



Q3 2016 Management's Discussion and Analysis

TSX – V:KLE

## BASIS OF PRESENTATION

The following Management's Discussion and Analysis ("**MD&A**") of financial conditions and results of operations is current to August 31, 2016 and is management's assessment of the operations and financial results together with future prospects of Kingsland Energy Corp. ("**KLE**" or the "**Corporation**"). The MD&A should be read in conjunction with the Corporation's unaudited condensed consolidated interim financial statements and the notes to the unaudited condensed consolidated interim financial statements for the period ended August 31, 2016 (together the "**Financial Statements**"). All amounts reflected in this MD&A and the Corporation's Financial Statements, are reported in Canadian dollars and in accordance with International Financial Reporting Standard ("**IFRS**"). The Corporation has adopted National Instrument 51-102F1 as the guideline in presenting the MD&A. Terms used but not defined in this MD&A, shall bear the meaning as set out in Part 1 of National Instruments ("**NI**") 51-101 *Standards of Disclosure for Oil and Gas Activities*, NI 51-102 *Continuous Disclosure Obligations* and NI 14-101 *Definitions* and accounting terms that are not defined herein, shall bear the meaning as described or used in IFRS applicable to publicly accountable enterprises.

This MD&A is dated October 27, 2016.

## FORWARD-LOOKING STATEMENTS

Statements in this MD&A that are not historical facts are forward-looking statements involving known and unknown risks and uncertainties that may cause the Corporation's actual results or outcomes to be materially different from those anticipated and discussed herein. In assessing forward-looking statements contained herein, readers are urged to read carefully all cautionary statements contained in this MD&A and accompanying Financial Statements and in those other filings with the Corporation's Canadian regulatory authorities and to not put undue reliance on such forward looking statements. Although Management believes that the expectations reflected in the forward-looking statements are reasonable, Management can't guarantee future results, levels of activity, performance or achievements or other future events. Management is under no duty to update any of its forward-looking statements after the date of this MD&A, other than as required and governed by law.

## BOE CONVERSION

Where amounts are expressed on a barrel of oil equivalent (“**BOE**”) basis, natural gas volumes have been converted to BOE using a ratio of six thousand cubic feet (“**Mcf**”) of natural gas to one barrel of oil equivalent (6Mcf:1bbl). This conversion ratio of 6:1 is based upon an industry standard energy equivalent conversion method primarily applicable at the burner tip and does not represent value equivalence at the wellhead. BOE figures may be misleading, particularly if used in isolation.

## RESERVES DATA

Reserves data containing estimates of proved reserves and probable reserves and related future net revenue, estimated using forecast prices and costs are contained in KLE’s Statement of Reserves Data and Other Information, and can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

## DESCRIPTION OF THE CORPORATION

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 and Millstreet Industries Inc. amalgamated (“**Amalgamation**”) to form a new corporation under the name of “Kingsland Energy Corp.” (“**KLE**” or “**Corporation**”). KLE became a TSX Venture Tier 2 “Exploration” Oil and Gas Issuer (as defined in Exchange policies) and began trading under the symbol “KLE”. 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 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. Additional information related to the Corporation is available for view on SEDAR at [www.sedar.com](http://www.sedar.com).

### *2016 Business Focus*

During and subsequent to the Period, the Corporation continued to implement several strategies to significantly lower office administration costs, to ensure its long-term sustainability. The Corporation has reduced human resource costs and is continually working towards refinancing and restructuring its current long term debentures.

## QUARTER 3 ACTIVITIES

During the nine-month period ending August 31, 2016 (the “**Period**”), the Corporation pursued several initiatives to procure long-term sustainability in a depressed commodity market environment. The Corporation has successfully reduced office administration and associated human resource cost as it pursues financing initiatives to reduce debt and fund growth initiatives.

The Corporation is continually working towards the restructuring of its long-term debt obligation to provide balance sheet flexibility and financial capacity to pursue business development opportunities focused towards its wholly owned subsidiary EHR Enhanced Hydrocarbon Recovery Inc. (“**EHR**”).

EHR is pursuing a variety of business initiatives to leverage its advanced solvent expertise to participate in low cost, heavy oil enhanced recovery programs, deemed to be economic in today commodity price environment.

The Corporation is optimistic that EHR's strong pedigree in heavy oil technology and expertise will attract additional long-term partnerships for capital investment, joint asset development and further collaboration into secondary and tertiary oil and gas technology development and deployment.

The Corporation's subsidiary EHR is developing initiatives to help the Corporation move forward. These are contingent on a number of factors, including the conversion of existing debenture debt to KLE shares. One of the initiatives being pursued is an injection of funds into EHR through the issuance of EHR shares for the development of EHR technologies and operations; more specifically the joint development and implementation of new technology for heavy oil CHOPS (Cold Heavy Oil Production with Sand) wells. These initiatives will require an infusion of funds into EHR, which will not occur without the KLE debentures being converted into shares. Funds that may be raised in connection with these EHR initiatives will be restricted and will not be available for payment of KLE debt or operations. These EHR initiatives are time sensitive and dependent on the conversion of debentures to KLE shares.

During the third quarter, 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 on. The Corporation has made a proposal to all debenture holders, subject to regulatory approvals, to convert the debenture holders' interest, including related interest amounts, to shares based on a \$0.05 per share amount.

**SELECTED ANNUAL INFORMATION**

In thousands of Canadian Dollars (except earnings per share)	Year ending November 30, 2015	Year ending November 30, 2014	Year ending November 30, 2013
<b>Total Revenues</b>	<b>194,500</b>	<b>164,255</b>	<b>21,500</b>
<b>Profit/Loss from continuing operations, in total</b>	<b>(3,583,698)</b>	<b>(1,185,820)</b>	<b>(2,722,025)</b>
<b>on a per-share and diluted per-share basis</b>	<b>(0.05)</b>	<b>(0.02)</b>	<b>(0.04)</b>
<b>Profit/Loss in total</b>	<b>(3,790,493)</b>	<b>(1,527,237)</b>	<b>(2,655,438)</b>
<b>on a per-share and diluted per-share basis</b>	<b>(0.051)</b>	<b>(0.021)</b>	<b>(0.039)</b>
<b>Total assets</b>	<b>2,023,000</b>	<b>5,625,601</b>	<b>6,233,806</b>
<b>Total non-current liabilities</b>	<b>875,900</b>	<b>1,404,290</b>	<b>1,873,228</b>

## SUMMARY OF CUMULATIVE QUARTERLY RESULTS

In Canadian Dollars (except earnings per share)	3 months ended Aug 31, 2016 (unaudited)	3 months ended Aug 31, 2015 (unaudited)	3 months ended May 31, 2016 (unaudited)	3 months ended May 31, 2015 (unaudited)	3 months ended Feb 29, 2016 (unaudited)	3 months ended Feb 28, 2015 (unaudited)	3 months ended Nov 30, 2015 (unaudited)	3 months ended Nov 30, 2014 (unaudited)
<b>Total Revenues</b>	10,000	89,500	5,500	4,500	33,000	68,500	32,000	45,180
<b>Income (Loss)*</b>	(324,429)	(561,565)	(80,319)	(1,362,022)	(88,215)	(120,201)	(1,746,705)	(684,677)
<b>Income (Loss) on a per-share basis**</b>	(0.004)	(0.008)	(0.001)	(0.018)	(0.001)	(0.002)	(0.023)	(0.009)
<b>Total Assets</b>	1,687,259	3,674,509	1,900,778	4,159,913	1,974,686	5,450,558	2,023,000	5,625,601
<b>Long term Liabilities</b>	875,900	1,471,863	875,900	1,454,290	875,900	1,454,290	875,900	1,404,290
<b>Shareholder Equity</b>	(1,587,884)	651,784	(1,263,455)	1,213,349	(1,183,136)	2,575,371	(1,094,921)	2,695,572
<b>Cash Flow from operations</b>	(12,705)	(25,865)	(39,844)	(64,117)	(10,391)	(78,218)	102,378	(227,939)

\* from continuing operations.

\*\* from continuing operations, in total and on a per-share and diluted per-share basis.

Previous quarter results and commentary are available under the Corporation's profile on SEDAR at [www.sedar.com](http://www.sedar.com) and should be read in conjunction with the annual management's discussion and analysis and the annual audited consolidated financial statements associated with the specific year.

## REVENUE

Revenues for the Period were \$48,500 compared to \$162,500 for the nine month period ending August 31, 2015. Revenues for the Period are associated with consulting services. Revenue from consulting services may occur from time to time as opportunities arise, but are not an ongoing source of revenues. There are no revenues from oil and gas production for the Period. Revenues from oil and gas will not resume until the Corporation acquires existing production and realizes revenue from the farm in opportunities.

## GENERAL AND ADMINISTRATIVE EXPENSE

General and administrative expense for the Period was \$115,401 compared with \$163,239 for the period ending August 31, 2015. The decrease of \$47,838 is attributable to reduction in rent, consulting expenses and everyday operating expenses.

**DEPLETION AND AMORTIZATION**

Depletion and amortization for the Period was \$123,178 (\$234,962 – August 31, 2015). The decrease of \$111,784 is due to the write-off of a number of land development properties due to impairment in 2015 and write downs to intangibles in 2015.

**EXPLORATION AND EVALUATION**

During the Period exploration and evaluation cost was \$40,254 compared with \$1,663,637 for the period ending August 31, 2015. The decrease is due to fact that a number of leases in the prior period were allowed to lapse as they did not coincide with the operational plans. This resulted in reduction of existing leases outstanding during the Period, none of which has lapsed.

**FINANCE COSTS**

Finance costs relate to interest accrued on debentures in accordance with the terms laid out in the Long Term Liabilities discussion below. Finance costs for the Period were \$133,061 (\$144,536 for the period ending August 31, 2015).

**GAIN FROM SALE OF ASSETS**

During the Period gain from sale of assets was \$5,418 compared with \$nil for the period ending August 31, 2015. The increase is due to the sale of office equipment and furniture due to strategic downsizing of the Corporation.

**NET LOSS AND COMPREHENSIVE LOSS**

Net loss and comprehensive loss for the Period was \$492,963 compared with a loss of \$2,043,788 as at August 31, 2015. The decrease in loss is described above and is primarily attributable to prior year's exploration and evaluation costs related to the write-off of capital leases due to impairment assessment and a reduction in general and administrative expenses.

**CASH AND CASH DEPOSITS**

As at August 31, 2016 the Corporation had cash and cash equivalents of \$1,360 as compared with cash balance of \$5,845 at November 30, 2015. The decrease in cash is primarily attributable to everyday administrative and operational expenses.

**PROPERTY AND EQUIPMENT**

Total property and equipment for the Period was \$219,609 versus \$283,123 as at November 30, 2015. The change is attributable to a disposal of assets and amortization expense for the Period.

	<b>Exploration &amp; Evaluation</b>	<b>Other Equipment</b>	<b>Total</b>
Carrying amount August 31, 2016	\$169,409	\$50,200	\$219,609
Carrying amount November 30, 2015	\$209,663	\$73,460	\$283,123

As of August 31, 2016 petroleum properties consist of undeveloped land with a cost of \$169,409. No depletion or amortization has been recorded on the Corporation's petroleum properties as the Corporation has not commenced developments.

**INTANGIBLES**

	<b>Enhanced Oil Technology</b>
Opening balance, November 30, 2015	\$ 536,500
Amortization	(100,500)
Closing balance, August 31, 2016	<b>\$ 436,000</b>

	<b>Assets under development</b>	<b>Enhanced Oil Technology</b>	<b>Total</b>
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 to the Financial Statements. Intangible assets were recognized on the acquisition of EHR. The value of these intangibles has been determined at the date of acquisition using valuation techniques.

The enhanced oil technology asset is being amortized over its useful life of amortization of \$33,500 (November 30, 2015 - \$166,700) and has been included in depreciation and amortization expense.

All the intangibles relate to EHR's CGU (Cash Generating Unit). At November 30, 2015, 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 2% to 16% or more in the assumptions, if not offset by other events, will result in a further impairment as of November 30, 2015.

Another significant assumption used in computing fair values is discount rate. A rise in discount rate by 25% would result in a further impairment as of November 30, 2015.

As at November 30, 2015 the Corporation determined that the asset was impaired by \$387,800 and accordingly reduced the carrying value of intangible assets through income. As at August 31, 2016, management completed a preliminary evaluation of impairment and determined that \$135,281 should be considered impaired. A more detailed review of impairment will be completed in respect to the year ending November 30, 2016.

Management determined at November 30, 2015 the recoverable amount of the assets to be \$536,500 which is based on its value in use using an average discount rate of approximately 25%.

**ASSETS**

Total assets for the Period were \$1,687,259 versus \$2,023,000 as at November 30, 2015. The net decrease in assets is attributed to the amortization of property, equipment and intangibles, expiration of leases and impairment of intangibles and the collection of accounts receivable.

**CURRENT LIABILITIES**

As at August 31, 2016 current liabilities were \$2,399,243 versus \$2,242,021 as at November 30, 2015. The increase is attributed to increase in accrued interest and accounts payable in the Period.

**LONG TERM LIABILITIES**

	August 31, 2016	November 30, 2015
<p>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).</p>	\$ 743,228	\$ 733,228
<p>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).</p>	511,000	1,227,319
<p>2015 Renegotiated long term debentures resulted in rolling outstanding interest into principle with a fixed interest rate between 8% to 10% maturing 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).</p>	716,319	-



Convertible debenture	651,750	623,352
	2,622,297	2,583,899
Current portion of long term debt	(1,790,797)	(1,752,399)
Balance	\$ 831,500	\$ 831,500

Principal repayments over the next three years are as follows:

2016	1,790,797
2017	727,000
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 the interest rate ranging between 5-10% for the next 3 years.

During the Period, the Corporation continued restructuring debt resulting in a number of original debenture holders allowing interest due, to be added to principle balance (\$10,000) resulting in rolling 45 day extensions with a maximum of three extensions. Interest rate 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 on. The Corporation has made a proposal to all debenture holders to 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 Kingsland Oil Corp. Interest of \$66,088 on this loan has accumulated and has been added to the principal (\$651,750). The conversion feature allows the 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, has been adjusted to contributed surplus.

**LIQUIDITY**

The Corporation's strategy is to preserve liquidity and capital resources by prudent investment in resource properties and selective drilling programs. The Corporation considers the cash flows from the underlying assets and future needs when assessing the need for additional capital, if any. Depending on future liquidity requirements, the Corporation may invest excess cash in short or long-term financial instruments.

The Corporation intends to secure additional funds and or renegotiate existing debt to meet its debt obligation. This will require that the Corporation acquires funding through strategic asset dispositions and normal capital markets, including private placements, flow through share issuance, debentures and other financings.



This MD&A to be read with the Financial Statements, have been prepared on a going concern basis in accordance with IFRS. The going concern basis of presentation assumes that the Corporation will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

**CAPITAL STOCK**

**Share capital:**

Authorized:

An unlimited number of common shares

An unlimited number of preferred shares

Common Shares	As at August 31, 2016		As at November 30, 2015	
	Number	Amount	Number	Amount
Balance, beginning of Period	74,732,228	\$7,583,842	73,681,038	\$7,394,628
Shares issued	-	-	1,051,190	189,214
Balance, end of Period	74,732,228	\$7,583,842	74,732,228	\$7,583,842

**Shares issued\Exchanged:**

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

**FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS**

**Fair value:**

Management believes the carrying value of cash, accounts receivable, and accounts payable approximate their fair value at year end due to their short-term nature.

**RISKS & UNCERTAINTIES**

Oil and natural gas exploration, development and production operations are subject to all the risks and hazards typically associated with such operations, including hazards such as fire, explosion, blowouts, cratering, sour gas releases and spills, each of which could result in substantial damage to oil and natural gas wells, production facilities, other property and the environment or personal injury.

Future oil and natural gas exploration may involve unprofitable efforts, not only from dry wells, but also from wells that are productive, but do not produce sufficient petroleum substances to return a profit after drilling, operating and other costs.

Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions.

While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

## **FINANCIAL RISK MANAGEMENT**

### **FAIR VALUE**

Management believes the carrying value of accounts receivable, and accounts payable and accrued liability approximate their fair value at Period end due to their short-term nature.

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 concentrations of risk. These risks and the actions taken to manage them include the following:

### **COMMODITY RISK**

The Corporation is at risk to the volatility of oil and natural gas prices and markets. Financial performance and condition are substantially dependent on the prevailing prices of oil and natural gas which are unstable and subject to fluctuation. Fluctuations in oil or natural gas prices could have an adverse effect on operations and financial condition and the value and amount of its reserves. Prices for crude oil fluctuate in response to global and North American supply of and demand for oil, market performance and uncertainty and a variety of other factors which are outside the Corporation's control including, but not limited, to the world economy and OPEC's ability to adjust supply to world demand, government regulation, political stability and the availability of alternative fuel sources. In addition, the prices received by KLE for its oil are subject to differentials against such benchmarks as WTI and Edmonton Par, which can fluctuate substantially and result in KLE realizing prices substantially below such benchmarks. Natural gas prices are influenced primarily by factors within North America, including North American supply and demand, economic performance, weather conditions and availability and pricing of alternative fuel sources.

Decreases in oil and natural gas prices realized will result in reduced net production revenue and may change the economics of producing from some wells, which could result in a reduction in the volume of KLE's reserves. Any further substantial declines in the prices of crude oil or natural gas could also result in delay or cancellation of existing or future drilling, development or construction programs or the curtailment of production. All of these factors could result in a material decrease in KLE net production revenue, cash flows and profitability causing a reduction in its oil and gas acquisition and development activities.

As at August 31, 2016 KLE does not have any producing properties.

### **LIQUIDITY RISK**

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

The timing of cash outflows relating to the financial liabilities are outlined in the table below based on November 30, 2015:

August 31, 2016	< 1 year	1-2 years	2-4 years	Total
Accounts payable and accrued liabilities	\$ 353,215	\$ -	\$ -	\$ 353,215
Short term debt	255,231	-	-	255,231
Long term debt	1,790,797	831,500	-	2,622,297
<b>Balance</b>	<b>\$2,366,982</b>	<b>\$831,500</b>	<b>\$ -</b>	<b>\$3,230,743</b>

November 30, 2015	< 1 year	1-2 years	2-4 years	Total
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. During the Period, the Corporation provided consulting services, the compensation which to date has not been collected resulting in an allowance of \$21,500. There have been no significant bad debts realized over the last few periods.

The Corporation's accounts receivable is \$3,360 for the Period, compared to \$32,000 as at November 30, 2015.

#### RELATED PARTY TRANSACTIONS

The key management personnel of the Corporation consist of the executive officers, other senior managers and members of the board of directors. 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 Period was \$49,483 (2015 - \$62,000). As at August 31, 2016 Kilback Capital Management Inc. was owed 27,300 (2015 - \$Nil).

KCM is considered a related party through key management. KCM supported the 3 year convertible debenture issuance as described in Note 11 of the Financial Statements. KCM holds \$60,000 of this debenture. KCM has accrued interest of \$9,432. As of August 31, 2016 \$9,432 of interest accrued is

outstanding (2015 - \$4,688). KCM has communicated its willingness to participate in the proposed share conversion.

Directors, directly and indirectly, hold \$162,500 of the three year convertible debenture described in Note 11 of the Financial Statements. The directors have accrued interest for the Period of \$26,333 (2015 - \$9,270) and received interest payments of \$Nil (2015 - \$2,500) in consideration of cash and \$Nil (2015 - \$12,500) of interest rolled into principle 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 Period were \$3,500 (2015 - \$3,000). Subsequent to the Period the majority of directors have communicated their willingness to participate in the proposed share conversion.

HTC Pureenergy Inc. ("HTC") is considered a related party due to common directors and common management. The Corporation has secured short term loan from HTC (see Note 10 to the Financial Statements). The Corporation has consultancy revenues of \$3,000 (2015 - \$Nil). On November 1, 2015 KLE entered into a sub-lease agreement for its existing premises with HTC for \$1,000 on a month-to-month basis. Total rent paid to HTC as of August 31, 2016 is \$9,000. As of August 31, 2016, there is an outstanding amount of \$19,470 owing to HTC (2015 - \$1,100).

These transactions are in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

## 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 Corporation is willing to issue treasury stock for the conversion of all debenture holder interests based on an issuance price of \$.05, subject to acceptance by debenture holders and regulatory authorities.

## SUBSEQUENT EVENTS

The Corporation has applied to have a portion of its decommissioning liability removed and deposited funds released as the Corporation reclaimed the Weyburn well location.

Subsequent to the Period, the Corporation has received commitments of its conversion plan from a number of its debenture holders who will be willing to convert.

## OTHER DISCLOSURES

The Corporation has capitalized development costs relating to the Rising Bubble Test Apparatus acquired with EHR. The value on consolidation was determined to be \$150,000 and the asset is to be amortized over a period of 5 years.

Expensed research and development costs since the acquisition of EHR are \$119,500 relating to ongoing research to validate and model application of blended solvents with CO<sub>2</sub> and water to efficiently enhance recovery from heavy oil pay zones. Research and development costs incurred by EHR prior to acquisition are not included in this amount, nor are costs incurred directly by EHR's collaborative technology development research initiatives.

## OFF-BALANCE SHEET ARRANGEMENTS

The Corporation has no off balance sheet arrangements.

## CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the MD&A and the Financial Statements in accordance with IFRS requires management to make judgements, estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the MD&A and the Financial Statements and the reported amount of revenues and expenses during the reporting period. These estimates are reviewed periodically and as adjustments become necessary, they are reported in earnings in the year they become known.

Judgment is used mainly in determining whether a balance or transaction should be recognized in the consolidated 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 year in which the estimates are revised and in future years affected.

**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:

### Reserve estimates

Petroleum and natural gas assets are depleted on a unit of production basis at a rate calculated by reference to prove and probable reserves determined in accordance with 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 years 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 geoscientific 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.

### Impairment indicators and discount rate

For purposes of impairment testing, petroleum and natural gas assets are aggregated into CGU's, based on separately identifiable and largely independent cash inflows. The determination of the Corporation's CGU's is subject to judgment. The recoverable amounts of CGU's and individual assets have been determined based on the higher of the value-in-use calculations and fair value less costs to sell. These calculations require the use of estimates and assumptions, including the discount rate. It is reasonably possible that the commodity price assumptions may change, which may impact the estimated life of the field and economical reserves recoverable and may require a material adjustment to the carrying value of petroleum and natural

gas assets. The Corporation monitors internal and external indicators of impairment relating to its assets.

### **Decommissioning costs**

At the end of the operating life of the Corporation's facilities and properties and upon retirement of its oil and natural gas assets, decommissioning costs will be incurred by the Corporation. Estimates of these costs are subject to uncertainty associated with the method, timing and extent of future decommissioning activities. The liability, the related asset and the amount expensed are impacted by estimates with respect to the costs and timing of decommissioning.

### **Technical feasibility and commercial viability of exploration and evaluation assets**

The determination of technical feasibility and commercial viability, based on the presence of proved and probable reserves, results in the transfer of assets from exploration and evaluation assets to petroleum and natural gas assets. As discussed above, the estimate of proved and probable reserves is inherently complex and requires significant judgment. Thus, any material change to reserve estimates could affect the technical feasibility and commercial viability of the underlying assets.

### **Intangible assets**

Intangible assets are also aggregated into CGU's based on separately identifiable and largely independent cash inflows and are subject to judgement. The identification of Intangibles is subject to judgement. These calculations also require the use of estimates and assumptions, including the discount rate. The Corporation monitors internal and external indicators of impairment relating to its assets.

### **Provision**

Provisions are recognized when the Corporation has a present legal or constructive obligation as a result of a past obligating event and it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Identification and evaluation of provision is subject to judgment and estimates.

### **Utilization of tax losses**

Due to current circumstances there is no immediate expectation for utilization of losses. The Corporation is currently in a loss position and as such is accumulating tax losses and tax carry forward positions, but are unable to recognize or utilize them.

### **Contingencies**

By their nature contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgement and estimates of the outcome of future events.

## **FUTURE CHANGES IN ACCOUNTING POLICIES**

The standards and interpretations that are issued, but not yet effective up to the date of issuance of the Corporation's Financial Statements, and that may have an impact on the disclosures and financial position of the Corporation, are disclosed below. The Corporation intends to adopt these standards and interpretations, if applicable, when they become effective.

### **Revenue from Contracts with Customers:**

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*. It replaces existing revenue recognition guidance and provides a single, principles based five-step model to be applied to all contracts with customers. Retrospective application of this standard is effective for fiscal years beginning on or after January 1, 2017, with earlier application permitted. The Corporation is currently assessing the impact of this standard.

**Financial Instruments: Recognition and Measurement:**

In July 2014, IFRS 9, *Financial Instruments* was issued as a complete standard, including the requirements previously issued related to classification and measurement of financial assets and liabilities, and additional amendments to introduce a new expected loss impairment model for financial assets including credit losses. Retrospective application of this standard with certain exemptions is effective for fiscal years beginning on or after January 1, 2018, with earlier application permitted. The Corporation is currently assessing the impact of this standard.

**Leases:**

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 Corporation has not yet determined the impact of this standard on the Financial Statements.

Signed "Mark Kilback"

**MARK KILBACK**

CEO and Director

Signed "Jeffrey Allison"

**JEFFREY ALLISON**

CFO and Director



## KINGSLAND ENERGY CORP.

### Management's Responsibility for Financial Statements

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

The unaudited condensed consolidated interim financial statements ("**Financial Statements**") for the nine month period ended August 31, 2016 ("**Period**") have been prepared by management in accordance with International Financial Reporting Standards ("**IFRS**") in Canada. Management is responsible for ensuring that these statements, which include amounts based upon estimates and judgment, are consistent with other information and operating data contained in management's discussion and analysis for the Period ("**MD&A**") and reflect the Corporation's business transactions and financial position.

Management is also responsible for the information disclosed in the MD&A including responsibility for the existence of appropriate information systems, procedures and controls to ensure that the information used internally by management and disclosed externally is complete and reliable in all material respects.

In addition, management is responsible for establishing and maintaining an adequate system of internal control over financial reporting. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the Corporation's assets are appropriately accounted for and adequately safeguarded. Management has concluded that the Corporation's system of internal control over financial reporting was effective as at August 31, 2016.

The board of directors ("**Board**") annually appoints an audit committee which includes directors who are not employees of the Corporation. This committee meets regularly with management and the shareholders' auditors to review significant accounting, reporting and internal control matters. The shareholders' auditors have unrestricted access to the audit committee. The audit committee reviews the interim and annual financial statements, the report of the shareholders' auditors, and the interim and annual management's discussion and analysis and has delegated authority to approve the interim filings, and makes recommendations to the Board regarding annual filings.

Management has reviewed the filing of the Corporation's MD&A, Financial Statements, and attachments thereto. Based on our knowledge, having exercised reasonable diligence, the interim 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 interim filings. Based on our knowledge, having exercised reasonable diligence, the Financial Statements together with the other financial information included in the interim filings fairly present in all material respects the financial condition, financial performance and cash flows of the Corporation, as of the date of and for the periods presented in the interim filings.

Signed "Mark Kilback"  
**MARK KILBACK**  
 CEO and Director

Signed "Jeffrey Allison"  
**JEFFREY ALLISON**  
 CFO and Director

## KINGSLAND ENERGY CORP.

### Board of Directors and Senior Officers of the Corporation As at August 31, 2016

#### Directors and Officers:

**Mark Kilback:** Director and CEO  
Regina, Saskatchewan

**Lionel Kambeitz:** Director and Executive  
Chairman, Regina, Saskatchewan

**Jeff Allison:** Director and CFO  
Regina, Saskatchewan

**Wayne Bernakevitch:** Director,  
Regina, Saskatchewan

**Dwain Lingenfelter:** Director,  
Regina, Saskatchewan

**Murray Pierce:** Director,  
Brandon, Manitoba

#### Committees of the Board of Directors:

Audit Committee: Lionel Kambeitz,  
Murray Pierce and Wayne Bernakevitch.

Compensation Committee: Murray Pierce,  
Wayne Bernakevitch and Lionel Kambeitz

Nominating Committee: Mark Kilback,  
Lionel Kambeitz and Wayne Bernakevitch

Reserves Committee: Mark Kilback, Dwain  
Lingenfelter and Wayne Bernakevitch

### Shareholder Information

#### Common Shares outstanding as of

August 31, 2016: 74,732,228

#### Head office and Investor relations address:

Kingsland Energy Corp.  
#002 –2305 Victoria Ave.  
Regina, Saskatchewan  
S4P 0S7  
Telephone: (306) 359 3444  
Fax: (306) 359-3456  
E-mail: [mark@kingslandenergy.com](mailto:mark@kingslandenergy.com)

#### Bank:

HSBC  
Main Branch,  
1847 Scarth St.  
Regina, Saskatchewan

#### Auditors:

Calvista LLP Chartered Professional  
Accountants  
Calgary, Alberta

#### Legal Counsel:

McDougall Gauley LLP  
Barristers and Solicitors  
Regina, Saskatchewan

Borden Ladner Gervais LLP,  
Barristers and Solicitors,  
Calgary, Alberta

#### Dividend policy:

No dividends have been paid on any shares of the Corporation since the date of inception, and it is not contemplated that any dividends will be paid in the immediate or foreseeable future.