

**Shoal Point Energy Ltd.**

Suite 1060 – 1090 West Georgia Street  
Vancouver, B.C. V6E 3V7

**Annual Management Discussion and Analysis**

**For The Year Ended**

**January 31, 2014**

The following Management Discussion and Analysis of Shoal Point Energy Ltd. (“Shoal Point” or the “Company”) was prepared as of May 28, 2014 and should be read in conjunction with the audited financial statements for the year ended January 31, 2014. The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). Additional information relating to the Company may be found on SEDAR at [www.sedar.com](http://www.sedar.com), and on the Company’s website at [www.shoalpointenergy.com](http://www.shoalpointenergy.com)

### ***Caution Regarding Forward Looking Statements***

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

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

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

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

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

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

## **Company Profile**

Shoal Point Energy Ltd. (the "Company") was incorporated on December 22, 2006 under the Business Corporations Act (Alberta). The Company was incorporated for the purpose of acquisition, exploration and development of oil and natural gas properties in Canada. The Company 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 under the name of Shoal Point Energy Inc.

On October 14, 2010, Allied Northern Capital Corporation ("Allied") a non-operating public enterprise, agreed on a share exchange transaction with Shoal Point Energy Inc. ("SPE"), a non-public operating enterprise, which was completed on November 9, 2010. The transaction has been accounted for as a reverse takeover acquisition, whereby SPE became a wholly owned subsidiary of Allied. On November 23, 2010, the Canadian National Stock Exchange ("CNSX") authorized the completion of the reverse takeover or qualifying transaction and the name change from Allied to Shoal Point Energy Ltd. ("Shoal Point", "SPE" or the "Company"). On November 23, 2010, the Company began trading on the CNSX under the symbol SHP.

Subsequent to the reverse takeover transaction on November 9, 2010, SPE amalgamated with a newly incorporated wholly-owned subsidiary of Allied, 2257054 Ontario Inc. and continued on under the name of Shoal Point Energy Inc. The amalgamation occurred on November 9, 2010. 2257054 Ontario Inc. was incorporated on September 16, 2010.

On October 10, 2012 the Company filed Articles of Amalgamation under the Business Corporations Act (Ontario), whereby the Company was amalgamated with Shoal Point Energy Inc. to form an amalgamated corporation operating under the name of "Shoal Point Energy Ltd." ("Shoal Point", "SPE" or the "Company"). All amounts herein reflect the financial effects of the amalgamation. Comparative figures also reflect the effects of amalgamation.

## **Exploration Activities and Outlook**

During the year ended January 31, 2014, the Company supplied technical information to Black Spruce Resources and maintained its interest in its two licensed properties.

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.

Management of Shoal Point Energy continues to believe its assets in Western Newfoundland represent a tremendous economic opportunity for the shareholders of the Company. The Green Point Shale also represents an opportunity for the people of Western Newfoundland to develop a significant oil industry that will create jobs and generate revenues for the government from both royalties and taxes.

The environmental and economic aspects of hydraulic fracturing have been extensively studied in many different jurisdictions. Two jurisdictions which recently decided to allow hydraulic fracturing after extensive studies are Great Britain and California.

Management has been, and will continue to be, active in lobbying the government to make public the studies by the provincial Department of Natural Resources. Although we do not know the results of the studies, we believe studies based on science will validate that hydraulic fracturing, properly regulated, is a safe process.

We have been active in meeting with local politicians and citizens in Stephenville, Corner Brook and Deer Lake. We plan to continue this grass roots work, and to extend the work to smaller communities closer to our leases and to the local Qalipu First Nations.

We are cautiously optimistic that the political uncertainty in the province will improve and that progress can be made toward a regulatory regime that protects the environment while at the same time allowing previously untapped economic opportunities.

### **Overall Performance**

As at January 31, 2014, the Company's cash position decreased to \$1,378,908 from \$2,766,285 as at January 31, 2013 as a direct result from funding operations and oil and natural gas expenditures. The Company will continue to focus on the maintenance of its interest in its two licensed properties.

Financing during the year ended January 31, 2014 consisted of gross cash proceeds of \$4,081,700 raised from the issuance of 77,573,563 shares issued in conjunction with 79,398,484 warrants.

### **Selected Annual Information in \$CDN**

	Jan 31 2014 IFRS	Jan 31 2013 IFRS	Jan 31 2012 IFRS
Total Revenues	0	0	0
Loss and comprehensive loss	(37,666,351)	(2,097,662)	(1,885,764)
Loss per share	\$(0.09)	\$(0.01)	\$(0.01)
Total Assets	9,436,909	45,025,109	31,327,063
Total Liabilities	289,668	3,738,393	2,416,990
Oil and Natural Gas Properties written off in year	34,527,854	-	-

## Results of Operations

During the year ended January 31, 2014, the Company recorded a net loss and comprehensive loss of \$37,666,351 (\$0.09 per common share) compared to a net loss of \$2,097,662 (\$0.01 per common share) for the year ended January 31, 2013. During the years ended January 31, 2014 and 2013, the Company had no revenues from operations but received \$31,850 (January 31, 2013 - \$313,631) from interest and other income.

Overall, excluding stock-based compensation and depreciation, the loss from operations for the year ended January 31, 2014 was \$36,871,060 compared to the loss of \$2,202,759 for the year ended January 31, 2013.

### *Consulting fees*

Consulting fees decreased by \$153,556 to \$324,524 during the year ended January 31, 2014 in comparison to consulting fees of \$478,080 for the year ended January 31, 2013. The current year's consulting fees include a severance of \$90,000 paid to a former financial consultant.

### *Director's fees*

Director fees increased by \$157,194 to \$170,194 during the year ended January 31, 2014 in comparison to director fees of \$13,000 for the year ended January 31, 2013. This increase included \$147,194 paid to two former directors for corporate governance services prior to June 28, 2013.

### *Management fees*

Management fees increased by \$377,000 to \$788,000 for the year ended January 31, 2014 in comparison to \$411,000 for the fiscal year ending January 31, 2013. This increase includes \$420,000 of severance paid to the former President and Chief Financial Officer.

### *Oil and natural gas property impairment*

Oil and natural gas property impairment expenses increased from \$Nil for the year ended January 31, 2013 to \$34,527,854 for the year ended January 31, 2014 as a result of losing the exploration license 1097R and writing down the carrying value of exploration licenses 1070 and 1120 to their estimated net realizable value.

### *Office, general and administrative*

Office, general and administrative expenses were down \$277,804 to \$431,318 for the year ending January 31, 2014 from \$ 709,122 for the year ending January 31, 2013.

### *Professional fees*

Professional fees decreased by \$3,006 to \$367,634 for the year ended January 31, 2014 in comparison to \$370,640 for the year ending January 31, 2013.

### *Rent expense*

Rent expense was up \$48,385 to \$235,199 for the year ending January 31, 2014 as compared to \$186,814 for the year ending January 31, 2013 as a result of closing the Toronto office and opening an office in Vancouver in a shared cost environment with no legal commitments on term.

## Summary of Quarterly Results

### Quarterly Financial Information (unaudited)

For the three months ended	January 31, 2014	October 31, 2013	July 31, 2013	April 30, 2013
Net Income (loss) (in thousands)	\$ (34,721)	\$ (382)	\$ (1,150)	\$ (1,413)
Net Income (loss) per share (Basic & Fully Diluted)	\$ (0.08)	\$ (0.00)	\$ (0.00)	\$ (0.00)
Total Assets (in thousands)	\$ 9,437	\$ 44,569	\$ 42,896	\$ 43,060
Shareholders' equity (in thousands)	\$ 9,147	\$ 44,016	\$ 41,672	\$ 41,221

  

For the three months ended	January 31, 2013	October 31, 2012	July 31, 2012	April 30, 2012
Net Income (loss) (in thousands)	\$ (587)	\$ (501)	\$ (423)	\$ (586)
Net Income (loss) per share (Basic & Fully Diluted)	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.00)
Total Assets (in thousands)	\$ 45,025	\$ 40,738	\$ 40,620	\$ 39,420
Shareholders' equity (in thousands)	\$ 41,287	\$ 35,596	\$ 35,947	\$ 35,205

### 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.

#### Amendment to IAS 32 “Financial Instruments”

Presentation was intended to help address inconsistencies when applying the offsetting criteria and clarify for financial statement users the effect of offsetting arrangements on an entity's financial position. IAS 32 is mandatory for accounting periods beginning on or after January 1, 2014.

#### Amendment to IAS 36 “Recoverable Amount Disclosures for Non-Financial Assets”

This addresses the disclosure information around recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. IAS 36 is mandatory for accounting periods beginning on or after January 1, 2014.

#### New interpretation IFRS 21 “Levies”

This is an interpretation of IAS 37 “Provisions, contingent liabilities and contingent assets”. The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. IFRS 21 is effect for annual periods beginning on or after January 1, 2014.

**Other**

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 financial statements.

**Operations Update**

Black Spruce Exploration Corp., our farm-in partner and the Operator of the drilling program on Shoal Point Energy's acreage in western Newfoundland, has informed us that the Environmental Assessment (EA) process is underway with the Canada-Newfoundland and Labrador Offshore Petroleum Board (C-NLOPB). Each proposed well site location will also have to be registered under the provincial EA process with the Newfoundland and Labrador Department of Environment and Conservation (NLDEC).

Shoal Point Energy had until January 15, 2014 to spud a well at Exploration License 1070 (EL 1070). The C-NLOPB, in a letter to Black Spruce Exploration Corp. dated April 12, 2013, extended the target date for recommencing operations on EL 1070 until a reasonable time period following the completion of the regulatory approval process.

On Exploration License 1120 (EL 1120), Shoal Point Energy has until January 15, 2015 to spud a well.

On Exploration License 1097R (EL 1097R), Shoal Point had until January 15, 2014 to spud a well.

On December 12, 2013, the Company reported The Canada Newfoundland Labrador Offshore Petroleum Board (C-NLOPB) had rejected Shoal Point Energy Ltd.'s application to extend part of EL 1097R until Jan. 15, 2015. As a result, the company lost the license and wrote off \$2,791,732 in property impairment costs.

Shoal Point currently has one exploration license and farm-in rights to part of a second, contiguous licence off the west coast of Newfoundland. At January 31, 2014, Management concluded the carrying value of the Company's remaining two exploration licences should be reduced from \$38,736,122 to an estimated net realizable value of \$7 million. As a result, the company wrote down the carrying value of the leases by \$31,736,122 and charged it to property impairment costs.

**Liquidity**

As of January 31, 2014, the Company had cash and term deposits of \$1,378,908, current assets of \$1,427,643, current liabilities of \$289,668 and positive working capital of 1,137,975.

**Capital Resources**

The Company relies primarily on equity financing to fund its working capital needs. The Company has sufficient working capital for the next twelve months for administration expenses. As per the farm-out agreement between Black Spruce Explorations and the Company, Black Spruce would cover 100% of the costs of drilling the first three wells on EL 1070 and EL 1120.

As at January 31, 2014, the Company's share capital was \$59,096,098 (January 31, 2013 - \$56,169,319) representing 469,658,743 (January 31, 2013 - 383,585,180) issued and outstanding common shares without par value. As at January 31, 2014, the Company had 187,265,421 (January 31, 2013 - 160,711,156) warrants outstanding exercisable at varying prices (see note 10 of the annual financial statements).

The Company's deficit was \$65,776,318 as at January 31, 2014 (January 31, 2013 - \$28,109,967).

If there are changes to the Company's operations or exploration of its oil and natural gas properties that would exhaust the existing cash, the Company will need to sell additional securities in its capital stock. If this occurs, existing shareholders will experience a dilution of their equity interest in the Company.

### **Off-Balance Sheet Transactions**

The Company has no off balance sheet transactions.

### **Commitments and Contingencies**

Please refer to note 9 of the audited financial statements for the Company's commitments with respect to its oil and natural gas property.

The Company was named as a defendant in a \$2,000,000 lawsuit (subsequent to January 31, 2014 amended to \$3,414,000) relating to the NWest transactions (see note 9) 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, as a result, no accruals have been made.

On June 26, 2013 the Company announced a debt settlement with the designated operator of the 3K-39 well by issuing 9 million common shares at a value of \$540,000. Current management has found that the Canada Revenue Agency ("CRA") had issued three Requirements to Pay orders in the amount of \$791,000 which require the Company to pay any monies owing to this operator directly to CRA. The Company contacted CRA to disclose this debt settlement agreement and provided them with the associated documentation. At January 31, 2014, no amounts have been recorded as payable to the CRA in the annual financial statements.

The Company is committed to spend \$75,000 in qualified exploration expenditures by December 31, 2014 as a requirement on its recent flow-through share financing.

## Related Party Transactions

The Company had the following related party transactions:

	<b>Year Ended January 31, 2014</b>	<b>Year Ended January 31, 2013</b>
Management fees for the CEO, President, CFO and Corporate Secretary.	<b>\$ 788,000</b>	\$ 411,000
Consulting fees from officers (included in statement of operations and comprehensive loss)	<b>6,000</b>	97,500
Director's fees for corporate governance services.	<b>170,194</b>	13,000
Consulting fees from directors (included in Oil and natural gas properties)	-	180,000
	<b>\$ 964,194</b>	\$ 701,500

Management fees for the year ended January 31, 2014 includes termination payments of \$630,000 to former management.

Stock-based compensation for the year ended January 31, 2014 includes \$526,704 to former management.

### Fourth Quarter

Excluding property impairment of \$34,527,854, oil and natural gas properties and equipment costs for the fourth quarter of fiscal 2014 were \$168,649, up from the \$29,309 expended in the third quarter of fiscal 2014, and down from the \$1,592,172 expended in the fourth quarter of fiscal 2013.

Excluding depreciation and stock based compensation, there were \$229,393 of administrative expenses during the fourth quarter of fiscal 2014; these expenses were down from the \$381,180 expended in the third quarter of fiscal 2014 and down from the \$521,555 expended in the fourth quarter of fiscal 2013.

## Outstanding Share Data

For additional detail, see Note 10 of the audited financial statements.

	<b>Number Issued and Outstanding May 28, 2014</b>	<b>Number Issued and Outstanding January 31, 2014</b>
Common Shares issued and outstanding	469,658,743	469,658,743
Warrants to purchase Common shares	175,958,851	187,265,421
Options to purchase Common Shares	2,250,000	2,250,000
Fully Diluted	647,867,594	659,174,164

## Risks and Uncertainties

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

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

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

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

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

## **Environmental Risks and Hazards**

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

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

As of January 31, 2014 there are no liabilities to date which relate to environment risks or hazards other than the \$25,000 provision for site clean-up on the 3K-39 well.

## **Critical Accounting Estimates**

The preparation of the Company's financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

## **Officers Certification of Evaluation of Disclosure Controls**

In connection with Exemption Orders issued in November 2007 and revised in December 2008 by each of the securities commissions across Canada, the Chief Executive Officer and Chief Financial Officer of the Company will file a Venture Issuer Basic Certificate with respect to the financial information contained in the unaudited interim financial statements and the audited annual financial statements and respective accompanying Management Discussion and Analysis.

In contrast to the certificate under National Instrument (“NI”) 52-109 (Certification of Disclosure in an Issuer’s Annual and Interim Filings), the Venture Issuer Basic Certification does not include representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting, as defined in NI 52-109.

The Company has been in the exploration stage and has not had common separation of duties and functions usually found in a larger or revenue generating company with comprehensive internal controls. While the Company’s smaller staff size has not allowed for full separation of duties, its senior management believes that its close involvement with day-to-day business activities and related financial reporting provides a reasonable measure of internal control in lieu of the separation of duties.

Signed

*“Brian Fiddler”*

Brian Fiddler  
Chief Financial Officer  
May 28, 2014