \$127,500. A value of \$114,022 was transferred from warrant reserve to share capital as a result. The weighted average share price at the dates the warrants were exercised was \$0.12.

(b) Share consolidation

Effective April 3, 2023, the Company consolidated its common shares on the basis of one new common share for every two old common shares issued and outstanding at that time. All references to share and per share amounts in these consolidated financial statements have been retroactively restated to reflect the share consolidation.

(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, 2023		January 31, 2022	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Options outstanding, beginning	3,100,000	\$ 0.18	2,505,000	\$ 0.44
Options expired	(350,000)	0.22	(455,000)	1.61
Options granted	1,325,000	0.10	1,050,000	0.20
Options outstanding, ending	4,075,000	\$ 0.16	3,100,000	\$ 0.18
Options exercisable, ending	4,075,000	\$ 0.16	3,100,000	\$ 0.18

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Details of options outstanding as at January 31, 2023 are as follows:

Weighted average exercise price	Weighted average contractual life	Number of options outstanding
\$0.14	0.12 years	1,175,000 ⁽¹⁾
\$0.14	0.29 years	50,000 ⁽¹⁾
\$0.26	1.54 years	475,000
\$0.20	3.09 years	1,050,000
\$0.10	4.58 years	1,325,000
\$0.16	2.50 years	4,075,000

⁽¹⁾ These options expired unexercised subsequent to January 31, 2023.

The grant date fair value of share purchase options granted during the year ended January 31, 2022 was estimated using the Black-Scholes Option Pricing Model with the following weighted-average assumptions: market value of underlying stock of \$0.18; risk free rate of 0.74%; expected term of 5 years; exercise price of the option of \$0.20 per share; volatility of 167%; and expected future dividends of nil, for a weighted average grant date fair value of \$0.16 per option. These stock options vested upon grant.

The grant date fair value of share purchase options granted during the year ended January 31, 2023 has been estimated using the Black-Scholes Option Pricing Model with the following weighted-average assumptions: market value of underlying stock of \$0.09; risk free rate of 3.40%; expected term of 5 years; exercise price of the option of \$0.10 per share; volatility of 149%; and expected future dividends of nil, for a weighted average grant date fair value of \$0.08 per option. These stock options vested upon grant.

During the year ended January 31, 2023, share-based compensation of \$108,271 was recognized (2022 – \$176,941).

(d) Warrants

The following table summarizes warrants that have been issued, exercised or have expired during the years ended January 31, 2022 and 2023:

	January 31, 2023		January 31, 2022	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Warrants outstanding, beginning	8,175,578	\$ 0.24	6,744,437	\$ 0.24
Warrants issued	9,280,334	0.10	2,685,891	0.20
Warrants exercised	-	-	(1,062,500)	0.12
Warrants expired	(343,750)	0.12	(192,250)	0.14
Warrants canceled	(18,214)	0.20	-	-
Warrants outstanding, ending	17,093,948	\$ 0.14	8,175,578	\$ 0.24

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At January 31, 2023, the following warrants were outstanding:

Exercise price	Number outstanding	Weighted average remaining contractual life (in years)
\$0.12	3,017,187 ⁽¹⁾	1.52
\$0.10	222,000 ⁽²⁾	0.14
\$0.24	2,128,750	0.38
\$0.20	2,667,677	1.07
\$0.10	9,058,334	2.14
	<u>17,093,948</u>	<u>1.62</u>

⁽¹⁾ During the year ended January 31, 2023, 343,750 of these warrants expired unexercised. For 3,017,187 of these warrants, the expiry date has been extended from August 7, 2022 to August 7, 2024 and exercise price has been amended from \$0.30 to \$0.12. The warrants are subject to an accelerated expiry provision whereas in the event the market price of the shares is above \$0.15 for a ten day trading period, the expiry date of the warrants will be accelerated to 30 days. The 30 day period will commence 7 days following the end of the ten day trading period.

⁽²⁾ These warrants expired unexercised subsequent to January 31, 2023.

9. COMMITMENTS AND CONTINGENCIES

The Company was named as a defendant in a 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. Management has performed an assessment of the probability of an unfavourable outcome of the claim and has determined that the likelihood and financial impact cannot be reasonably estimated at the reporting period date; hence, 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, 2023	January 31, 2022
Management salaries	\$ 46,419	\$ 46,328
Professional fees	18,048	19,864
Share-based compensation	63,328	50,554
	<u>\$ 127,795</u>	<u>\$ 116,746</u>

Included in accounts payable and accrued liabilities at January 31, 2023 is \$12,170 (2022 - \$3,691) due to a company in which the CFO of the Company is an owner and an officer of the Company.

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, 2023 and 2022, 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.

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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:

	Years ended	
	January 31, 2023	January 31, 2022
Nature of temporary differences		
Oil and natural gas property	\$ 1,866,000	\$ 1,909,000
Capital assets	29,000	28,000
Share issuance costs and other	6,000	9,000
Non-capital losses	15,391,000	14,876,000
	<u>17,292,000</u>	<u>16,822,000</u>
Deferred tax benefits not recognized	(17,292,000)	(16,822,000)
	<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. The deferred tax assets reflect a Canadian federal and provincial tax rate of 27% as the Company completed its continuance subsequent to year-end to be registered in British Columbia.

Income taxes differ from that which would be expected from applying the combined effective Canadian federal and provincial tax rates of 26.5% (2022 – 26.5%) to the loss before income taxes as follows:

	January 31, 2023	January 31, 2022
Expected tax recovery	\$ (241,598)	\$ (530,754)
Stock based compensation costs and other non-deductible expenses	54,932	46,889
True-up	34,108	14,226
Rate difference in other jurisdiction and foreign exchange movement	(309,188)	57,810
Change in deferred tax assets not recognized	461,746	411,829
	<u>\$ -</u>	<u>\$ -</u>

As at January 31, 2023 the Company has Canadian non-capital losses of approximately \$56,787,000 that can be used to reduce future taxable income, and if not utilized, will expire between 2027 and 2043 and total oil and natural gas carry forward balances of approximately \$6,911,000 with no expiry.

13. SUBSEQUENT EVENT

On April 24, 2023, the Company closed a non-brokered private placement and issued 5,550,000 units for total gross proceeds of \$277,500. Each unit consisted of one share and one share purchase warrant. Each full warrant is exercisable at a price of \$0.06 for two years following completion of the private placement. A finder's fee of \$5,100 and 102,000 broker warrants were paid for a portion of the placement. Each broker warrant is exercisable at \$0.06 per share until April 24, 2024.