
**KR INVESTMENT LTD.
CONDENSED INTERIM FINANCIAL
STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED
May 31, 2016 AND 2015**

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

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

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, 2016 and the condensed interim statements of comprehensive loss, changes of equity and cash flows for the nine months period ended May 31, 2016 and 2015. 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 28, 2016

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

KR INVESTMENT LTD.**CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION****AS AT MAY 31, 2016 AND AUGUST 31, 2015**(Expressed in Canadian Dollars)

	Note	MAY 31, 2016	AUGUST 31, 2015
		\$	\$
ASSETS			
CURRENT ASSETS			
Cash		15,255	10,904
Accounts receivable	11	-	-
Amounts recoverable		3,066	1,099
Prepaid expenses		-	3,000
		18,321	15,003
PROPERTY AND EQUIPMENT	4	905,056	979,156
		923,377	994,159
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities		38,800	18,199
Due to related parties	7	63,000	79,000
		101,800	97,199
DECOMMISSIONING PROVISION	5	149,486	141,956
		251,286	239,155
SHAREHOLDERS' EQUITY			
Share capital	6	2,278,207	2,118,207
Contributed surplus		335,393	335,393
Deficit		(1,941,509)	(1,698,596)
		672,091	755,004
		923,377	994,159

Nature of operations and going concern (Note 1)

Approved and authorized for issue on behalf of the Board on July 28, 2016:

"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 LOSS AND COMPREHENSIVE LOSS****FOR THE NINE MONTHS PERIOD ENDED MAY 31, 2016 AND 2015****(Expressed in Canadian Dollars)**

		THREE MONTHS ENDED MAY 31,		NINE MONTHS ENDED MAY 31,	
		2016	2015	2016	2015
		\$	\$	\$	\$
NET PETROLEUM AND NATURAL GAS REVENUES	Note	-	46,020	41,318	161,924
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DIRECT COSTS					
Production costs		129	22,442	20,929	99,996
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GROSS OPERATING PROFIT		(129)	23,578	20,389	61,927
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EXPENSES					
Accounting and legal		3,750	6,575	45,404	49,625
Accretion of decommissioning provisions	5	2,510	1,550	7,530	4,650
Depletion	4	24,700	25,000	74,100	75,000
Consulting	7(a)(b)	27,000	27,000	81,979	81,669
Office and miscellaneous		3,094	156	4,607	907
Rent	7(c)	9,000	12,000	27,000	23,700
Telephone		359	432	1,084	1,395
Transfer agent, filing, and listing fees		5,194	1,297	19,111	10,826
Travel expense		409	1,177	2,489	3,700
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		76,015	75,187	263,303	251,472
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LOSS FROM OPERATIONS		(76,144)	(51,610)	(242,913)	(189,545)
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Interest income		-	-	-	176
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NET LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD		(76,144)	(51,610)	(242,913)	(189,368)
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Net Loss Per Share – Basic and Diluted		\$ (0.01)	(0.02)	(0.04)	(0.06)
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Weighted Average Number of Common Shares Outstanding (basic and diluted)		3,012,500	3,012,500	5,359,945	3,012,500
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The accompanying notes are an integral part of these financial statements.

KR INVESTMENT LTD.**CONDENSED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY****FOR THE NINE MONTHS PERIOD ENDED MAY 31, 2016 AND 2015**

(Expressed in Canadian Dollars)

	Share Capital				
	Number of Common Shares	Amount \$	Contributed Surplus \$	Deficit \$	Total \$
As at August 31, 2014	3,012,500	2,118,207	335,393	(1,176,318)	1,277,282
Net loss	-	-	-	(189,368)	(189,368)
Balance, May 31, 2015	3,012,500	2,118,207	335,393	(1,365,686)	1,087,914
Balance, August 31, 2015	3,012,500	2,118,207	335,393	(1,698,596)	755,004
Private placement	3,200,000	160,000	-	-	160,000
Net loss	-	-	-	(242,913)	(242,913)
Balance, May 31, 2016	6,212,500	2,278,207	335,393	(1,941,509)	672,091

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, 2016 AND 2015**(Expressed in Canadian Dollars)

	THREE MONTHS ENDED MAY 31,		NINE MONTHS ENDED MAY 31,	
	2016	2015	2016	2015
	\$	\$	\$	\$
OPERATING ACTIVITIES				
Net loss for the year	(76,144)	(51,610)	(242,913)	(189,368)
Items not involving cash:				
Accretion and decommissioning provision	2,510	1,550	7,530	4,650
Depletion	24,700	25,000	74,100	75,000
Changes in non-cash components of working capital:				
Accounts receivable	3,211	21,689	-	18,924
Amounts recoverable	(1,511)	1,820	(1,967)	971
Prepaid expenses	4,842	(51)	3,000	5,881
Accounts payable and accrued liabilities	(5,949)	(13,032)	20,601	9,453
Due to related parties	15,000	28,000	(16,000)	49,257
Cash flows (used in) provided by operating activities	(33,341)	(30,012)	(155,649)	(63,081)
INVESTING ACTIVITIES				
Acquisition of petroleum and natural gas properties	-	(2,018)	-	(34,930)
Cash flows used in investing activities	-	(2,018)	-	(34,930)
FINANCING ACTIVITIES				
Private placement	-	-	160,000	-
Cash flows used in investing activities	-	-	160,000	-
DECREASE IN CASH	(33,341)	(32,030)	4,351	(98,011)
CASH – BEGINNING OF PERIOD	48,596	64,134	10,904	130,115
CASH – END OF PERIOD	15,255	32,104	15,255	32,104
SUPPLEMENTAL DISCLOSURES				
CASH FLOW INFORMATION				
Interest	-	-	-	-
Income taxes	-	-	-	-

There were no non-cash financing or investing activities for the years presented

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

**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED MAY 31, 2016 AND 2015**

(Expressed in Canadian Dollars)

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-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.

On September 30, 2015, the Company completed a share consolidation of one post-consolidated common share for eight pre-consolidated share. The outstanding common shares of the Company have been reduced to 3,012,500. All share information within these condensed interim financial statements has been adjusted retroactively to reflect post-consolidation share information unless otherwise indicated.

The operating license for the company's 20% working interest is held by Canadian Oil & Gas International Inc., a company which filed for receivership October 26, 2015. As a consequence the Alberta Energy Regulator (AER) suspended the license on February 18, 2016 resulting in the Company not receiving any revenues for the three month period ended May 31, 2016.

These condensed interim 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 period ended May 31, 2016, the Company had a net loss of \$242,913 and had an accumulated deficit of \$1,941,509 since inception. These factors raise significant doubt about the Company's ability to continue as a going concern. 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 condensed interim 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 condensed interim 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 condensed interim financial statements as if the policies have always been in effect.

(c) Functional and Presentation Currency

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

**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED MAY 31, 2016 AND 2015**

(Expressed in Canadian Dollars)

2. BASIS OF PRESENTATION (continued)

(d) Use of Estimates and Judgments

The preparation of condensed interim 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 the condensed interim financial statements, management makes 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 condensed interim financial statement areas that require significant estimates and judgments 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

The Company evaluates its 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.

Impairment Testing

Impairment testing is based on discounted cash flow models prepared by internal experts with assistance from third-party advisors when required. The inputs used are based on management's best estimates of what an independent market participant would consider appropriate and are reviewed by senior management. Changes in these inputs may alter the results of impairment testing, the amount of the impairment charges recorded in the statement of loss and comprehensive loss and the resulting carrying values of assets.

**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED MAY 31, 2016 AND 2015**

(Expressed in Canadian Dollars)

2. BASIS OF PRESENTATION (continued)**(d) Use of Estimates and Judgments (continued)***Joint Arrangements*

The Company may be a party to an arrangement in which they do not have control. Judgment is required in determining whether joint control over such arrangements exists and if so, which parties have joint control and whether each arrangement is a joint venture or joint operation. In assessing whether the Company has joint control, management analyzes the activities of each arrangement and determines which activities most significantly affect the returns of the arrangement. These activities are determined to be the relevant activities of the arrangement. If unanimous consent is required over the decisions about the relevant activities, the parties whose consent is required would have joint control over the arrangement. The judgments around which activities are considered the relevant activities of the arrangement are subject to analysis by each of the parties to the arrangement and may be interpreted differently. When performing this assessment, the Company considers decisions about activities such as managing the asset during its life, acquisition, expansion and dispositions of assets, financing, operating and capital decisions. Management may also consider activities including the approval of budgets, appointment of key management personnel, representation on the board of directors and other items. If management concludes that we have joint control over the arrangement, an assessment of whether the arrangement is a joint venture or joint operation is required. This assessment is based on whether we have rights to the assets, and obligations for the liabilities, relating to the arrangement or whether we have rights to the net assets of the arrangement. In making this determination, management reviews the legal form of the arrangement, the terms of the contractual arrangement, and other facts and circumstances. In a situation where the legal form and the terms of the contractual arrangement do not give us rights to the assets and obligations for the liabilities, an assessment of other facts and circumstances is required, including whether the activities of the arrangement are primarily designed for the provision of output to the parties and whether the parties are substantially the only source of cash flows contributing to the arrangement. In such circumstances we may consider the application of other facts and circumstances to conclude that a joint arrangement is a joint operation is appropriate. This conclusion requires judgment and is specific to each arrangement.

Management has applied the use of other facts and circumstances to conclude that the extraction of petroleum and natural gas in the Provost Area in Alberta, Canada (see Notes 4 and 5) is a joint operation for the purposes of the condensed interim financial statements. The other facts and circumstances considered are the provisions for output to the parties of the joint arrangements. The Company will take its share of the output from the assets directly over the life of the arrangement. Management have concluded that this, combined with other factors, gives us direct rights to the assets and obligations for the liabilities of these arrangements, proportionate to the Company's ownership interest.

Cash Generating Unit (CGU)

The Company's assets are aggregated into cash-generating units ("CGUs"), based on the unit's ability to generate independent cash inflows. The determination of the Company's CGUs is based on management's judgments in regards to shared infrastructure, geographical proximity, resource type and materiality.

**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED MAY 31, 2016 AND 2015**

(Expressed in Canadian Dollars)

2. BASIS OF PRESENTATION (continued)

(d) Use of Estimates and Judgments (continued)

Decommissioning Provisions

In estimating future asset retirement obligations, the Company makes 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.

Share-Based Payments

Management uses judgment when applying the Black-Scholes pricing model to determine the fair value of the options granted during the period and forfeiture rates. Volatility is calculated using historical trading data of the Company. The zero coupon bond yield per the Bank of Canada is used as the risk-free rate.

Income Taxes

Judgments are made by management at the end of the reporting period to determine the likelihood that deferred income tax assets will be realized from future taxable earnings. Assessing the recoverability of deferred income tax assets requires the Company to make judgments related to the expectations of future cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in profit or loss in the period in which the change occurs.

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 condensed interim statement of financial position 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. The Company did not have any cash equivalents at May 31, 2016 and 2015.

(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.

**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED MAY 31, 2016 AND 2015**

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**(b) Impairment of Long-Lived Assets (continued)**

When 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 asset 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 asset 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 loss and 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 loss and 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.

(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, 2016 and 2015, 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 assets are classified as FVTPL if they are held for trading or are designated as such upon initial recognition. Financial assets at FVTPL 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 as 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.

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.

**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED MAY 31, 2016 AND 2015**

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial Instruments (continued)

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 the effective interest method. The Company has classified its accounts payable and due to related parties as other financial liabilities.

(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 resources 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 condensed interim 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.

**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED MAY 31, 2016 AND 2015**

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**(h) Provisions (continued)****(ii) Decommissioning provisions**

The Company's activities give rise to dismantling, decommissioning and site disturbance re-remediation 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 condensed interim 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.

(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 reserves. These estimated reserves are reviewed by independent reserve engineers at least annually.

**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED MAY 31, 2016 AND 2015**

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Property and equipment (continued)

Proven 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 reserves, that affect the unit-of-production calculations do not give rise to prior year adjustments and are dealt with on a prospective basis.

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

(k) Interests in Joint Arrangements

A joint arrangement can take the form of a joint venture or joint operation. All joint arrangements involve a contractual arrangement that establishes joint control, which exists only when decisions about the activities that significantly affect the returns of the investee require unanimous consent of the parties sharing control. A joint operation is a joint arrangement in which we have rights to the assets and obligations for the liabilities relating to the arrangement. A joint venture is a joint arrangement in which we have rights to only the net assets of the arrangement.

Joint ventures are accounted for in accordance with the policy "Investments in Associates and Joint Ventures." Joint operations are accounted for by recognizing our share of the assets, liabilities, revenues, expenses and cash flows of the joint operation in our condensed interim financial statements.

The Company's operations are conducted through joint operations where it holds a 20% working interest in a joint arrangement to conduct oil and gas exploration and development activities on the properties in Provost Area, Alberta.

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(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Accounting Standards and Amendments Issued But Not Yet Effective

The following standards will be adopted effective September 1, 2017:

IFRS 15 – Revenue from Contracts with Customers - In May 2014, the IASB issued IFRS 15 – *Revenue from Contracts with Customers*, which supersedes IAS 11 – *Construction Contracts*, IAS 18 – *Revenue*, IFRIC 13 – *Customer Loyalty Programmes*, IFRIC 15 – *Agreements for the Construction of Real Estate*, IFRIC 18 – *Transfers of Assets from Customers*, and SIC 31 – *Revenue – Barter Transactions Involving Advertising Services*. IFRS 15 establishes a comprehensive five-step framework for the timing and measurement of revenue recognition.

New accounting standards effective for fiscal years commencing no earlier than on or after January 1, 2018:

IFRS 9 Financial Instruments - is a new standard on financial instruments that will replace IAS 39, Financial Instruments: Recognition and Measurement.

IFRS 9 addresses classification and measurement of financial assets and financial liabilities as well as derecognition of financial instruments. IFRS 9 has two measurement categories for financial assets: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is at fair value through profit or loss.

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.

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4. PROPERTY AND EQUIPMENT

	Petroleum and natural gas properties	
Cost:		
Balance, August 31, 2014	\$	1,619,099
Additions		33,080
Decommissioning costs		(127,253)
Impairment		(258,854)
Balance, August 31, 2015	\$	1,266,072
Additions		-
Disposals		-
Balance, May 31, 2016	\$	1,266,072

	Petroleum and natural gas properties	
Accumulated depletion:		
Balance, August 31, 2014	\$	192,071
Depletion		94,845
Disposals		-
Balance, August 31, 2015	\$	286,916
Depletion		74,100
Disposals		-
Balance, May 31, 2016	\$	361,016

Net book value:		
As at August 31, 2014	\$	1,427,028
As at August 31, 2015	\$	979,156
As at May 31, 2016	\$	905,056

The Company's property and equipment is comprised of its unimpaired 20% working interest in oil production wells and additional injection and battery wells located in the Provost area in Alberta, Canada.

Current Status of Provost Operations

On October 26, 2015, the operator of the Provost asset Canadian Oil & Gas International Inc.'s (COGI) went into receivership. On February 18, 2016 the Alberta Energy Regulator (AER) revoked COGI's operating license to operate the Provost well resulting in the suspension of the Provost operation. The Provost asset was operating with an LLR rating of 1.5 prior to its suspension. Currently, the well license has not been transferred out of receivership and the Provost operations remain suspended. The Company and its partner continue working towards getting the licenses transferred in order to resume production.

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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, 2016	August 31, 2015
Balance, beginning of period	\$ 141,956	\$ 259,167
Recognition of decommissioning provisions	-	-
Change in estimate	-	(127,253)
Accretion expense	7,530	10,042
Balance, end of period	\$ 149,486	\$ 141,956

The present value of the obligation was calculated using an average discount rate of 8.00% (2015 – 2.46%) and an inflation rate of 2% (2015 – 2%). Reclamation activities are expected to occur between 2017 and 2035.

6. SHARE CAPITAL

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

(b) Issued and Outstanding Share Capital:

On November 12, 2015, the Company closed a Private Placement Offering of 3,200,000 common shares of the Company at a price of \$0.05 per share, for gross proceeds of \$160,000. The proceeds will be used for seeking acquisition opportunities and working capital.

As at May 31, 2016, 6,212,500 (August 31, 2015 - 3,012,500) common shares are issued and outstanding.

Escrowed Shares: Pursuant to the escrow agreements, 500,000 common shares issued and outstanding were placed in escrow to be released in accordance with TSX-V 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, the remaining 75,000 common shares were released from escrow during the period ended May 31, 2016 (2015 – 75,000). As a result, no more common shares remain in escrow.

(c) Stock Options

The Company has established an incentive stock option plan for granting options to directors, employees and consultants in accordance with Exchange policies.

No stock options were granted during the periods ended May 31, 2016 and 2015.

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6. SHARE CAPITAL (continued)**(c) Stock Options (continued)****Directors' and Officers' Options**

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

	Number of Options	Weighted Average Exercise Price
Outstanding, May 31, 2016 and August 31, 2015, and 2014	262,500	\$0.88

As at May 31, 2016, the following incentive stock options are outstanding and exercisable:

	Number of Options	Weighted Average Exercise Price	Expiry Date
Directors' and Officers' options	12,500	\$0.80	March 29, 2021
Directors' and Officers' options	250,000	\$0.88	June 3, 2023
	262,500	\$0.88	

As at May 31, 2016, the weighted average remaining life of the outstanding options was 6.91 years.

7. 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:

- During the period ended May 31, 2016, the Company charged a total of \$36,000 (2015 - \$36,000) to operations in consulting fees provided by a company controlled by a director and officer of the Company, of which \$8,000 (August 31, 2015 – \$16,000) has been accrued as due to related parties.
- During the period ended May 31, 2016, the Company charged a total of \$45,000 (2015 - \$45,000) to operations in consulting fees provided by a director and officer of the Company, of which \$30,000 (August 31, 2015 – \$45,000) has been accrued as due to related parties.
- During the period ended May 31, 2016, the Company charged a total of \$27,000 (2015 - \$27,000) to operations for office premises provided by a company controlled by a director of the Company, of which \$6,000 (August 31, 2015 – \$14,000) has been accrued as due to related parties.
- During fiscal 2014 the Company accrued \$8,000 in fees for services provided by directors of the Company. As of May 31, 2016, \$4,000 of such fees remain accrued as due to related parties.

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7. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

e. The remuneration of the Company's key management:

	Nine months period ended	
	May 31,	
	2016	2015
Management fees, directors' fees and other short-term benefits	\$ 81,000	\$ 81,000
Share-based payments	-	-
Total	\$ 81,000	\$ 81,000

Balance owing to related parties as at May 31, 2016 for services provided during the period was \$63,000 (August 31, 2015 - \$79,000). The amounts owing to related parties are unsecured, non-interest bearing and are due on demand.

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8. 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 condensed interim financial statements:

	2015	2014
	\$	\$
Net loss before income taxes	(522,278)	(353,653)
Canadian statutory income tax rate	25.00%	25.00%
Expected income tax recovery at statutory rate	(136,000)	(88,000)
Tax effect of:		
Change in statutory rates, permanent differences, and other	(49,000)	-
Change in unrecognized deferred income tax assets and other	185,000	88,000
Income tax expense (recovery)	-	-

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

	2015	2014
	\$	\$
Deferred income tax assets:		
Non-capital losses carried forward	183,000	137,000
Share issuance costs	1,000	7,000
Petroleum and natural gas properties	150,000	24,000
Decommissioning provisions	83,000	65,000
Unrecognized deferred tax assets	417,000	233,000

The Company has non-capital losses for income tax purposes of \$703,000 (2014 - \$547,000). The non-capital losses expire as follows:

Year	Amount
2030	4,000
2031	56,000
2032	91,000
2033	290,000
2034	106,000
2035	156,000
	<u>\$ 703,000</u>

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9. 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.

As at May 31, 2016, 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.

10. FINANCIAL INSTRUMENTS AND RISKS**Financial instruments and fair value measurements**

The Company's financial instruments include cash, accounts receivable, accounts payable and amounts due to related parties. The Company classifies its cash 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, 2016	August 31, 2015
Fair value through profit or loss	\$ 15,255	\$ 10,904
Loans and receivables (Note 11)	-	-
Other financial liabilities	101,800	97,199

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:

Certain financial assets and liabilities are measured at fair value on a recurring basis and classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Certain non-financial assets and liabilities may also be measured at fair value on a non-recurring basis. There are three levels of the fair value hierarchy that prioritize the inputs to valuation techniques used to measure fair value, with Level 1 inputs having the highest priority. The levels and the valuation techniques used to value the Company's financial assets and liabilities are described below:

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.

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10. FINANCIAL INSTRUMENTS AND RISKS (continued)**Financial instruments and fair value measurements (continued)**

The Company's financial assets and liabilities measured at fair value on a recurring basis as of May 31, 2016 are as follows:

	Balance at May 31, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	\$	\$	\$	\$
Financial Assets:				
Cash	\$ 15,255	\$ 15,255	\$ -	\$ -

For the non-financial assets and liabilities measured at fair value on a non-recurring basis, no fair value measurements were made during the period ended May 31, 2016 or 2015.

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 which is held with large Canadian financial institutions, and its accounts receivable which settle 60 days after the end of a monthly production cycle. The Company continuously monitors accounts receivable to minimize risk. As at May 31, 2016, the Company's maximum risk exposure to credit risk is the carrying value of cash and accounts receivable of \$Nil.

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.

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10. 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, and amounts due to related parties 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, 2016 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	\$ -	\$ -	\$ 38,800	\$ -	\$ 38,800
Due to related parties	-	-	-	63,000	63,000
	\$ -	\$ -	\$ 38,800	\$63,000	\$ 101,800

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.

11. MAJOR CUSTOMERS AND ECONOMIC DEPENDENCE

During the period ended May 31, 2016, sales to one customer accounted for 100% of the Company's total petroleum and natural gas revenues (2015 – 100%).

The Company does not consider itself to be economically dependent on selling to one customer as transactions with one party can be easily replaced by transactions with other parties on similar terms and conditions.

As of September 1, 2015, the company has terminated its sales to its sole customer, due to the customer being in receivership and continues its sales with another party within the oil industry under similar terms and conditions.