ALASKA PACIFIC ENERGY CORP.
(AN EXPLORATION STAGE COMPANY)
NOTES TO FINANCIAL STATEMENTS
JANUARY 31, 2014
UNAUDITED)

1. Basis of Presentation

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (USGAAP) and the rules and regulations of the United States Securities and Exchange Commission for unaudited financial information.

Alaska Pacific Energy Corp. (the "Company"), was incorporated under the laws of the State of Nevada on January 13, 2005 and is engaged in the acquisition, exploration and development of resource properties together with various consulting services relating to lease acquisitions.

On January 9, 2013 the Company changed its domicile from Nevada to Florida.

The Company is an exploration stage mining company and as such does not manufacture or otherwise create any product or offer services. We are considered an exploration or exploratory stage company as we are involved in the examination and investigation of land that we believe may contain valuable minerals for the purpose of discovering the presence of ore, if any, and its extent. There is no assurance that a commercially viable mineral deposit exits on any of the mining properties we are examining, and a great deal of further investigation will be required before a final evaluation as to the economic and legal feasibility for our future exploration is determined. At this time, we have no known reserves of any type of mineral.

2. Going Concern

The unaudited financial statements, included herein, have been prepared in accordance with USGAAP applicable to a going concern which assumes that the Company will realize its assets and discharge its liabilities in the normal course of business. The Company has minimal revenue sources and is dependent on financing to sustain operations and pay for future commitments related to any mineral options and might not have sufficient working capital for the next twelve months. As shown in the accompanying unaudited financial statements, the Company incurred a net loss of $61,348 for the twelve months ended January 31, 2014 and has an accumulated deficit of $2,565,176 at January 31, 2014. In addition, the Company's current liabilities exceeded its current assets by $575,965 at January 31, 2014. These factors create substantial doubt as to the ability of the Company to continue as a going concern. Realization values may be substantially different from the carrying values as shown in these financial statements should the Company be unable to continue as a going concern. Management is in the process of identifying sources for additional financing to fund the ongoing development of the Company's business. As a result, the accompanying financial statements include adjustments related to the recoverability and classification of asset carrying amounts but do not include any adjustments related to the classification of liabilities that might result from the outcome of this uncertainty.

The Company will require additional funding during the next twelve months to finance the growth of its current operations and achieve its strategic objectives. Management is actively pursuing additional sources of financing sufficient to generate enough cash flow to fund its operations through January 31, 2015; however, management cannot grant any assurances that such financing will be secured.

3. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with USGAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from these estimates.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and all highly liquid debt instruments purchased with a maturity of three months or less.

Exploration and Development Costs

Exploration costs are charged to operations as incurred When it has been established that a mineral deposit is commercially mineable and a decision has been made to formulate a mining plan, which occurs upon completion of a positive economic analysis of the mineral deposit, the costs subsequently incurred to develop the mine on the property prior to the start of the mining operations are capitalized. Capitalized amounts may be written down if future undiscounted cash flows, including potential sales proceeds, related to mineral property are estimated to be less than the carrying value of the property.

Stock-Based Compensation

In December 2004, the Financial Accounting Standards Board (FASB) issued FASB ASC 718 (Prior authoritative literature: SFAS No. 123R, "Share Based Payment"). FASB ASC 718 establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. FASB ASC 718 focuses primarily on accounting for transaction cost relating to share-based payment transactions be recognized in the financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued.

The Company's accounting policy for equity instruments issued to consultants and vendors in exchange for goods and services follows the provisions of FASB ASC 505-50 (Prior authoritative literature: EITF 96-18, "Accounting for Equity Instruments that are Issued to Other Than Employees for Acquiring, or in conjunction with Selling, Goods, Services" and EITF 00-18, "Accounting recognition for Certain Transactions Involving Equity Instruments Granted to Other Than Employees"). The measurement date for the fair value of the equity instruments issued is determined at the earlier of (i) the date at which a commitment for performance by the consultant or vendor is reached or (ii) the date at which the consultant or vendor's performance is complete. In the case of equity instruments issued to consultants, the fair value of the equity instrument is recognized over the term of the consulting agreement. Stock-based compensation related to non-employee is accounted for based on the fair value of the related stock or options or the fair value of the services, whichever is more readily determinable in accordance with FASB ASC 718.

The Company has elected the modified prospective transition method as permitted by the accounting pronouncement and accordingly prior periods have not been restated to reflect the impact of the accounting pronouncement. The modified prospective transition method requires that stock-based compensation expense be recorded for all new and unvested stock options, restricted stock, restricted stock units, and employee stock purchase plan shares that are ultimately expected to vest as the requisite service. Stock-based compensation expense for awards granted prior to January 1, 2006 is based on the grant date fair-value as determined under the pro forma provisions of previous accounting pronouncement. As the Company incorporated on January 13, 2005 and did not grant any stock options, no pro forma information is provided. Resource property acquisition costs are capitalized until the viability of the mineral interest is determined. Capitalized acquisition costs are expensed in the period in which it is determined that the mineral property has no future economic value.

Resource Properties

Capitalized amounts may be written down if future cash flows, including potential sales proceeds, related to the property are estimated to be less than the carrying value of the property. Management of the Company reviews the carrying value of each resource property interest periodically, and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Reductions in the carrying value of each property would be recorded to the extent the carrying value of the investment exceeds the estimated future net cash flows.

In the event that facts and circumstances indicate that the costs of long-lived assets, other than mining properties, may be impaired, an evaluation of recoverability would be performed. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset would be compared to the asset's carrying amount to determine if a write-down to market value or discounted cash flow value is required. Impairment of mining properties is evaluated subject to the full cost ceiling as described under Mining Properties.

At January 31, 2014, the Company realized an impairment loss of $12,801 related to the capitalized mining claim costs established as of January 31, 2012. As of January 31, 2014, mining claims amounted to $63,500.

Foreign Currency Translation

The Company's former subsidiary functional currency was Canadian dollars. Transactions in other currencies are recorded in Canadian dollars at the rates of exchange prevailing when the transactions occur. Monetary assets and liabilities denominated in other currencies are translated into Canadian dollars at rates of exchange in effect at the balance sheet dates. Exchange gains and losses are recorded in the statements of operations.

At the period end, the subsidiary's assets and liabilities are translated into the U.S. dollars at exchange rates at the balance sheet date, equity accounts are translated at historical exchange rates and revenues and expenses are translated by using the average exchange rates. Accumulated translation adjustments are reported as a separate component of other comprehensive income (loss) in the consolidated statements of stockholders' equity (deficit).

Income Taxes

The Company has adopted SC740, "Income Taxes", which requires the Company to recognized deferred tax liabilities and assets for the expected future tax consequence of events that have been recognized in the Company's financial statements or tax returns using the liability method. Under this method, deferred tax liabilities and assets are determined based on the temporary differences between the financial statements and tax bases of assets and liabilities using enacted tax rates in effect in the year in which the differences are expected to reverse.

Fair Value Measurements and Financial Instruments

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities

Level 2 – inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
Level 3 **–** inputs that are not based on observable market data.

The Company's financial instruments include cash and cash equivalents, other receivables, accounts payable and accrued liabilities, due to related party, promissory note payable and accrued interest. Fair values were assumed to approximate carrying values for these financial instruments due to their short-term nature. Management is of the opinion that the Company is not exposed to significant interest, credit or currency risks arising from these financial instruments.

4. Notes Payable

On August 2, 2010, the Company entered into a convertible debenture with Asher Enterprises, Inc. in the amount of $53,000 bearing interest of 8% per annum and was due on April 1, 2011. The note is unsecured and is convertible into the shares of common stock of the Company during the term of the promissory note at the variable conversion price which equals to 58% multiplied by the market price. Market price means the average of the lowest three trading prices for the common stock during the ten trading day period ending one trading day prior to the date of conversion notice.

On December 2, 2010, the Company entered into a second convertible debenture with Asher Enterprises, Inc. in the amount of $25,000 bearing interest of 8% per annum and was due on August 1, 2011. The note is unsecured and is convertible into the shares of common stock of the Company during the term of the promissory note at the variable conversion price which equals to 58% multiplied by the market price. Market price means the average of the lowest three trading price for the common stock during the ten trading day period ending one trading day prior to the date of conversion notice.

The Company is currently in default of these notes and as of January 31, 2014, the current amount due is $78,000 in principal and $20,619 in accrued interest.

Since inception, the Company issued to its former president a total of $391,250 in notes payable for services rendered. The notes are unsecured, bear interest at various rates and are due on demand.

In January 2012, the president agreed to the assignment of $20,000 in principal together with accrued interest thereon to an unrelated third party, Sonny Boyd Williams, LLC, for a purchase price of Two Hundred Dollars ($200).

In September 2012, , the president agreed to the assignment of $11,250 in principal together with accrued interest thereon to an unrelated third party, Sonny Boyd Williams, LLC, for a purchase price of One Hundred and Twelve Dollars and Fifty Cents ($112.50).

In September 2012, , the president agreed to the assignment of $49,000 in principal together with accrued interest thereon to an unrelated third party, Sonny Boyd Williams, LLC, for a purchase price of Three Hundred Dollars ($300).

In September 2012, , the president agreed to the assignment of $120,000 in principal together with accrued interest thereon to an unrelated third party, Sonny Boyd Williams, LLC, for a purchase price of Five Hundred Dollars ($500).

As a result, the amount due the former president of the Company at January 31, 2014 is a principal balance of $214,277 and accrued interest of $23,247.

Also on February 22, 2010 the Company issued a note payable to a private investor in the amount of $5,000. The note is unsecured, bears interest at the rate of 6% per annum and is due on demand. Under the agreement, when demand for payment is presented to the Company, providing 15 clear days notice in writing are given to the Company, the lender has the option to convert this loan outstanding at a deemed price of $0.15 per share of the Company's common shares. The Company received $4,200 (CAD $4,340) from the lender pursuant to the promissory note. On April 22, 2011, the Company received an additional $800 from the lender pursuant to the promissory note.

As a result of the above, as of January 31, 2014, the principal amount due under this note is $5,000 and the accrued interest thereon is $374.

Additionally, as stated above, Sonny Boyd Williams LLC (SBW) acquired $200,250 of the debt due from the former president together with the accrued interest thereon. Further, in January, February, March, July and October 2013, SBW loaned the Company an additional $635, $607, $635, $1,497 and $1,100 respectively for general working capital purposes at the interest rate of 12% per annum. As of January 31, 2014 the total principal amount due Sonny Boyd Williams LLC (SBW) was $200,250 with the accrued interest of $52,822.

4. Notes Payable – continued

In the first and the last quarters of 2013, SBW converted $7,500 and $21,065 respectively of the above debt, $7500 of which was applied to accrued interest, and $21,065 was applied to the reduction of principle into common stock of the Company.

As a result of the above, the amount due SBW as of January 31, 2014 is $160,382 in principal and $52,822 in accrued interest.

Also, in January 2013 the Company issued notes payable to private investors in the amount of $3,425. The notes are unsecured, bear interest at the rate of 12% per annum and are due on demand. At January 31, 2014, the principal balance due on these notes amounted to $3,425 and the accrued interest thereon was $429.

In addition, during the year of 2013 the Company issued notes payable to another private investor in the amount of $850. The notes are unsecured, bear interest at the rate of 12% per annum and are due on demand. Moreover, this private investor loaned $6,193 for general working capital purposes at no interest. At January 31, 2014, the principal balance due on these notes amounted to $7,043 and the accrued interest thereon was $44.

As a result of the above, the total notes payable and accrued interest reflected in the accompanying financial statements as of At January 31, 2014 and January 31, 2014 amounted to $468,127 and $98,941, respectively.

The notes are unsecured, due on demand, bear interest at various rates from 8% to 18% per annum and are convertible into common stock of the Company.

5. Capital Stock

The Company has two classes of equity securities: preferred stock at a par value of $0.001 per share and common stock at par value $0.00001 per share.

On December 7, 2012 the Company authorized and issued to a single individual 1,000,000 shares of Series A preferred stock. The Series A preferred stock has a 10,000 to 1 voting right per share on all matters submitted to shareholders for a vote. The individual holding the Series A preferred stock represents a control block.

As of January 31, 2014, there are 1 million Series A preferred shares issued and outstanding at a value of $1,000.

As of January 31, 2014, the Company was authorized to issue 6 billion shares of common stock at a par value of $0.00001 and the total issued and outstanding was 3,573,024,470 for a value of $44,080.

Issued and Outstanding

From February 1 through July 31, 2013 and in the last quarter, the Company authorized the issuance of 750 million and 1,271,499,999 shares respectively of its common stock in exchange for a reduction of $7,500 and $21,065 correspondingly in outstanding indebtedness.

Further, during this time period the Company authorized the issuance of 910 million shares in exchange for services rendered amounting to $9,100.

6. Recent Accounting Pronouncements

The Company has reviewed the implemented and proposed accounting pronouncements issued by the various regulatory authorities as of January 31, 2014 and has determined that the guidance provided therein is either not applicable to the Company nor will they have a significant impact on the financial statements presented herein.

7. Commitments

As of January 31, 2014, and as a result of the change in control of the Company in October 2012, the Company has no further commitments or contingencies.

Management's Discussion and Analysis and Plan of Operation

Forward Looking Statements

The foregoing statements and the following Management's Discussion and Analysis and Plan of Operation and comments included herein may contain "forward looking statements" within the meaning of Rule 175 under the Securities Act of 1933, as amended, and Rule 3b-6 under the Securities Act of 1934, as amended, or may be amended, including statements regarding, among other items, business strategies, continued growth in markets, projections, and anticipated trends in business and the industry in which it operates. The words "believe," "expect," "anticipate," "intends," "forecast," "project," and similar expressions identify forward-looking statements. These forward – looking statements are based largely on expectations and are subject to a number of risks and uncertainties, certain of which are beyond management's control. The Company cautions that these statements are further qualified by important factors that could cause actual results to differ materially from those in the forward looking statements, including, among other things, reduced or lack of increase in demand for products, competitive pricing pressures, expense management conditions, the successful integration of future acquisitions into the Company's business plan and capital availability. In light of these risks and uncertainties, there can be no assurance that the forward-looking information contained herein will in fact transpire or prove to be accurate. We disclaim any intent or obligation to update "forward looking statements.

1. Revenues and Gross Margin

The Company had no net revenues for the twelve months ended January 31, 2014. Net revenues for the twelve months ended January 31, 2013 were minimal at $4,700.

2. Operating Expenses

Operating expenses for the twelve months ended January 31, 2014 were $19,982 as compared to $553,500 for the twelve months ended January 31, 2013. The decrease in these expenses relates primarily to a reduction in professional fees and investor relations costs.

Interest

Interest expense for the twelve months ended January 31, 2014 amounted to $41,366 as compared to $55,496 for the twelve months ended January 31, 2013. The decrease in interest relates primarily to the decrease in new debts in Notes Payable.

3. Net Loss

As a result of the above, the Company experienced a net loss of $61,348 for the twelve months ended January 31, 2014, as compared to a net loss of $746,295 twelve months ended January 31, 2013.

4. Working Capital

Cash used in operations provided by financing activities for the twelve months ended January 31, 2014 was $10,882 as compared to a cash use of $242,167 for the twelve months ended January 31, 2013. This change principally reflects the decrease in the net loss of the Company as described above and primarily related to the proceeds from issuance of common stock.

For the twelve months ended January 31, 2014 there was no effect on cash from investment activities.

As a result of the above working capital as of January 31, 2014 amounted to a deficit of $582,158 as compared to a deficit of $558,475 as of January 31, 2013. The decrease in working capital principally reflects the increase in accrued expenses (such as interest) of the Company.