**SHOAL POINT ENERGY LTD.**

**INTERIM CONDENSED FINANCIAL STATEMENTS**

**FOR THE THREE MONTHS ENDED APRIL 30, 2015 AND 2014**

**EXPRESSED IN CANADIAN DOLLARS - UNAUDITED**

## NOTICE TO READER

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the condensed interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim financial statements have been prepared by and are the responsibility of the management.

The Company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

| | |
|---|---|
| "Brian Usher-Jones" | "Mark Jarvis" |
| Director | CEO, Chairman and Director |

**SHOAL POINT ENERGY LTD.**
**CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION**
**(Expressed in Canadian Dollars - Unaudited)**

| | | April 30, 2015 | | January31, 2015 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Current** | | | | |
| Cash | **$** | **187,009** | $ | 323,071 |
| Accounts receivable | | **3,126** | | 5,749 |
| Prepaid expenses | | **2,412** | | 9,675 |
| | | **192,547** | | 338,495 |
| **RECLAMATION DEPOSIT** (Note 5) | | **1,000,000** | | 1,000,000 |
| **OIL AND NATURAL GAS PROPERTIES AND EQUIPMENT** (Note 6) | | **7,395,203** | | 7,378,484 |
| | **$** | **8,587,750** | $ | 8,716,979 |
| **LIABILITIES** | | | | |
| **Current** | | | | |
| Accounts payable and accrued liabilities | **$** | **187,569** | $ | 243,219 |
| | | **187,569** | | 243,219 |
| **SHAREHOLDERS' EQUITY** | | | | |
| Share capital (Note 7) | | **59,133,598** | | 59,133,598 |
| Warrants (Note 7) | | **11,867,999** | | 11,867,999 |
| Contributed surplus | | **4,263,403** | | 4,217,571 |
| Deficit | | **(66,864,819)** | | (65,745,408) |
| | | **8,400,181** | | 8,473,760 |
| | **$** | **8,587,750** | $ | 8,716,979 |

**GOING CONCERN (Note 1)**

**COMMITMENTS AND CONTINGENCIES (Note 8)**

**Approved on behalf of the board:**

*"Brian Usher-Jones"*
Director

*"Mark Jarvis"*
CEO, Chairman and Director

**SHOAL POINT ENERGY LTD.**
**CONDENSED INTERIM STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS**
**FOR THE THREE MONTHS ENDED APRIL 30, 2015 AND 2014**
**(Expressed in Canadian Dollars - Unaudited)**

| | Three months ended | |
|---|---|---|
| | **April 30, 2015** | April 30, 2014 |
| **Expenses** | | |
| Consulting fees (Note 10) | **$ -** | $ 1,100 |
| Depreciation | **697** | 394 |
| Management fees (Note 10) | **57,000** | 72,000 |
| Office, general and administrative | **54,047** | 66,225 |
| Professional fees | **19,761** | 58,915 |
| Stock-based compensation (Notes7 and 10) | **45,832** | - |
| **Loss from operations** | **(177,337)** | (198,634) |
| Write-off of old payables | **57,901** | - |
| Interest and other income | **25** | 2,427 |
| **Net loss and comprehensive loss for the period** | **$ (119,411)** | $ (196,207) |
| **Loss per share** | | |
| Basic and fully diluted (Note 11) | **$ (0.00)** | $ (0.00) |
| Weighted average number of common shares outstanding | **477,158,743** | 469,658,743 |

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

**SHOAL POINT ENERGY LTD.**
**CONDENSED INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**
**(Expressed in Canadian Dollars - Unaudited)**

| | Share capital | | Warrants | | | | |
|---|---|---|---|---|---|---|---|
| | **Number of shares** | **Amount** | **Number of warrants** | **Amount** | **Contributed Surplus** | **Deficit** | **Total** |
| Balance, January 31, 2014 | 469,658,743 | $ 59,096,098 | 187,265,421 | $ 11,846,433 | $3,981,028 | $(65,776,318) | $ 9,147,241 |
| Warrants expired | - | - | (3,249,664) | - | - | - | - |
| Comprehensive loss for the period | - | - | - | - | - | (196,207) | (196,207) |
| Balance, April 30, 2014 | 469,658,743 | 59,096,098 | 184,015,757 | 11,846,433 | 3,981,028 | (65,972,525) | 8,951,034 |
| Balance, January 31, 2015 | 477,158,743 | 59,133,598 | 85,487,284 | 11,867,999 | 4,217,571 | (66,745,408) | 8,473,760 |
| Stock-based compensation (Note 7) | - | - | - | - | 45,832 | - | 45,832 |
| Warrants expired | - | - | - | - | - | - | - |
| Comprehensive loss for the period | - | - | - | - | - | (119,411) | (119,411) |
| Balance, April 30, 2015 | 477,158,743 | $ 59,133,598 | 85,487,284 | $11,867,999 | $4,263,403 | $(66,864,819) | $8,400,181 |

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

**SHOAL POINT ENERGY LTD.**
**CONDENSED INTERIM STATEMENTS OF CASH FLOWS**
**FOR THE THREE MONTHS ENDED APRIL 30, 2015 AND 2014**
**(Expressed in Canadian Dollars - Unaudited)**

| | Three months ended | |
|---|---|---|
| | **April 30,2015** | April 30, 2014 |
| **Cash flows from operating activities** | | |
| Net loss for the period | **$ (119,411)** | $ (196,207) |
| Adjustments not effecting cash: | | |
| Depreciation | **697** | 394 |
| Stock-based compensation | **45,832** | - |
| Write-off of old payables | **(57,901)** | - |
| Interest income | **(25)** | (2,427) |
| Changes in non-cash working capital | | |
| Accounts receivable | **2,623** | 4,906 |
| Prepaid expenses | **7,263** | 4,033 |
| Accounts payable and accrued liabilities | **2,251** | (1,025) |
| Provision | **-** | (14,602) |
| Cash flows used in operating activities | **(118,761)** | (204,928) |
| **Cash flows from investing activities** | | |
| Purchase of equipment | **(1,443)** | - |
| Oil and natural gas properties | **(15,973)** | (94,167) |
| Interest income | **25** | 2,427 |
| Cash flows provided by (used in) investing activities | **(17,391)** | (91,740) |
| **Cash flows from financing activities** | | |
| Term deposit | **-** | 100,124 |
| Cash flows provided by financing activities | **-** | 100,124 |
| Net decrease in cash | **(136,062)** | (196,544) |
| Cash, beginning of period | **323,071** | 378,661 |
| Cash, end of period | **$ 187,009** | $ 182,117 |

## 1. REPORTING ENTITY AND GOING CONCERN

Shoal Point Energy Ltd. (the "Company") was incorporated on December 22, 2006 under the Business Corporations Act (Alberta). The Company was incorporated for the purpose of acquisition, exploration and development of oil and natural gas properties in Canada. The Company is headquartered at Suite 1060 – 1090 West Georgia St., Vancouver, B.C. V6E 3V7. On October 26, 2010, the Company filed articles of continuance in Ontario. On November 23, 2010, the Company began trading on the CNSX (now the CSE) under the symbol SHP.

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

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

These condensed interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") as applicable to the preparation of interim financial statements, including IAS 34, *Interim Financial Reporting*. These statements do not include all of the information and disclosures required by IFRS for annual financial statements.

These financial statements were authorized for issue by the board of directors on June 18, 2015.

### Basis of Measurement

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

### Functional and Presentation Currency

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

### Use of estimates and assumptions

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, the reported amounts of revenues and expenses during the reporting period and contingent assets and liabilities. Significant estimates include the recoverability of the carrying value of oil and natural gas 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.

## 2. BASIS OF PRESENTATION (cont'd)

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

**Significant judgments**

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

**Accounting Standards Issued but Not Yet Effective**

**New standard IFRS 9 "Financial Instruments"**

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

The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Company is currently assessing the impact this new standard will have on its consolidated financial statements.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES

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

**OIL AND NATURAL GAS PROPERTIES (exploration and evaluation assets)**

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### OIL AND NATURAL GAS PROPERTIES (exploration and evaluation assets) (cont'd)

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

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

### EQUIPMENT

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

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

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

### ACCOUNTING FOR INCOME TAXES

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

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

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

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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### BASIC AND DILUTED LOSS PER COMMON SHARE

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

### SHARE-BASED PAYMENTS

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

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

### RECLAMATION OBLIGATION

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

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

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

### WARRANTS

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

### RESERVES

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### FOREIGN CURRENCY TRANSLATION

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

### FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### COMPOUND FINANCIAL INSTRUMENTS

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

### PROVISIONS

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

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

### FLOW-THROUGH SHARES

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

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

### SHARE ISSUANCE COSTS

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

## 4. 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 one major bank in Canada. Since all of the Company's cash is held by one bank 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.

(Expressed in Canadian Dollars - Unaudited)

## 4. FINANCIAL RISK AND CAPITAL MANAGEMENT (cont'd)

**Liquidity risk** (cont'd)
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 does not have any direct exposure to 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 year and no restrictions.

**Classification of financial instruments**
Financial assets included in the statement of financial position are as follows:

| | April 30, 2015 | January 31, 2015 |
|---|---|---|
| Loans and receivables: | | |
| Cash | $ 187,009 | $ 323,071 |
| Accounts receivable | 3,126 | 5,749 |
| Reclamation deposit | 1,000,000 | 1,000,000 |
| | $ 1,190,135 | $ 1,329,490 |

Financial liabilities included in the statement of financial position are as follows:

| | April 30, 2015 | January 31, 2015 |
|---|---|---|
| Non-derivative financial liabilities: | | |
| Trade payables and accrued liabilities | $ 187,569 | $ 243,219 |

**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 an interest-bearing guaranteed investment certificate that secures a stand-by letter of credit in the amount of $1,000,000 with the Canada-Newfoundland and Labrador Offshore Petroleum Board ("CNLOPB"). The guaranteed investment certificate has a maturity of December 24, 2015, and bears interest at 0.75%. The letter of credit was issued to the CNLOPB for any future environmental remediation work that may be required with respect to the areas covered by exploration license #1070 and #1120.

**(Expressed in Canadian Dollars - Unaudited)**

## 6. OIL AND NATURAL GAS PROPERTIES AND EQUIPMENT

| | Oil and natural gas properties | Equipment and Software | Total |
|---|---|---|---|
| Cost | | | |
| Balance at January 31, 2014 | $ 7,000,000 | $ 21,763 | $ 7,392,977 |
| Additions | 371,214 | - | 371,214 |
| Balance at January 31, 2015 | 7,371,214 | 21,763 | 7,371,214 |
| Additions | 15,973 | 1,443 | 17,416 |
| **Balance at April 30, 2015** | **$ 7,387,187** | **$ 23,206** | **$ 7,388,630** |
| Accumulated Depreciation | | | |
| Balance at January 31, 2014 | $ - | $ 12,497 | $ 12,497 |
| Depreciation for the year | - | 1,996 | 1,996 |
| Balance at January 31, 2015 | - | 14,493 | 14,493 |
| Depreciation for the period | - | 1,996 | 1,996 |
| **Balance at April 30, 2015** | **$ -** | **$ 15,190** | **$ 15,190** |
| Carrying Amounts | | | |
| As at January 31, 2015 | $ 7,371,214 | $ 7,270 | $ 7,378,484 |
| **As at April 30, 2015** | **$ 7,387,187** | **$ 8,016** | **$ 7,395,203** |

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

**Western Newfoundland**

At April 30, 2015 the Company holds a 100% working interest in the Offshore Exploration License #1070 (“EL #1070”) Shallow Rights and has the right to earn up to an 80% working interest in the Shallow Rights in the 67,298 acre block in Offshore Exploration License #1120 ("EL #1120").

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

In order to earn its working interest in EL #1120, the Company was originally required on or before December 31, 2012, to spud a test well and thereafter drill the test well to assess the petroleum potential of the Green Point formation. At the time that the Company spuds the well, the Company was required to make a payment of $300,000 within two business days of such date. In January 2013, the Company paid cash of $300,000 and issued 500,000 warrants for total fair value consideration of $332,173, to extend the drilling date on which they were required to spud a test well on the Green Point formation from December 31, 2012 to January 15, 2015. On January 19, 2015, the Company was informed by the EL #1120 license holders that a drilling deposit was filed with the CNLOPB to extend the requirement to spud a test well to January 15, 2016. As at April 30, 2015, the Company had not earned any working interest in EL #1120.

The Company agreed to acquire up to a 100% undivided working legal and beneficial interest in and to EL #1097R from NWest Oil & Gas Inc. ("NWest"). A 50% working interest in the license was transferred to the Company on January 16, 2012 (the "First Transfer") in consideration for which the Company issued 1,000,000 common shares to NWest, 1,000,000 common share purchase warrants which entitle the holder to acquire a common share of the Company at a price of $0.40 per a share for a period of two years, and assumption of NWest's obligation to pay the Environmental Studies Research Fund ("ESRF"), to a maximum of $43,404 to the date of the agreement and assume all payments to ESRF from the date thereof. Total consideration paid for the First Transfer amounted to $385,929.

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

**Western Newfoundland** (cont'd)

On March 21, 2012 the shareholders of NWest approved the second transfer (the "Second Transfer") of the remaining 50% interest in EL #1097R to the Company. In consideration for this transfer, the Company issued 1,000,000 common shares and 1,000,000 purchase warrants to NWest, with each warrant entitling NWest to acquire one common share at $0.39 for a period of two years from the date of issuance. Total consideration paid for the Second Transfer amounted to $405,807.
If the Company had proceeded to spud a well on the property covered by EL #1097R, itwas required to make an additional payment of 4,000,000 common shares to NWest; issue an additional 4,000,000 common share purchase warrants to NWest, where each additional warrant entitles NWest to acquire one common share at an exercise price equal to the 20 day weighted average price of the common shares prior to the date of issuance of the additional payment plus an additional 20% for an exercise period of two years from the date of issuance; and grant to NWest a 2% royalty on the property, with the Company having the right to purchase 0.75% of the royalty for $2,000,000 at any time. A well was required to be spudded on the property by January 15, 2013, for which an extension was given to January 15, 2014 by the Canada-Newfoundland and Labrador Petroleum Board. The $1,000,000 originally deposited with the CNLOPB with respect to EL #1097R was forfeited during the year ended January 31, 2013 as the Company had not spudded a well on the property as required to do so by January 15, 2013. A further $1,000,000 refundable property deposit was made to them during the fiscal year ended January 31, 2013 in order to receive the extension to January 15, 2014. The property deposit consisted of an interest-bearing guaranteed investment certificate that secured a stand-by letter of credit in the amount of $1,000,000 with the CNLOPB. The guaranteed investment certificate had a maturity of January 24, 2014 and bore interest at 0.85%.

On December 12, 2013, CNLOPB rejected the Company's application to extend part of exploration license 1097R (EL 1097R) until January 15, 2015. As a result, the Company lost the license and recorded an impairment loss of $2,791,732 inclusive of the two forfeited $1,000,000 property deposits.

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

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

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

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

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

**Western Newfoundland** (cont'd)

On September 22, 2014, the Company and BSE mutually agreed to dissolve their farm-out agreement. In conjunction with terminating the agreement, the Company issued 7,500,000 common shares with a value of $37,500 to BSE, plus 7,500,000 warrants valued at $21,566 to purchase common shares of the Company at an exercise price of $0.05 exercisable at any time over the next two years.

## 7. EQUITY INSTRUMENTS

### (a) Share Capital

**Shares issued during year ended January 31, 2014**

(i) In February 2013, the Company completed a private placement of 576,667 units at a price of $0.06 per unit for aggregate proceeds of $34,600. Each unit consisted of one common share and one common share purchase warrant where a warrant entitles the holder to acquire one additional share at a price of $0.15 for 18 months. In connection with this financing, the Company paid cash commissions of $1,860 and issued 43,000 broker warrants where each broker warrant entitles the holder to acquire one additional common share at a price of $0.10 for a period of 18 months valued at $1,839.

(ii) In March 2013, the Company issued 250,000 units at a price of $0.06 per unit for aggregate proceeds of $15,000. Each unit consisted of one common share and one common share purchase warrant where a warrant entitles the holder to acquire one additional share at a price of $0.15 for a period of 18 months valued at $4,608.

(iii) On April 17, 2013, the Company settled $100,000 of trade payables by issuing 1,000,000 common shares with a fair value of $80,000.

(iv) In June 2013, the Company issued 19,475,556 units at a price of $0.06 per unit for aggregate proceeds of $1,168,533. Each unit consisted of one common share and one common share purchase warrant where a warrant entitles the holder to acquire one additional share at a price of $0.15 for a period of 24 months valued at $297,221. In connection with this financing, the Company paid cash commissions of $16,791 and issued 541,533 broker warrants where each broker warrant entitles the holder to acquire one additional common share at a price of $0.10 for a period of 18 months valued at $12,153.

(v) On June 25, 2013, the Company complied with a debt settlement agreement (Note 9) and recorded exploration expenditures of $450,000 by issuing 9,000,000 common shares.

(vi) In September 2013, the Company issued 41,717,840 units at a price of $0.05 per unit for gross proceeds of $2,085,892 of which 38,717,840 units consisted of one common share and one common share purchase warrant where a warrant entitles the holder to acquire one additional share at a price of $0.06 for a period of 24 months and 3,000,000 flow-through units consisting of one common share and one half common share purchase warrant where a full warrant entitles the holder to acquire one additional share at a price of $0.06 for a period of 24 months. The flow-through premium was determined to be nominal. In connection with this financing, the Company paid cash commissions of $93,959 and issued 1,879,178 broker warrants where each broker warrant entitles the holder to acquire one additional common share at a price of $0.06 for a period of 24 months valued at $51,553.

(vii) In October 2013, the Company issued 15,553,500 units at a price of $0.05 per unit for gross proceeds of $777,675. Each unit consisted of one common share and one common share purchase warrant where a full warrant entitles the holder to acquire one additional share at a price of $0.06 for a period of 24 months. In connection with this financing, the Company paid cash commissions of $43,709 and issued 861,210 broker warrants where each broker warrant entitles the holder to acquire one additional common share at a price of $0.06 for a period of 24 months valued at $23,628.

(Expressed in Canadian Dollars - Unaudited)

**7. EQUITY INSTRUMENTS**(cont'd)

**Shares issued during three months ended April 30, 2015**

(i) There were no shares issued during the three months ended April 30, 2015.

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

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

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

| | April 30, 2015 | | January 31, 2015 | |
|---|---|---|---|---|
| | Number of options | Weighted average exercise price | Number of options | Weighted average exercise price |
| Options outstanding, beginning | 43,500,000 | $ 0.05 | 2,250,000 | $ 0.23 |
| Options granted | - | - | 43,000,000 | 0.05 |
| Options expired | - | - | (1,750,000) | 0.25 |
| Options outstanding, ending | 43,500,000 | $ 0.05 | 43,500,000 | $ 0.05 |
| Options exercisable, ending | 14,833,333 | $ 0.05 | 14,833,333 | $ 0.05 |

Details of options outstanding as at April 30, 2015 are as follows:

| Weighted average exercise price | Weighted average contractual life | Number of options outstanding |
|---|---|---|
| $0.15 | 2.87 years | 500,000 |
| $0.05 | 6.31 years | 43,000,000 |
| $0.05 | 6.27 years | 43,500,000 |

The grant date fair value of share purchase options granted during the year ended January 31, 2015 of $422,960 has been estimated using the Black-Scholes pricing model with the following weighted-average assumptions: market value of underlying stock of $0.01; risk free rate of 1.52%; expected term of 5.79 years; exercise price of the option of $0.05 per share; volatility of 221%; and expected future dividends of nil. One third of the options vested on the grant date, one third vest one year after the grant date, and one third vest two years after the grant date. During the year ended January 31, 2014, stock based compensation of $236,593 was recognized.

**(c) Warrants**

The following table summarizes warrants that have been issued, exercised or have expired during the three months ended April 30, 2015:

| | April 30, 2015 | | January 31, 2015 | |
|---|---|---|---|---|
| | Number of warrants | Weighted average exercise price | Number of warrants | Weighted average exercise price |
| Warrants outstanding, beginning | 85,487,284 | $ 0.08 | 187,265,421 | $ 0.12 |
| Warrants issued | - | - | 7,500,000 | 0.05 |
| Warrants expired | - | - | (109,278,137) | 0.15 |
| Warrants outstanding, ending | 85,487,284 | $ 0.08 | 85,487,284 | $ 0.08 |

(Expressed in Canadian Dollars - Unaudited)

## 7. EQUITY INSTRUMENTS (cont'd)

The fair value of warrants issued during the year ended January 31, 2015 of $21,566 has been estimated using the Black-Scholes pricing model with the following weighted-average assumptions: market value of underlying stock of $0.01; risk free rate of 1.15%; expected term of 2 years; exercise price of the warrants of $0.05; volatility of 195%; and expected future dividends of nil.

At January 31, 2015, the following warrants were outstanding:

| Exercise price | Number outstanding | Weighted average remaining contractual life (in years) |
|---|---|---|
| $0.05 | 7,500,000 | 1.40 |
| $0.06 | 58,511,728 | 0.43 |
| $0.15 | 19,475,556 | 0.12 |
| | 85,487,284 | 0.44 |

## 8. COMMITMENTS AND CONTINGENCIES

Please refer to note 6 for the Company's commitments with respect to its oil and natural gas properties.

The Company was named as a defendant in a $3,414,000 lawsuit relating to the NWest transactions (see note 6) by a third party relating to certain provisions made between NWest and this third party. Management believes the claim to be frivolous towards the Company and without merit. No loss provision has been recorded as a result.

In February 2015, Irwin Lowy LLP filed a claim against the Company for $66,469 for unpaid legal services. The company is contesting this amount and filed a counter-claim along with a statement of defense which seeks an offset of this amount. No loss provision has been recorded as a result.

As of January 31, 2015, the Company has fulfilled its requirement to spend the monies raised on its flow-through share financings on qualified exploration expenditures.

## 9. RELATED PARTY TRANSACTIONS

The Company had the following related party transactions:

| | | **April 30, 2015** | | April 30, 2014 |
|---|---|---|---|---|
| Management fees | **$** | **57,000** | $ | 72,000 |
| Stock-based compensation | | **32,364** | | - |
| | **$** | **89,364** | $ | 72,000 |

## 10. BASIC AND DILUTED LOSS PER SHARE

Basic loss per share has been calculated by dividing the net loss per the financial statements by the weighted average number of common shares outstanding during the period. The fully diluted loss per share would be calculated using a common share balance increased by the number of common shares that could be issued on the exercise of outstanding warrants and options of the Company, and upon conversion of the convertible debt. As the Company is in a loss position for the three months ended April 30, 2015 and year ended January 31, 2015, the inclusion of options, warrants and convertible debt in the calculation of diluted earnings per share would be anti-dilutive, and accordingly, were excluded from the diluted loss per share calculation.