



Year End 2016: Consolidated Financial Statements

TSX – V:KLE

## **Consolidated Financial Statements**

**For Year Ending November 30, 2016**

## Management's Responsibility for Financial Statements

### To the Shareholders of Kingsland Energy Corp.

The annual management's discussion and analysis ("MD&A") and annual audited consolidated financial statements ("Financial Statements") of Kingsland Energy Corp. ("Corporation") for the year ended November 30, 2016 are the responsibility of management and have been approved by the board of directors of the Corporation ("Board"). Management has prepared the MD&A and Financial Statements in accordance with International Financial Reporting Standards. The financial information presented in the MD&A is consistent with that in the Financial Statements.

The Board fulfills its responsibility with regard to the Financial Statements, by meeting periodically with management, the Corporation's audit committee as well as with the external auditors. The Board is responsible for recommending to the shareholders the engagement or re-appointment of the external auditor. The auditors have free access to the Board to discuss their audit work and the quality of financial reporting.

We have reviewed the Corporation's MD&A and Financial Statements and attachments thereto for the year ended November 30, 2016 (together referred to as the "Annual Filings"). Based on our knowledge, having exercised reasonable diligence: the Annual Filings do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, with respect to the period covered by the Annual Filings; and the Annual Filings fairly present in all material respects the financial condition, financial performance and cash flows of the Corporation as at November 30, 2016 and for the periods presented in the Annual Filings.

*Signed "Lionel Kambeitz"*

**LIONEL KAMBEITZ**  
**ACTING CEO & DIRECTOR**

*Signed "Jeff Allison"*

**JEFFREY ALLISON**  
**CFO & DIRECTOR**

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## INDEPENDENT AUDITOR'S REPORT

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To the Shareholders of Kingsland Energy Corp. (the "Corporation"):

We have audited the accompanying consolidated financial statements of Kingsland Energy Corp., which comprise the consolidated statement of financial position as at November 30, 2016 and 2015, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Consolidated Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Kingsland Energy Corp. as at November 30, 2016 and 2015 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

### Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 in the consolidated financial statements which indicates that the Corporation has experienced operating losses and has a working capital deficiency of \$3,178,114. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty that may cast significant doubt upon the Corporation's ability to continue as a going concern.

Calgary, Alberta  
March 29, 2017

*Calvista LLP*

Chartered Professional Accountants

# Year End 2016 Consolidated Financial Statements

## KINGSLAND ENERGY CORP.

Consolidated statements of financial position  
Stated in Canadian dollars

As at	Notes	Nov 30, 2016	Nov 30, 2015
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents		245	5,845
Short term deposit	6	44,046	45,469
Accounts receivable		-	32,000
Government remittance		7,430	8,163
Prepaid expenses		500	-
Total Current Assets		52,221	91,477
<b>Non-current Assets</b>			
Properties and equipment	7	355	283,123
Intangibles	8	80,000	536,500
Investment	9	817,722	1,111,900
Total Assets		950,298	2,023,000
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued liabilities	13	451,679	248,448
Short term debt	10	254,560	241,174
Current portion of long term debt	11	2,524,096	1,752,399
Total Current Liabilities		3,230,335	2,242,021
<b>Non-Current Liabilities</b>			
Decommissioning liability	20	44,400	44,400
Long term debt	11	104,500	831,500
Total Liabilities		3,379,235	3,117,921
<b>SHAREHOLDERS' DEFICIENCY</b>			
Capital stock	12	7,583,842	7,583,842
Contributed surplus	11	29,338	29,338
Deficit		(10,042,117)	(8,708,101)
Total deficiency		(2,428,937)	(1,094,921)
Total liabilities and shareholders' deficiency		950,298	2,023,000

The accompanying notes are an integral part of these Financial Statements.

### APPROVED BY THE AUDIT COMMITTEE:

Signed "Lionel Kambeitz"  
**LIONEL KAMBEITZ,**  
**DIRECTOR**

Signed "Jeff Allison"  
**JEFF ALLISON,**  
**DIRECTOR**

# Year End 2016 Consolidated Financial Statements

## KINGSLAND ENERGY CORP.

Consolidated statements of loss and comprehensive loss  
Stated in Canadian dollars (except for share amount)

For the year ended	November 30, 2016	November 30, 2015
<b>Revenue</b>		
Consulting	45,300	163,000
Rent and other revenue	-	31,500
	45,300	194,500
<b>Expenses</b>		
General and administrative	178,950	246,378
Depletion, depreciation and amortization	152,581	202,329
Exploration and evaluation, lease expiration and impairment	7	2,941,691
Impairment of intangible assets	8	387,800
Impairment of tangible assets	7	-
	916,313	3,778,198
Loss from operations	(871,013)	(3,583,698)
Interest revenue	344	402
Finance costs	(173,265)	(207,197)
Impairment of investments	9	-
Gain from sale of assets	4,096	-
Net loss and comprehensive loss	(1,334,016)	(3,790,493)
Earnings (loss) per share	(0.018)	(0.051)
Weighted average shares outstanding	74,732,228	74,720,719

The accompanying notes are an integral part of these Financial Statements.

# Year End 2016 Consolidated Financial Statements

## KINGSLAND ENERGY CORP.

Consolidated statements of changes in equity  
Stated in Canadian dollars (except for share amount)

	Equity attributable to the shareholders					
	Number of shares	Share Capital	Share Subscriptions	Deficit	Contributed Surplus	Total Shareholders' Deficiency
<b>November 30, 2015</b>	<b>74,732,228</b>	<b>\$7,583,842</b>	<b>\$ -</b>	<b>\$(8,708,101)</b>	<b>\$29,338</b>	<b>\$(1,094,921)</b>
Total loss and comprehensive loss for the year	-	-	-	(1,334,016)	-	(1,334,016)
<b>November 30, 2016</b>	<b>74,732,228</b>	<b>\$7,583,842</b>	<b>\$ -</b>	<b>\$(10,042,117)</b>	<b>\$29,338</b>	<b>\$(2,428,937)</b>

	Equity attributable to the shareholders					
	Number of shares	Share Capital	Share Subscriptions	Deficit	Contributed Surplus	Total Equity
<b>November 30, 2014</b>	<b>73,681,038</b>	<b>\$7,394,628</b>	<b>\$189,214</b>	<b>\$(4,917,608)</b>	<b>\$29,338</b>	<b>\$2,695,572</b>
Shares issued	1,051,190	189,214	(189,214)	-	-	-
Total loss and comprehensive loss for the year	-	-	-	(3,790,493)	-	(3,790,493)
<b>November 30, 2015</b>	<b>74,732,228</b>	<b>\$7,583,842</b>	<b>\$ -</b>	<b>\$(8,708,101)</b>	<b>\$29,338</b>	<b>\$(1,094,921)</b>

The accompanying notes are an integral part of these Financial Statements.

# Year End 2016 Consolidated Financial Statements

## KINGSLAND ENERGY CORP.

Consolidated statements of cash flows  
Stated in Canadian dollars

For the year ended	Notes	November 30, 2016	November 30, 2015
<b>Cash flows used in operating activities</b>			
Net loss and comprehensive loss for the period		(1,334,016)	(3,790,493)
Items not involving cash			
Amortization		152,581	202,329
Exploration and evaluation, lease expiration and impairment		209,663	2,941,691
Gain from sale of assets		(4,096)	-
Impairment of intangible assets		332,906	387,800
Impairment of tangible assets		42,213	-
Finance costs		169,265	207,197
Impairment of investment		294,178	-
Change in non-cash working capital	18	129,706	(14,346)
Cash flows used in operating activities		(7,600)	(65,822)
<b>Cash flows from (used in) investing activities</b>			
Dispositions of (additions to) properties and equipment		6,000	(13,389)
Investment in Kingsland Oil Corp.		-	(680,000)
Cash flows from (used in) investing activities		6,000	(693,389)
<b>Cash flow from (used in) financing activities</b>			
Repayments of financing		(4,000)	(40,500)
Cash flows used in financing activities		(4,000)	(40,500)
<b>Decrease in cash and cash equivalents</b>		(5,600)	(799,711)
Cash and cash equivalents, beginning of year		5,845	805,556
<b>Cash and cash equivalents, end of year</b>		245	5,845
Interest paid during the year		4,000	40,500

The accompanying notes are an integral part of these Financial Statements.

# Year End 2016 Consolidated Financial Statements

## KINGSLAND ENERGY CORP.

### Notes to the Consolidated Financial Statements

#### 1. Nature of operations

Kingsland Energy Corp. (“**KEC**”) was incorporated as 101142883 Saskatchewan Ltd. under the *Business Corporations Act* (Saskatchewan) on April 27, 2009. The Corporation commenced operations on February 23, 2010. On February 23, 2011, it was continued from Saskatchewan to the province of Alberta. On December 19, 2011, KEC was amalgamated to form a new corporation under the name of “Kingsland Energy Corp.” (“**KLE**” or “**Corporation**”). The Corporation is a resident Saskatchewan oil corporation.

The Corporation is classified as a distribution corporation under the *Business Corporations Act* (Alberta), a reporting issuer for the purposes of the *Securities Act* (Alberta), a TSX Venture Tier 2 “Exploration” Oil and Gas Issuer” (as defined in TSX Venture Exchange Inc. Policies). KLE provides consulting services directly and through its subsidiary and trades under the symbol “KLE”, and is engaged in the business of oil and natural gas acquisition, exploration and development in Saskatchewan and Manitoba. The Corporation’s head office is located at #002, 2305 Victoria Avenue, Regina, Saskatchewan, Canada.

#### 2. Basis of accounting

These annual audited consolidated financial statements (“**Financial Statements**”) for the year ending November 30, 2016 (the “**Year**”) are prepared using accounting principles and measurement that assumes the reporting entity is a going concern.

KLE is a development stage company and has experienced operating losses and has a working capital deficiency of \$3,178,114 (2015 - \$2,150,544). The corporation has not renewed the leases expired during the year and does not intend to renew the remaining leases in Kries Lake and Elmore Property which are expiring in April and October 2017. Its ability to continue as a going concern depends on management’s ability to identify additional cash flows from its investment, conversion of existing debenture and related interest to shares and renegotiation of terms or through operations. The Corporation is pursuing consulting work and expects to increase its consulting revenues over the next few years. The Corporation is working together with the majority shareholder of Kingsland Oil Corp. (“**KOC**”) that is looking to invest additional capital to expand KOC’s operations. This expansion and improved oil pricing is expected to result in increased distributions to the Corporation from its investment in KOC.

Management acknowledges that uncertainty remains over the ability of the Corporation to meet its funding requirements and re-negotiate the debt as it falls due. The Corporation’s ability to operate is contingent on the successful completion of the conversion of debentures to shares as well as financing, capital, and consulting initiatives currently being pursued. The Corporation has received commitments for its conversion plan from a number of its debenture holders who will be willing to convert. The Corporation will not complete the conversion plan until such time as all the parties have agreed thereto and all necessary approvals have been obtained. These Financial Statements do not give effect to adjustments that would be necessary to the carrying values and classifications of assets and liabilities, should the Corporation be unable to continue as a going concern.



# Year End 2016 Consolidated Financial Statements

## 3. Basis of presentation

### *a) Statement of Compliance with International Financial Reporting Standards:*

These Financial Statements have been prepared in accordance with International Financial Reporting Standards (“**IFRS**”), as issued by the International Accounting Standards Board (“**IASB**”) and Interpretations of the International Financial Reporting Interpretations Committee (“**IFRIC**”).

These Financial Statements include the accounts of KLE and its wholly owned subsidiary EHR Enhanced Hydrocarbon Recovery Inc. (“**EHR**”). In management’s opinion, the Financial Statements include all adjustments necessary to fairly present such information.

These Financial Statements were authorized by the audit committee of the Board of Directors (“**Board**”) for issue on March 29, 2017 and were approved by the **Board** on March 29, 2017.

### *b) Basis of Measurement:*

The Financial Statements have been prepared on a historical cost basis except for the following items in the statement of financial position:

Financial assets and liabilities held-for-trading are measured at fair value with gains and losses recognized in net income.

Financial assets held-to-maturity, loans and receivable and financial liabilities, other than those held-for trading, are measured at amortized cost.

Available-for-sale instruments are measured at fair value with unrealized gain and losses recognized in other comprehensive income.

### *c) Functional and presentation currency:*

These Financial Statements are presented in Canadian dollars, which is the Corporation’s functional currency.

### *d) Use of estimates and judgments:*

The preparation of the Financial Statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Judgment is used mainly in determining whether a balance or transaction should be recognized in the Financial Statements. Estimates and assumptions are used mainly in determining the measurement of recognized transactions and balances. However, judgment and estimates are often interrelated.

Judgments, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in future periods affected.

# Year End 2016 Consolidated Financial Statements

**Use of estimates and judgement** – Information about judgment, assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment are as follows:

**Business Combinations** – Business combinations are accounted for using the acquisition method of accounting. The determination of fair value often requires management to make assumptions and estimates about future events. The assumptions and estimates with respect to determining the fair value of exploration and evaluation assets and petroleum and natural gas assets acquired, generally require the most judgment and include estimates of reserves acquired, forecast benchmark commodity prices and discount rates. Changes in any of these assumptions or estimates used in determining the fair value of acquired assets and liabilities could impact the amounts assigned to assets, liabilities and goodwill in the purchase price allocation. Future net income can be affected as a result of changes in future depletion and depreciation or asset impairment.

## **Reserve Estimates**

Petroleum and natural gas assets are depleted on a unit of production basis at a rate calculated by reference to proved and probable reserves determined in accordance with National Instrument 51-101, *Standards of Disclosure for Oil and Gas Activities* (“**NI 51-101**”) and incorporating the estimated future cost of developing and extracting those reserves. Proved and probable reserves are estimated using independent reservoir engineering reports and techniques and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrating with a specified degree of certainty to be recoverable in future periods from known reservoirs and which are considered commercially producible. Reserves estimates and data contained within reserve reports, although not reported as part of the Corporation’s Financial Statements, can have a significant effect on net income, assets and liabilities as a result of their impact on depletion and depreciation, decommissioning liabilities, deferred taxes, asset impairments and accounting for business combinations. Independent reservoir engineers perform evaluations of the Corporation’s oil and natural gas reserves on an annual basis. The estimation of reserves is an inherently complex process requiring significant judgment. Estimates of economically recoverable oil and natural gas reserves are based upon a number of variables and assumptions such as geo scientific interpretation, production forecasts, commodity prices, costs and related future cash flows, all of which may vary considerably from actual results. These estimates are expected to be revised upward or downward over time, as additional information such as reservoir performance becomes available or as economic conditions change.

## **Investments in Securities**

The Corporation’s investment in KOC is accounted for as available-for-sale financial instrument. Management considers all the factors to determine the classification of investment.

The investment is assessed at the end of each reporting period to determine whether there is any objective evidence of impairment. Management is required to exercise judgment in determining whether a decrease in the fair value of an investment below its carrying value is significant or prolonged, which would require an impairment charge to be recognized. Management is also required to exercise judgment in estimating the fair value of investments in the securities of private corporations that are not traded on public exchanges.

## **Decommissioning Obligations**

Estimates of asset retirement costs are based on assumptions regarding the methods, timing, economic environment and regulatory standards that are expected to exist at the time assets are retired. Management adjusts estimated amounts periodically as assumptions are changed to incorporate new information. Actual payments to settle the obligations may differ materially from amounts estimated.

# Year End 2016 Consolidated Financial Statements

## **Intangible Assets Impairment**

The identification of indicators for impairment for intangibles is subject to judgement. Management identified that indicators of impairment exist in relation to its intangible assets and computed the recoverable amount of these assets as of November 30, 2016. These calculations require the use of various assumptions, including the discount rate.

## **Income Taxes**

Accounting for income taxes is a complex process requiring management to interpret frequently changing laws and regulations and make judgments related to the application of tax law, estimate the timing of temporary difference reversals and estimate the probability of the realization of deferred income tax assets. All tax filings are subject to subsequent government audits and potential reassessment. These interpretations and judgments, and changes related to them, impact current and deferred tax provisions, the carrying value of deferred income tax assets and liabilities and could have a material impact on earnings.

Deferred income tax assets are recognized to the extent future realization is probable. To the extent that future taxable income and the application of existing tax laws in each jurisdiction differ significantly from the management's estimate, the ability of the Corporation to realize the deferred income tax assets could be impacted.

## **Exploration or Development**

Management is required to apply judgment when designating a project as exploration and evaluation or development, which requires an assessment of geological and technical characteristics and other factors related to each project.

## **Exploration and Evaluation Assets**

The accounting for exploration and evaluation projects requires management to make judgments as to whether exploratory projects have discovered economically recoverable quantities of reserves, which requires the quantity and value of such reserves to be estimated. Previous estimates are sometimes revised as new information becomes available. Where it is determined that an exploratory project did not discover economically recoverable resources, the costs are written-off as exploration and evaluation expense.

If hydrocarbons are encountered, but further appraisal activity is required, the exploratory costs remain capitalized as long as sufficient progress is being made in assessing whether the recovery of the resources is economically viable. The concept of "sufficient progress" is a judgmental area, and it is possible to have exploratory costs remain capitalized for several years while additional exploratory activities are carried out or the Corporation seeks government, regulatory or partner approval for development plans. Exploration and evaluation assets are subject to ongoing technical, commercial and management review to confirm the continued intent to develop and extract the underlying resources. When management is making this assessment, changes to project economics, expected quantities of resources, expected production techniques, drilling results and estimated capital expenditures and production costs are important factors. Where it is determined that an exploratory project is not economically viable, the costs are written-off as exploration and evaluation expense.

## **Impairment**

For the purpose of determining whether impairment of assets or a CGU has occurred, management exercises their judgment in estimating fair value for the recoverable amount, being the higher of fair value less costs of disposal or value in use. Estimates of fair value are primarily based on discounted cash flow projection techniques employing estimated future cash flows based on assumptions regarding the expected market outlook and cash flows from each CGU or asset. The cash flow estimates will vary with the circumstances of the particular assets or CGU and will be based on, among other things, the lives of the assets, contract prices, estimated future prices, revenues and expenses, including growth rates and inflation, and required capital expenditures. The fair value less costs of disposal and value in use estimates are categorized as Level 3 according to the IFRS fair value hierarchy.

## **4. Significant Accounting Policies**

The accounting policies set out below have been applied consistently to all periods presented in these Financial Statements.

### **Subsidiaries**

The financial statements of the Corporation's subsidiary are prepared for the same reporting periods as the parent in accordance with the Corporation's accounting policies. All intercompany balances and transactions have been eliminated.

### **Available for sale investment**

KLE accounts for its investment in KOC, a private company as an available for sale investment due to contractual restrictions on 25% of the shares and board control by the majority holder. Accordingly, the investment has been accounted for as an available for sale investment.

An available-for-sale investment is measured at fair value, with changes in such fair values being accumulated in other comprehensive income ("OCI") until the asset is realized or impaired, at which time the cumulative gain or loss is recognized in net earnings. Investments in publicly-traded securities are carried at their period-end trading price (level one fair value hierarchy estimate). Investment in the securities of private entities are carried at fair value, which is estimated using private placement equity issuances and other transactions which provide indications of value (level two fair value hierarchy estimate).

### **Cash and cash equivalents**

Cash and cash equivalents include cash on hand, deposits held with banks and other short term highly liquid investments with maturities of less than 90 days.

### **Financial instruments**

#### **Financial assets and liabilities**

Financial assets and financial liabilities are recognized when the Corporation becomes a party to the contractual provisions that define the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Corporation has transferred

# Year End 2016 Consolidated Financial Statements

substantially all risks and rewards of ownership. Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position, when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. Financial assets and financial liabilities are initially recognized at fair value. This initial fair value is normally the transaction price plus, in the case of financial assets not at fair value through net income, directly attributable transaction costs. The subsequent measurement of the Corporation's financial instruments depends on their classification determined by the purpose for which the instruments were acquired, as follows:

## **Financial Assets and Liabilities through Profit and Loss**

Financial derivative contracts and the investments held for trading are classified as financial assets through profit and loss. These assets are carried on the statement of financial position at fair value with gains or losses recognized in net income in the period in which they arise. Financial assets and liabilities through profit and loss are classified as current except for the portion expected to be realized or paid beyond twelve months from the statement of financial position date, which is classified as non-current. Cash and cash equivalents are classified in this category.

## **Held to Maturity Investments**

These instruments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Corporation would have the positive intention and ability to hold to maturity. Upon initial recognition, this instrument would be recognized at fair value plus any transaction costs that are directly attributed to the acquisition. Subsequently, these instruments are measured at amortized cost using the effective interest method. The Corporation does not hold any instruments in this category.

## **Available-for-sale Investments**

Available-for-sale investments are those non-derivative financial assets that are not classified as loans and receivables, held to maturity or fair value through profit and loss. Available for sale investments are initially recognized at fair value plus transaction costs. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognized within other comprehensive income. Available-for-sale investments are classified as non-current, unless the investments mature within twelve months, or management expects to dispose of them within twelve months. The Corporation's investment in KOC has been classified as available for sale asset.

## **Loans and Receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest rate method if the time value of money is significant. Gains and losses are recognized in net income when the loans and receivables are derecognized or impaired, as well as through the amortization process. The Corporation's loans and receivables are comprised of trade and other receivables which are included in current assets due to their short-term nature.

## **Other Financial Liabilities**

Financial liabilities at amortized cost include accounts payable and accrued liabilities, short term debt and long term debt. Accounts payable and accrued liabilities are initially recognized at the amount required to be paid less, when material, a discount to reduce the payables to fair value. Subsequently, accounts payable and

# Year End 2016 Consolidated Financial Statements

accrued liabilities and short term debt are measured at amortized cost using the effective interest rate method. Long term debt is recognized initially at fair value, net of any transaction costs incurred and subsequently, at amortized cost using the effective interest rate method. Financial liabilities are classified as current liabilities, if payment is due within twelve months; otherwise they are presented as non-current liabilities.

## **Transaction Costs**

Transaction costs related to held for trading financial assets are expensed as incurred. Transaction costs related to available for sale financial assets, held to maturity financial assets, other liabilities and loans and receivables are added to the carrying value of the asset or netted against the carrying value of the liability and are then recognized over the expected life of the instrument, using the effective interest method.

## **Fair Value**

Estimated fair values for financial instruments are designed to approximate price that would be received to sell an asset or to transfer a liability in an orderly transaction between market participants at the measurement date.

Inputs used to estimate fair values incorporated in the preparation of the Financial Statements are categorized into three levels in a fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three levels are defined as follows:

**Level 1** - Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis. Cash and cash equivalents are measured at fair value using Level 1.

**Level 2** - Pricing inputs are other than quoted prices in active markets included in Level 1. Prices are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward rates for interest rate, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

**Level 3** - Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

## **Exploration and Evaluation Assets**

### **Capitalization**

All costs incurred after the rights to explore and develop an area have been obtained, such as geological and geophysical costs, other direct costs of exploration (drilling, testing and evaluating the technical feasibility and commercial viability of extraction) and appraisal, including any directly attributable general and administration costs and share-based payments, are accumulated and capitalized as exploration and evaluation assets.

Certain costs incurred prior to acquiring the legal rights to explore are charged directly to net income.

### **Amortization**

Exploration and evaluation costs are not amortized prior to the conclusion of appraisal activities. At the



# Year End 2016 Consolidated Financial Statements

completion of appraisal activities, if technical feasibility is demonstrated and commercial reserves are discovered, then the carrying value of the relevant exploration and evaluation asset will be reclassified as a petroleum and natural gas asset into the Cash generating unit (“CGU”) to which it relates, but only after the carrying value of the relevant exploration and evaluation asset has been assessed for impairment and, where appropriate, its carrying value adjusted. Technical feasibility and commercial viability are considered to be demonstrable when proved or probable reserves are determined to exist. If it is determined that technical feasibility and commercial viability have not been achieved in relation to the exploration and evaluation assets appraised, all other associated costs are written down to the recoverable amount in net income.

Expired land leases included as undeveloped land in exploration and evaluation assets are recognized in exploration and evaluation cost in net income upon expiry.

## **Impairment**

If and when facts and circumstances indicate that the carrying value of an exploration and evaluation asset may exceed its recoverable amount, an impairment review is performed. For exploration and evaluation assets, when there are such indications, an impairment test is carried out by grouping the exploration and evaluation assets with property, plant and equipment CGU’s to which they belong for impairment testing. The equivalent combined carrying value of the CGU’s is compared against the recoverable amount of the CGU’s and any resulting impairment loss is written off to net income. The recoverable amount is the greater of fair value, less costs to sell, or value-in-use. Impairments of exploration and evaluation assets are only reversed when there is significant evidence that the impairment has been reversed, but only to the extent of what the carrying amount would have been, had no impairment been recognized.

## **Decommissioning liabilities**

The Corporation recognizes the estimated fair value of an asset retirement obligation in the period that the well or related asset is drilled, constructed or acquired. The fair value of the estimated obligation is estimated using the present value of the estimated future cash outflows to abandon the asset, calculated at the Corporation’s risk-free interest rate. The fair value is recorded as a long term liability with a corresponding increase in the carrying amount of the related asset. The liability is increased each reporting period with the accretion being charged to income until the property is depleted or sold. The capitalized amount is depleted on the unit-of-production basis over the life of the reserves. Actual abandonment and restoration costs incurred are charged against the asset retirement obligation.

The Corporation reviews the obligation regularly such that revisions to the estimated timing of cash flows, discount rates and estimated costs will result in an increase or decrease to the asset retirement obligation.

## **Properties and equipment**

Properties and equipment are carried at cost, less accumulated depreciation, less any recognized impairment loss. Costs of additions, betterments, renewals and interest during construction are capitalized each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. When the cost of replacing part of an item of properties and equipment is capitalized, the carrying amount of the replaced part is derecognized.

Depreciation of assets in construction commences when the assets are ready for their intended use. The assets’ residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits

# Year End 2016 Consolidated Financial Statements

embodied in the asset are accounted for by changing the depreciation period or method, as appropriate, and are treated as changes in accounting estimates.

Any gain or loss arising on the disposal or retirement of an item of properties and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset, and is recognized in the income statement.

The costs related to area cost centers for petroleum and natural gas properties, including related pipelines and facilities, are depleted using a unit-of-production method based on the commercial proved and probable reserves allocated to its CGU.

Petroleum and natural gas assets are not depleted until production commences. The depletion calculation takes into account the estimated future development costs required to develop the proved and probable reserves.

Proved and probable reserves are estimated using independent reservoir engineering reports and techniques and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future periods from known reservoirs and which are considered commercially producible.

Property and equipment are recorded at cost less accumulated amortization. Amortization is provided on the straight-line basis over the estimated useful life of the assets at the following rates:

Furniture and equipment	20%
Computer equipment	30%
Leasehold improvements	30%

Property and equipment acquired during the period but not placed into use during this time are not amortized in the period of acquisition.

## **Intangible assets**

Identifiable intangible assets, acquired through acquisitions that are subject to amortization, are amortized using the straight-line method over their estimated useful lives of 1 to 7 years.

Intangible assets, not subject to amortization, are tested annually for impairment, and any impairment identified is charged to earnings as identified.

## **Asset impairment**

At the end of each reporting period, the Corporation reviews the carrying amounts of both its long-lived assets to be held and used and identifiable intangible assets to determine whether there is any indication that those assets have suffered an impairment loss.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (this can be at the asset or cash-generating unit level). A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. If an indication of impairment exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. If the recoverable



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amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. Non-financial assets, other than goodwill, that have previously suffered an impairment loss are reviewed for possible reversal of the impairment at each reporting date.

## Leases

Leases entered into are classified as either finance or operating leases. Leases that transfer substantially all of the risks and rewards of ownership of property to the Corporation are accounted for as finance leases. Finance leases are capitalized at the commencement of the lease at the lower of the fair value of the leased equipment and the present value of the minimum lease payments. Equipment acquired under a finance lease is depreciated over the shorter of the period of expected use on the same basis as other similar properties and equipment and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Rental payments under operating leases are expensed over the period of the lease.

## Revenue recognition

Revenue includes the services rendered by the Corporation and rent revenues. Revenue from services is recognized when:

- services have been rendered,
- the amount of revenue can be reliably measured;
- it is probable that the economic benefits associated with the transaction will flow to the Corporation; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest revenue is recorded as earned from its deposit held in a financial institution.

## Income taxes

The tax expense for the period comprises current and deferred income tax. Taxation is recognized in the statement of income, except to the extent that it relates to items recognized directly in equity, in which case the tax is recognized in equity.

Current income tax is generally the expected income tax payable on the taxable income for the period, calculated using rates enacted or substantively enacted at the statement of financial position date, and includes any adjustment to income tax payable or recoverable in respect of previous periods. The realized and unrealized excess tax benefit from share-based payment arrangements is recognized in equity. When an asset is transferred between enterprises within the consolidated group, the difference between the tax rates of the two entities is recognized in tax expense in the period in which the transfer occurs. Current tax payable by the transferor is recognized for any taxes payable in the current period, and a deferred tax asset is recognized by

# Year End 2016 Consolidated Financial Statements

the transferee for any temporary difference.

Uncertain income tax positions are accounted for using the standards applicable to current income tax assets and liabilities: i.e., both liabilities and assets are recorded when probable at the Corporation's best estimate of the amount.

Deferred income tax is recognized using the liability method, based on temporary differences between consolidated financial statement carrying amounts of assets and liabilities and their respective income tax bases. Deferred income tax is determined using tax rates that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. The tax effect of certain temporary differences is not recognized, principally with respect to temporary differences relating to investments in subsidiaries, jointly controlled entities and associates where the Corporation is able to control the reversal of the temporary difference and the temporary difference is not expected to reverse in the foreseeable future. Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. The amount of deferred income tax recognized is based on the expected manner and timing of realization or settlement of the carrying amount of assets and liabilities. Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred income tax assets are reviewed at each statement of financial position date and amended to the extent that it is no longer probable that the related tax benefit will be realized.

Current income tax assets and liabilities are offset when the Corporation has a legally enforceable right to offset the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously. Normally the Corporation would only have a legally enforceable right to set off a current tax asset against a current tax liability when they relate to income taxes levied by the same taxation authority and the taxation authority permits the Corporation to make or receive a single net payment. Deferred income tax assets and liabilities are offset when the Corporation has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either: (1) the same taxable entity; or (2) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

## 5. Changes in accounting policies

There were no new or amended accounting standards adopted by the Corporation for the year.

### **Future Changes in Accounting Standards**

In May 2014, the International Accounting Standards Board ("**IASB**") issued IFRS 15 – *Revenue From Contracts With Customers*, which establishes a single revenue recognition framework that applies to contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive when control is transferred to the purchaser. IFRS 15 is effective for years beginning on or after January 1, 2018. The new standard is not expected to have any impact on the Financial Statements.

In July 2014, the IASB issued IFRS 9 – *Financial Instruments*, which sets out the recognition and measurement requirements for financial instruments and some contracts to buy or sell non-financial

# Year End 2016 Consolidated Financial Statements

items. IFRS 9 proposes a single model of classifying and measuring financial assets and liabilities and provides for only two classification categories: amortized cost and fair value. IFRS 9 is effective for years beginning on or after January 1, 2018. The Corporation has not yet determined the impact of the IFRS on the Financial Statements.

In January 2016, the IASB issued IFRS 16 – *Leases*, which replaces IAS 17 – *Leases and related interpretations*. IFRS 16 eliminates the classification of leases as finance or operating and introduces a single lessee accounting model for recognition and measurement, which will require the recognition of assets and liabilities for most leases. IFRS 16 is effective for years beginning on or after January 1, 2019. The new standard is does not have any impact on the Financial Statements.

## 6. Short term deposits

A balance of \$44,400 (November 30, 2015 – \$44,400) was placed in a separate deposit as security for a letter of credit in connection with the Saskatchewan Ministry of Mines and Resources to cover the cost of any abandoned wells, should payment be required.

The letter of credit, if drawn, incurs interest at the bank's prime lending rate plus 1.25% per annum. The Corporation must also pay an issue fee based on the amount and term of credit calculated at a rate of 2% per annum, subject to a minimum charge of \$888. During the year the letter of credit was converted to a savings account paying interest at approximately 1.1%. As of November 30, 2016 the letter of credit was not drawn.

## 7. Properties and equipment

	<b>Exploration &amp; Evaluation</b>	<b>Other Equipment</b>	<b>Total</b>
Carrying amount November 30, 2015	\$ 209,663	\$73,460	\$283,123
Asset disposals (expiration) and impairment	(209,663)	(43,702)	(253,365)
Amortization and depletion	-	(29,403)	(29,403)
Carrying amount November 30, 2016	-	<b>\$355</b>	<b>\$355</b>
<b>Balance November 30, 2016 comprised of</b>			
	<b>Exploration &amp; Evaluation</b>	<b>Other Equipment</b>	<b>Total</b>
Cost	\$209,663	\$177,661	\$387,324
Asset disposals (expiration) and impairment	(209,663)	(24,725)	(234,388)
Accumulated amortization	-	(152,581)	(152,581)
Balance, end of year	-	<b>\$355</b>	<b>\$355</b>

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Balance November 30, 2015 comprised of	Exploration & Evaluation	Other Equipment	Total
Cost	\$209,663	\$198,091	\$407,754
Accumulated amortization	-	(124,631)	(124,631)
Balance, end of year	<b>\$209,663</b>	<b>\$73,460</b>	<b>\$283,123</b>

During the year \$209,663 (November 30, 2015 - \$2,941,691) of exploration and evaluation costs, including expired leases, have been recorded as exploration and evaluation expense.

## 8. Intangibles:

	Enhanced Oil Technology		
Opening balance, November 30, 2015		\$536,500	
Amortization		(123,594)	
Impairment		(332,906)	
Closing balance, November 30, 2016		<b>\$80,000</b>	

  

	Assets under development	Enhanced Oil Technology	Total
Opening balance, November 30, 2014	\$91,000	\$1,000,000	\$1,091,000
Amortization	-	(166,700)	(166,700)
Impairment	(91,000)	(296,800)	(387,800)
Closing balance, November 30, 2015	<b>\$ -</b>	<b>\$536,500</b>	<b>\$536,500</b>

Management performs an analysis of the carrying value of its intangible assets as laid out in Note 4. Intangible assets were recognized on the acquisition of EHR. The value of these intangibles had been determined at the date of acquisition using valuation techniques.

The enhanced oil technology asset is being amortized over its useful life and amortization of \$123,594 (November 30, 2015 - \$166,700) and has been included in depreciation and amortization expense.

All the intangibles relate to EHR's CGU. At November 30, 2016, the Corporation tested EHR for impairment to determine the fair value. The recoverable amount was based on expected discounted cash flows. Cash flows are discounted using discount rates of approximately 25%. The calculation of fair value is sensitive to various assumptions associated with potential cash flows, including but not limited to margin rates, timing of commercialization of technologies etc.

Depending on the assumption, a downward change of 10% or more in the assumptions, if not offset by other events, will result in a further impairment of \$8,605 as of November 30, 2016.

Another significant assumption used in computing fair values is discount rate. A rise in discount rate by 5% would result in a further impairment of \$12,855 as of November 30, 2016.

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As at November 30, 2016 the Corporation determined that the asset was impaired by \$332,906 (2015 - \$302,800) and accordingly reduced the carrying value of intangible assets through income.

## 9. Investment

KLE invested \$1,111,900 for a 45% interest in KOC. KLE accounts for its investment in KOC as available for sale due to share restrictions, concentrated shareholding, board dominance and KLE's current financial position indicate that KLE does not exert significant influence. Fair value cannot be reliably measured as there is no quoted active market for these securities. Based on available information, management has impaired the value of the investment in the amount of \$294,178 (November 30, 2015 - \$Nil).

## 10. Short term debt

The Corporation secured a \$254,560 (2015: \$222,485) short term loan, due on demand, bearing interest at 6% per annum from HTC Pureenergy Inc. which is a related party due to common directors. Interest of \$32,075 (2015: \$18,689) on this loan is accumulated and added to principal. The debt is secured with a first charge on investments and certain oil and gas properties owned by the Corporation.

## 11. Long term debt

	November 30, 2016	November 30, 2015
Long term debentures matured ranging from September 2015 to May 2016. Interest on matured loans is being calculated at a rate of 5%. Prior to maturity, lender can convert its shares. Lender has option to convert outstanding balance at any time to common voting shares of the Corporation at a rate of 1.5 times the outstanding balance. Under the option, the lenders will be issued the maximum shares allowable under regulatory requirements, and any additional shares agreed upon may be issued by Kingsland Capital Management Inc. ("KCM"). The conversion feature as set out above is subject to regulatory approval and maybe amended, as required, to conform to any regulatory requirements. These loans have matured without conversion. The Corporation is attempting to convert these to shares (see below).	\$ 743,228	\$ 733,228
2014 Renegotiated long term debentures resulted in rolling outstanding interest into principle with a fixed interest rate between 6% to 10% maturing in 2017. Lenders have the option to convert balance to common voting shares of the Corporation at a rate of 1.5 times the outstanding balance. Under the option, the lenders will be issued the maximum shares allowable under regulatory requirements, and any additional shares agreed upon may be issued by KCM. The conversion feature as set out above is subject to regulatory approval and maybe amended, as required, to conform to any regulatory requirements. The Corporation is attempting to convert these to shares (see below).	511,000	1,227,319

# Year End 2016 Consolidated Financial Statements

2015 Renegotiated long term debentures resulted in rolling outstanding interest into principle with a fixed interest rate between 8% to 10% maturing in 2016 (\$110,000), 2017 (\$501,819) and 2018 (\$104,500). Lender has option to convert outstanding balance at any time to common voting shares of the Corporation at a rate of 1.5 times the outstanding balance. Under the option, the lenders will be issued the maximum shares allowable under regulatory requirements, and any additional shares agreed upon may be issued by KCM. The conversion feature as set out above is subject to regulatory approval and maybe amended, as required, to conform to any regulatory requirements. The Corporation is attempting to convert these to shares (see below).

716,319

-

Convertible debenture	658,049	623,352
	2,628,596	2,583,899
Current portion of long term debt	(2,524,096)	(1,752,399)
Balance	<b>\$ 104,500</b>	<b>\$ 831,500</b>

Principal repayments over the next two years are as follows:

2017	2,524,096
2018	104,500

During the 2015 year, the Corporation continued restructuring debt resulting in a number of original debenture holders allowing interest due, to be added to the principal balance \$66,319 and continuing under the same terms, save for fixing the interest rate (8-10%) for the remaining year or alternatively extending the maturity date from 18 to 36 months and with interest rate ranging between 5-10% for the next 3 years.

During the current year, the Corporation continued restructuring debt, resulting in a number of original debenture holders allowing interest due in the amount of \$10,000 to be added to principle balance, and resulting in rolling 45 day extensions with a maximum of three extensions. Interest rates begin at 5%, increasing 1% upon every 45-day extension.

The Corporation is in discussion with debenture holders regarding debentures that have matured or is in the process of maturing. The Corporation has held meetings and has communicated to the debenture holders that the Corporation is not able to pay debenture interests that have matured or are in the process of maturing, as the resources required exceed the value of assets that can be realized. The Corporation has made a proposal to all debenture holders to, subject to regulatory approvals, convert the debenture holders' interest, including related interest amounts, to shares based on a \$0.05 per share amount.

On November 6, 2014, the Corporation issued a 2 year convertible debenture instrument for proceeds of \$615,000, bearing interest at 3.5% per annum due at maturity and secured by shares in KOC. Interest of \$72,387 on this loan has accumulated and has been added to the principal). The conversion feature allows the

# Year End 2016 Consolidated Financial Statements

lender to convert the principal sum to common shares of the Corporation at any time prior to maturity at a price of \$0.30 per common share. As the conversion amount is fixed, the debenture is considered a compound instrument. Accordingly, \$29,338 being the difference between the estimated fair value at maturity of the debt instrument at a market adjusted discount factor to the original cash consideration received had been adjusted to contributed surplus. As the Corporation has defaulted in repaying this loan it is expected that the loan holder will claim 25% of the shares of KOC.

## 12. Capital stock

### Share capital:

Authorized:

An unlimited number of common shares

An unlimited number of preferred shares

	As at November 30, 2016		As at November 30, 2015	
	Number	Amount	Number	Amount
<b>Common Shares</b>				
<b>Balance, beginning of Year</b>	74,732,228	\$7,583,842	73,681,038	\$7,394,628
<b>Shares issued</b>	-	-	1,051,190	189,214
<b>Balance, end of Year</b>	74,732,228	\$7,583,842	74,732,228	\$7,583,842

### Shares issued:

On December 4, 2014 the Corporation issued 1,051,190 common shares (at \$.18 per share) for gross proceeds of \$189,214.

## 13. Financial instruments

### Fair value

Management believes the carrying value of cash and cash equivalents, accounts payable and accrued liability and short term debt approximate their fair value at year end due to their short-term nature. For the available for sale investments, as mentioned in Note 9, the fair value cannot be determined. The carrying value of long-term debt also approximates their fair value as the loans are from unrelated third parties with an interest rate which approximates the market interest rate.

Management's risk management policies are typically performed as a part of the overall management of the Corporation's operations. Management is aware of risks related to these objectives through direct personal involvement with employees and outside parties. In the normal course of its business, the Corporation is exposed to a number of risks that can affect its operating performance. Management's close involvement in operations helps identify risks and variations from expectations. The Corporation has not designated transactions as hedging transactions to manage risk. As a part of the overall operation of the Corporation, management considers the avoidance of undue concentration of risks. These risks and the actions taken to manage them include the following:

### Liquidity risk

Liquidity risk is the risk that the Corporation cannot meet its financial obligations associated with financial liabilities in full when they fall due. The Corporation's main sources of liquidity are its operations and debt financing. The funds are primarily used to finance working capital and capital expenditure requirements.



# Year End 2016 Consolidated Financial Statements

The timing of cash outflows relating to the financial liabilities are outlined in the table below:

<b>November 30, 2016</b>	<b>&lt; 1 year</b>	<b>1-2 years</b>	<b>2-4 years</b>	<b>Total</b>
Accounts payable and accrued liabilities	\$ 451,679	-	-	\$ 451,679
Short term debt	254,560	-	-	254,560
Long term debt	2,524,096	104,500	-	2,628,596
<b>Balance</b>	<b>\$ 3,230,335</b>	<b>\$ 104,500</b>	<b>-</b>	<b>\$ 3,334,835</b>

<b>November 30, 2015</b>	<b>&lt; 1 year</b>	<b>1-2 years</b>	<b>2-4 years</b>	<b>Total</b>
Accounts payable and accrued liabilities	\$ 248,448	-	-	\$ 248,448
Short term debt	241,174	-	-	241,174
Long term debt	1,752,399	831,500	-	2,583,899
<b>Balance</b>	<b>\$ 2,242,021</b>	<b>\$ 831,500</b>	<b>-</b>	<b>\$3,073,521</b>

## **Currency risk**

Currency risk is that changes in foreign exchange rates may have an effect on future cash flows associated with financial instruments. The Corporation has no significant transactions denominated in foreign currency and is not exposed to any material foreign currency risk aside from broad unquantifiable macro-economic factors arising from fluctuations in foreign exchange, which could result in Canadian products becoming more expensive to international purchasers.

## **Interest rate risk**

Interest rate risk primarily is associated with interest fluctuations earned on the Corporation's cash and term deposits.

A 1% change in the prime interest rate would have a negligible impact on the Corporation's income.

## **Credit risk**

Credit risk is the risk of financial loss if counterparty to a financial transaction fails to meet its obligations. The Corporation attempts to reduce such exposure to its cash and short term deposits by only investing in low risk investments with Canadian Chartered Banks and taking advantage of government guarantees. The Corporation attempts to reduce its loss on amounts receivable by assessing the ability of the counterparties to fulfill their obligation under contract prior to entering into the contracts and by the nature of customers the Corporation deals with.

The Corporation's accounts receivable is \$Nil at November 30, 2016 (2015 - \$32,000).

## **14. Loss per share amount**

Basic net loss per common share has been calculated using the weighted average number of common shares outstanding during the Year. Diluted net loss per common share is considered to equal basic earnings per share, as the effect would be anti-dilutive.



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## 15. Related party transactions

The key management personnel of the Corporation consist of the executive officers, vice-president, other senior managers and members of the Board. Key management personnel also include those persons that have the authority and responsibility for planning, directing and controlling the activities of the Corporation, directly or indirectly. Compensation for the current Year was \$39,483 (2015 - \$88,000). As at November 30, 2016 Kilback Capital Management Inc. was owed \$16,800 (2015 - \$9,100).

KCM is considered a related party through key management. KCM supported the 3 year convertible debenture issuance as described in Note 11. KCM holds \$60,000 of this debenture. KCM has accrued interest of \$10,404. As of November 30, 2016, \$10,404 of interest accrued is outstanding (2015 - \$6,493). KCM has communicated its willingness to participate in the proposed share conversion.

Directors, directly and indirectly, hold \$162,500 of the 3 year convertible debenture described in Note 11. The directors have accrued interest of \$22,962 (2015 - \$13,451) and received interest payments of \$Nil (2015 - \$2,500) in cash consideration and rolled interest of \$Nil (2015 - \$12,500) into principal during the Period. Each director also is entitled to receive a fee of \$500 for attending board meetings. The total fees paid to directors during the Year were \$3,000 (2015 - \$3,000). Subsequent to the Period the directors have communicated their willingness to participate in the proposed share conversion.

HTC Purenergy Inc. (“**HTC**”) is considered a related party due to common directors and common management. The Corporation has secured a short term loan from HTC (see Note 10). The Corporation has consultancy revenues of \$8,300 (2015 - \$30,000) to HTC. On November 1, 2015 KLE entered into sub-lease agreement for its existing premises with **HTC** for \$1,000 on month-to-month basis. Total rent paid to HTC as of November 30, 2016 is \$12,000. As of November 30, 2016, there is an outstanding amount of \$23,507 owing to HTC (2015 - \$6,180).

These transactions are in the normal course of operations.

## 16. Capital disclosures

The Corporation defines its capital as its shareholders’ equity and long term debt. Except as otherwise disclosed in these Financial Statements, there are no restrictions on the Corporation’s capital. The Corporation’s capital is summarized as follows:

	November 30, 2016	November 30, 2015
Shareholders’ equity (Capital deficiency)	\$(2,428,937)	\$(1,094,921)
Current portion of long term debt	2,524,096	1,752,399
Long term debt	104,500	831,500
<b>Balance</b>	<b>\$199,659</b>	<b>\$1,488,978</b>

The Corporation’s objectives when managing capital are to:

- Maintain financial flexibility in order to preserve its ability to meet financial obligations;
- Deploy capital to provide an appropriate investment return to its shareholders in the future; and
- Maintain a capital structure that allows multiple financing options to the Corporation should a financing need arise.

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The Corporation's financial strategy is designed and formulated to maintain a flexible capital structure consistent with the objectives stated above and to respond to changes in economic conditions and the risk characteristics of underlying assets. In order to maintain or adjust its capital structure, the Corporation may issue new shares, raise debt (secured, unsecured, convertible and/or other types of available debt instruments) or refinance existing debt with different characteristics.

## 17. Income taxes

The Corporation is in a loss position and does not make adjustments for income tax. As at November 30, 2016 the Corporation's tax position was as follows:

Income tax varies from the amount that would be computed from applying the combined, federal and provisional income tax rate to comprehensive loss before income taxes summarized below:

November 30	2016	2015
Comprehensive (loss) for the period	\$(1,334,016)	\$(3,790,493)
Corporate tax rate	27%	27%
Anticipated income tax expense (recovery)	(360,184)	(1,023,433)
Non-deductible items	1,106	-
Movement in unrecognized deferred tax asset	359,079	1,023,433
Tax expense	\$ -	\$ -

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts for income tax purposes. The components of the Corporation's deferred income tax assets and liabilities are as follows:

November 30	2016	2015
Property and equipment	\$ 426,888	\$ 552,605
Decommissioning liabilities	11,988	11,988
Intangibles	(21,600)	(144,855)
Investment	79,428	-
Non-capital losses	1,938,238	1,656,125
Less deferred tax benefits deemed not probable to be recovered	(2,434,942)	(2,075,863)
Deferred tax asset	\$ -	\$ -

Deferred income tax assets have not been recognized in respect of these items, because it is not probable that future taxable profit will be available against which the Corporation can utilize the benefit.

The Corporation currently has approximately \$7,178,658 (2015: \$6,133,796) in non-capital losses and \$9,414,401 (2015: \$9,414,401) in capital losses available for the offsetting of future income tax payable. Non-capital losses will begin to expire in 2026 unless utilized.

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## 18. Supplemental cash flow information

Change in working capital is comprised of:

<u>Source (use) of funds</u>	<u>November 30, 2016</u>	<u>November 30, 2015</u>
Accounts receivable	\$32,000	\$(32,000)
Government remittances	733	(5,950)
Prepaid expenses	(500)	2,725
Accounts payable and accrued liabilities	96,049	21,195
Increase (decrease) in short term deposits	1,424	(316)
Total	\$ 129,706	\$(14,346)

## 19. Commitments and contingencies

The Corporation rents office space from HTC (Related Party) on a month to month basis under a new lease agreement effective November 1, 2015, with minimum monthly rental payments of \$1,000. The amount is currently under review.

## 20. Decommissioning liability

The Corporation has estimated a decommissioning liability of \$44,400 for the current Year as it does not have any completed wells that can be used to determine the costs or estimated life of the wells at this time.

## 21. Subsequent Events

Subsequent to the Year, the Corporation received an additional \$45,000 in short term debt (see Note 10) for payment of audit fees and other compliance related amounts.