KR INVESTMENT LTD.

CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED

MAY 31, 2013 AND 2012

(Unaudited)

KR INVESTMENT LTD.
As at July 29, 2013

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NOTICE TO READER
UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

Management has prepared the condensed interim statements of financial position of KR Investment Ltd. as at May 31, 2013 and the condensed interim statements of comprehensive loss, changes in equity and cash flows for the nine-month period ended May 31, 2013 and 2012. In accordance with National Instruments 51-102 released by the Canadian Securities Administrator, the Company discloses that they have not been audited or reviewed. Readers are cautioned that these statements may not be appropriate for their purposes.

Vancouver, B.C.
KR Investment Ltd.
July 29, 2013

KR INVESTMENT LTD.

Condensed Interim Statements of Financial Position

(Expressed in Canadian Dollars - Unaudited)

	Note	As at May 31, 2013 $	(Audited) As at August 31, 2012 $
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		138,639	185,625
Accounts receivable		63,845	-
Amounts recoverable		43,261	1,950
Prepaid expense		2,447	293
		248,191	187,868
PROPERTY AND EQUIPMENT	4	1,537,300	-
		1,785,491	187,868
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities		11,395	1,095
Due to related parties	7(c)	11,100	11,100
		22,495	12,195
DECOMMISSIONING PROVISIONS	5	67,952	-
		90,447	12,195
SHAREHOLDERS' EQUITY			
Share capital	6	2,127,207	317,207
Contributed surplus		53,034	53,034
Deficit		(485,197)	(194,568)
		1,695,044	175,673
		1,785,491	187,868

Going concern (Note 1)
Subsequent Events (Note 10)

Approved on behalf of the Board: *"Steve Loo"* Steve Loo, Director *"S. John Kim"* S. John Kim, Director

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

KR INVESTMENT LTD.

Condensed Interim Statements of Comprehensive Loss

(Expressed in Canadian Dollars - Unaudited)

	Note	**Three months ended May 31,**		**Nine months ended May 31,**	
		2013 $	**2012 $**	**2013 $**	**, 2012 $**
PETROLEUM AND NATURAL GAS REVENUES		106,245	-	106,245	-
DIRECT COSTS					
Production costs		23,913	-	23,913	-
Crown royalties		12,964	-	12,964	-
Private royalties		5,524	-	5,524	-
		42,401	-	42,401	-
GROSS OPERATING PROFIT (LOSS)		63,844	-	63,844	-
EXPENSES					
Accretion of decommissioning provisions		152	-	152	-
Depletion and depreciation		19,500	-	19,500	-
Bank charges		69	29	146	118
Consulting	7(a)	8,406	-	24,129	-
Office expense		647	-	676	-
Rent	7(b)	3,000	6,000	3,000	18,000
Professional fees		156,701	328	254,231	20,442
Telephone		613	127	1,119	383
Transfer agent and filing fees		24,325	1,360	35,289	13,941
Travel expense		15,009	-	16,248	-
		228,422	7,844	354,490	52,884
LOSS FROM OPERATIONS		(164,578)	(7,844)	(290,646)	(52,884)
OTHER INCOME (EXPENSES)					
Interest income		17	-	17	-
		17	-	17	-
LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD		(164,561)	(7,844)	(290,629)	(52,884)
LOSS PER SHARE					
Loss Per Share – Basic and Diluted		(0.01)	(0.00)	(0.03)	(0.01)
Weighted Average Common Shares Outstanding		18,788,043	6,000,000	10,309,524	6,000,000

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

(Expressed in Canadian Dollars - Unaudited)

	Number of Common Shares	Amount $	Contributed Surplus $	Deficit $	Total $
As at August 31, 2011	6,000,000	317,207	53,034	(128,503)	241,738
Net loss and comprehensive loss	-	-	-	(52,884)	(52,884)
Balance, May 31, 2012	6,000,000	317,207	53,034	(181,387)	188,854
Net loss and comprehensive loss	-	-	-	(13,181)	(13,181)
Balance, August 31, 2012	6,000,000	317,207	53,034	(194,568)	175,673
Issuance of common shares	18,000,000	1,800,000	-	-	1,800,000
Issuance of agent's shares	100,000	10,000	-	-	10,000
Net loss and comprehensive loss	-	-	-	(290,629)	(290,629)
Balance May 31, 2013	24,100,000	2,127,207	53,034	(485,197)	1,695,044

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

KR INVESTMENT LTD.

Condensed Interim Statements of Cash Flows

(Expressed in Canadian Dollars - Unaudited)

	Three months ended May 31,		Nine months ended May 31,	
	2013	**2012**	**2013**	**2012**
	$	**$**	**$**	**$**
OPERATING ACTIVITIES				
Net loss for the period	(164,561)	(7,844)	(290,629)	(52,884)
Items not involving cash:				
Accretion	152	-	152	-
Depletion	19,500	-	19,500	-
Agent's shares	10,000	-	10,000	-
	29,652	-	29,652	-
Changes in operating assets and liabilities				
Account receivable	(50,129)	(1,254)	(63,845)	(5,066)
Amounts recoverable	(41,311)	-	(41,311)	-
Prepaid expense	(22,554)	-	(2,153)	-
Accounts payable and accrued liabilities	(97,199)	(12,751)	10,300	170
	(300,994)	(21,849)	(357,986)	(57,780)
INVESTING ACTIVITIES				
Acquisition of property and equipment	(1,489,000)	-	(1,489,000)	-
	(1,489,000)	-	(1,489,000)	-
FINANCING ACTIVITIES				
Proceeds from share issuance	1,800,000	-	1,800,000	-
	1,800,000	-	1,800,000	-
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	10,006	(21,849)	(46,986)	(57,780)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	128,633	218,174	185,625	254,105
CASH AND CASH EQUIVALENTS, END OF PERIOD	138,639	196,325	138,639	196,325
SUPPLEMENTAL CASH FLOW INFORMATION				
Cash paid for:				
Interest	-	-	-	-
Income taxes	-	-	-	-
NON-CASH INVESTING AND FINANCING ACTIVITIES				
Recognition of decommissioning provision	67,800	-	67,800	-

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

1. NATURE OF OPERATIONS AND GOING CONCERN

On August 3, 2010, KR Investment Ltd. (the “Company”) was incorporated under the *Business Corporations Act* (British Columbia) as a Capital Pool Company (“CPC”) as defined in TSX Venture Exchange Policy 2.4. The Company completed its initial public offering (“IPO”) on March 24, 2011 and its common shares commenced trading on the TSX Venture Exchange (“TSX-V”) on March 29, 2011.

The head office, principal address and records office of the Company are located at Suite 1601 – 1166 Alberni Street, Vancouver, British Columbia, V6E 3Z3. The Company’s registered address is at the same address.

On March 27, 2013, the Company closed a purchase agreement effective February 1, 2013 (the “Effective Date”) with a private Calgary, Alberta-based company (the “Vendor”) and acquired an undivided 20% working interest in certain petroleum and natural gas rights, certain related tangible assets and other miscellaneous interest (the “Purchased Assets”) located in Alberta and currently has operations or assets capable of generating ongoing revenues or cash flows.

The transaction constituted the Qualifying Transaction of the Company under TSX Venture Exchange (“TSX-V”) Policy 2.4 Capital Pool Companies, and was approved by the TSX-V on March 28, 2013. Effective April 1, 2013, the Company became a Tier 2 oil and gas issuer.

These financial statements have been prepared and presented on a going concern basis. As at March 1, 2013, the Company has recurring revenues generating cash flows from operating activities, and has an accumulated deficit of $485,197 and working capital of $225,696. The continued operations of the Company are dependent on its ability to identify mineral projects and negotiate suitable arrangements, maintain support from its significant shareholders and obtain additional financing. Management is of the opinion that sufficient working capital will be obtained from financing and operations to meet the Company’s liabilities and commitments as they become due. These financial statements do not reflect any adjustments that may be necessary if the Company is unable to continue as a going concern.

2. BASIS OF PRESENTATION

(a) Statement of Compliance

The condensed interim financial statements, including comparative figures, have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”). These condensed interim financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including International Accounting Standard (“IAS”) 34 Interim Financial Reporting.

(b) Basis of Measurement

The financial statements have been prepared on a going concern basis, under the historical cost convention except for financial instruments described in Note 3(f), which are measured at fair value. The financial statements are presented in Canadian dollars, which is the Company’s functional currency. The accounting policies set out below have been applied consistently to all periods presented in these financial statements as if the policies have always been in effect.

2. BASIS OF PRESENTATION (continued)

(c) Functional and Presentation Currency

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

(d) Use of Estimates and Judgments

The preparation of the condensed interim financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which affect the application of accounting policies and the reported amounts of assets, liabilities and expenses. Actual results may differ from these estimates. The condensed interim financial statements do not include all of the information required for full annual financial statements.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates is revised and in any future periods affected. Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the condensed interim financial statements include share-based payments and recovery of deferred tax assets.

(e) Standards Issued but Not Yet Adopted

For the purposes of preparing and presenting the Company's annual financial statements, the Company has adopted all standards and interpretations issued other than those discussed in this note. They are effective for fiscal periods commencing subsequent to January 1, 2012. Standards and interpretations issued, but not adopted include:

	Effective
Amendment to IAS 12, Income Taxes	January 1, 2012
IFRS 9 – Financial Instruments	January 1, 2015
IFRS 10 – Financial statements	January 1, 2013
IFRS 11 – Joint Arrangements	January 1, 2013
IFRS 12 – Disclosure of Interests in Other Entities	January 1, 2013
IFRS 13 – Fair Value Measurement	January 1, 2013
IAS 1 – Presentation of Financial Statements	July 1, 2012
IAS 27 – Separate Financial Statements	January 1, 2013
IAS 28 – Investments in Associates and Joint Ventures	January 1, 2013
Amendment to IAS 32, Offsetting Financial Assets and Financial Liabilities	January 1, 2014

The Company believes that, with the exception of IFRS 9, Financial Instruments, the adoption of these revised standards will have no material impact on the financial statements of the Company. For standards that become effective after January 1, 2013, the Company has not yet begun the process of assessing the impact that the new and amended standards will have on its financial statements. In December 2011, the IASB extended the mandatory effective date for IFRS 9 to on or after January 1, 2015 with early adoption permitted. As a result, there were amendments to IAS 32 Financial Instruments – Presentation to clarify the offsetting between financial assets and liabilities, which are mandatory effective on or after January 1, 2014.

2. BASIS OF PRESENTATION (continued)

(e) Standards Issued but Not Yet Adopted (continued)

IFRS 9, Financial Instruments, proposes to replace IAS 39 Financial Instruments; Recognition and Measurement. The replacement standard has three main phases, the first of which provides new guidance for the classification and measurement of financial assets and liabilities. The second part, which is currently an exposure draft, provides guidance for amortized cost and methodology for financial assets. The third part, which is also currently an exposure draft, proposes a revised general hedge accounting model. The Company will evaluate the impact of the change to its financial statements based upon the characteristics of the financial instruments anticipated to be outstanding at the time of adoption. The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its financial statements or whether to early adopt any of the new requirements.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Cash and Cash Equivalents

Cash and cash equivalents include cash in bank accounts and when applicable, cashable securities that on acquisition have a term to maturity of three months or less, or may be redeemed during this period. Cash and cash equivalents are highly liquid marketable securities and deposits, which are designated as held-for-trading and are recorded at their fair values with changes recognized in net loss. Fair values are determined by reference to quoted market prices at the balance sheet date.

(b) Impairment of Long-Lived Assets

At each reporting date, the Company reviews the carrying amounts of its tangible assets to determine whether there are any indications of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any.

Whether the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash generating unit (“CGU”) to which the assets belongs. The recoverable amount is determined as the higher of fair value less direct costs to sell and the asset’s value in use. In assessing value in use, the estimated future cash flows are discounted to their present value. Estimated future cash flows are calculated using estimated recoverable reserves, estimated future commodity prices and the expected future operating and capital costs. The pre-tax discount rate applied to estimated future cash flows reflects current market assessments of the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted. If the carrying amount of an assets or CGU exceeds its recoverable amount, the carrying amount of the asset or CGU is reduced to its recoverable amount through an impairment charge to the statement of income.

Assets that have been impaired are tested for possible reversal of the impairment whenever events or changes in circumstance indicate that the impairment may have reversed. When an impairment subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but only so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of depreciation, depletion and amortization) had no impairment loss been recognized for the asset or CGU in prior periods. A reversal of impairment is recognized as a gain in the statement of operations and comprehensive loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Share Issuance Costs

Professional, consulting and regulatory fees as well as other costs directly attributable to financing transactions are reported as deferred financing costs until the transactions are completed, if the completion of the transaction is considered to be more likely than not. Share issue costs are charged to share capital when the related shares are issued. Costs relating to financing transactions that are not completed or for which successful completion is considered unlikely, are charged to operations.

(d) Basic and Diluted Earnings (Loss) Per Share

Basic and diluted earnings (loss) per share is computed by dividing the net earnings (loss) for the year available to common shareholders (numerator) by the weighted average number of common shares outstanding during the year (denominator). The Company applies the treasury stock method in calculating diluted earnings (loss) per share. Diluted earnings (loss) per share excludes all dilutive potential common shares if their effect is anti-dilutive. Loss per share information does not include the effect of any potential common shares, as their effect would be anti-dilutive.

(e) Deferred Income Taxes

Deferred income tax is provided based on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority. Deferred tax assets are recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

(f) Financial Instruments

Non-derivative financial assets

Non-derivative financial assets are initially recognized at fair value and are classified into one of four categories: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables or available-for-sale financial assets.

(i) Financial assets at fair value through profit or loss

Financial asset are classified as fair value through profit or loss if they are held for trading or are designated as such upon initial recognition. Financial assets at fair value through profit or loss are measured at fair value, and changes are recognized in operations. Upon initial recognition transaction costs are recognized in operations as incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial Instruments (continued)

(ii) Held-to-maturity financial assets

Financial assets are classified as held-to-maturity if the Company has the positive intent and ability to hold them to maturity. These financial assets are recognized initially at fair value together with directly attributable costs, and are subsequently measured at amortized cost using the effective interest method less any impairment losses. Any sale or reclassification of a more than significant amount of these assets not close to their maturity would result in the reclassification of all held-to-maturity financial assets as available-for-sale, and would prevent the Company classifying investment securities as held-to-maturity for the current and following two financial years.

(iii) Loans and receivables

These assets are financial assets with fixed or determinable payments that are not quoted in an active market. These assets are recognized initially at fair value plus any directly attributable transaction costs, and are subsequently measured at amortized cost using the effective interest method less any impairment losses.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. Subsequent to initial recognition, they are measured at fair value and any changes, other than impairment losses and foreign currency differences on available-for-sale equity instruments, are recognized in other comprehensive income and presented within equity. When an available-for-sale financial asset is derecognized, the cumulative gain or loss in other comprehensive income is reclassified through operations.

Non-derivative financial liabilities

Non-derivative financial liabilities are initially recognized at fair value and are classified into one of two categories: financial liabilities at fair value through profit or loss or other financial liabilities.

(v) Financial liabilities at fair value through profit or loss

These financial liabilities are acquired or incurred principally for the purpose of selling or repurchasing in the near term. They are measured at fair value, and changes therein are recognized in operations.

(vi) Other financial liabilities

These financial liabilities are recognized initially at fair value plus any directly attributable transaction costs, and are subsequently measured at amortized cost using effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Share-based payments

The Company grants share-based awards to employees, directors and non-employees as an element of compensation. The fair value of the awards granted to employees and directors is recognized over the vesting period as share-based payments expense and contributed surplus. The fair value of share-based payments is determined using the Black-Scholes option pricing model using estimates at the date of the grant. At each reporting date prior to vesting, the cumulative expense representing the extent to which the vesting period has expired and management's best estimate of the awards that are ultimately expected to vest is computed. The movement in cumulative expense is recognized in the statement of operations and comprehensive loss with a corresponding entry within equity, against contributed surplus. No expense is recognized for awards that do not ultimately vest. When stock options are exercised, the proceeds received, together with any related amount in contributed surplus, are credited to share capital.

Share-based payment arrangements with non-employees in which the Company receives goods or services are measured based on the estimated fair value of the goods or services received, unless the fair value cannot be estimated reliably. If the Company cannot reliably estimate the fair value of the goods or services received, the Company will measure their value by reference to the fair value of the equity instruments granted.

(h) Provisions

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resourced embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount receivable can be measured reliably.

(j) Property and equipment

Property and equipment includes crude oil and natural gas development and production assets, including costs incurred in developing oil and natural gas reserves and maintaining or enhancing production from such reserves and directly attributable general and administrative costs. Property and equipment is measured at cost, less accumulated depletion and depreciation and accumulated impairment losses.

Gains and losses on disposal of an item of property and equipment, including crude oil and natural gas interests, are determined by comparing the proceeds from disposal with the net carrying amount of property and equipment and are recognized within "gain or loss on sale of assets" in income (loss).

Subsequent measurement

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property and equipment are recognized as oil and natural gas

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Property and equipment (continued)

interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in earnings as incurred. Capitalized oil and natural gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing on or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized at the time of replacement or sale. The costs of the day-to-day servicing of property and equipment are recognized in earnings as incurred.

Depletion and depreciation

The net carrying value of development or production assets is depleted on a field by field basis using the unit of production method by reference to the ratio of production in the year to the related proven reserves, taking into account estimated future development costs necessary to bring those reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves. These estimates are reviewed by independent reserve engineers at least annually.

Proved and probable reserves are estimated by independent reserve engineers in accordance with Canadian Securities Regulation National Instrument 51-101. Production and reserves of natural gas are converted to equivalent barrels of crude oil on the basis of six thousand cubic feet of gas to one barrel of oil. Changes in reserve estimates used in prior periods, such as proved and probable reserves, that affect the unit-of-production calculations do not give rise to prior year adjustments and are dealt with on a prospective basis.

Other assets such as furniture and computer equipment recorded at cost and depreciated using the straight–line method based on their estimated useful lives of 3 years, net of any estimated residual value. Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(k) Revenue recognition

Revenue from sales of petroleum and natural gas is recognized when title and risks and rewards of ownership pass to an external party, the amount of revenue and costs incurred or to be incurred in respect of the transaction can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the Company.

(l) Decommissioning provisions

The Company's activities give rise to dismantling, decommissioning and site disturbance re-mediation activities. Provision is made for the estimated cost of site restoration and capitalized in the relevant asset category. Decommissioning provisions are measured at the present value of management's best estimate of expenditure required to settle the present obligation at the statement of financial position date. Subsequent to initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs whereas increases/decreases due to changes in the estimated future cash flows are recorded against the related asset. Actual costs incurred upon settlement of the decommissioning provisions are charged against the provision to the extent the provision was established.

(Expressed in Canadian Dollars - Unaudited)

4. PROPERTY AND EQUIPMENT

		Petroleum and natural gas properties	Property option	Total
Cost:				
Balance, August 31, 2011	$	-	-	-
Additions		-	-	-
Disposals		-	-	-
Balance, August 31, 2012	$	-	-	-
Additions		1,406,800	150,000	1,556,800
Disposals		-	-	-
Balance, May 31, 2013	$	1,406,800	150,000	1,556,800
Accumulated depletion, depreciation and amortization				
Balance, August 31, 2011	$	-	-	-
Depletion, depreciation and amortization		-	-	-
Disposals		-	-	-
Balance, August 31, 2012	$	-	-	-
Depletion, depreciation and amortization		(19,500)	-	(19,500)
Disposals		-	-	-
Balance, May 31, 2013	$	(19,500)	-	(19,500)
Net book value:				
As at August 31, 2011	$	-	-	-
As at August 31, 2012	$	-	-	-
As at May 31, 2013	$	1,387,300	150,000	1,537,300

5. DECOMMISSIONING PROVISIONS

The following table presents the reconciliation of the opening and closing aggregate carrying amount of the decommissioning provisions associated with the petroleum and natural gas properties:

		May 31, 2013		**August 31, 2012**
Balance, beginning of period	$	-	$	-
Asset retirement obligation (Note 6(c))		67,800		-
Accretion expense		152		-
Balance, end of period	$	67,952	$	-

(Expressed in Canadian Dollars - Unaudited)

6. SHARE CAPITAL

(a) Authorized: Unlimited number of common shares without par value.

(b) Issued and Outstanding:

As at May 31, 2013, 24,100,000 (August 31, 2012 – 6,000,000) common shares are issued and outstanding.

(c) Qualifying Transaction

On March 27, 2013, the Company closed a purchase agreement effective February 1, 2013 (the “Effective Date”) with a private Calgary, Alberta-based company (the “Vendor”) and acquired an undivided 20% working interest in certain petroleum and natural gas rights, certain related tangible assets and other miscellaneous interest (the “Purchased Assets”) located in Alberta. The transaction constitutes the Qualifying Transaction of the Company under TSX Venture Exchange (“TSX-V”) Policy 2.4 Capital Pool Companies, and was approved by the TSX-V on March 28, 2013.

As consideration for the Purchased Assets, the Company paid the Vendor the sum of $1,339,000, in cash on the closing date, financed with a concurrent private placement as discussed in Note 6(e).

In addition, the Vendor has granted the Company an option, exercisable on or before one year from the closing date to acquire the remaining 79.99% working interest (the “Optioned Assets”) held by the Vendor for $5,206,000, payable in cash. As consideration of the option, the Company paid the Vendor the sum of $150,000 in cash on the closing date. The Option is an option only and the Company is under no obligation to exercise the Option or to complete the acquisition of the Optioned Assets.

The purchase price allocation of the acquisition has been accounted for as a business combination as follows:

Net assets acquired:		
Property and equipment	$	1,556,800
Asset retirement obligations		(67,800)
	$	1,489,000
Consideration:		
Cash	$	1,489,000

(d) Escrowed Shares

At November 30, 2010, 4,000,000 common shares issued and outstanding were placed in escrow to be released in accordance with TSX Venture Exchange Policy 2.4 over a period of up to 36 months from the date of the Final Exchange Bulletin following the completion of a Qualifying Transaction. Accordingly, 400,000 common shares (10%) have been released from escrow on March 27, 2013.

(Expressed in Canadian Dollars - Unaudited)

6. SHARE CAPITAL (Continued)

(e) Private Placement

Concurrently with the Qualifying Transaction, the Company completed a non-brokered private placement consisting of 18,000,000 common shares at a price of $0.10 each for gross proceeds of $1,800,000.

(f) Sponsorship and agent's shares

Pursuant to a sponsorship agreement associated with the Qualifying Transaction, the Company has agreed to pay a fee of $40,000 and issue 100,000 common shares of the Company with an estimated fair value of $10,000. The Company also estimates it will incur $35,000 in additional costs related to the transaction

(g) Stock Options

The Company has established an incentive share option plan for granting options to directors, employees and consultants in accordance with Exchange policies. On March 24, 2011, the Company granted 400,000 stock options to directors and officers of the Company at a price of $0.10 per share, exercisable from March 29, 2011 to March 29, 2021. The options vest fully on the date of grant. The fair value of the directors' and officers' stock options were expensed and determined using the Black-Scholes option pricing model with the following assumptions: a share price at grant date of $0.10; an annualized volatility of 104%; an expected life of 10 years; a dividend yield rate of 0%; and a risk-free interest rate of 3.5%.

No stock options were issued during the nine month periods ended May 31, 2013 and 2012.

(i) Directors' and Officers' Options

As at May 31, 2013, the following incentive stock options are outstanding:

	Number of Options	Weighted Average Exercise Price	Expiry Date
Directors' and Officers' options	400,000	$0.10	March 29, 2021

(ii) Agent's Options

On March 29, 2013, 200,000 agent's stock options exercisable at $0.10 per common share have expired. As at May 31, 2013, no agent's options are outstanding.

7. RELATED PARTY TRANSACTIONS AND BALANCES

(a) During the nine-month period ended May 31, 2013, the Company paid a total of $10,000 (2012 - $Nil) in consulting fees provided by a company controlled by a director of the Company.

(b) During the nine-month period ended May 31, 2013, the Company paid a total of $3,000 (2012 - $18,000) for office premises provided by a company controlled by a director of the Company.

(c) At May 31, 2012, a director of the Company had advanced $11,100 (2012 - $11,100) to the Company. This advance is unsecured, non-interest bearing and due on demand.

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

8. MANAGEMENT OF CAPITAL

The Company’s objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can ultimately provide returns for shareholders and benefits for other stakeholders. The board of directors does not establish quantitative return on capital criteria for management due to the nature of the Company’s business. The Company does not pay dividends and is not subject to any externally imposed capital requirements (see Note 1).

As at May 31, 2013, the Company considers capital to consist of shareholders’ equity. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue common shares or long-term debt.

9. FINANCIAL INSTRUMENTS AND RISKS

(a) Financial instruments and fair value measurements

The Company's financial instruments include cash and cash equivalents, accounts receivable, amounts recoverable, pre-paid expense, and accounts payable and amounts due to related parties. The Company classifies its cash and cash equivalents, accounts receivable, amounts recoverable, and pre-paid expense as fair value through profit or loss and its accounts payable and amount due to related parties as other financial liabilities. The fair values of these financial instruments approximate their carrying values because of their current or on demand nature. Fair values of financial instruments are classified in a fair value hierarchy based on the inputs and used to determine fair values. The levels of the fair value hierarchy are as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
Level 3 – Inputs that are not based on observable market data.

The Company's financial instruments at May 31, 2013 and August 31, 2012 classified as "Level 1 – Quoted prices in active markets" are cash and cash equivalents, accounts receivable, amounts recoverable, pre-paid expense, and accounts payable and amounts due to related parties.

(b) Financial risks

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company is exposed to credit risk through its cash and cash equivalents which are held with large Canadian financial institutions, and its accounts receivable which settle 60 days after the end of a monthly production cycle. The Company believes this credit risk is insignificant, however, as at May 31, 2013 cash and cash equivalents exceed the amounts covered by federal deposit insurance.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to short-term interest rates through the interest earned on cash balances; however, management does not believe this exposure is significant.

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company's accrued liabilities and accounts payable are all current. The Company ensures that it has sufficient capital to meet short-term financial obligations after taking into account its administrative obligations.

Foreign exchange risk is the risk related to the fluctuation of foreign exchange rates. The Company is not exposed to significant foreign exchange risk.

The Company's ability to raise capital to fund operating activities is subject to risks associated with fluctuations in the market price of its commodities. The Company closely monitors commodity prices to determine the appropriate course of actions to be taken.

The Company does not use derivative instruments or hedges to manage risks because the Company's exposure to credit risk, interest rate risk and currency risk is small.

10. SUBSEQUENT EVENTS

a) On June 3, 2013, the Company granted 2,000,000 stock options to directors and officers of the company to purchase common stock at a price of $0.11 per common shares. The stock options expire June 3, 2023.

b) On June 1, 2013, the Company entered into a consulting agreement for a period of 12 months with a director and CFO of the Company for a monthly fee of $5,000.