KR INVESTMENT LTD.

CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED

May 31, 2014 AND 2013

(UNAUDITED)

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

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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, 2014 and the condensed interim statements of comprehensive loss, changes of equity and cash flows for the nine months period ended May 31, 2014 and 2013. 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, 2014

KR INVESTMENT LTD.

CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION

AS AT MAY 31, 2014 AND 2013

(Expressed in Canadian Dollars)

	Note	May 31, 2014 $	August 31, 2013 $
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		139,592	131,017
Accounts receivable		38,306	70,303
GST recoverable		4,113	29,154
Prepaid expense		114	6,840
		182,125	237,314
OPTION TO PURCHASE PETROLEUM AND NATURAL GAS PROPERTIES	4	-	150,000
PROPERTY AND EQUIPMENT	5	1,317,380	1,358,817
		1,499,505	1,746,131
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities		17,041	19,441
DECOMMISSIONING PROVISIONS	6	68,560	68,104
		85,601	87,545
SHAREHOLDERS' EQUITY			
Share capital	7	2,118,207	2,118,207
Contributed surplus		335,393	335,393
Deficit		(1,039,697)	(795,014)
		1,413,903	1,658,586
		1,499,505	1,746,131

Going Concern (Note 1)
Commitment (Note 13)

Approved and authorized for issue on behalf of the Board on July 29, 2014:

"Steve Loo" — Steve Loo, Director

"S. John Kim" — S. John Kim, Director

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

KR INVESTMENT LTD.

CONDENSED INTERIM STATEMENTS OF COMPREHENSIVE LOSS

FOR THE NINE MONTHS PERIOD ENDED MAY 31, 2014 AND 2013

(Expressed in Canadian Dollars)

		THREE MONTHS ENDED MAY 31,		**NINE MONTHS ENDED MAY 31,**	
		2014 $	**2013 $**	**2014 $**	**2013 $**
	Note				
NET PETROLEUM AND NATURAL GAS REVENUES		78,646	106,245	226,267	106,245
DIRECT COSTS					
Production costs		40,610	42,401	93,385	42,401
GROSS OPERATING PROFIT		38,036	63,844	132,883	63,844
EXPENSES					
Accounting and legal		11,197	156,701	45,227	254,231
Accretion of decommissioning provisions	6	152	152	456	152
Bank charges		89	69	298	146
Depletion	5	17,466	19,500	52,398	19,500
Consulting	8	27,000	8,406	88,251	24,129
Office and miscellaneous		1,163	647	2,127	676
Rent	8	7,200	3,000	21,600	3,000
Telephone		417	613	1,199	1,119
Transfer agent, filing, and listing fees		1,794	24,325	11,429	35,289
Travel expense		822	15,009	5,032	16,248
		67,301	228,422	228,017	354,490
LOSS BEFORE OTHER INCOME		(29,264)	(164,578)	(95,134)	(290,646)
OTHER INCOME					
Interest income		136	17	451	17
Expiry of option to purchase	4	(150,000)	-	(150,000)	-
		(149,864)	17	(149,549)	17
LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD		(179,129)	(164,561)	(244,683)	(290,629)
Net Loss Per Share – Basic and Diluted	$	(0.01)	(0.01)	(0.01)	(0.01)
Weighted Average Common Shares Outstanding		24,100,000	18,788,043	24,100,000	10,309,524

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

KR INVESTMENT LTD.

CONDENSED INTERIM STATEMENTS OF CHANGES IN EQUITY

FOR THE NINE MONTHS PERIOD ENDED MAY 31, 2014 AND 2013

(Expressed in Canadian Dollars)

	Share Capital				
	Number of Common Shares	**Amount $**	**Contributed Surplus $**	**Deficit $**	**Total $**
As at 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
As at August 31, 2013	24,100,000	2,118,207	335,393	(795,014)	1,658,586
Net loss and comprehensive loss	-	-	-	(244,683)	(244,683)
Balance, May 31, 2014	24,100,000	2,118,207	335,393	(1,039,697)	1,413,903

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

KR INVESTMENT LTD.

CONDENSED INTERIM STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS PERIOD ENDED MAY 31, 2014 AND 2013

(Expressed in Canadian Dollars)

	THREE MONTHS ENDED MAY 31,		NINE MONTHS ENDED MAY 31,	
	2014 $	**2013 $**	**2014 $**	**2013 $**
OPERATING ACTIVITIES				
Net loss for the year	(179,129)	(164,561)	(244,683)	(290,629)
Items not involving cash:				
Accretion	152	152	456	152
Depletion	17,466	19,500	52,398	19,500
Expiry of option to purchase	150,000	-	150,000	-
Agent's shares	-	10,000	-	10,000
	(11,511)	(134,909)	(41,829)	(260,977)
Changes in non-cash components of working capital:				
Account receivable	(8,852)	(50,129)	31,997	(63,845)
Amounts recoverable	(1,751)	(41,311)	25,041	(41,311)
Prepaid expense	47	(22,554)	6,726	(2,153)
Accounts payable and accrued liabilities	(4,609)	(97,199)	(2,400)	10,300
	247	(300,994)	19,536	(357,986)
INVESTING ACTIVITIES				
Acquisition of petroleum and natural gas properties	(2,018)	(1,489,000)	(10,961)	(1,489,000)
	(2,018)	(1,489,000)	(10,961)	(1,489,000)
FINANCING ACTIVITIES		1,800,000	-	1,800,000
	-	1,800,000	-	1,800,000
INCREASE IN CASH AND CASH EQUIVALENTS	(1,771)	10,006	8,575	(46,986)
CASH AND CASH EQUIVALENTS – BEGINNING OF PERIOD	141,364	128,633	131,017	185,625
CASH AND CASH EQUIVALENTS – END OF PERIOD	139,592	138,639	139,592	138,639
SUPPLEMENTAL DISCLOSURES CASH FLOW INFORMATION				
Interest	-	-	-	-
Income taxes	-	-	-	-

The accompanying notes are an integral part of these 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 an Agreement of Purchase and Sale (the "Agreement") dated March 14, 2013 with a private company (the "Vendor") and acquired an undivided 20% working interest in certain petroleum and natural gas rights, certain related tangible assets and other miscellaneous assets (the "Purchased Assets") located in Alberta and currently has operations or assets capable of generating ongoing revenues (see Note 4). 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 on the basis of accounting principles applicable to a going concern, which assumes the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. During the nine months period ended May 31, 2014, the Company had positive cash flows from operating activities of $19,536 and had an accumulated deficit of $1,039,697 as at May 31, 2014. The continuance of the Company's operations is dependent on obtaining and maintaining sufficient debt or equity financing in order to realize the recoverability of the Company's investments in petroleum and natural gas properties, which is dependent upon the existence of economically recoverable reserves and market prices for petroleum and natural gas. 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, although there is a risk that additional financing will not be available on a timely basis or on terms acceptable to the Company. 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 historical cost basis except for financial instruments described in Note 3(f), which are measured at fair value. 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 financial statements are presented in Canadian dollars, which is the Company's functional currency.

(d) Use of Estimates and Judgments

The preparation of financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts within the Financial Statements. Judgments, estimates and underlying assumptions are reviewed on a continuous basis and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

In preparing our financial statements, we make judgments regarding the application of IFRS for our accounting policies. Significant judgments relate to the determination of the recovery of accounts receivable, amortization, depreciation, depletion and impairment of property and equipment, petroleum and natural gas reserves, decommissioning provisions, deferred income tax assets and liabilities, and assumptions used in valuing options in share-based payments calculations. The financial statement areas that require significant estimates and assumptions are set out in the following paragraphs:

Oil and Gas Accounting—Reserves Determination
The process of estimating reserves is complex. It requires significant estimates based on available geological, geophysical, engineering and economic data. To estimate the economically recoverable crude oil and natural gas reserves and related future net cash flows, we incorporate many factors and assumptions including the expected reservoir characteristics, future commodity prices and costs and assumed effects of regulation by governmental agencies. Reserves are used to calculate the depletion of the capitalized oil and gas costs and for impairment purposes as described in Note 3(b).

Property and Equipment
We evaluate our long- lived assets (petroleum and natural gas properties) for impairment if indicators exist. Cash flow estimates for our impairment assessments require assumptions and estimates about the following primary elements—future prices, future operating and development costs, remaining recoverable reserves and discount rates. In assessing the carrying values of our unproved properties, we make assumptions about our future plans for those properties, the remaining terms of the leases and any other factors that may be indicators of potential impairment.

Asset Retirement Obligations
In estimating our future asset retirement obligations, we make assumptions about activities that occur many years into the future including the cost and timing of such activities. The ultimate financial impact is not clearly known as asset removal and remediation techniques and costs are constantly changing, as are legal, regulatory, environmental, political, safety and other such considerations. In arriving at amounts recorded, numerous assumptions and estimates are made on ultimate settlement amounts, inflation factors, discount rates, timing and expected changes in legal, regulatory, environmental, political and safety environments.

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 fair value through profit or loss 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. The Company considers all highly liquid instruments with a maturity of three months or less at the time of issuance to be cash equivalents.

(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 comprehensive loss.

Assets that have been impaired are tested for possible reversal of the impairment at each reporting date for any indications that the impairment loss may have reversed. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. 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 comprehensive loss.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 period available to common shareholders (numerator) by the weighted average number of common shares outstanding during the period (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. For the period ended May 31, 2014 and 2013, the existence of stock options causes the calculation of fully diluted loss per share to be anti-dilutive. Accordingly, fully diluted loss per share is equal to basic loss per share.

(e) Income Taxes

The Company utilizes the asset and liability method of accounting for income taxes. Deferred income tax assets and liabilities are recognized to reflect the expected deferred tax consequences arising from temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. 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 income tax assets against current income tax liabilities and the deferred income taxes and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or 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. Deferred tax assets are recognized only to the extent that it is probable that sufficient taxable profits will be available against which the asset can be utilized.

(f) Financial Instruments

Financial assets

All 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 (“FVTPL”), held-to-maturity, loans and receivables or available-for-sale financial assets.

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

Financial asset are classified as FVTPL if they are held for trading or are designated as such upon initial recognition. Financial assets at FVTP are measured at fair value, and changes are recognized in profit or loss. Upon initial recognition transaction costs are expensed as incurred. The Company has classified its cash and cash equivalents at FVTPL.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial Instruments (continued)

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. The Company has not classified any financial assets as held-to-maturity.

(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. The Company has classified its accounts receivable as loans and receivables.

(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 profit or loss. The Company has not classified any financial assets as available-for-sale.

Financial liabilities

Financial liabilities are initially recognized at fair value and are classified into one of two categories: financial liabilities at FVTPL 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 profit or loss. The Company has not classified any financial liabilities as FVTPL.

(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. The Company has classified its accounts payable and due to related parties as other financial liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Share-based payments

The Company grants share-based awards to employees, directors, officers and non-employees under its stock option plan. Share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments on the grant date. The fair value of share-based payments is determined using the Black-Scholes option pricing model, and each tranche is recognized on a graded-vesting basis over the period in which options vest. The amount recognized as a share-based payment expense during a reporting period is adjusted to reflect the number of awards expected to vest. The offset to this recorded cost is to contributed surplus. No expense is recognized for awards that do not ultimately vest.
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, in which case the Company will measure their value by reference to the fair value of the equity instruments granted.

When stock options are exercised, the proceeds received, together with any related amount in contributed surplus, are credited to share capital.

(h) Provisions

(i) Legal matters

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 at a pre-tax rate. 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.

(ii) 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Property and equipment

Petroleum and natural gas properties

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 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 and probable 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.

Proven 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.

Equipment

Equipment is recorded at cost and depreciated using the straight–line method based on its estimated useful life of 3 years, net of any estimated residual value. Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(j) 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue is measured net of discounts, customs duties and royalties.

(k) New accounting standards issued but not yet effective

Certain new standards, interpretations and amendments to existing standards have been issued by the IASB or the International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory for accounting periods beginning after January 1, 2013, or later periods. Some updates that are not applicable or are not consequential to the Company may have been excluded from the list below.

(i) New accounting standards for fiscal years commencing on or after January 1, 2013

IFRS 10 *Consolidated Financial Statements* - IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 *Consolidation - Special Purpose Entities* and parts of IAS 27 *Consolidated and Separate Financial Statements.*

IFRS 11 *Joint Arrangements* - IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities - Non-monetary Contributions by Venturers*.

IFRS 12 *Disclosure of Interests in Other Entities* - IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

IFRS 13 *Fair Value Measurement* - IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

Amendments to other standards - In addition, there have been other amendments to existing standards, including IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*. IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 to IFRS 13.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) New accounting standards issued but not yet effective (continued)

(ii) New accounting standards effective for fiscal years commencing no earlier than on or after January 1, 2017

IFRS 9 *Financial Instruments* **-** IFRS 9 was issued in November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: Amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at the fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent not clearly representing a return of investment; however, others gains and losses (including impairments) associated with such instruments remain in accumulated other comprehensive income indefinitely.

In December 2011, the IASB extended the mandatory effective date for IFRS 9 to on or after January 1, 2017 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. On November 19, 2013, the IASB issued amendments to IFRS 9 that (1) introduce a new “general hedge accounting model” to IFRSs; (2) remove the January 1, 2015, mandatory effective date from IFRS 9; and (3) allow entities to early adopt the provision in IFRS 9, as issued in 2010 (IFRS 9 (2010)), related to the presentation of changes in an entity’s own credit risk within other comprehensive income (OCI).

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.

(Expressed in Canadian Dollars)

4. OPTION TO PURCHASE

On March 27, 2013, the Company closed an Agreement of Purchase and Sale (the "Agreement") dated March 14, 2013 with a private Alberta 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.

As consideration for the Purchased Assets, the Company paid the Vendor the sum of $1,339,000 in cash on the closing date.

In addition, the Vendor granted an option to the Company. The option was exercisable on or before one year from the closing date to acquire the remaining 79.99% working interest 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 March 27, 2013.

As of March 27, 2014, the option remained unexercised and expired. The purchase cost has been charged to operations.

5. PROPERTY AND EQUIPMENT

		Petroleum and natural gas properties
Cost:		
Balance, August 31, 2012	$	-
Additions		1,343,416
Decommissioning costs		67,800
Disposals		-
Balance, August 31, 2013	$	1,411,216
Additions		10,961
Disposals		-
Balance, May 31, 2014	$	1,422,177
Accumulated depletion:		
Balance, August 31, 2012	$	-
Depletion		52,399
Disposals		-
Balance, August 31, 2013	$	52,399
Additions		52,398
Disposals		-
Balance, May 31, 2014	$	104,797
Net book value:		
As at August 31, 2012	$	-
As at August 31, 2013	$	1,358,817
As at May 31, 2014	$	1,317,380

(Expressed in Canadian Dollars)

6. 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, 2014		**August 31, 2013**
Balance, beginning of period	$	68,104	$	-
Recognition of decommissioning provisions		-		67,800
Accretion expense		456		304
Balance, end of period	$	68,560	$	68,104

7. SHARE CAPITAL

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

(b) Issued and Outstanding Share Capital: As at May 31, 2014 and August 31, 2013, 24,100,000 (August 31, 2012 – 6,000,000) common shares are issued and outstanding.

(i) Escrowed Shares

Pursuant to the escrow agreements, 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 the Qualifying Transaction. Accordingly, 1,600,000 common shares (40%) were released from escrow on March 27, 2013. At May 31, 2014, 2,400,000 common shares (2013: 3,600,000 common shares) remained in escrow.

(c) 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 June 3, 2013, the Company granted 2,000,000 stock options to directors and officers of the Company exercisable at a price of $0.11 per share, from June 3, 2013 to June 3, 2023. The options vest fully on the date of grant. The fair value of the directors' and officers' stock options of $282,359 were expensed during the previous fiscal year, which was determined using the Black-Scholes option pricing model with the following assumptions: an annualized volatility of 112%; an expected life of 10 years; a dividend yield rate of 0%; and a risk-free interest rate of 2.08%.

No stock options were granted during the nine months period ended May 31, 2014.

(i) Directors' and Officers' Options

The following table summarizes the continuity of the Company's stock options outstanding:

	Number of Shares	Weighted Average Exercise Price
Outstanding, August 31, 2012	600,000	$0.10
Granted	2,000,000	$0.11
Expired	(300,000)	$0.10
Forfeited	(200,000)	$0.10
Outstanding, August 31, 2013 and May 31, 2014	2,100,000	$0.11

(Expressed in Canadian Dollars)

7. SHARE CAPITAL (continued)

(c) Stock Options (continued)

As at May 31, 2014, the following incentive stock options are outstanding and exercisable:

	Number of Options	Weighted Average Exercise Price	Expiry Date
Directors' and Officers' options	100,000	$0.10	March 29, 2021
Directors' and Officers' options	2,000,000	$0.11	June 3, 2023
	2,100,000	$0.11	

8. RELATED PARTY TRANSACTIONS AND BALANCES

The Company has identified its directors and certain senior officers as its key management personnel. The compensation costs for key management personnel and companies related to them were recorded as follows:

(a) During the period ended May 31, 2014, the Company paid a total of $36,000 (2013 - $10,000) in consulting fees provided by a company controlled by a director and officer of the Company.

(b) During the period ended May 31, 2014, the Company paid a total of $45,000 (2013 - $Nil) in consulting fees to a director and officer of the Company.

(c) During the period ended May 31, 2014, the Company paid a total of $13,500 (2013 - $3,000) for office premises provided by a company controlled by a director of the Company.

(d) The remuneration of the Company's directors and key management:

	2014	**2013**
Management fees	$ 81,000	$ 10,000
Total	$ 81,000	$ 10,000

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.

(Expressed in Canadian Dollars)

9. INCOME TAXES

The following table reconciles the amount of income tax recoverable upon application of statutory Canadian federal and provincial income tax rates to the amount reported in these financial statements:

	2013 $	2012 $
Net loss before income taxes	(600,446)	(66,065)
Canadian statutory income tax rate	25.41%	25.5%
Expected income tax recovery at statutory rate	(167,819)	(16,847)
Tax effect of:		
Permanent differences	68,772	-
Change in enacted tax rates	-	219
Change in unrecognized deferred income tax assets	99,047	16,628
Income tax recovery	-	-

The significant components of the Company's deferred income tax assets are as follows:

	2013 $	2012 $
Deferred income tax assets:		
Non-capital losses carried forward	110,208	37,670
Share issuance costs	14,037	18,412
Petroleum and natural gas properties	(3,850)	-
Decommissioning provisions	17,026	-
Total deferred income tax assets	137,421	56,082
Unrecognized deferred income tax assets	(137,421)	(56,082)
Net deferred income tax assets	-	-

The Company has non-capital losses for income tax purposes of $440,833 (2012 - $150,679) which may be carried forward and offset against deferred taxable income. The non-capital losses expire as follows:

Year	Amount
2030	$ 3,563
2031	56,352
2032	90,764
2033	290,154
	$440,833

In assessing the realizability of deferred income tax assets, management considers whether it is probable that some portion of the deferred income tax assets will be realized. The ultimate realization of deferred income tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred income tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The amount of deferred income tax assets considered realizable could change materially in the near term based on future taxable income during the carry forward period.

(Expressed in Canadian Dollars)

10. 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, 2014, 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.

11. FINANCIAL INSTRUMENTS AND RISKS

Financial instruments and fair value measurements

The Company's financial instruments include cash and cash equivalents, accounts receivable, and accounts payable and amounts due to related parties. The Company classifies its cash and cash equivalents as fair value through profit or loss, its accounts receivable as loans and receivables, 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.

		May 31, 2014		August 31, 2013
Fair value through profit or loss	$	139,592	$	131,017
Loans and receivables		38,306		70,303
Other financial liabilities		17,041		19,441

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 and require inputs that are both significant to the fair value measurement and unobservable.

The Company's financial assets and liabilities measured at fair value on a recurring basis as of May 31, 2014 are as follows:

	Balance at May 31, 2014 $	Quoted Prices in Active Markets for Identical Assets (Level 1) $	Significant Other Observable Inputs (Level 2) $	Significant Unobservable Inputs (Level 3) $
Financial Assets:				
Cash and cash equivalents	139,592	139,592	–	–

(Expressed in Canadian Dollars)

11. FINANCIAL INSTRUMENTS AND RISKS (continued)

Financial Risks

The Company thoroughly examines the various financial instrument risks to which it is exposed, and assesses the impact and likelihood of those risks. Where material, these risks are reviewed and monitored by management. There have not been any significant changes from the previous year as to how these risks are reviewed and monitored by management. The types of financial instrument risk exposures and the objectives and policies for managing these risks exposures is described below.

Credit Risk

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, 2014 cash and cash equivalents exceed the amounts covered by federal deposit insurance. The Company continuously monitors accounts receivable to minimize risk. As at May 31, 2014, the Company's maximum risk exposure to credit risk is the carrying value of cash and cash equivalents and accounts receivable of $177,898.

The following table provides information regarding the aging of financial assets that are past due but which are not impaired as follows:

May 31, 2014	Current	31 – 60 days	61 – 90 days	91 + days	Carrying Value
Accounts receivable	$ 27,496	10,810	$ -	$ -	$ 38,306

Interest Rate Risk

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.

(Expressed in Canadian Dollars)

11. FINANCIAL INSTRUMENTS AND RISKS (continued)

Liquidity Risk

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

Contractual undiscounted cash flow requirements for financial liabilities as at May 31, 2014 are as follows:

	Less Than 1 Month $	1 – 3 Months $	4 months to Less Than 1 Year $	Years 1 – 3 $	Total $
Accounts payable and accrued Liabilities	17,041	–	–	–	17,041
Sublease agreements (Note 13)	900	1,800	8,100	14,400	25,200
	17,941	1,800	8,100	14,400	42,241

Foreign Exchange Risk

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

Commodity Price Risk

The Company's revenues and ability to raise capital to fund operating activities are 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.

12. MAJOR CUSTOMERS AND ECONOMIC DEPENDENCE

During the nine months period ended May 31, 2014, sales to one customer accounted for 100% of the Company's total petroleum and natural gas revenues (2013 – 100%). As at May 31, 2014, the Company does not consider itself to be economically dependent on these customers as transactions with these parties can be easily replaced by transactions with other parties on similar terms and conditions.

(Expressed in Canadian Dollars)

13. COMMITMENT

On June 1, 2013, the Company entered into a sublease agreement with a third party whereby the Company will pay annual rent payments of $10,800 for subleasing office space in Calgary, Alberta. The sublease agreement expires on September 30, 2016. Required payments are as follows:

2014	$	2,700
2015		10,800
2016		10,800
2017		900
	$	25,200