

AMENDED AND RESTATED OFFERING MEMORANDUM

KONTROL ENERGY CORP.



**PRIVATE PLACEMENT OF UNITS, EACH UNIT CONSISTING OF AN
8% UNSECURED DEBENTURE AND 50 COMMON SHARES**

DECEMBER 3, 2019

AMENDED AND RESTATED OFFERING MEMORANDUM

Capitalized terms not otherwise defined herein shall have the meaning set forth in the Glossary.

Date: December 3, 2019

The Issuer: Kontrol Energy Corp. (“**Kontrol**” or the “**Corporation**”)

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Currently listed or quoted: **Yes. The Common Shares of the Corporation are listed on the Canadian Securities Exchange. The Debentures of the Corporation do not trade on any exchange or market.**

Reporting Issuer: **Yes. In the Provinces of Alberta, British Columbia and Ontario.**

SEDAR filer: **Yes.**

The Offering - Summary

This summary is qualified by the more detailed information appearing elsewhere in this Offering Memorandum. Purchasers should read the entire Offering Memorandum for full details about the Offering.

Securities Offered	Units, each unit consisting of a \$1,000 Debenture and 50 Common Shares (each, a “ Unit ” and collectively the “ Units ”). See Item 5.1 - “ <i>Terms of Securities</i> ” and Item 1 - “ <i>Use of Available Funds</i> ”.
Price per Security:	\$1,000.00 per Unit or in exchange for tendering to the Corporation for cancellation a \$1,000 principal amount 8% unsecured subordinated debenture due October 31, 2019 (a “ 2019 Debenture ”) per Unit. No additional 2019 Debentures can be exchanged as all 2019 Debentures still outstanding as of their maturity date of October 31, 2019 were redeemed and cancelled in accordance with their terms.
Minimum/Maximum Offering:	A Minimum Offering of 200 Units for aggregate proceeds of \$200,000 and a Maximum Offering of 6,000 Units for aggregate proceeds of \$6,000,000, in each case, including the aggregate principal amount of cancelled 2019 Debentures. Funds available under the Offering may not be sufficient to accomplish the proposed objectives.

Minimum Subscription Per Investor/Increments	Subscribers must subscribe for not less than \$5,000 (5 Units) and may subscribe only in increments of \$1,000 (1 Unit) thereafter.
Payment Terms	Certified cheque, bank draft, wire transfer or other form of guaranteed funds acceptable to the Corporation, payable to the Corporation, with delivery of a fully executed and completed Subscription Agreement. See Item 5.2 - " <i>Subscription Procedures</i> ".
Proposed Closing Date(s)	Closing is expected to occur in tranches with the ninth (9 th) tranche to close during the month of December, 2019, but may occur at such other earlier or later date as determined by the Corporation in its sole discretion. In the event of multiple closings, the Debentures partially comprising the Units may be in one or more series, but each series will rank <i>pari passu</i> with debentures of other series sold pursuant to this Offering.
Selling Jurisdiction	The Units may be offered in all jurisdictions of Canada, excluding Quebec.
Income Tax Consequences:	There are important tax consequences to these securities. See Item 6 - " <i>Canadian Federal Income Tax Considerations and Registered Plan Eligibility</i> ".
Resale Restrictions:	The Debentures and Common Shares comprising the Units are subject to restrictions on resale. You will be restricted from selling your securities for 4 months and a day. There is no market for the Debentures and none is expected to develop and, therefore, it may be difficult or impossible for you to sell the Debentures. See Item 10 - " <i>Resale Restrictions</i> ".
Purchaser's Rights:	You have two (2) Business Days to cancel your agreement to purchase the securities. If there is a misrepresentation in this Offering Memorandum, you have the right to sue either for damages or to cancel the agreement. See Item 11 - " <i>Purchaser's Rights</i> ".
Prospectus Exemptions	The Units are offered for sale pursuant to exemptions from the prospectus requirement contained in NI 45-106.
No Review by Securities Regulatory Authority	No securities regulatory authority has assessed the merits of these securities or reviewed this Offering Memorandum. Any representation to the contrary is an offence. This is a risky investment. See Item 8 - "<i>Risk Factors</i>".
Principal Business	Kontrol is in the principal business of acquiring and/or investing in established cash flowing Operating Businesses in the energy efficiency sector which includes the sub-sectors of energy conservation, energy storage and renewable energy power generation. See Item 2.2 - " <i>Our Business – Kontrol Target Acquisitions</i> ".
Use of Available Funds	Kontrol intends to use the net proceeds of the Offering to acquire or invest in Operating Businesses. See Item 1 - " <i>Use of Available Funds</i> ".

	and Item 2 - " <i>Business of Kontrol</i> ".
Term of Debentures	The Debentures partially comprising the Units shall have a term starting on their date of issue and ending on the Maturity Date.
Repayment	On the earlier of the Redemption Date and the Maturity Date, Kontrol will repay the indebtedness represented by the Debentures by paying an amount equal to the aggregate principal amount of the outstanding Debentures which have been redeemed or have matured together with accrued and unpaid interest thereon and the Redemption Premium, if any.
Eligibility for Investment	In the opinion of WeirFoulds LLP, counsel to the Corporation, provided the Common Shares are listed on a designated stock exchange as defined in the Tax Act (which currently includes the CSE) on the date of closing of the Offering, the Debentures and the Common Shares will, on such date, be qualified investments under the Tax Act for trusts governed by RRSPs, RRIFs, TFSAs, RESPs, RDSPs and DPSPs (other than, in the case of the Debentures, a DPSP to which the Corporation, or an employer that does not deal at arm's length with the Corporation, has made a contribution). Notwithstanding that the Debentures and the Common Shares may be qualified investments for a TFSA, RDSP, RRSP, RRIF or RESP, the holder of a TFSA or RDSP, the annuitant of a RRSP or RRIF or the subscriber of a RESP, as the case may be, will be subject to a penalty tax in respect of the Debentures and the Common Shares if such securities are a "prohibited investment" and not "excluded property" for the particular Registered Plan for purposes of the Tax Act. Debentures and Common Shares will generally not be a "prohibited investment" for a particular TFSA, RDSP, RRSP, RRIF or RESP if the holder of the TFSA or RDSP, the annuitant of the RRSP or RRIF or the subscriber of the RESP, as the case may be, (i) does not have a "significant interest" (as defined for purposes of the prohibited investment rules in the Tax Act) in the Corporation, and (ii) deals at arm's length with the Corporation for purposes of the Tax Act. Generally, a holder, annuitant or subscriber, as the case may be, will not have a significant interest in the Corporation provided the holder, annuitant or subscriber, together with persons or partnerships with whom the holder, annuitant or subscriber does not deal at arm's length, does not own (and is not deemed to own pursuant to the Tax Act), directly or indirectly, 10% or more of the issued shares of any class of the capital stock of the Corporation or of any other corporation that is related to the Corporation (for purposes of the Tax Act). Prospective purchasers who intend to hold Debentures and Common Shares in Registered Plans should consult their own tax advisors in regard to the application of these rules under the Tax Act in their particular circumstances.

Risk Factors	An investment in the Securities is subject to a number of risks that should be considered by a prospective Subscriber. These risks include risks relating to: the leveraged capital structure of Operating Businesses; the availability of acquisition and/or investment opportunities; the ability of the directors and officers to identify, negotiate, perform the required due diligence and close successful acquisitions and investments; timing of acquisition and/or investment opportunities; inability to obtain applicable regulatory clearances or approvals; new government regulations impacting the energy efficiency sector; and general economic conditions; the Offering being a blind pool offering with no certainty as to if or when the Corporation might enter into any agreements to invest in or acquire Operating Businesses; the success of Kontrol's strategy; generation of sufficient cash flows and profits to pay interest payments; the Securities generating a positive return in the short or the long term; the pricing of the Securities; the absence of a market for the Debentures; the highly speculative nature of an investment in the Securities and the potential loss of a Subscriber's entire investment; the Debentures being unsecured and the subordination of the payment of the principal of, and interest on, the Debentures to prior payment of all Senior Indebtedness; the absence of insurance against loss for the Securities; dilution from issuance of additional debt and equity; the ability of Kontrol to repay all or a portion of the amount owing under the Debentures at maturity; the occurrence of Adverse Events which may affect the return to Securityholders; legal liability of Kontrol resulting from this Offering Memorandum; tax consequences and risks; Kontrol's limited history of sales or profits; lack of assurance Kontrol will achieve its operating objectives; loss of key personnel; lack of assurance as to the amount of interest paid to Securityholders; proceeds of the Offering may be required to fund interest payments; Incorrect valuation of Operating Businesses; potential failure to raise the Maximum Offering; legal, tax and regulatory changes; insufficiency of funds available to Kontrol; no assurance that capital will be available or, if available, at prices or on terms acceptable to Kontrol; Kontrol may find itself uninsured and/or underinsured in the event of a substantial loss; undiscovered liabilities and contingencies in Operating Businesses; lack of economic sector diversification in Kontrol's acquisitions and/or investments; Kontrol and its subsidiaries may initiate or become subject to litigation; growth-related risks including capacity constraints and pressure on Kontrol's internal systems and controls; currency exchange risk; interest rate fluctuation risk in connection with third-party financing; and directors or officers conflict of interest. See Item 8 - "<i>Risk Factors</i>".
Management	Decisions regarding the management of Kontrol will be made by the management of Kontrol and the board of directors. Kontrol's success will be largely dependent upon the performance of the management of Kontrol and management of its Operating Businesses.

Subscription Procedure	A Subscription Agreement must be delivered with (i) a certified cheque, or bank draft, as applicable, or other form of guaranteed funds acceptable by the Corporation, payable to the Corporation, for the full Subscription Price; (ii) signed copies of the Subscription Agreement including all applicable Exhibits and such other documents as specified in the Subscription Agreement. See Item 5.2 – “Securities Offered – Subscription Procedure”.
Commissions	The Corporation may pay a selling commission or agree to pay a fee to securities dealers or finders engaged by the Corporation not exceeding a cash commission of 5% of the Gross Proceeds and 30 non-transferable broker warrants (the “ Broker’s Warrants ”) per Unit issued pursuant to the Offering, in respect to such sales attributable to the finders. Each Broker’s Warrant will be exercisable to purchase one additional Common Share of the Corporation (the “ Broker’s Warrant Shares ”) at a price per share of \$0.70
Exchange Listings	The Units and the Debentures partially comprising the Units are not listed on any stock exchange or market. The Common Shares of the Corporation are listed on the CSE and trade under the symbol “ KNR ” and are quoted on the OTCQB Market under the symbol “ KNRLF ” and on the Frankfurt Stock Exchange under the symbol “ 1K8 ”

NOTE REGARDING FORWARD LOOKING STATEMENTS

Certain statements in this Offering Memorandum may constitute 'forward-looking' information within the meaning of applicable securities laws. Forward-looking information involves known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements, to be materially different from any future results, performance, achievements expressed or implied by such forward-looking information. Forward-looking information is identified by the use of terms and phrases such as "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "plan", "predict", "project", "will", "would", and similar terms and phrases, including references to assumptions. Such information includes, but is not limited to, statements with respect to strategies, expectations, planned operations, projections or other characterizations of future events or circumstances, and the Corporation's objectives, goals, strategies, beliefs, intentions, plans, estimates, projections and outlook. Forward-looking information in this Offering Memorandum includes, but is not limited to, statements with respect to: the use of proceeds of the Offering, potential acquisitions, the business to be conducted by Kontrol, long term and short term objectives, the timing and payment of interest payments, long-term debt, Kontrol's investment objectives and strategy, treatment under governmental regulatory regimes and tax laws, the retention of securities dealers and the anticipated date of the Closing.

Forward-looking information in this Offering Memorandum is based on certain key expectations and assumptions, including, without limitation: the use of proceeds of the Offering, the retention of securities dealers in connection with the Offering, the business to be conducted by Kontrol, the general stability of the economic and political environment in which Kontrol operates, Kontrol's investment objectives and investment strategies, Kontrol's receipt of the necessary government and regulatory approvals in a timely manner, treatment under governmental regulatory regimes and tax laws and the ability of Kontrol to obtain qualified staff, equipment and services in a timely and cost efficient manner, and currency, exchange and interest rates. Although forward-looking information contained in this Offering Memorandum is based upon what Kontrol believes to be reasonable assumptions, Kontrol cannot assure Subscribers that actual results will be consistent with such information. Undue reliance should not be placed on the forward-looking information since no assurance can be given that it will prove to be correct.

Forward-looking information reflects current expectations of management regarding future events and operating performance as of the date of this Offering Memorandum. Such information involves significant risks and uncertainties. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking information, including, without limitation: Kontrol may not find suitable Operating Businesses to acquire or invest in, inaccurate valuation of investments, securities regulatory risk, legal liability, tax matters, operational dependence, lack of operating history, conflicts of interest, changes in Applicable Law, government policy that adversely affects the energy efficiency sector, financing risks, indemnification obligations, leverage and the ability to recover loans, availability of suitable opportunities and competition for investments, investment timing, potential undisclosed liabilities associated with acquisitions, operating hazards, litigation, foreign currency exchange rate risk, management of growth, general economic conditions and interest rate fluctuations.

Readers are cautioned that the foregoing list is not exhaustive. For additional information with respect to risks and uncertainties, readers should carefully review and consider the risk factors described under Item 8 - "Risk Factors" and elsewhere in this Offering Memorandum.

The forward-looking information contained herein is expressly qualified in its entirety by this cautionary note. Forward-looking information reflects current beliefs and is based on information currently available to the Corporation. The forward-looking information is made as of the date of this Offering Memorandum and the Corporation assumes no obligation to publicly update or revise such forward-looking information to reflect new information, except as may be required by Applicable Law.

Marketing Materials

Any "OM marketing materials" (as such term is defined in NI 45-106) related to the Offering and delivered or made reasonably available to a prospective purchaser before the termination of such Offering will be, and will be deemed to be, incorporated by reference into this Offering Memorandum, provided that any OM marketing materials to be incorporated by reference into this Offering Memorandum are not part of the Offering Memorandum to the extent that the contents of such OM marketing materials have been modified or superseded by a statement contained in an amended or amended and restated Offering Memorandum or OM marketing materials subsequently delivered or made reasonably available to a prospective purchaser prior to the execution of the Subscription Agreement by the purchaser.

Market and Industry Data

This Offering Memorandum contains statistical data, market research and industry forecasts that were obtained from government or industry publications and reports or based on estimates derived from such publications and reports. Government and industry publications and reports generally indicate that they have obtained their information from sources believed to be reliable, but do not guarantee the accuracy and completeness of their information. While the Corporation believes this data to be reliable, market and industry data is subject to variations and cannot be verified with complete certainty due to limits on the availability and reliability of raw data, the voluntary nature of the data gathering process and other limitations and uncertainties inherent in any statistical survey. The Corporation has not independently verified any of the data from independent third party sources referred to in this Offering Memorandum or ascertained the underlying assumptions relied upon by such sources.

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APPENDIX B – Kontrol's consolidated interim financial statements for the six-month period ended June 30, 2019

APPENDIX C – Kontrol's consolidated interim financial statements for the three-month period ended March 31, 2019

APPENDIX D – Kontrol's consolidated audited financial statements for the year ended December 31, 2018

APPENDIX E – Kontrol's consolidated audited financial statements for the year ended December 31, 2017

GLOSSARY OF TERMS

In this Offering Memorandum, unless the context otherwise requires, the following words and terms shall have the indicated meanings and grammatical variations of such words and terms shall have corresponding meanings:

“Acquisition”	has the meaning set forth in Item 2.3 - <i>“Business of Kontrol – Development of Business”</i> ;
“Adverse Event”	has the meaning set forth in Item 8 - <i>“Risk Factors – Investment Risks – Securities Regulatory Risk”</i> ;
“Applicable Law”	means all applicable provisions of law, domestic or foreign, including, without limitation, securities law;
“Business Day”	means a day which is not a Saturday, Sunday or a statutory holiday in the City of Toronto, in the Province of Ontario;
“BCBCA”	means the <i>British Columbia Business Corporations Act</i> , SBC 2002, c 57;
“Closing”	means any day or days upon which Units are issued to Subscribers pursuant to this Offering;
“Closing Date”	means any date on which a Closing occurs;
“Common Shares”	means the common shares of Kontrol;
“CRA”	means the Canada Revenue Agency;
“CSE”	means the Canadian Securities Exchange;
“Debentures” or “2020 Debentures”	means the \$1,000 8% unsecured debentures of the Corporation maturing on October 31, 2020 offered pursuant to this Offering;
“Debenture Indenture”	has the meaning set forth in Item 5.1 - <i>“Securities Offered – Terms of Securities – Terms of Debentures – Debentures”</i> ;
“Discount”	has the meaning set forth in Item 6 - <i>“Canadian Federal Income Tax Considerations and Eligibility for Investment – Allocation of Purchase Price”</i> ;
“DPSP”	means a deferred profit sharing plan, as defined in the Tax Act;
“EBITDA”	Has the meaning set forth in Item 2.2 – <i>“Business of Kontrol – Our Business”</i> ;
“Event of Default”	has the meaning set forth in Item 5.1 - <i>“Securities Offered – Terms of Securities – Terms of Debentures – Events of Default”</i> ;

“GHG”	means greenhouse gas;
“Gross Proceeds”	means for any period, the aggregate principal amount of the Debentures issued under this Offering, without deduction;
“Holder”	has the meaning set forth in Item 6 - <i>“Canadian Federal Income Tax Considerations and Eligibility for Investment”</i> ;
“Indenture”	has the meaning set forth in Item 5.1 - <i>“Securities Offered – Terms of Securities – Terms of Debentures – Debentures”</i> ;
“Interest Payment Date”	has the meaning set forth in Item 5.1 - <i>“Securities Offered – Terms of Securities – Terms of Debentures – Debentures”</i> ;
“Kontrol”	means Kontrol Energy Corp.;
“Kontrol Energy Group”	means Kontrol Energy Group Inc.;
“Maturity Date”	means October 31, 2020;
“Maximum Offering”	means 6,000 Units for aggregate cash proceeds of \$2,000,000 and the exchange of \$4,000,000 aggregate principal amount of 2019 Debentures for 2020 Debentures. As of the date hereof, the Corporation has raised \$1,639,000 in cash proceeds pursuant to the Offering.
“Minimum Offering”	means 200 Units issued in exchange for aggregate cash proceeds of \$200,000 or the exchange of \$200,000 aggregate principal amount of 2019 Debentures for 2020 Debentures, or any combination, thereof whereby the sum of such aggregate cash proceeds and such aggregate principal amount equals \$200,000. As of the date hereof, the Corporation has raised \$1,639,000 in cash proceeds pursuant to the Offering.
“misrepresentation”	has the meaning set forth in Item 11 - <i>“Purchaser’s Rights - Rights of Action in the Event of a Misrepresentation”</i> ;
“Net Proceeds”	means, at any time, the Gross Proceeds of the Offering less any selling commissions and fees and the expenses of the Offering, all as more particularly described in the table under Item 1.1 – <i>“Use of Available Funds – Available Funds”</i> ;
“NI 45-106”	means National Instrument 45-106 <i>Prospectus Exemptions</i> ;
“Non-Resident Holder”	has the meaning set forth in Item 6 - <i>“Canadian Federal Income Tax Considerations and Eligibility for Investment – Holders Not Resident in Canada”</i> ;

“Offering”	means the offering of a minimum of 200 Units and a maximum of 6,000 Units for aggregate cash proceeds of up to \$2,000,000 and the exchange of up to \$4,000,000 aggregate principal amount of 2019 Debentures for 2020 Debentures. As of the date hereof, the Corporation has raised \$1,639,000 in cash proceeds pursuant to the Offering
“Offering Memorandum”	means this amended and restated offering memorandum dated December 3, 2019;
“Operating Businesses”	means the businesses based in North America that Kontrol owns, may acquire or may invest in. See Item 2.2 - <i>“Business of Kontrol – Our Business”</i> ;
“Paris Agreement”	has the meaning set forth in Item 2.2 - <i>“Business of Kontrol – Our Business – Energy Efficiency part of the Climate Change Solution”</i> ;
“person”	means any individual, company, corporation, limited partnership, general partnership, firm, joint venture, syndicate, trust, joint stock company, limited liability corporation, association, bank, pension fund, business trust or other organization, whether or not a legal entity, and any government agency or political subdivision thereof or any other form of entity or organization;
“Principal Holder”	has the meaning set forth in Item 3.1 - <i>“Directors, Management, Promoters, and Principal Holders – Compensation and Securities Held”</i> ;
“Proposed Amendments”	has the meaning set forth in Item 6 - <i>“Canadian Federal Income Tax Considerations and Eligibility for Investment”</i> ;
“RDSP”	means a registered disability savings plan, as defined in the Tax Act;
“Redemption Date”	has the meaning set forth in Item 5.1 – <i>“Terms of Securities – Terms of Debentures - Early Redemption of Debenture”</i> ;
“Redemption Premium”	has the meaning set forth in Item 5.1 – <i>“Terms of Securities – Terms of Debentures - Early Redemption of Debenture”</i> ;
“Registered Plans”	mean a trust governed by a RRSP, RRIF, TFSA, RESP, RDSP, or a DPSP, all as defined in the Tax Act, and “Registered Plan” means any one of them;
“Registered Plan Administrator”	has the meaning set forth in Item 5.2 - <i>“Securities Offered – Subscription Procedure”</i> ;
“Resident Holder”	has the meaning set forth in Item 6 - <i>“Canadian Federal Income Tax Considerations and Eligibility for Investment – Holders Resident in Canada”</i> ;

“RESP”	means a registered education savings plan, as defined in the Tax Act;
“RRIF”	means a registered retirement income fund, as defined in the Tax Act;
“RRSP”	means a registered retirement savings plan, as defined in the Tax Act;
“Securities”	means the Units, and the Debentures and the Common Shares comprising the Units;
“Securityholder”	means a holder of any of the Securities;
“securities law”	means securities legislation, including the <i>Securities Act</i> (Ontario), and the rules and regulations promulgated thereunder, as may be amended from time to time, and similar legislation across all jurisdictions, and all applicable securities policies;
“Senior Indebtedness”	means the principal, premium (if any), interest (if any) and other amounts in respect of all indebtedness, including any indebtedness to trade creditors, liabilities and obligations of Kontrol (whether outstanding as at the date of the Indenture or thereafter incurred), other than indebtedness evidenced by the Debentures, all other existing and future debentures or other instruments of Kontrol which, by the terms of the instrument creating or evidencing the indebtedness, is not expressed to be <i>pari passu</i> with, or subordinate in right of payment to the Debentures;
“Subscribers”	mean those persons subscribing for Units pursuant to this Offering;
“Subscription Agreement”	means the debenture exchange and subscription agreement and the subscription agreement, in each case, including its exhibits and appendices, between the Corporation and each Subscriber governing the subscription for Units pursuant to this Offering Memorandum;
“Subscription Price”	\$1,000 per Unit;
“Tax Act”	means the <i>Income Tax Act</i> (Canada) and the regulations thereunder, as amended from time to time;
“TFSA”	means a tax-free savings account, as defined in the Tax Act;
“Transfer Agent”	registrar and transfer agent for the Common Shares, Computershare Trust Company of Canada;
“Turn-Key Energy Retrofit Business”	has the meaning set forth in Item 2.2 - “ <i>Business of Kontrol – Our Business-Turn-Key Energy Retrofit Business</i> ”;

“UNFCCC”	has the meaning set forth in Item 2.2 - <i>“Business of Kontrol – Development of Business – Energy Efficiency part of the Climate Change Solution”</i> ;
“Unit”	means a unit comprised of one Debenture bearing a principal amount of \$1,000 and 50 Common Shares;

In this Offering Memorandum (including attachments and exhibits), references to “\$” or “CAD” are to Canadian dollars, unless stated otherwise.

ITEM 1 - USE OF AVAILABLE FUNDS

1.1 AVAILABLE FUNDS

The Offering is for up to \$2,000,000 in cash and for the exchange of up to \$4,000,000 in principal amount of 2019 Debentures for 2020 Debentures such that under the Offering the Corporation could defer repayment of up to \$4,000,000 in principal from October 31, 2019 under the 2019 Debentures to October 31, 2020 under the 2020 Debentures. As of the date hereof, the Corporation has raised \$1,639,000 in cash pursuant to the Offering and \$3,711,000 in principal amount of 2019 Debentures have been exchanged for 2020 Debenture. The exchange of 2019 Debentures for Units did not raise any cash proceeds under the Offering and as of October 31, 2019, no more principal amount of 2019 Debentures will be accepted for exchange as all 2019 Debentures that remained outstanding as of October 31, 2019 have been redeemed and cancelled. The following tables set out the funds available to the Corporation upon the completion of the Offering and the principal uses of the Net Proceeds of the Offering, if any:

	Funds Available to the Corporation	Assuming Minimum Offering	Assuming Maximum Offering
A	Amount of cash to be raised pursuant to the Offering	\$0	\$2,000,000
B	Selling commissions and fees ⁽¹⁾	\$10,000	\$300,000
C	Estimated offering costs (e.g., legal, accounting, indenture trustee, stock exchange) ⁽²⁾	\$50,000	\$100,000
D	Available funds: $D = A - (B+C)$	(\$60,000)	\$1,600,000
E	Additional sources of funding required	NA	NA
F	Working capital deficiency	\$0	\$0
G	Total: $G=(D+E) - F^{(3)}$	(\$60,000)	\$1,600,000
H	Utilized funding to date	\$0	\$0
I	Amount to be raised pursuant to the new Offering ⁽⁴⁾ $I=G-H$	(\$60,000)	\$1,600,000

Notes:

- (1) Kontrol may engage one or more securities dealers to assist with the sale of Units. The Corporation anticipates paying to such securities dealers a commission or finder's fee not exceeding 5% of Gross Proceeds. If the Maximum Offering is achieved, a maximum of \$300,000 has been allocated to commissions. If the Minimum Offering is achieved, the Corporation anticipates paying as commissions or fees a maximum of \$10,000. As of the date hereof, the Corporation has raised \$1,639,000 in cash proceeds pursuant to the Offering. See Item 7 - "Compensation paid to Sellers and Finders".
- (2) The estimated Offering costs including legal, consulting, accounting, indenture trustee and stock exchange fees associated with the Offering are estimated to be approximately \$50,000 in the case of both the Minimum Offering and \$100,000 in the case of the Maximum Offering.

- (3) The Net Proceeds available to Kontrol for acquisition and/or investment after payment of the selling commissions, and Offering costs by Kontrol, will be (\$60,000) assuming the Minimum Offering and \$800,000 assuming the Maximum Offering.
- (4) In the event the commissions, fees, and other costs of the Offering exceed the amount raised pursuant to the Offering, the shortfall will be paid from the Corporation's working capital.

1.2 USE OF AVAILABLE FUNDS

Kontrol intends to use the Net Proceeds raised from the Offering to complete its Business Objectives as follows:

Description of intended use of available funds listed in order of priority	Assuming Minimum Offering ⁽¹⁾	Assuming Maximum Offering
Funds to be used to acquire Operating Businesses and Intellectual Property ("IP") and Patent technology in the energy efficiency sector ⁽²⁾	\$0	\$1,350,000
Administrative and Legal	\$0	\$150,000
General Operating	\$0	\$100,000
Total	\$0	\$1,600,000

Notes:

- (1) If only the Minimum Offering is reached, Kontrol's intention is to continue to acquire Operating Business through funds raised from a combination of future equity issuances, cash flows, and or other debt or equity financing.
- (2) Kontrol intends to use the net proceeds for future acquisitions, organic growth and general corporate purposes. Additionally, Kontrol intends to use a portion of the proceeds of the Offering to repay outstanding loans and accumulated interest associated with the previous completed acquisitions of Operating Businesses, IP and Patent technology and for general working capital purposes.

1.3 REALLOCATION

We intend to spend the available funds as stated. We will reallocate funds only for sound business reasons.

From time to time as management deems appropriate funds may be used to repurchase for cancellation Common Shares of the company in the public market in accordance with Kontrol's issuer bid policy as press released on April 10, 2018. The Corporation's management and directors reserve the right, where the market price of Kontrol's Common Share price does not reflect the underlying value of the business, to purchase Common Shares for cancellation.

ITEM 2 - BUSINESS OF KONTROL

2.1 STRUCTURE

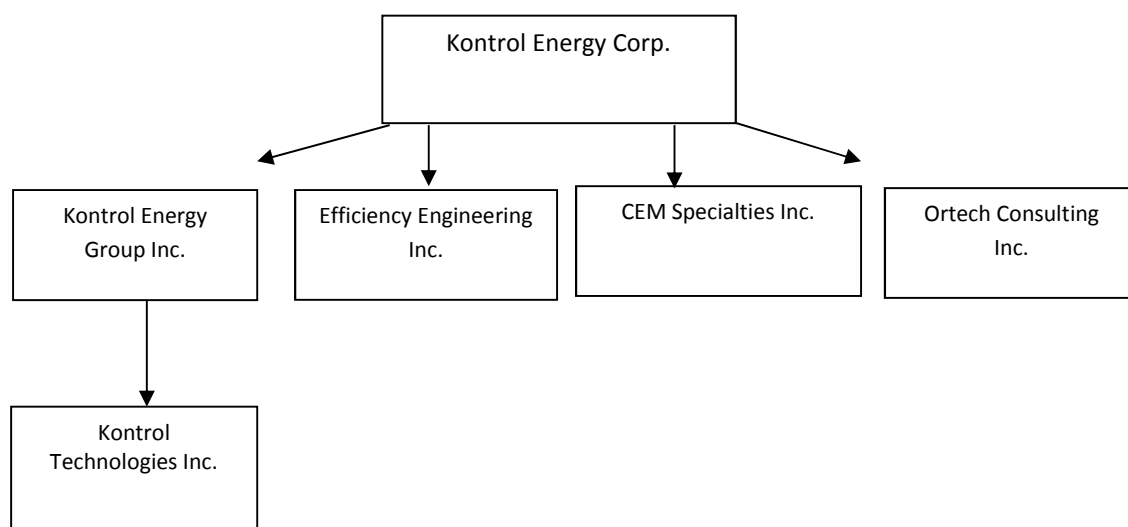
Kontrol is a corporation incorporated on November 16, 2006 pursuant to the BCBCA under the name Kakanda Resources Ltd. The Corporation changed its name to Otish Energy Inc. on March 28, 2008; to Arrowhead Gold Corp. on August 4, 2011; and to Kontrol Energy Corp. on July 7, 2016.

Kontrol is a reporting issuer in the provinces of British Columbia, Alberta and Ontario. Kontrol's securities are listed and posted for trading on the Canadian Securities Exchange ("CSE") under the symbol "KNR", and listed

and posted on the OTCQB Venture Market (“**OTCQB**”) under the symbol “KNRLF”, and listed and posted on the Frankfurt Stock Exchange (“**FWB**”) under the symbol “1K8” .

Kontrol subsidiary companies as outlined in the chart below.

The structure of Kontrol is as follows:



2.2 OUR BUSINESS

Kontrol is in the business of acquiring and/or investing in established cash flowing Operating Businesses and Intellectual Property (“**IP**”) and Patent technology in the energy efficiency sector which includes the sub-sectors of energy conservation, energy storage and renewable energy power generation, based in North America, which meet Kontrol’s acquisition criteria (see *Kontrol Target Acquisitions*).

Kontrol will be targeting acquisitions of Operating Businesses in the energy efficiency sector that meet the following general criteria:

- (a) a history of profitable operations;
- (b) based in North America;
- (c) forward earnings Before Interest, Taxes, Depreciation and Amortization (“**EBITDA**”) of between \$100,000 and \$3,000,000;
- (d) based on current market conditions, purchase price multiples of 4.0 to 5.0 times forward EBITDA;
- (e) strong continuing management team; and
- (f) opportunity for Kontrol to acquire more than 50% of the equity of each business.

Where Kontrol determines that an acquisition opportunity is accretive or synergistic, but does not meet the above criteria, it may nevertheless choose to proceed with the acquisition.

Currently, the Corporation has interests in five active businesses carried on or owned by its wholly-owned subsidiaries. These include: the Turn-Key Energy Retrofit Business, carried on by Kontrol Energy Group; the Energy Management System (EMS) acquired from Log-One Ltd. and carried on by Kontrol Energy Group; the Green house Gas verification and testing business carried on by Ortech Consulting Inc. ("**Ortech**"), the engineering analysis, energy audits, electrical and mechanical design service business carried on by Efficiency Engineering Inc., the application of energy software tools to analyze the management of HVAC systems for large residential, commercial and mission critical real estate owners acquired from Dimax Building Performance and carried on by Kontrol Energy Group; and leading integrator of turn-key emission monitoring equipment and solutions acquired carried on by CEM Specialties Inc.

Turn-Key Energy Retrofit Business

Kontrol Energy Group, provides turn-key energy retrofit services for existing commercial and multi-residential buildings, focusing on energy efficiency, conservation and sustainability (the "**Turn-Key Energy Retrofit Business**"). These services include LED lighting retrofits, parking garage lighting, heat and fan solutions, rooftop and parking solar (photovoltaic) solutions, boiler energy saving controls and tenant education programs which encourage tenants to become active participants in conservation and sustainability. Kontrol Energy Group's objective is to deliver meaningful energy savings to its diverse client base. The Turn-Key Energy Retrofit Business was founded by Mr. Kristian Lavereau. Mr. K Lavereau has been active in the energy retrofit industry since 2005 and has been directly involved in more than 200 successful energy retrofit projects.

The Marketplace

In Canada, there are approximately 700,000 multi-residential apartment units. Furthermore, there are approximately 300,000 additional government-owned or managed apartment suites across Canada. Based on an average energy efficiency retrofit of \$3,000 to \$3,500 per unit during the next five years, including lighting, heating, air-conditioning and other efficiency upgrades, the overall market potential for the energy efficiency retrofit business is estimated to be in the range of \$3 billion to \$3.5 billion. This does not include the commercial and non-residential market opportunity. Kontrol seeks to gain a 2% share of the potential revenue from this market over the next five years.

Customers

Kontrol's current customers include some of Canada's largest REITs and property management firms, such as Greenwin Inc., Skyline, Minto, DMS, 20VIC and CapREIT.

Business Vision

Kontrol's vision is to achieve high growth by implementing the most advanced energy retrofit solutions in the market, providing its clients with tangible savings and unparalleled service.

Regions of Operation

Kontrol currently markets its services and solutions primarily in Ontario but has recently undertaken projects in Alberta at the request of a national client. Kontrol Energy Group anticipates further expansion into the western provinces in 2019.

Competitive Advantage

Kontrol's competitive advantage is its turn-key approach to deploying proven energy efficiency technology, experienced installation teams and on-going service and support for tenant engagement. Its business philosophy is to run a low overhead operation to be competitive in the market place.

The Energy Efficiency Sector

The business sector that Kontrol operates in is broadly defined as the energy efficiency sector, including businesses delivering products and services focused on reducing the reliance on fossil fuels, reducing carbon dioxide emissions and adding renewable energy power and storage to the electricity grid.

From the 14 IEA report, “[e]nergy efficiency is the invisible powerhouse to improve our energy security, lower energy bills and move us closer to reaching our climate goals.”

The Energy Efficiency Market Report 15 (“**EEMR 15**”) estimates that “*avoided consumption from energy efficiency delivers sizeable financial returns; the avoided expenditure in IEA countries resulting from energy efficiency investments over the last 25 years can be valued at USD 5.7 trillion to energy consumers, more than the GDP in 14 of Japan or Germany. In 2014 alone, these avoided energy expenditures totaled over USD 550 billion.*”

The EEMR 2015 further stated: “*The ongoing, steady improvement in energy efficiency over the past four decades has been one of the most pronounced and significant changes to the global energy system, yet its impacts go largely unnoticed. Per capita energy consumption in IEA countries [which include Canada] has dropped to levels not seen since the 1980s yet income per capita is at its highest level and access to energy services is continually expanding. This is why energy efficiency is so important. It is improving prosperity with a domestic, clean “source” of energy.*”

Energy efficiency investments across the IEA since 1990 avoided USD 5.7 trillion of energy expenditure. But the benefits of improving energy efficiency extend well beyond financial savings, relating also to improved energy security, higher productivity for businesses and reduced greenhouse gas emissions. Approximately 40% of the emissions reductions required by 2050 to limit global temperature increase to less than 2 degrees centigrade would potentially come from energy efficiency.

In an era that is becoming increasingly framed by the rise of fast-developing countries such as the People's Republic of China and India, their efforts on energy efficiency will have a significant impact on the evolution of the global energy landscape. It is in these countries where energy efficiency markets may have the most promise and greatest importance. With significant unmet energy demand in the developing world, energy efficiency markets offer the opportunity to fundamentally alter the trajectory of energy consumption growth. Many developing countries as well as industrialized economies are looking to energy efficiency to reap the multiple benefits that efficiency can provide, including improved air quality, better access to and improved reliability of their electricity systems, and overall greater prosperity for their citizens.”

Energy Efficiency Part of the Climate Change Solution

The Paris Agreement is an agreement within the framework of the United Nations Framework Convention on Climate Change (UNFCCC) governing carbon dioxide reduction measures from 2020. The agreement was negotiated during the 21st Conference of the Parties of the UNFCCC in Paris and adopted by consensus on 12 December 2015. The aim of the convention is described as “enhancing the implementation” of the UNFCCC through:

- (a) Holding the increase in the global average temperature to well below 2 °C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5 °C above pre-industrial levels, recognizing that this would significantly reduce the risks and impacts of climate change;
- (b) Increasing the ability to adapt to the adverse impacts of climate change and foster climate resilience and low greenhouse gas emissions development, in a manner that does not threaten food production; and
- (c) Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.

Countries aim to reach “global peaking of greenhouse gas emissions as soon as possible”. The contribution that each individual country should make in order to achieve the worldwide goal are determined by all countries individually and called “nationally determined contributions”. The Paris Agreement requires them to be “ambitious” and set “with the view to achieving the purpose of this Agreement”. The contributions should be reported every five years and are to be registered by the UNFCCC Secretariat. Each further ambition should be more ambitious than the previous one. Countries can cooperate and pool their nationally determined contributions. The Intended Nationally Determined Contributions pledged during the 2015 Climate Change Conference serve, unless provided otherwise, as the initial nationally determined contribution.

United Nations Environment Programme Buildings Day

On December 9, 2015, the first ever United Nations Environment Programme Buildings Day was held at COP 21 Paris Climate Change summit. This included over 100 banks, managing a total of \$4 trillion in assets, calling for a doubling of energy efficiency by 2030; a global private-public alliance in the buildings sector that will use the 2°C climate target as an operating principle; and commitments by 150 companies to reduce energy use in their facilities by 50%.

The discussions of the day yielded a number of new commitments and actions, including:

- *The United Nations Environment Programme Financing Initiative*, together with the European Bank of Reconstruction and Development, mobilized over 100 banks and other investors, which collectively manage close to \$4 trillion, to endorse the G20 Energy Efficiency Investor Statement. This mobilization aims to further embed energy efficiency in those institutions’ operations and investment processes.
- *The Global Alliance for Buildings and Construction*, a new private-public partnership of organizations, companies, governments and financiers, is committing to assist countries and their building sectors with the implementation of projects and programs that prevent a global temperature increase of more than 2 °C.
- *The Global Green Bank Network* was announced at an event hosted in Paris by the OECD and Bloomberg Philanthropies.
- *The World Green Building Council* announced that the green building councils of Canada, Australia and South Africa have begun work on zero-energy building certifications. There have been talks of further efforts to form a global approach to certifying bodies guiding and recognizing zero-energy buildings.
- *The World Business Council for Sustainable Development* announced the release of its Low Carbon Technology Partnerships initiative on Energy Efficiency in Buildings Action Plan. The plan commits WBCSD companies to reduce projected energy use by 50% in buildings by 2030 through actions on energy efficiency.
- *The Global Environment Facility* (GEF) will fund the formation of the Climate Aggregation Platform in 2016, focused on standards in developing economies, leveraging over \$100 million in co-financing from different partners, including from the Inter-American Development Bank.
- The GEF, in partnership with World Resources Institute and UNEP, announced the expansion of the Building Efficiency Accelerator and a commitment of new funding to catalyze energy-efficient buildings in the cities of developing countries. The new efforts engage 50 cities on issues of policy implementation, building codes, project development and tracking and monitoring of building efficiency.

Source: GTM Research

Benefits to the Energy Efficiency Industry

From the newclimateeconcomyreport.com

The energy efficiency industry will benefit directly from the Paris Agreement. Greater energy efficiency can benefit countries at all stages of development, but particularly fast-growing economies trying to achieve universal energy access with limited resources. In developed countries, while 2010 energy use was around 20% higher than in 1974, it would have almost doubled without the savings made by energy efficiency investments. By offering cost-effective opportunities to avoid new energy supply, energy efficiency is increasingly recognised as the “first fuel”.

Globally, enhanced energy efficiency investments could boost cumulative economic output by US\$18 trillion to 2035, increasing growth by 0.25–1.1% per year. Cooperation to raise energy efficiency standards for appliances, lighting, vehicles, buildings and industrial equipment can unlock energy and cost savings, expand global markets, reduce non-tariff barriers to trade, and reduce air pollution and GHG emissions.

Maximising output per unit of energy increases GDP and can provide other macroeconomic benefits, including job growth, a better trade balance, lower energy prices and greater security of supply. The uptake of economically viable energy efficiency investments would boost cumulative economic output to 2035 by US\$18 trillion. This has been assessed in macroeconomic models to increase growth by 0.25–1.1% per year, with associated increase in employment. Energy efficiency increases output because it frees up resources for other, more productive investments. Energy efficiency measures are typically more labour-intensive than equivalent investment in fossil fuel supply, and create up to three times the number of jobs per million dollars of investment.

A more energy-efficient economy is also less susceptible to price and supply shocks, and can help drive down energy prices. Energy markets have changed markedly in the last 25 years, becoming globalised and highly volatile, with large, frequent and unpredictable price fluctuations. While the large fall in oil prices in early 2015 offered welcome relief to consumers, medium-to long-term price uncertainties remain, and price volatility can have negative economic impacts. A more energy-efficient economy can help lower and stabilise prices. Energy efficiency also reduces energy supply investment needs. Meeting projected energy demand growth on the supply side alone would require spending US\$45 trillion by 2030 in new infrastructure. Yet energy efficiency can greatly narrow the gap between supply and demand.

2.3 DEVELOPMENT OF BUSINESS

On February 10, 2017, Kontrol acquired all of the issued and outstanding common shares, business and operations of Ortech in consideration for \$4.6 million in cash. Ten (10%) of the purchase price is held in escrow subject to any post-closing adjustments. Ortech is a leading engineering consulting firm specializing in GHG reporting, air quality testing, emission testing and renewable energy consulting. In line with Kontrol's acquisition strategy, Ortech remains a wholly owned operating subsidiary with existing management and employees in place.

Concurrent with the Ortech acquisition, Kontrol closed a \$4 million secured bridge loan with Pinnacle Absolute Return Trust to be used exclusively for the acquisition of Ortech. The loan had a term of 6 months and is secured by a first-ranking general security agreement held against the assets of both Kontrol and Ortech. The loan bore interest at a rate of 15% per annum payable monthly. Kontrol paid off the remaining balance of the Loan on December 6, 2017, and sourced new financing with RBC by structuring two facilities: (i) \$500,000 RBC term loan (the “**Term Loan**”) and (ii) \$500,000 RBC operating line of credit (the “**Operating Line**”). The Term Loan is a 3 year term with interest payable at prime plus 2.4% per annum. The Operating Line is a revolving line of credit with interest payable at prime plus 1.75% per annum.

On March 9, 2017, the Corporation closed a non-brokered private placement oversubscribed for aggregate gross proceeds of \$555,000. Pursuant to the offering, the Corporation issued 792,857 units at a price of \$0.70 per unit, with each unit consisting of one common share and one common share purchase warrant. Each

warrant will be exercisable to acquire one common share of the Corporation at a price of \$0.85 for a period of one (1) year.

On August 8, 2017 Kontrol acquired 100% of the common shares, business and operations of Efficiency Engineering Inc. ("**EE Inc.**") for the aggregate purchase price \$2,230,000, of which Kontrol has paid \$630,000 in cash on closing and \$900,000 by way of issuing 1,210,816 million Common Shares of Kontrol at a deemed price of \$0.7433 per share. An additional \$700,000 of the purchase price is subject to a 15 month holdback to accommodate post-closing purchase price adjustment and indemnity obligations of the vendors. Of the aggregate purchase price, \$535,000 is comprised of net working capital.

EE Inc. is an operating subsidiary of Kontrol, providing engineering services to industrial, municipal and commercial building owners across Canada. EE Inc. provides its customers with detailed energy efficiency analysis, energy audits, management of facility system solutions, electrical and mechanical design and energy conservation studies. EE Inc. will continue to operate under its brand, and the existing skilled operational leadership team will remain in place.

On April 30, 2018, Kontrol acquired 100% of the intellectual property assets and intellectual property rights, business, and operations of MCW Dimax Ltd. ("**MCW Dimax**") an energy analytics company which specializes in the application of energy software tools to analyze the management of complex heating, ventilation and cooling systems for large residential, commercial, and mission critical real estate owners. The intellectual property and assets consisted of the iDimax trade name, "Dimax Building Performance" website and URLs, software licenses, proprietary processes, existing customer base, and associated intangibles and goodwill.

MCW Dimax provides real-time operational monitoring and analytics with cloudbased solutions and detailed asset management analytics. The assets of MCW Dimax were merged into Kontrol and re-branded as a Kontrol technology and solutions offering. The transaction was structured as an asset purchase.

On July 9, 2018, Kontrol announced it will offer its Internet of Things ("**IoT**") energy management and analytics platform to enterprise customers in Canada on the TELUS IoT Marketplace. Kontrol currently provides its energy management and analytics services to three TELUS data centers.

On September 20, 2018, Kontrol acquired 100% of the common shares, business, intellectual property rights, equipment leases, contracts, licenses, working capital and operations of CEM Specialists Inc. ("**CEMSI**"), pursuant to the terms outlined in share purchase and sale agreement and other ancillary documents.

A significant portion of CEMSI's annual revenue is from multi-year recurring contracts and equipment sales. CEMSI will continue to operate under its brand, and the existing skilled operational leadership team will remain in place, and will be an operating subsidiary of Kontrol, providing Emission Monitoring solutions and equipment.

The aggregate purchase price for CEMSI was \$3,350,000, of which the Corporation has paid \$2,265,000 in cash on closing. There is a Vendor Take Back in amount of \$502,500, representing 15% of the Purchase Price. The Vendor Take Back accrues interest at a rate of six percent (6%) per annum. An additional \$582,500 of the purchase price is subject to a 15-month holdback to accommodate post-closing purchase price adjustment and indemnity obligations of the Vendor. The Vendor received 250,000 Common Share purchase Warrants. Each Warrant is exercisable for one Common Share of the Corporation at a price of \$0.75 per share for 3 years following the date of issue, subject to accelerated expiry in certain circumstances.

In conjunction with the CEMSI acquisition, the Corporation borrowed a \$2 Million secured loan with Pinnacle Diversified Private Income Limited Partnership, and FirePower Capital.

On January 8, 2019, Kontrol announced that it had launched a new IOT energy management hardware and software solution for the global commercial, multi-residential, and hospitality real estate market named **SmartSuite®**. On December 1, 2016, Kontrol acquired the intellectual property of LOG-1 EMS an energy management thermostat with more than 20,000 units deployed across Canada. The LOG-1 EMS has now

been replaced and rebranded as the **Kontrol SmartSuite®** thermostat. Providing in-suite energy management with rich analytics and user interfaces, the SmartSuite® thermostat delivers energy savings, comfort and measurable GHG reductions.

On January 16, 2019, following the successful acquisition of the operating assets of MCW Dimax Ltd. on April 30, 2018, Kontrol acquired the intellectual property and patents of Dimax Controls Canada Inc. ("**Dimax**"), formerly licensed to MCW Dimax Ltd., which includes 2 U.S. patents and 1 Canadian patent. The patents are for a system, computer product, and method for monitoring and disseminating data from a plurality of electronic devices via the Internet. More specifically, the patented technology has been used to move data related to the operation of buildings (temperature, humidity, ventilation, heating, cooling, etc.) and further used to monitor and disseminate data for other purposes, including the movement of people through buildings, energy output of solar panels, tracking utility consumption in buildings, among other such applications.

The transaction was structured as an asset purchase, whereby Kontrol purchased the intellectual property and patent assets in exchange for 600,000 Common Shares of Kontrol at deemed price of \$0.70 per share and \$400,000 in cash to be paid over the course of 18 months, for a combined value of \$820,000. The Common Shares issuable to Dimax are subject to a 3-year proportional escrow. A portion of the \$400,000 cash payment was structured as a vendor take back mortgage with a term of 18 months and interest of 5% per annum.

Following the completion of the Dimax asset purchase, Dimax was rebranded as Kontrol SmartSite®.

On February 13, 2019 Kontrol announced that its Common Shares were listed on the OTCQB, a US trading platform that is operated by the OTC Markets Group in New York. The Corporation now trades on the OTCQB Venture under the symbol "KNRLLF"; the Corporation's Common Shares will continue to trade on the Canadian Securities Exchange under the symbol "KNR" and on the Frankfurt Exchange under symbol "1K8".

On March 25, 2019 Kontrol and Toyota Tsusho Canada Inc. ("**TTCI**") announced they have signed an agreement to implement smart factory technology solutions combining Kontrol's IoT hardware and software solutions with TTCI's existing production, operating improvement platforms, and power generation / HVAC products for North American automobile and parts original equipment manufacturers ("**OEMs**").

Under the agreement, Kontrol and TTCI intend to establish a joint venture company to provide technology solutions and services to OEMs in the automotive sector to optimize production and manage energy in real-time. A focus on optimizing production and energy management to improve operating efficiencies and reduce operating costs through digitization, real-time data analysis and machine learning will provide global OEMs with a compelling integrated solution. More specifically, Kontrol will design and provide monitoring software, quality assurance and technical support to TTCI and its customers, and design and install building automation systems and heating and ventilation equipment, while TTCI will procure customers, conduct engineering and installation and after-sales services with customers. The agreement does not prescribe specific timelines or milestones or revenues, but initial pilots are expected to begin in April 2019, with the goal of scaling the offering across North America in 2019. Any profits from the joint venture would be shared between Kontrol and TTCI on a pro rata basis based on services provided by each of Kontrol and TTCI. A more comprehensive news release will be issued once the pilot phase is complete and a definitive agreement is signed.

On June 14, 2019 Kontrol announced a private placement offering of up to 2,000 convertible debentures of the Corporation (the "**Convertible Debentures**"), at a price of \$1,000 per Convertible Debenture, for gross proceeds of up to \$2,000,000 (the "**Convertible Offering**"). The Corporation intends to use net proceeds of the Convertible Offering to complete acquisitions, expand into the US market through its Smart Factory platform and for general corporate purposes. A total of \$1.3 Million was raised from the sale of convertible debentures.

On October 31, 2019 the Corporation announced that it has completed a \$3 Million secured loan financing (the "**Loan**") with FirePower Capital (the "**Lender**") on October 30, 2019.

The Loan refinances existing debt, providing incremental increased funding capacity and converts approximately \$3,000,000 of Kontrol's existing short-term debt into a long-term obligation. The Loan has a three-year term, Bankers' Acceptance rate plus 8% interest, a facility fee, and interest only over the first 18 months, with monthly principal repayment beginning thereafter. The Lender was granted 590,293 common share purchase warrants ("**Lender Warrants**") with an exercise price of 0.72 cents and a term of five years.

The Company has also reduced the warrant exercise price of 750,000 previously issued common share purchase warrants issued in conjunction with a prior secured loan on September 20, 2018 ("**Prior Lender Warrants**"). The exercise price has been reduced from 0.75 cents to 0.70 cents, and the price at which the expiry of the warrants could be accelerated was increased from \$1.50 to \$2.00 per common share. All other warrant terms remain unchanged.

On November 15, 2019 Kontrol and its new regional partner the Zedan Group ("**Zedan**") entered into a letter of understanding ("**LOU**") in connection with Zedan's proposed distribution of Kontrol's emission compliance and energy IOT and Cloud technology. Further to the LOU Kontrol and Zedan are negotiating preferred distribution rights driven by sales volumes. Under the terms of the LOU, it is anticipated that Zedan will provide Kontrol with opportunities from its established customer base and Kontrol is expected to support Zedan as a distributor and solution provider. Kontrol and Zedan have started the process of exploring specific customer opportunities while ensuring Kontrol's solutions and technologies meet all the certification requirements of the region.

On November 26, 2019 Kontrol, through its wholly owned subsidiary, CEM Specialties Inc. ("**CEMSI**"), began a pilot project in the facility of a global leading plant-based meat substitute company. Under the terms of the pilot, CEMSI installed process analyzer equipment (the "**analyzer**") and associated real-time monitoring services to assist in the rapid evaluation, measurement and validation of organic inputs. The value of the installed analyzer and services is approximately \$150,000 USD. Following the successful completion of the pilot on November 22nd, 2019, the pilot Customer (the "**Customer**") indicated that it intends to purchase 2 analyzers for a total of approximately \$300,000 USD as an initial order. The order is anticipated to be placed within 2 weeks following the completion of the pilot. The Customer has also indicated that at the time of the order Kontrol will be able to use their name and globally recognized brand in a joint press release.

The Customer operates 6 global facilities and each facility may require up to 10 analyzers per location to meet their production demands.

Kontrol is proceeding with this Offering with the intention to use the net proceeds for future acquisitions of Operating Businesses and Intellectual Property ("**IP**") and Patent technology in the energy efficiency sector, organic growth and general corporate purposes. Additionally, Kontrol intends to use a portion of the proceeds of the Offering to repay outstanding loans and accumulated interest associated with the previous completed acquisitions of Operating Businesses, IP and Patent technology, and for general working capital purposes.

2.4 LONG TERM OBJECTIVES

Kontrol's long term objective is to be a leader in the mid-cap energy efficiency sector through investment in, acquisition of, and consolidation of Operating Businesses. In order to achieve its objective, Kontrol must successfully raise capital. The following are the significant events that must occur in order for Kontrol to meet its long term objective:

	Significant Event	Time Period ⁽¹⁾	Investment Objective
1.	Acquisitions to be completed in 2019	12 Months	\$3,000,000 ⁽²⁾
2.	Acquisitions to be completed in 2020	2 years	\$3,000,000

Note:

- (1) All time periods are estimates and are subject to market conditions, approvals and other risks. See page 2 - "Note Regarding Forward-Looking Statements" and Item 8 - "Risk Factors".
- (2) Amount will be reduced in the event the Maximum Offering is not completely subscribed for. If only the Minimum Offering is reached, Kontrol's intention is to continue to acquire Operating Business through funds raised from a combination of future equity issuances, cash flows, and or other debt or equity financing.

2.5 SHORT TERM OBJECTIVES AND HOW WE INTEND TO ACHIEVE THEM

The principal short-term objective of Kontrol over the next twelve (12) months is to complete the Offering and use the Net Proceeds to acquire Operating Businesses.

The following table discloses how Kontrol intends to meet its objective over the next twelve (12) months:

What We Must Do and How We Will Do It	Target Completion Date	Cost To Complete ⁽¹⁾
Raise up to a maximum of \$2,000,000, and following Closing of the Offering, to engage in acquisitions of Operating Businesses that management believes are accretive to shareholder value. As of the date hereof, the Corporation has raised \$1,639,000 in cash proceeds pursuant to the Offering.	12 months	\$2,000,000

Note:

- (1) Amount will be reduced in the event the Maximum Offering is not completely subscribed for. If only the Minimum Offering is reached, Kontrol's intention is to continue to acquire Operating Business through funds raised from a combination of future equity issuances, cash flows, and or other debt or equity financing. See Item 1.2 - "Use of Available Funds".

2.6 INSUFFICIENT FUNDS

The proceeds of the Offering may not be sufficient to accomplish all of Kontrol's proposed objectives and there is no assurance that alternative financing will be available. See Item 8 - "Risk Factors – Financing Risks".

2.7 MATERIAL AGREEMENTS

The following is a description of each material agreement with respect to the entities in the structure (See Item 2.1 - "Structure") and a summary of those material agreements. The summary does not purport to be complete and is subject to the full text of the applicable agreement:

(a) Escrow Agreement

On July 12, 2016 the Corporation, the Transfer Agent and certain insiders of the Corporation entered into an escrow agreement pertaining to 13,250,000 Common Shares issued in connection with the Acquisition. 10% (1,325,000 Common Shares) were released upon closing of the Acquisition, and the balance (11,925,000 Common Shares) will be released as to 15% (1,987,500 Common Shares) every six months thereafter over 36 months. As of August 9, 2019 the balance remaining in Escrow is 0. The following persons held Common Shares in escrow:

Shareholder	Number of Securities	Percentage ¹
Paul Ghezzi	0	0%
The Ghezzi Family Trust	0	0%
Ed Blasiak	0	0%
Kristian Lavereau	0	0%
Patrizia Lavereau	0	0%
Total	0	0%

(1) Based on there being 29,551,973 Common Shares outstanding as of December 3, 2019.

(b) 8% Unsecured Debenture Indenture

On August 23, 2016, the Corporation and Computershare Trust Company of Canada entered into a trust indenture (the “**8% Debenture Indenture**”) for the provision of 8% unsecured debentures (the “**8% Debentures**”) for the maximum aggregate principal of \$5,245,000. The 8% Debentures matured on October 31, 2019 and accrued interest from their date of issue at the rate of 8% per annum calculated monthly on the basis of a 365 day year or 366 day year, as applicable, and were payable in equal instalments at the end of each month in each year, with interest payable after as well as before maturity and after as well as before default, with interest on amounts after maturity or in default at the same rate.

On October 31, 2019, the Corporation made arrangements to repay all principal and accrued but unpaid interest on the 8% Debentures, totalling \$1,534,000 represented by the 8% Debentures by paying such amount directly to the holders thereof or by paying to Computershare Trust Company of Canada in lawful money of Canada an amount equal to the aggregate principal amount of the outstanding 8% Debentures which matured together with accrued and unpaid interest thereon. All accrued and unpaid interest thereon was paid in cash.

(c) Debenture Indenture

The Debentures will be issued under a trust indenture to be entered into between the Corporation and Computershare Trust Company of Canada. For information concerning the terms of the Debentures see “*Item 5.1 - Terms of Debenture*”.

(d) Loan Agreement

On December 6, 2017, the Corporation sourced debt financing with RBC by structuring two facilities: (i) \$500,000 RBC Term Loan and (ii) \$500,000 RBC Operating Line. The Term Loan

is a 3 year term with interest payable at prime plus 2.4% per annum. The Operating Line is a revolving line of credit with interest payable at prime plus 1.75% per annum.

(e) 7% Unsecured Debenture Indenture

On April 25, 2018, the Corporation and Computershare Trust Company of Canada entered into a trust indenture (the “**7% Debenture Indenture**”) for the provision of 7% unsecured debentures (the “**7% Debentures**”) for the maximum aggregate principal of up to \$3,750,000. The 7% Debentures mature on April 25, 2021 and bear interest from their date of issue at the rate of 8% per annum calculated monthly on the basis of a 365 day year or 366 day year, as applicable and payable in equal instalments at the end of each month in each year, with interest payable after as well as before maturity and after as well as before default, with interest on amounts after maturity or in default at the same rate.

(f) Secured Loan Agreement

On September 20, 2018 the Corporation closed on a \$2 Million secured loan with Pinnacle Diversified Private Income Limited Partnership, by its general partner Pinnacle Diversified Private Income GP Inc., and FirePower Capital. The 15% secured debt financing has a term of 12 months. This loan was paid off through funding from the \$3 Million secured loan entered into on October 30, 2019 (the “Loan”) with FirePower Capital. The Loan refinances existing debt, providing incremental increased funding capacity. The Loan has a three-year term, Bankers’ Acceptance rate plus 8% interest, a facility fee, and interest only over the first 18 months, with monthly principal repayment beginning thereafter.

(g) Escrow Agreement

On January 21, 2019 the Corporation, the Transfer Agent and certain insiders of the Corporation entered into an escrow agreement pertaining to 600,000 Common Shares issued in connection with the Corporation’s acquisition of Intellectual Property and Patents from Dimax Controls Canada Inc. 50,000 Common Shares will be released every three months thereafter over 36 months.

(h) 8% Convertible Debenture Indenture

On August 23, 2019 the Corporation and Computershare Trust Company of Canada entered into a trust indenture (the “**8% Convertible Debenture Indenture**”) for the maximum aggregate principal of up to \$2,000,000. The 8% Convertible Debentures mature on August 30, 2024 and bear interest from their date of issue at the rate of 8% per annum calculated semi annually on the basis of a 365 day year or 366 day year, as applicable and payable on the last business day of each calendar 6 month period, with interest payable after as well as before maturity and after as well as before default, with interest on amounts after maturity or in default at the same rate.

ITEM 3 - DIRECTORS, MANAGEMENT, PROMOTERS AND PRINCIPAL HOLDERS

3.1 COMPENSATION AND SECURITIES HELD

The following table sets out information about each director, officer and promoter of Kontrol and each person who, directly or indirectly, beneficially owns or controls 10% or more of any class of voting securities of the Corporation (a “**Principal Holder**”). If a Principal Holder is not an individual, then the following table includes the name of any persons that, directly or indirectly, beneficially own or control more than 50% of the voting rights of such Principal Holder.

Name and municipality of principal residence	Positions held (e.g., director, officer, promoter and/or principal holder) and the date of obtaining that position	Compensation paid by the Corporation or a related party in the most recently completed financial year and the compensation anticipated to be paid in the current financial year	Number, type and percentage of Common Shares of the Corporation held after completion of min. offering ⁽¹⁾	Number, type and percentage of Common Shares of the Corporation held after completion of max. offering ⁽²⁾
Paul Ghezzi ⁽³⁾ King City, Ontario	Director and Chief Executive Officer since July 8, 2016	\$210,000 anticipated in 2019	5,955,350 / 20.15%	5,955,350 / 20.12%
The Ghezzi Family Trust ⁽³⁾	N/A	N/A	5,450,000 / 18.44%	5,450,000 / 18.42%
Kristian Lavereau Woodbridge, Ontario	Chief Operating Officer since July 8, 2016; Director since May 31, 2017	\$140,000 anticipated in 2019	1,257,167 / 4.25%	1,257,167 / 4.24%
Claudio Del Vasto Vaughan, Ontario	Director and Chief Financial Officer since July 8, 2016	\$140,000 anticipated in 2019	713,735 / 2.41%	713,735 / 2.41%
Andrew Bowerbank Richmond Hill, Ontario	Director since July 8, 2016	\$5,000 anticipated per annum	Nil	Nil
Ernest Belyea Toronto, Ontario	Director since October 31, 2019	\$5,000 anticipated per annum	Nil	Nil

Notes:

- (1) Based on there being 29,551,973 Common Shares outstanding as of December 3, 2019.
- (2) Based on there being 29,584,473 Common Shares outstanding upon completion of the Maximum Offering.
- (3) Paul Ghezzi is both a trustee and beneficiary of The Ghezzi Family Trust.

3.2 MANAGEMENT EXPERIENCE

Set forth below is a description of the principal occupation and business experience of the directors and officers of the Corporation.

Name	Principal Occupation and Related Experience
Paul Ghezzi, CPA, CA Director, Chief Executive Officer	Mr. Ghezzi's principal occupation is to serve as the Chief Executive Officer and a Director of the Corporation. He has been a leader in the renewable energy sector since 2008. He created Canada's first Solar Energy Fund by securitizing cash flows from long term Power Purchase Agreements. Mr. Ghezzi has more than 20 years of corporate finance and M&A experience with a special focus on renewable energy development, renewable energy financing, solar project financing and distributed generation. He has global experience in power generation projects under Feed in Tariff programs and Power Purchase Agreement programs for both commercial and utility-scale projects. Mr. Ghezzi has developed more than 100 Megawatts of renewable energy projects globally. Mr. Ghezzi has been a Chartered Accountant (CPA) in good standing since 1993.
Kristian Lavereau Director, Chief Operating Officer	Mr. Lavereau's principal occupation is to serve as Chief Operating Officer of the Corporation. Mr. Lavereau is the former President of 2320842 Ontario Inc., carrying on business as Kontrol Technologies, a position in which he served from 2005 to 2015. He has more than 25 years of experience in the IT solutions (analytics and mobile computing), energy optimization and efficiency (intelligent control systems, solar PV, lighting). Mr. Lavereau has built solutions for such clients such as Greenwin, Minto, Oxford and the Toronto Catholic School Board. He has extensive experience with disruptive technology in the energy efficiency industry, especially where tenants and stakeholders are engaged in the process. Mr. Lavereau's manages the day to day operations of the Corporation, oversees the operating subsidiaries and manages institutional client portfolios.
Claudio Del Vasto, CPA, CA Director, Chief Financial Officer	Mr. Del Vasto is a senior finance executive with an extensive background in Corporate Finance, Strategy and Business Development. He served in various Corporate Finance roles at Bombardier Inc. from 1994 to 2014, and most recently, as the Chief Financial Officer of Kontrol Energy Group from November 1, 2015 to the present. During his career in structured finance at Bombardier, Mr. Del Vasto provided customers around the globe with innovative financial solutions and arranged multibillion dollar complex deal closings that involved equity, debt and capital markets funding. Prior to his career in industry, he was a public accountant managing accounting, tax and assurance services. Mr. Del Vasto leads all of Kontrol's financial management, reporting, treasury and financing functions. He also provides expertise in acquisitions and is involved in the analysis and evaluation of all corporate investments.

Name	Principal Occupation and Related Experience
Andrew Bowerbank Director	Mr. Bowerbank's principal occupation is to serve as Director of Sustainable Building Services at EllisDon Corporation. Mr. Bowerbank is the former Executive Director/CEO of the World Green Building Council (2007-10) representing over 60 member nations. During his tenure with the World Green Building Council, he acted as the member representative at the United Nations Environmental Programme. In addition to his current work as Director, Sustainable Building Services at EllisDon, Mr. Bowerbank is a Council member at the Federation of Canadian Municipalities in Ottawa, a Board member at CDML, and a member of the BRE Global Standing Panel of Experts (UK).
Ernest Belyea Director	Mr. Ernest Belyea will serve as an Independent Board Member of Kontrol. Mr. Belyea is a lawyer with a long history of working in the Electricity and Power Generation sector, was formerly in-house counsel to the Ontario Power Authority (now IESO) and a partner at two of Canada's leading international law firms. Mr. Belyea is currently the CEO of Purus Power, which has developed a patented proprietary platform technology that converts the variable flow of air, water or other mediums into electricity and mechanical power.

3.3 PENALTIES, SANCTIONS AND BANKRUPTCY

There are no penalties or sanctions that have been in effect during the last ten (10) years or any cease trade order that has been in effect for a period of more than 30 consecutive days during the past 10 years against any director, officer or control person of the Corporation or against a company or issuer of which any of the foregoing was an director, executive officer or control person. No declaration of bankruptcy, voluntary assignment in bankruptcy, proposal under any bankruptcy or insolvency legislation, proceedings, arrangement or compromise with creditors or appointment of a receiver, receiver manager or trustee to hold assets, has been in effect during the last ten (10) years with regard to those individuals or any companies of which any of those individuals was a director, executive officer or control person at that time.

3.4 LOANS

Kontrol paid off a \$4 million secured bridge loan with Pinnacle Diversified Private Income GP Inc. ("**Pinnacle**") on December 6, 2017, and sourced new financing with RBC by structuring two facilities: (i) \$500,000 RBC Term Loan and (ii) \$500,000 RBC Operating Line. The Term Loan is a 3 year term with interest payable at prime plus 2.4% per annum. The Operating Line is a revolving line of credit with interest payable at prime plus 1.75% per annum.

On September 30, 2018, the Corporation closed on a \$2 Million secured loan with Pinnacle Diversified Private Income Limited Partnership, by its general partner Pinnacle Diversified Private Income GP Inc., and FirePower Capital. The 15% secured debt financing has a term of 12 months. This facility was paid off and replaced with the October 30, 2019 Loan described below.

On October 30, 2019, the Corporation completed a \$3 Million secured loan financing with FirePower Capital to refinance existing debt and provide incremental increased funding capacity. The Loan has a three-year term, Bankers' Acceptance rate plus 8% interest, a facility fee, and will be interest only over the first 18 months, with monthly principal repayment beginning thereafter.

ITEM 4 - CAPITAL STRUCTURE

4.1 CAPITAL STRUCTURE OF KONTROL

Description of Security	Number Authorized to be Issued	Price per Security	Number of Securities outstanding as of December 3, 2019	Number of Securities outstanding after Minimum Offering	Number of Securities outstanding after Maximum Offering
Common shares	Unlimited	N/A	29,551,973	29,521,173	29,584,473
Options to acquire Common Shares ⁽¹⁾	See footnote (1)	\$0.65 ⁽²⁾	415,000	415,000	415,000
Options to acquire Common Shares ⁽¹⁾	See footnote (1)	\$0.80 ⁽³⁾	185,000	185,000	185,000
Warrants to acquire Common Shares	N/A	\$0.80 ⁽⁴⁾	274,583	274,583	274,583
Warrants to acquire Common Shares	N/A	\$0.80 ⁽⁵⁾	16,000	16,000	16,000
Warrants to acquire Common Shares	N/A	\$0.80 ⁽⁶⁾	40,933	40,933	40,933
Warrants to acquire Common Shares	N/A	\$0.80 ⁽⁷⁾	2,250	2,250	2,250
Warrants to acquire Common Shares	N/A	\$0.80 ⁽⁸⁾	12,330	12,330	12,330

Options to acquire Common Shares ⁽¹⁾	See footnote (1)	\$0.60 ⁽⁹⁾	400,000	400,000	400,000
Options to acquire Common Shares ⁽¹⁾	See footnote (1)	\$0.80 ⁽¹⁰⁾	15,000	15,000	15,000
Warrants to acquire Common Shares	N/A	\$0.80 ⁽¹¹⁾	8,100	8,100	8,100
Warrants to acquire Common Shares	N/A	\$0.80 ⁽¹²⁾	6,300	6,300	6,300
Warrants to acquire Common Shares	N/A	\$0.80 ⁽¹³⁾	36,990	36,990	36,990
Warrants to acquire Common Shares	N/A	\$0.80 ⁽¹⁴⁾	21,510	21,510	21,510
Warrants to acquire Common Shares	N/A	\$1.45 ⁽¹⁵⁾	4,500	4,500	4,500
Warrants to acquire Common Shares	N/A	\$1.45 ⁽¹⁶⁾	67,284	67,284	67,284
Warrants to acquire Common Shares	N/A	\$1.45 ⁽¹⁷⁾	63,216	63,216	63,216
Options to acquire Common Shares ⁽¹⁾	See footnote (1)	\$1.50 ⁽¹⁸⁾	100,000	100,000	100,000
Warrants to acquire Common Shares	N/A	\$1.45 ⁽¹⁹⁾	14,580	14,580	14,580
Warrants to acquire Common Shares	N/A	\$1.45 ⁽²⁰⁾	9,450	9,450	9,450

Options to acquire Common Shares ⁽¹⁾	See footnote (1)	\$1.25 ⁽²¹⁾	140,000	140,000	140,000
Warrants to acquire Common Shares	N/A	\$1.24 ⁽²²⁾	2,916	2,916	2,916
Warrants to acquire Common Shares	N/A	\$1.24 ⁽²³⁾	8,424	8,424	8,424
Warrants to acquire Common Shares	N/A	\$1.24 ⁽²⁴⁾	1,890	1,890	1,890
Options to acquire Common Shares ⁽¹⁾	See footnote (1)	\$0.90 ⁽²⁵⁾	98,665	98,665	98,665
Options to acquire Common Shares ⁽¹⁾	See footnote (1)	\$0.76 ⁽²⁶⁾	85,000	85,000	85,000
Warrants to acquire Common Shares	N/A	\$1.10 ⁽²⁷⁾	47,651	47,651	47,651
Warrants to acquire Common Shares	N/A	\$1.10 ⁽²⁸⁾	41,113	41,113	41,113
Warrants to acquire Common Shares	N/A	\$1.10 ⁽²⁹⁾	75,682	75,682	75,682
Options to acquire Common Shares ⁽¹⁾	See footnote (1)	\$0.83 ⁽³⁰⁾	15,000	15,000	15,000
Warrants to acquire Common Shares	N/A	\$1.10 ⁽³¹⁾	2,506	2,506	2,506
Warrants to acquire Common Shares	N/A	\$1.10 ⁽³²⁾	8,750	8,750	8,750

Warrants to acquire Common Shares	N/A	\$1.10 ⁽³³⁾	3,750	3,750	3,750
Options to acquire Common Shares ⁽¹⁾	See footnote (1)	\$0.47 ⁽³⁴⁾	35,000	35,000	35,000
Options to acquire Common Shares ⁽¹⁾	See footnote (1)	\$0.70 ⁽³⁵⁾	60,000	60,000	60,000
Warrants to acquire Common Shares	N/A	\$0.75 ⁽³⁶⁾	250,000	250,000	250,000
Warrants to acquire Common Shares	N/A	\$0.70 ⁽³⁷⁾	750,000	750,000	750,000
Options to acquire Common Shares ⁽¹⁾	See footnote (1)	\$0.70 ⁽³⁸⁾	60,000	60,000	60,000
Options to acquire Common Shares ⁽¹⁾	See footnote (1)	\$0.68 ⁽³⁹⁾	1,125,000	1,125,000	1,125,000
Options to acquire Common Shares ⁽¹⁾	See footnote (1)	\$0.68 ⁽⁴⁰⁾	10,000	10,000	10,000
Warrants to acquire Common Shares	N/A	\$1.10 ⁽⁴¹⁾	12,250	12,250	12,250
Warrants to acquire Common Shares	N/A	\$1.10 ⁽⁴²⁾	12,500	12,500	12,500
Options to acquire Common Shares ⁽¹⁾	See footnote (1)	\$0.70 ⁽⁴³⁾	150,000	150,000	150,000
Options to acquire Common Shares ⁽¹⁾	See footnote (1)	\$0.80 ⁽⁴⁴⁾	90,000	90,000	90,000

Warrants to acquire Common Shares	N/A	\$1.10 ⁽⁴⁵⁾	2,500	2,500	2,500
Warrants to acquire Common Shares	N/A	\$1.00 ⁽⁴⁶⁾	214,300	214,300	214,300
Warrants to acquire Common Shares	N/A	\$1.00 ⁽⁴⁷⁾	220,000	220,000	220,000
Warrants to acquire Common Shares	N/A	\$1.10 ⁽⁴⁸⁾	57,500	57,500	57,500
Warrants to acquire Common Shares	N/A	\$1.10 ⁽⁴⁹⁾	19,500	19,500	19,500
Options to acquire Common Shares ⁽¹⁾	See footnote (1)	\$0.60 ⁽⁵⁰⁾	5,000	5,000	5,000
Warrants to acquire Common Shares	N/A	\$1.10 ⁽⁵¹⁾	7,500	7,500	7,500
Warrants to acquire Common Shares	N/A	\$0.70 ⁽⁵²⁾	130,500	130,500	130,500
Warrants to acquire Common Shares	N/A	\$0.70 ⁽⁵³⁾	48,450	48,450	48,450
Warrants to acquire Common Shares	N/A	\$0.70 ⁽⁵⁴⁾	5,250	5,250	5,250
Warrants to acquire Common Shares	N/A	\$0.70 ⁽⁵⁵⁾	44,250	44,250	44,250

Warrants to acquire Common Shares	N/A	\$0.70 ⁽⁵⁶⁾	12,630	12,630	12,630
Options to acquire Common Shares ⁽¹⁾	See footnote (1)	\$0.80 ⁽⁵⁷⁾	145,000	145,000	145,000
Options to acquire Common Shares ⁽¹⁾	See footnote (1)	\$0.80 ⁽⁵⁸⁾	120,000	120,000	120,000
Options to acquire Common Shares ⁽¹⁾	See footnote (1)	\$0.80 ⁽⁵⁹⁾	130,000	130,000	130,000
Warrants to acquire Common Shares	N/A	\$0.70 ⁽⁶⁰⁾	3,600	3,600	3,600
Warrants to acquire Common Shares	N/A	\$0.70 ⁽⁶¹⁾	360	360	360
Warrants to acquire Common Shares	N/A	\$0.80 ⁽⁶²⁾	37,350	37,350	37,350
Warrants to acquire Common Shares	N/A	\$0.80 ⁽⁶³⁾	32,250	32,250	32,250
Warrants to acquire Common Shares	N/A	\$0.70 ⁽⁶⁴⁾	16,110	16,110	16,110
Options to acquire Common Shares ⁽¹⁾	See footnote (1)	\$0.80 ⁽⁶⁵⁾	1,875	1,875	1,875
Options to acquire Common Shares ⁽¹⁾	See footnote (1)	\$0.80 ⁽⁶⁶⁾	60,000	60,000	60,000

Warrants to acquire Common Shares	N/A	\$0.70 ⁽⁶⁷⁾	1,500	1,500	1,500
Warrants to acquire Common Shares	N/A	\$0.72 ⁽⁶⁸⁾	590,293	590,293	590,293
Warrants to acquire Common Shares	N/A	\$0.70 ⁽⁶⁹⁾	13,560	13,560	13,560
Warrants to acquire Common Shares	N/A	\$0.70 ⁽⁷⁰⁾	4,920	4,920	4,920
Options to acquire Common Shares ⁽¹⁾	See footnote (1)	\$0.55 ⁽⁷¹⁾	450,000	450,000	450,000
Options to acquire Common Shares ⁽¹⁾	See footnote (1)	\$0.60 ⁽⁷²⁾	25,000	25,000	25,000

Notes:

- (1) The total number of options authorized to be issued to acquire Common Shares may not exceed 10% of the number of issued and outstanding Common Shares.
- (2) Exercisable into one Common Share at \$0.65 per Option until October 12, 2018.
- (3) Exercisable into one Common Share at \$0.80 per Option until May 8, 2019.
- (4) Exercisable into one Common Share at \$0.80 until September 28, 2018.
- (5) Exercisable into one Common Share at \$0.80 until September 15, 2019.
- (6) Exercisable into one Common Share at \$0.80 until September 28, 2018.
- (7) Exercisable into one Common Share at \$0.80 until November 21, 2018.
- (8) Exercisable into one Common Share at \$0.80 until December 5, 2018.
- (9) Exercisable into one Common Share at \$0.60 per Option until January 1, 2020.
- (10) Exercisable into one Common Share at \$0.80 per Option until January 1, 2023.
- (11) Exercisable into one Common Share at \$0.80 until December 12, 2018.
- (12) Exercisable into one Common Share at \$0.80 until December 27, 2018.
- (13) Exercisable into one Common Share at \$0.80 until January 4, 2019.

- (14) Exercisable into one Common Share at \$0.80 until January 12, 2019.
- (15) Exercisable into one Common Share at \$1.45 until January 25, 2019.
- (16) Exercisable into one Common Share at \$1.45 until January 25, 2019.
- (17) Exercisable into one Common Share at \$1.45 until January 25, 2019.
- (18) Exercisable into one Common Share at \$1.50 until January 26, 2023.
- (19) Exercisable into one Common Share at \$1.45 until February 2, 2019.
- (20) Exercisable into one Common Share at \$1.45 until February 9, 2019.
- (21) Exercisable into one Common Share at \$1.25 until February 20, 2019.
- (22) Exercisable into one Common Share at \$1.24 until February 28, 2019.
- (23) Exercisable into one Common Share at \$1.24 until February 28, 2019.
- (24) Exercisable into one Common Share at \$1.24 until February 28, 2019.
- (25) Exercisable into one Common Share at \$0.90 per Option until January 1, 2023.
- (26) Exercisable into one Common Share at \$0.76 per Option until April 18, 2023.
- (27) Exercisable into one Common Share at \$1.10 until December 11, 2020.
- (28) Exercisable into one Common Share at \$1.10 until December 18, 2020.
- (29) Exercisable into one Common Share at \$1.10 until January 4, 2021.
- (30) Exercisable into one Common Share at \$0.83 until July 9, 2023.
- (31) Exercisable into one Common Share at \$1.10 until February 28, 2021.
- (32) Exercisable into one Common Share at \$1.10 until February 13, 2021.
- (33) Exercisable into one Common Share at \$1.10 until February 24, 2021.
- (34) Exercisable into one Common Share at \$0.47 until September 10, 2023.
- (35) Exercisable into one Common Share at \$0.70 until September 20, 2023.
- (36) Exercisable into one Common Share at \$0.75 until September 20, 2021.
- (37) Exercisable into one Common Share at \$0.70 until September 20, 2022.
- (38) Exercisable into one Common Share at \$0.70 until September 20, 2023.
- (39) Exercisable into one Common Share at \$0.68 until October 1, 2023.
- (40) Exercisable into one Common Share at \$0.68 until October 2, 2023.
- (41) Exercisable into one Common Share at \$1.10 until April 4, 2021.
- (42) Exercisable into one Common Share at \$1.10 until April 5, 2021.
- (43) Exercisable into one Common Share at \$0.70 until October 15, 2023.
- (44) Exercisable into one Common Share at \$0.80 until October 25, 2023.

- (45) Exercisable into one Common Share at \$1.10 until May 5, 2021.
- (46) Exercisable into one Common Share at \$1.00 until May 5, 2021.
- (47) Exercisable into one Common Share at \$1.00 until November 9, 2021.
- (48) Exercisable into one Common Share at \$1.10 until May 9, 2021.
- (49) Exercisable into one Common Share at \$1.10 until June 7, 2021.
- (50) Exercisable into one Common Share at \$0.60 until February 19, 2021.
- (51) Exercisable into one Common Share at \$1.10 until April 22, 2021.
- (52) Exercisable into one Common Share at \$0.70 until October 23, 2021.
- (53) Exercisable into one Common Share at \$0.70 until October 30, 2021.
- (54) Exercisable into one Common Share at \$0.70 until November 16, 2021.
- (55) Exercisable into one Common Share at \$0.70 until November 24, 2021.
- (56) Exercisable into one Common Share at \$0.70 until December 12, 2021.
- (57) Exercisable into one Common Share at \$0.80 until March 15, 2021.
- (58) Exercisable into one Common Share at \$0.80 until April 1, 2021.
- (59) Exercisable into one Common Share at \$0.80 until May 10, 2024.
- (60) Exercisable into one Common Share at \$0.70 until January 9, 2022.
- (61) Exercisable into one Common Share at \$0.70 until January 22, 2022.
- (62) Exercisable into one Common Share at \$0.80 until August 26, 2021.
- (63) Exercisable into one Common Share at \$0.80 until September 30, 2021.
- (64) Exercisable into Common Shares at \$0.70 until March 26, 2022.
- (65) Exercisable into Common Shares at \$0.80 until October 2, 2021.
- (66) Exercisable into Common Shares at \$0.80 until October 4, 2021.
- (67) Exercisable into Common Shares at \$0.70 until April 30, 2022.
- (68) Exercisable into Common Shares at \$0.72 until October 30, 2024.
- (69) Exercisable into Common Shares at \$0.70 until May 20, 2022.
- (70) Exercisable into Common Shares at \$0.70 until May 26, 2022.
- (71) Exercisable into Common Shares at \$0.55 until November 12, 2021.
- (72) Exercisable into Common Shares at \$0.60 until November 27, 2021.

4.2 LONG TERM DEBT

The Corporation will add up to an additional \$6,000,000 in long term debt in connection with close of the Maximum Offering.

Long Term Debt^{(1) (2)} As at December 3, 2019**	Interest Rate	Repayment Terms	Amount Outstanding
8% Debenture and 100 Common Shares 2016 Private Placment; and 8% Debenture and 50 Common Shares 2019 (Offering) ⁽³⁾ Unsecured	8%	Due October 31, 2020 Interest payable monthly	\$0 Note 3
7% Debenture, Common Shares and Unit Warrants Private Placement Unsecured	7%	Due April 25, 2021 Interest payable monthly	\$921,750
8% Convertible Debenture – 2019 Unsecured	8%	Due August 31, 2024 Interest payable semi annually	\$1,114,000
Term loan ⁽⁴⁾ Secured	Bank Prime plus 2.40%	Facility entered into in Q4 2017; max term of 3 years; monthly debt service; security agreement and covenants in place.	\$30,000
Debt financing Secured	Bankers Acceptance Rate	Due October 31, 2022 Entered into on October 30, 2019; 3 year term; interest only first 18	\$3,000,000

	Plus 8% Plus fees	months with principal repayments added thereafter.	
Lease liabilities ⁽⁵⁾		Relates to right-of-use assets; lease payments to 2024	\$1,084,595
Total			\$6,150,345

Notes:

** All amounts are as at December 3, 2019 except for Lease liabilities which are stated as at the quarter ended September 30, 2019

- (1) Amount in table excludes holdbacks and vendor take back of \$982,500 which are current obligations due within one year.
- (2) Amount in table excludes operating lines which are current obligations due on demand..
- (3) On October 31, 2019, the Corporation has made arrangements to repay all principal and accrued but unpaid interest on the 8% Debentures, totalling \$1,534,000 represented by the 8% Debentures. Additionally, a balance of balance of \$4,654,000 is payable on the maturity date of October 31, 2020 which is this is less than one year from the date of this Amended and Revised Offering Memorandum update and as such is excluded from the long-term debt table above.
- (4) Amount in table excludes current portion of \$165,000 due within one year.
- (5) Amount in table excludes current portion of \$362,250 due within one year.

4.3 PRIOR SALES

During the 12 months prior to the date of this Offering Memorandum, the following common shares of Kontrol were issued:

Date of Issuance	Number and type of security issued	Deemed Value	Purpose
December 7, 2018	46,153 Common Shares	\$0.65	Working Capital
January 21, 2019	600,000 Common Shares	\$0.70	Acquisition of Dimax Controls Canada Inc. IP & Patents
January 21, 2019	290,672 Common Shares	\$0.60	Performance Shares issued to Ortech, EE, CEMSI and Kontrol employees
February 22, 2019	19,231 Common Shares	\$0.65	Working Capital

April 30, 2019	80,750 Common Shares	\$0.315	Working Capital
May 16, 2019	19,700 Common Shares	\$0.315	Working Capital
May 24, 2019	75,250 Common Shares	\$0.315	Working Capital
June 12, 2019	21,050 Common Shares	\$0.315	Working Capital
July 9, 2019	6,000 Common Shares	\$0.315	Working Capital
July 22, 2019	600 Common Shares	\$0.315	Working Capital
October 9, 2019	26,850 Common Shares	\$0.315	Working Capital
October 10, 2019	200,000 Common Shares	\$0.57	Performance Shares issue to Kontrol consultant under Asset Purchase Agreement
October 30, 2019	6,500 Common Shares	\$0.315	Working Capital
November 20, 2019	22,600 Common Shares	\$0.315	Working Capital
November 26, 2019	8,200 Common Shares	\$0.315	Working Capital

ITEM 5 - SECURITIES OFFERED

5.1 TERMS OF SECURITIES

The Units will separate upon issuance into the underlying Securities, being for each Unit a \$1,000 principal amount Debenture and 50 Common Shares.

Terms of Debentures

General

THE FOLLOWING DESCRIPTION OF DEBENTURES IS QUALIFIED IN ITS ENTIRETY BY THE DETAILED PROVISIONS OF THE DEBENTURE INDENTURE WHICH IS AVAILABLE TO SUBSCRIBERS UPON REQUEST. THE INDENTURE WILL BE AVAILABLE FOR INSPECTION AT THE OFFICES OF THE DEBENTURE TRUSTEE AND WILL BE FILED ON SEDAR.

Debentures

The Debentures will be issued under a third supplemental indenture to the debenture indenture (collectively, the “**Indenture**”) between Kontrol and Computershare Trust Company of Canada (the “**Debenture Trustee**”), dated August 23, 2016, including any amendments, restatements, supplements, or other modifications thereto. The maximum aggregate principal amount of the Debentures is \$6,000,000. The Corporation may, however, from time to time, without the consent of the holders of the outstanding debentures of the Corporation, issue debentures in addition to the Debentures offered hereby.

The Debentures will be dated as at the Closing Date and will be issuable only in denominations of \$1,000 and integral multiples thereof. Unless redeemed earlier in accordance with their terms, the Debentures will mature on the Maturity Date. No fractional Debentures will be issued.

The Debentures shall bear interest from and including their date of issue at the rate of 8% per annum calculated monthly on the basis of a 365 day year or 366 day year, as applicable and payable in equal instalments on the last calendar day of each month (each, an “**Interest Payment Date**”) in each year, with interest payable after as well as before maturity and after as well as before default, with interest on amounts

after maturity or in default at the same rate. Notwithstanding the foregoing, the first such payment was due on May 31, 2019 and represented interest payable from and including the date of issue of the applicable Debenture up to, but excluding, May 31, 2019, and the last such payment will fall due on the Maturity Date and will represent interest payable from and including September 30, 2020, to but excluding, the Maturity Date. Any payment required to be made on any day that is not a business day (as defined in the Indenture) will be made on the next succeeding business day. The record dates for the payment of interest on the Debentures will be the fifth business day prior to the applicable Interest Payment Date.

The principal amount of the Debentures will be payable to holders of Debentures in lawful money of Canada as further described under "*Purchase*" and "*Payment upon Maturity*". The interest on the Debentures will be payable to the holders of Debentures in lawful money of Canada.

The Debentures will be direct obligations of Kontrol and will not be secured by any mortgage, pledge, hypothec or other charge and will be subordinated to other liabilities of Kontrol as described under "*Subordination*". The Indenture will not restrict Kontrol from incurring additional indebtedness for borrowed money or from mortgaging, pledging or charging its properties to secure any indebtedness.

Purchase

Provided that Kontrol is not in default under the Indenture and subject to regulatory requirements, Kontrol will have the right, to purchase Debentures in the market, by tender or by private contract, up to the full principal amount outstanding.

Early Redemption of Debenture

Kontrol may any time on or after their date of issue and prior to the Maturity Date, at Kontrol's option, on any one or more occasion, redeem all or part of the Debentures upon payment of the outstanding principal of the Debentures, together with accrued and unpaid interest on the principal amount, and a premium equal to two percent of the principal amount of the Debentures being redeemed (the "**Redemption Premium**"). Notice of intention to redeem the Debentures must be given in writing to the holders of Debentures no less than 15 days prior to the date fixed for redemption in such notice (the "**Redemption Date**"). All interest on the redeemed Debentures shall cease from and after the Redemption Date. Prior to the Redemption Date, Kontrol will deposit with the Transfer Agent such moneys as are sufficient to pay the principal amount together with accrued and unpaid interest and the Redemption Premium on the redeemed Debentures. Upon surrender of a Debenture for redemption at any branch of the Transfer Agent designated for such purpose, the Transfer Agent will pay the principal amount together with accrued and unpaid interest and the Redemption Premium on the redeemed Debenture to the holder thereof.

Payment upon Maturity

On the Maturity Date, Kontrol will repay the indebtedness represented by the Debentures by paying such amount directly to the holders thereof or by paying to the Debenture Trustee in lawful money of Canada an amount equal to the aggregate principal amount of the outstanding Debentures which have matured together with accrued and unpaid interest thereon. Any accrued and unpaid interest thereon will be paid in cash.

Cancellation

All Debentures purchased will be cancelled and may not be reissued or resold.

Subordination

The payment of the principal of, and interest on, the Debentures will be subordinated in right of payment, as set forth in the Indenture, to the prior payment in full of all Senior Indebtedness. Subject to statutory or preferred exceptions or as may be specified by the terms of any particular securities, each Debenture issued under the

Indenture will rank *pari passu* with each other Debenture except for sinking provisions (if any) applicable to different series of debentures.

The Indenture will provide that in the event of any insolvency or bankruptcy proceedings, or any receivership, liquidation, reorganization or other similar proceedings relative to Kontrol, or to its property or assets, or in the event of any proceedings for voluntary liquidation, dissolution or other winding-up of Kontrol, whether or not involving insolvency or bankruptcy, or any marshalling of the assets and liabilities of Kontrol, then those holders of Senior Indebtedness will receive payment in full before the holders of Debentures will be entitled to receive any payment or distribution of any kind or character, whether in cash, property or securities, which may be payable or deliverable in any such event in respect of any of the Debentures or any unpaid interest accrued thereon. The Indenture will also provide that Kontrol will not make any payment, and the holders of the Debentures will not be entitled to demand, institute proceedings for the collection of, or receive any payment or benefit (including without any limitation by set-off, combination of accounts or realization of security or otherwise in any manner whatsoever) on account of indebtedness represented by the Debentures (a) in a manner inconsistent with the terms (as they exist on the date of issue) of the Debentures, (b) at any time when a default, an Event of Default or an acceleration has occurred under any credit facility of Kontrol, as amended, restated or replaced from time to time, or (c) at any time when a default with respect to any Senior Indebtedness permitting the holders thereof to accelerate the maturity thereof has occurred under the Senior Indebtedness and is continuing and the notice of the Event of Default has been given by or on behalf of the holders of Senior Indebtedness to Kontrol, unless the Senior Indebtedness has been repaid in full.

The Debentures will also be effectively subordinate to claims of creditors of Kontrol's subsidiaries except to the extent Kontrol is a creditor of such subsidiaries ranking at least *pari passu* with such other creditors. Specifically, the Debentures will be subordinated and postponed in right of payment to the prior payment in full of all indebtedness under any credit facility of Kontrol or a subsidiary of Kontrol.

Events of Default

The Indenture will provide that an event of default ("**Event of Default**") in respect of the Debentures will occur if any one or more of the following described events has occurred and is continuing with respect to the Debentures: (a) failure for 15 days to pay interest on the Debentures when due, (b) failure to pay principal or premium, if any, on the Debentures when due whether at maturity, by declaration or otherwise, (c) default in the observance or performance of any covenant or condition of the Indenture by the Corporation, and the failure to cure (or obtain waiver) such default for a period of 60 days after notice of same, (d) if a decree or order of a court having jurisdiction is entered adjudging Kontrol a bankrupt or insolvent under the *Bankruptcy and Insolvency Act* (Canada) or any other bankruptcy, insolvency or analogous laws, or issuing sequestration or process of execution against, or against any substantial part of, the property of Kontrol, or appointing a receiver of, or of any substantial part of, the property of Kontrol or ordering the winding-up or liquidation of its affairs, and any such decree or order continues unstayed and in effect for a period of 60 days, (e) if Kontrol institutes proceedings to be adjudicated bankrupt or insolvent, or consents to the institution of bankruptcy or insolvency proceedings against it under the *Bankruptcy and Insolvency Act* (Canada) or any other bankruptcy, insolvency or analogous laws, or consents to the filing of any such petition or to the appointment of a receiver of, or of any substantial part of, the property of Kontrol or makes a general assignment for the benefit of its creditors, or admits in writing its inability to pay its debts generally as they become due, (f) if a resolution is passed for the winding-up or liquidation of Kontrol, except in the course of carrying out or pursuant to a transaction in respect of which certain conditions are duly observed and performed. If an Event of Default has occurred and is continuing, the Debenture Trustee may, in its discretion, and will, upon request of holders of not less than 25% in principal amount of the Debentures issued under the Indenture, declare the principal of and interest on all outstanding Debentures issued under the Indenture to be immediately due and payable. In certain cases, the holders of a majority of the principal amount of the Debentures issued under the Indenture then outstanding may, on behalf of the holders of all the Debentures issued under the Indenture, waive any Event of Default and/or cancel any such declaration upon such terms as such holders prescribe.

Modification

The rights of the holders of the Debentures as well as any other series of Debentures that may be issued under the Indenture may be modified in accordance with the terms of the Indenture. For that purpose, among others, the Indenture will contain certain provisions which will make binding on all holders of Debentures resolutions passed at meetings of the holders of Debentures by votes cast thereat by holders of not less than 66⅔% of the principal amount of the Debentures present at the meeting or represented by proxy, or rendered by instruments in writing signed by the holders of not less than 66⅔% of the principal amount of the Debentures. In certain cases, the modification will, instead or in addition, require assent by the holders of the required percentage of Debentures of each particularly affected series.

Governing Law

Each of the Indenture and the Debentures will be governed by, and construed in accordance with, the Laws of the Province of Ontario and the federal Laws of Canada applicable therein applicable to contracts executed and to be performed entirely in such Province.

Terms of Common Shares

General

The Corporation is authorized to issue an unlimited number of Common Shares without par value. As of December 3, 2019, there were 29,551,973 Common Shares issued and outstanding.

Each holder of a Common Share is entitled to: (i) one vote at all meetings of shareholders; (ii) a pro rata share of any dividends or other distributions declared payable by the board of directors; and (iii) a pro rata share of any distribution of the Corporation's assets on any winding up or dissolution of the Corporation. There are no pre-emptive rights; conversion or exchange rights; redemption, retraction, purchase for cancellation or surrender provisions; sinking or purchase fund provisions; provisions permitting or restricting the issuance of additional securities; or any other material restrictions provisions requiring a security holder to contribute additional capital, which are applicable to the Corporation's Common Shares.

5.2 SUBSCRIPTION PROCEDURE

A Subscriber may subscribe for Units by delivering the following to:

Kontrol Energy Corp. c/o Paul Ghezzi
180 Jardin Drive, Unit# 9
Vaughan, ON
L4K 1X8

Subject to the exercise of discretion by the Corporation, the minimum individual subscription is \$5,000 representing 5 Units.

If the Subscriber surrendered 2019 Debentures for cancellation in exchange for Units (Note: this option is no longer available, but is included to describe the history of the Offering):

- (a) A completed debenture exchange and subscription agreement in the form provided by the Corporation including all Exhibits applicable to the prospectus exemption that is being relied upon; and
- (b) The applicable number of 2019 Debenture certificates tendered by the Subscriber to the Corporation for cancellation in exchange for Units.

If the Subscriber purchases the Units through Cash:

- (a) A completed subscription agreement in the form provided by the Corporation including all Exhibits applicable to the prospectus exemption that is being relied upon; and
- (b) A certified cheque, bank draft wire transfer or direct deposit payable to "Kontrol Energy Corp." for the aggregate Subscription Price, or payment in such other manner and/or form as may be accepted by the Corporation in its sole discretion.

If the Subscriber purchases the Units through a Registered Plan:

- (a) A completed subscription agreement in the form provided by the Corporation including all Exhibits applicable to the prospectus exemption that is being relied upon; and
- (b) Affirmation that the funds representing the Subscription Price are held in such Registered Plan's account.

Subscribers should note that the securities dealers and/or the administrator of their Registered Plan (the "**Registered Plan Administrator**") may require additional documents and forms to be completed. Subscribers should also note that the Registered Plan Administrator may charge additional fees to administer their Registered Plan and these fees are not associated with the Corporation.

All subscription funds will be advanced to the Corporation from each Subscriber's Registered Plan account in exchange for certificate(s) representing the Securities. The Registered Plan Administrator may require that it hold the original Securities certificates in trust for as long as the Registered Plan Administrator retains the Registered Plan of the Subscriber.

The Subscriber's subscription funds will be held and not released until midnight on the second Business Day after the day on which the Subscriber has executed the Subscription Agreement and delivered the subscription funds, after which time such funds shall be held in trust until Closing. The subscription funds may be deposited in a segregated account pending Closing after such funds have been held for two Business Days. This does not constitute an acceptance of the Subscriber's subscription. See Item 11 - "*Purchaser's Rights*".

By executing a Subscription Agreement for Units, each Subscriber will make the representation that the Subscriber meets the conditions of the applicable prospectus exemption in purchasing Units pursuant to this Offering and is thus entitled under such prospectus exemption to purchase such securities without the benefit of a prospectus qualified under applicable securities laws.

The Corporation reserves the right to accept or reject subscriptions in whole or in part at its discretion and to close on subscriptions at any time without notice. Any subscription funds received for subscriptions that are not accepted will be returned promptly, without interest, to the Subscriber.

At or following a Closing of the Offering, the Corporation will deliver to each Subscriber a copy of the certificate representing the Securities or confirmation the Subscriber and Securities are registered in the direct registration system. Alternatively, where the Subscriber has subscribed through a Registered Plan, the Corporation will deliver to the Registered Plan Administrator original certificates representing the Securities.

You should carefully review the terms of the Subscription Agreement for more detailed information concerning the rights and obligations of the Subscriber and the Corporation. Execution and delivery of the Subscription Agreement will bind the Subscriber to the terms thereof, whether executed by the Subscriber or by an agent on the Subscriber's behalf. Prospective Subscribers should consult with their professional advisors. See Item 8 - "*Risk Factors*".

ITEM 6 - CANADIAN FEDERAL INCOME TAX CONSIDERATIONS AND ELIGIBILITY FOR INVESTMENT

In the opinion of WeirFoulds LLP, counsel to the Corporation, the following summary, as of the date hereof, fairly describes the principal Canadian federal income tax considerations pursuant to the Tax Act generally applicable to a holder of Debentures and Common Shares who acquires and holds as beneficial owner Debentures and Common Shares, pursuant to this Offering and who, for purposes of the Tax Act and at all relevant times, (i) holds the Debentures and Common Shares, as capital property, and (ii) deals at arm's length and is not affiliated with the Corporation (a "**Holder**"). Generally, the Debentures and Common Shares will be considered to be capital property to a Holder provided that the Holder does not hold the Debentures and Common Shares in the course of carrying on a business of buying and selling securities and has not acquired them in one or more transactions considered to be an adventure in the nature of trade.

This summary is not applicable to a Holder: (i) that is a "financial institution" (as defined in the Tax Act for purposes of the "mark-to-market rules"); (ii) that is a "specified financial institution" (as defined in the Tax Act); (iii) an interest which is a "tax shelter investment" (as defined in the Tax Act); (iv) who makes or has made a functional currency reporting election pursuant to section 261 of the Tax Act; (v) who has entered into or will enter into a "derivative forward agreement" or "synthetic disposition arrangement (as defined in the Tax Act) with respect to the Debentures or Common Shares; (vi) that is a corporation resident in Canada and is, or becomes as part of a series of transactions that includes the acquisition of the Debentures and/or the Common Shares controlled by a non-resident corporation for the purposes of the "foreign affiliate dumping rules" contained in section 212.3 of the Tax Act; or (vii) who receives dividends on the Common Shares as part of a "dividend rental arrangement" (as defined in the Tax Act). Any such Holder should consult its own tax advisor with respect to an investment in the Debentures and Common Shares.

This summary is based on the facts set out in this Offering Memorandum, the current provisions of the Tax Act and counsel's understanding of the published administrative policies and assessing practices of the CRA publicly available prior to the date hereof. This summary takes into account all specific proposals to amend the Tax Act that have been publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof (the "**Proposed Amendments**"). This summary assumes that all such Proposed Amendments will be enacted in the form proposed, however, no assurance can be given that the Proposed Amendments will be enacted in the form proposed, or at all. This summary does not take into account any other changes in the law, whether by legislative, governmental or judicial action, nor does it take into account provincial, territorial or foreign tax considerations, which may differ significantly from those discussed herein.

This summary is of a general nature only and is not exhaustive of all Canadian federal income tax considerations. This summary is not intended to be, and should not be construed to be, legal or tax advice to any Holder. Holders should consult their own tax advisors to determine the tax consequences to them of acquiring Debentures and Common Shares pursuant to the Offering, having regard to their particular circumstances, including the application and effect of the income and other tax laws of any country, province, or other jurisdiction that may be applicable to them.

Allocation of Purchase Price

Holders will be required to allocate the cost of a Unit between the Debentures and the 50 Common Shares comprising the Unit on a reasonable basis to determine their respective costs for purposes of the Tax Act. Where a Holder surrendered 2019 Debentures for cancellation in exchange for Units, the cost of the Debentures and Common Shares received on the disposition equaled the fair market value of the Units. Counsel has been advised that, for its purposes, the Corporation intends to value each Unit for these purposes at \$1,000 per Unit. The Corporation believes that this valuation is reasonable based on the Subscription Price, but this valuation is not binding on either Holders or on the CRA and counsel expresses no opinion on such valuation.

Counsel has been advised that, for its purposes, the Corporation intends to allocate \$31.50 of the cost of a Unit to the 50 Common Shares included in the Unit and \$968.50 of such cost of a Unit to the Debentures included in

the Unit (such that the Debentures would be considered to have been effectively issued at a discount, herein the “**Discount**”). The Corporation believes that this allocation is reasonable, but this allocation is not binding on either Holders or on the CRA and counsel expresses no opinion on such allocation.

Holders Resident in Canada

The following discussion applies to a Holder of Debentures and Common Shares who, at all relevant times, for purposes of the Tax Act and any applicable income tax treaty or convention, is or is deemed to be resident in Canada (a “**Resident Holder**”). Certain Resident Holders who might not otherwise be considered to hold their Debentures or Common Shares as capital property may, in certain circumstances, be entitled to have the Debentures and Common Shares and every other “Canadian security” (as defined in the Tax Act), owned by such Resident Holders, treated as capital property by making the irrevocable election permitted by subsection 39(4) of the Tax Act. Resident Holders considering making such election should first consult their own tax advisors.

Disposition of 2019 Debentures on Exchange for Units

A Resident Holder who surrendered 2019 Debentures for cancellation in exchange for Units will be considered to have disposed of 2019 Debentures for proceeds of disposition equal to the fair market value of the Units received on the disposition. Upon the disposition, any interest paid to a Resident Holder on the 2019 Debentures will be excluded from the Resident Holder's proceeds of disposition of the Debenture and must be included in computing the income of the Resident Holder except to the extent it was included in the income of the Resident Holder for a previous year.

A Resident Holder will generally have realized a capital gain (or a capital loss) on the disposition of the 2019 Debentures surrendered equal to the amount by which the Resident Holder's proceeds of disposition, net of any reasonable costs of disposition, were greater than (or less than) the adjusted cost base to the Resident Holder of the 2019 Debentures so surrendered. Such capital gain (or capital loss) will be subject to the tax treatment described below under “*Capital Gains and Capital Losses*”.

Interest on Debentures

A Resident Holder of Debentures that is a corporation, partnership, unit trust or any trust of which a corporation or a partnership is a beneficiary will be required to include in computing its income for a taxation year any interest on the Debentures that accrues or that is deemed to accrue to it to the end of the taxation year or that has become receivable or is received by it before the end of that taxation year, except to the extent that such interest was included in computing the Resident Holder's income for a preceding taxation year.

Any other Resident Holder, including an individual (other than a trust described in the preceding paragraph), will be required to include in computing income for a taxation year all interest on the Debentures that is received or receivable by the Resident Holder in that taxation year (depending upon the method regularly followed by the Resident Holder in computing income), except to the extent that the interest was included in the Resident Holder's income for a preceding taxation year. In addition, if at any time a Debenture should become an “investment contract” (as defined in the Tax Act) in relation to a Resident Holder, such Resident Holder will be required to include in computing income for a taxation year any interest that accrues to the Resident Holder on the Debenture up to the end of any “anniversary day” (as defined in the Tax Act) in that year to the extent such interest was not otherwise included in computing the Resident Holder's income for the that year or a preceding taxation year.

To the extent that the principal amount of a Debenture exceeds the amount for which it is issued, the Discount may be required to be included in computing a Resident Holder's income, either (a) in each taxation year in which all or a portion of such amount is deemed to accrue (in circumstances where the Discount is or is deemed to be interest) or (b) in the taxation year in which the Discount is received or receivable by the Resident Holder. If the Discount is (or is deemed to be) interest to a Resident Holder, such Resident Holder would be required to include in income annually the portion of such interest (or deemed interest) that is

deemed to accrue to such Resident Holder in the manner prescribed by regulations under the Tax Act notwithstanding that the Discount will not be received or receivable until maturity.

Resident Holders are urged to consult their own tax advisors as to the Canadian income tax treatment of the Discount.

Disposition of Debentures

A disposition or deemed disposition of a Debenture by a Resident Holder (including a redemption, payment on maturity or purchase for cancellation) will generally result in the Resident Holder realizing a capital gain (or a capital loss) equal to the amount by which the proceeds of disposition, net of any amount otherwise required to be included in the Resident Holder's income as interest, are greater (or less) than the aggregate of the Resident Holder's adjusted cost base of the Debenture and any reasonable costs of disposition. Such capital gain (or capital loss) will be subject to the tax treatment described below under "*Capital Gains and Capital Losses*".

On a disposition or deemed disposition of a Debenture (including a redemption, payment on maturity or purchase for cancellation), a Resident Holder will generally be required to include in computing its income for the taxation year in which the disposition occurs the amount of interest (including any amount considered to accrue as interest) that has accrued on such Debenture to the date of disposition to the extent that such amount has not otherwise been included in computing the Resident Holder's income for that taxation year in which the disposition occurred or a preceding taxation year.

Any amount paid by the Corporation as a penalty or bonus because of the redemption or purchase for cancellation of a Debenture before the maturity thereof will generally be deemed to be interest received at the time of the payment by the Resident Holder to the extent that such amount can reasonably be considered to relate to, and does not exceed the value of, at the time of the payment, the interest that, but for the redemption or purchase for cancellation, would have been paid or payable by the Corporation on the Debenture as interest for a taxation year of the Corporation ending after the time of the payment. Such interest will be required to be included in computing the Resident Holder's income in the manner described above under "*Interest on Debentures*".

Dividends on Common Shares

Dividends received or deemed to be received on Common Shares by a Resident Holder who is an individual (including certain trusts) will be included in computing the individual's income for tax purposes and will be subject to the gross-up and dividend tax credit rules normally applicable to dividends received from "taxable Canadian corporations", as defined in the Tax Act. A dividend will be eligible for the enhanced gross-up and dividend tax credit for "eligible dividends", as defined in the Tax Act, paid by taxable Canadian corporations, to the extent that such dividend is designated by the Corporation as an eligible dividend in accordance with the provisions of the Tax Act.

A Resident Holder that is a corporation will be required to include dividends received or deemed to be received on the Common Shares in computing the Resident Holder's income for tax purposes and generally will be entitled to deduct the amount of such dividends in computing taxable income. In certain circumstances subsection 55(2) of the Tax Act will treat a taxable dividend received by a Resident Holder that is a corporation as proceeds of disposition or a capital gain. Resident Holders that are corporations should consult their own tax advisors in this regard.

Certain corporations, including "private corporations" and "subject corporations", as such terms are defined in the Tax Act, may be liable to pay a refundable tax under Part IV of the Tax Act at the rate of 38 1/3% of the dividends received or deemed to be received on the Common Shares to the extent that such dividends are deductible in computing their taxable income.

Disposition of the Common Shares

A disposition or deemed disposition of the Common Shares by a Resident Holder (other than certain dispositions to the Corporation) will generally result in a capital gain (or capital loss) equal to the amount by which the proceeds of disposition, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base to the Resident Holder of the shares so disposed of determined immediately before the disposition. Such capital gain (or capital loss) will be subject to the tax treatment described below under “*Capital Gains and Capital Losses*”.

If a Resident Holder is a corporation, the amount of any capital loss realized upon the disposition of the Common Shares may be reduced by certain dividends received or deemed to have been received by the Resident Holder on such shares, to the extent and under the circumstances prescribed by the Tax Act. Similar rules may also apply in other circumstances, including where a corporation, trust or partnership is a member of a partnership or a beneficiary of a trust that owns such shares.

Capital Gains and Capital Losses

Generally, one-half of any capital gain (a “**Taxable Capital Gain**”) realized by a Resident Holder in a taxation year must be included in the Resident Holder’s income for the year. One-half of any capital loss (an “**Allowable Capital Loss**”) realized by a Resident Holder in a taxation year must be deducted from Taxable Capital Gains realized by the Resident Holder in the year of disposition, in accordance with the detailed rules set out in the Tax Act. Allowable Capital Losses not deducted in the taxation year in which they are realized may be carried back and deducted in any of the three preceding taxation years or carried forward and deducted in any subsequent taxation year against net Taxable Capital Gains realized in such years, to the extent and under the circumstances specified in the Tax Act.

Additional Refundable Tax

A Resident Holder that is a “Canadian-controlled private corporation” (as defined in the Tax Act) may be subject to a 10 ⅔% additional refundable tax on its investment income, including interest and Taxable Capital Gains.

Alternative Minimum Tax

Taxable dividends received, and capital gains realized by, a Resident Holder who is an individual (including certain trusts) may give rise to a liability for alternative minimum tax as calculated under the detailed rules set out in the Tax Act.

Holders Not Resident in Canada

The following discussion applies to a Holder of Debentures or Common Shares who, at all relevant times, for the purposes of the Tax Act and any applicable income tax treaty or convention: (i) is neither resident in Canada nor deemed to be resident in Canada, (ii) does not use or hold, is not deemed to use or hold and will not use or hold the Debentures or the Common Shares in the course of carrying on a business in Canada, (iii) is entitled to receive all payments (including interest and principal) in respect of the Holder's Debentures, (iv) deals at arm's length with any transferee that is resident in Canada and to whom the Holder disposes of Debentures; (v) is neither an insurer who carries on an insurance business in Canada and elsewhere or an authorized foreign bank (as defined in the Tax Act); and (vi) is not, and deals at arm's length with each person who is, a “specified shareholder” of the Corporation (as defined in subsection 18(5) of the Tax Act) (a “**Non-Resident Holder**”).

Disposition of 2019 Debentures on Exchange for Units

A Non-Resident Holder who surrendered 2019 Debentures for cancellation in exchange for Units will not be subject to tax under the Tax Act in respect of any capital gain realized on a disposition of 2019 Debentures. A Non-Resident Holder will generally not be subject to Canadian withholding tax in respect of any interest which is considered to have been paid on the exchange for Units.

Interest on Debentures

A Non-Resident Holder will generally not be subject to Canadian withholding tax in respect of amounts paid or credited or deemed to have been paid or credited by the Corporation as, on account or in lieu of, or in satisfaction of, interest or principal on the Debentures.

Dividends on Common Shares

Dividends paid or credited, or deemed to be paid or credited, on the Common Shares to a Non-Resident Holder will be subject to withholding tax under the Tax Act at a rate of 25% of the gross amount of the dividends unless this rate is reduced by an applicable income tax convention or treaty. For example, under the Canada-United States Tax Convention (1980), as amended, where dividends are paid to or derived by a Non-Resident Holder who is a U.S. resident for the purposes of, and who is entitled to the benefits in accordance with the provisions of, such convention, the applicable rate of Canadian withholding tax rate on dividends is reduced to 15% (or to 5% where the holder that is a company that holds at least 10% of the voting stock of the Corporation).

Disposition of Debentures and Common Shares

A Non-Resident Holder will not be subject to tax under the Tax Act in respect of any capital gain realized on a disposition or deemed disposition of a Debenture.

A Non-Resident Holder will not be subject to tax under the Tax Act in respect of any capital gain realized by such Non-Resident Holder on a disposition or deemed disposition of a Common Share (other than certain dispositions to the Corporation), unless the Common Share is, or is deemed to be, "taxable Canadian property" (as defined in the Tax Act) to the Non-Resident Holder at the time of disposition and the Non-Resident Holder is not entitled to relief under an applicable tax treaty between Canada and the country of residence of the Non-Resident Holder.

Provided the Common Shares are listed on a designated stock exchange (which currently includes the CSE) at the time of disposition, the Common Shares generally will not constitute taxable Canadian property of a Non-Resident Holder, unless, at any time during the 60-month period preceding the disposition: (a) the Non-Resident Holder; (b) persons not dealing at arm's length with such Non-Resident Holder; (c) partnerships in which the Non-Resident Holder or any person described in (b) holds an interest directly or indirectly through one or more partnerships; or (d) the Non-Resident Holder together with all such persons and partnerships, owned (i) 25% or more of the issued shares of any class or series of the capital stock of the Corporation; and (ii) more than 50% of the fair market value of the Common Shares was derived directly or indirectly from one or any combination of: (w) real or immovable property situated in Canada; (x) "Canadian resource properties"; (y) "timber resource properties"; and (z) options in respect of, or interests in or rights in property described in (w) to (y) (as such terms are defined in the Tax Act). A Non-Resident Holder owning Common Shares that may constitute taxable Canadian property should consult its tax advisors before a disposition thereof.

ELIGIBILITY FOR INVESTMENT

Provided the Common Shares are listed on a designated stock exchange as defined in the Tax Act (which currently includes the CSE) on the date of closing of the Offering, the Debentures and the Common Shares will, on such date, be qualified investments under the Tax Act for trusts governed by RRSPs, RRIFFs, TFSAs, RESPs, RDSPs and DPSPs (other than, in the case of the Debentures, a DPSP to which the Corporation, or an employer that does not deal at arm's length with the Corporation, has made a contribution).

Notwithstanding that the Debentures and the Common Shares may be qualified investments for a TFSA, RDSP, RRSP, RRIFF or RESP, the holder of a TFSA or RDSP, the annuitant of a RRSP or RRIFF or the subscriber of a RESP, as the case may be, will be subject to a penalty tax in respect of the Debentures and the Common Shares if such securities are a "prohibited investment" and not "excluded property" for the particular Registered Plan for purposes of the Tax Act. Debentures and Common Shares will generally not be a

"prohibited investment" for a particular TFSA, RDSP, RRSP, RRIF or RESP if the holder of the TFSA or RDSP, the annuitant of the RRSP or RRIF or the subscriber of the RESP, as the case may be, (i) does not have a "significant interest" (as defined for purposes of the prohibited investment rules in the Tax Act) in the Corporation, and (ii) deals at arm's length with the Corporation for purposes of the Tax Act. Generally, a holder, annuitant or subscriber, as the case may be, will not have a significant interest in the Corporation provided the holder, annuitant or subscriber, together with persons or partnerships with whom the holder, annuitant or subscriber does not deal at arm's length, does not own (and is not deemed to own pursuant to the Tax Act), directly or indirectly, 10% or more of the issued shares of any class of the capital stock of the Corporation or of any other corporation that is related to the Corporation (for purposes of the Tax Act).

Prospective purchasers who intend to hold Debentures and Common Shares in Registered Plans should consult their own tax advisors in regard to the application of these rules under the Tax Act in their particular circumstances.

ITEM 7 - COMPENSATION PAID TO SELLERS AND FINDERS

The Corporation may enter into an agreement or agreements (each such agreement, a "**Selling Agreement**") with securities dealers or finders for services to be rendered in connection with the Offering, and the Corporation may pay a fee to such dealers or finders not exceeding: a cash commission of 5% of the Gross Proceeds and 30 Broker's Warrants per Unit issued pursuant to the Offering. Each Broker's Warrant will be exercisable to purchase one Broker's Warrant Share at a price per share determined by the Corporation, and/or to the provisions of the Canadian Securities Exchange Policy 6 – Distributions, for a period of 30 months from the closing date.

Neither the Corporation nor any of its employees are registered dealers, salespersons or advisors under applicable securities laws in any jurisdiction in Canada. Kontrol and its employees may sell the Units under this Offering in certain jurisdictions in Canada where it is not required to be registered under applicable securities laws or, if applicable, pursuant to exemptions from those registration requirements.

ITEM 8 - RISK FACTORS

The Offering should be considered highly speculative due to the nature and stage of development of Kontrol's business. The purchase of Units involves a number of significant risks which may adversely affect Kontrol's operations, results, prospects and financial condition, and which could cause the value of the Securities to decline and cause Securityholders to lose their entire investment. Potential Securityholders should carefully consider the factors below. The following is a summary only of the material risk factors involved in an investment in the Securities. Prospective Securityholders should review the risks with their legal and financial advisors.

INDUSTRY RISKS

Leverage and Ability to Recover Loans

Kontrol's acquisitions and investments will be running Operating Businesses whose capital structures will generally include bank debt, subordinated debt, preferred securities and/or other forms of debt and liability. The leveraged capital structure of such businesses will increase the Operating Businesses' exposure to adverse economic factors such as rising interest rates, downturns in the economy and deterioration in the conditions of such businesses or their industries. If an Operating Business is unable to generate sufficient cash flow to meet principal and interest payments on its debt, the value of the investments in such Operating Businesses could be significantly reduced or even eliminated. There may be circumstances where Kontrol may be required to make a further investment in Operating Businesses, on terms less favourable or with a higher degree of risk than its target investments, to preserve its initial investment position.

Availability of Suitable Opportunities and Competition for Investments

The success of Kontrol depends, in large part, on the availability of a sufficient number of acquisition and/or investment opportunities that fall within Kontrol's investment strategy and the ability of management to identify, negotiate, and close successful investments. The availability of attractive investment opportunities generally will also be subject to market conditions as well as, in some cases, the prevailing regulatory, economic or political climate.

The activity of identifying, negotiating and closing on any attractive investment opportunity is highly competitive and involves a high degree of uncertainty. Kontrol may compete for the right to make investments with an ever increasing number of other parties, including private investment funds, individuals, family offices, financial institutions, other institutions and strategic buyers, many of which may have greater resources, lower return expectations or greater risk tolerance than Kontrol. Competition for investment opportunities can have the effect of increasing the cost of making investments.

Investment Timing

Kontrol intends to conduct extensive due diligence with respect to its acquisitions and/or investments and, as a result, suitable investment opportunities may not be immediately available. Kontrol cannot predict how long it will take to deploy its capital in acquisitions and/or investments. Timing will depend on, among other things, the availability of suitable investment opportunities.

Failure to Obtain or Maintain Applicable Regulatory Clearances or Approvals

Kontrol's acquisitions and investments will be running Operating Businesses that may involve the development of new and innovative technologies. Consequently, the testing of the products may yield negative results, requiring reengineering of the products. If these businesses are unable to address the negative tests, they will be unable to obtain regulatory approval and generate sales. Furthermore, if these businesses are unable to obtain clearances or approvals needed to market existing or new products, or obtain such clearances or approvals in a timely fashion, their business would be significantly disrupted, and their sales and profitability could be materially and adversely affected, which could in turn affect Kontrol's profitability.

Government Policy

The energy efficiency sector and its key sub-sectors of energy conservation, energy storage and power generation are subject to ongoing changes in municipal, provincial and federal government policy across Canada. While Canada has made various carbon reduction commitments as part of the Paris Agreement, energy policy remains a Provincial matter. While Kontrol does not rely specifically on any government programs or government subsidies, it does operate in a general sector of the economy where government regulation and policy can change rapidly.

General Economic Conditions

General economic conditions may affect Kontrol's business operations, interest rates, availability of credit, currency exchange rates, levels of employment, general levels of economic activity, government policies, securities prices, developments in financial markets, valuations of public or private companies and a wide range of other economic factors may affect the value and number of investments made by Kontrol or considered as suitable prospective investments. The success of any Operating Business investment can also be expected to be sensitive to the performance of its industry, the local economies such company may operate in and the overall global economy. No assurances can be given as to the effect of any of these events, individually or in the aggregate, on Kontrol's ability to execute on its investment strategy and to achieve its investment objectives.

INVESTMENT RISKS

No Guarantee that Investment in Securities will be Successful

There can be no guarantee that Kontrol's strategy of acquiring or investing in various Operating Businesses, within the energy efficiency sector of the economy, will be successful or that the objective of earning a profit on the acquisition and operation of its Operating Business will be achieved. The success of Kontrol and its achieving its objectives will depend, to a certain extent, on the efforts and abilities of the management of Kontrol and on a number of other external factors such as, among other things, the general political and economic conditions that may prevail from time to time, which factors are out of the control of the management of Kontrol.

No Guaranteed Return

The recovery of your initial investment is at risk, and the anticipated return on your investment is based on many performance assumptions. There is no guarantee that an investment in Securities will earn any positive return in the short or long-term. While Kontrol intends to make interest payments to its Securityholders, no assurance can be given that such interest payments, if made, will continue or that they won't be reduced or eliminated. A return on, or of, investment in Securities is dependent upon the success of Kontrol in generating sufficient earnings on the assets of Kontrol in order to service its obligations to Securityholders. As a result, there is no assurance or guarantee that purchasers of Securities pursuant to the Offering will earn a return on, or of, their investment.

Price for the Securities Determined Arbitrarily

The management of Kontrol has arbitrarily determined the Subscription Price of the Securities pursuant to this Offering. The management of Kontrol make no representation to prospective Securityholders as to the market value of the Securities. All prospective Securityholders are urged to consider the purchase of the Securities on its merits as an investment and to consult professional advisors having relevant expertise.

No Market for the Securities

This Offering Memorandum constitutes a private offering of the Units by Kontrol only in those jurisdictions where, and to those persons to whom, they may be lawfully offered for sale under exemptions in applicable securities laws. This Offering Memorandum is not, and under no circumstances is to be construed as a prospectus, advertisement or public offering of these Units. Securityholders to this Offering Memorandum will not have the benefit of a review of the material by any regulator or regulatory authority.

As the Securities are being offered without the benefit of a prospectus, the Securities will be subject to a number of resale restrictions, including a restriction on trading. The Securities may not be resold or otherwise transferred until the trading restriction expires or unless the Securityholder complies with very limited exemptions from the prospectus requirements under applicable securities law. Therefore, there is significant risk that Securityholders may be unable to liquidate their investment in the Securities in a timely manner, if at all, withdraw their capital, or pledge their Securities as collateral, and Securityholders must be prepared to bear the economic risk of investment. An investment in Securities should only be considered by prospective Subscribers who do not require liquidity. See Item 10 - "*Resale Restrictions*".

In executing the Subscription Agreement, an investor agrees to comply with applicable securities law in connection with the purchase, holding and resale of any Securities purchased.

Highly Speculative

An investment in the Securities is highly speculative. Investors should buy them only if they are able to bear the risk of the entire loss of their investment and have no need for immediate liquidity in their investment. An investment in the Securities should not constitute a major portion of an investor's portfolio.

The Debentures are Unsecured and Subordinate

The Debentures are unsecured and the payment of the principal of, and interest on, the Debentures will be subordinated in right of payment to the prior payment in full of all Senior Indebtedness. See Item 5.1 - *“Terms of Securities – Terms of Debentures – Subordination”*.

The Securities Are Not Insured

The Securities are not “deposits” within the meaning of the *Canada Deposit Insurance Corporations Act* (Canada). Kontrol is not a member institution of the Canada Deposit Insurance Trust and the Securities offered pursuant to this Offering Memorandum are not insured against loss through the Canada Deposit Insurance Trust. See Item 5.1 - *“Terms of Securities – Terms of Debentures”*.

Additional Debt

Kontrol may issue additional debt or equity instruments in the future. Such additional financing may be issued without the approval of Securityholders, and may be issued in such number and for such price as is determined in the sole discretion of Kontrol. Securityholders have no pre-emptive rights in connection with such additional issuances. It is not possible to predict the effect, if any, that future issuances of Securities will have on the fair market value of the Securities. With any additional issuance of Securities, Securityholders may experience dilution.

Repayment of Securities is not Guaranteed

Kontrol intends to repay the principal portion of the Debenture sold under this Offering Memorandum at their maturity. There can be no assurances that Kontrol will have the funds in place at that time to repay all or a portion of the original investment.

Securities Regulatory Risk

In the event that Kontrol were to become subject to any cease trade order, penalty or sanction which limited or otherwise adversely affected its ability to issue securities and/or otherwise proceed with its business plans as described in this Offering Memorandum (collectively referred to as an **“Adverse Event”**), such Adverse Event could have a material adverse effect on the returns to Securityholders, including a partial or full loss of the investment by Securityholders.

Legal Liability

To the extent that Kontrol were to incur legal and/or other liabilities, howsoever arising, which resulted in financial losses to Kontrol, there is nothing that would preclude a claimant from pursuing reimbursement from and claiming against any or all of the assets of Kontrol. In other words, a claim in respect of the investment outlined in this Offering Memorandum could potentially have a material adverse effect on Kontrol as a whole and on the return on investment realized by Securityholders. Similarly, a claim in respect of an acquisition or investment by Kontrol, with funds raised from the issuance of Securities, could have a material adverse effect on Kontrol and, accordingly, on the interest and principal repayment to Debenture holders.

Tax Matters

The tax treatment of the Units has a material effect on the advisability of an investment in the Units. See Item 6 - *“Canadian Federal Income Tax Considerations and Eligibility for Investment”*.

Investment Eligibility

There can be no assurance that the Debentures and the Common Shares will continue to be “qualified investments” under the Tax Act for trusts governed by Registered Plans. Where a Registered Plan holds a

security in circumstances where the security is not a qualified investment under the Tax Act for the Registered Plan, adverse tax consequences may arise for the Registered Plan and the annuitant, beneficiary, subscriber or holder (collectively, the “annuitant”), as the case may be, under the Registered Plan, including that the Registered Plan may become subject to a penalty tax, the annuitant of such Registered Plan may be deemed to have received income therefrom and, in the case of an RESP, the RESP may have its tax exempt status revoked. See Item 6 - “*Canadian Federal Income Tax Considerations and Eligibility for Investment*”.

Change in Tax Laws

The Offering Memorandum will not contain a requirement that the Corporation increase the amount of interest or other payments to holders of Debentures in the event that the Corporation is required to withhold amounts in respect of income or similar taxes on payment of interest or other amounts on the Debentures. At present, the Corporation will not withhold from such payments to holders of Debentures resident in Canada or in the United States who deal at arm's length with the Corporation, but no assurance can be given that applicable income tax laws or treaties will not be changed in a manner that may require the Corporation to withhold amounts in respect of tax payable on such amounts.

All Securityholders will be responsible for the preparation and filing of their own tax returns in respect of their investment in Securities. Prospective Subscribers are urged to consult their own tax advisors prior to investing in the Corporation with respect to the specific tax consequences to them from the acquisition of Securities.

ISSUER RISKS

Operating History

Kontrol has only recently commenced its current business and it has no history of sales or profits, nor does it have a record of performance to be relied upon. Kontrol's operations are subject to all the risks inherent in the establishment of a new business enterprise, including a lack of operating history. Kontrol cannot be certain that its acquisition and investment strategy will be successful. Future revenues and profits, if any, will depend upon various factors, including the success, if any, of its Operating Business, government regulations and enforcement and general economic conditions. The likelihood of success of Kontrol must be considered in light of the problems, expenses, difficulties, complications and delays frequently encountered in connection with the establishment of any business. If Kontrol fails to address any of these risks or difficulties adequately, its business will likely suffer.

There is no assurance that Kontrol can operate profitably or that Kontrol will successfully implement its plans.

Operational Dependence

The success of Kontrol is dependent upon management and management of its Operating Businesses and the ability of management to execute on its operating objectives. The interest payment to the Securityholders and the repayment of the original capital invested by Securityholders are dependent upon the ability of Kontrol to generate sufficient cash flow. There can be no assurances that Kontrol will achieve its operating objectives.

Although management believes that it will be able to replace key personnel within a reasonable time should the need arise, the loss of key personnel could have a material adverse effect on the business, financial condition, liquidity and results of operations of Kontrol. There is no key man insurance in place.

Interest Payments

The ability of Kontrol to pay interest payments to Securityholders depends on numerous factors including the decisions by management, operational success, adequate cash flow generation, long-term profitability and overall economic conditions. As a result, there can be no assurance as to the amount of interest payments to be paid to Securityholders.

Interest Payments May Consist of Proceeds of Offerings

Interest payments to Securityholders may consist, directly or indirectly, of the proceeds from the sale of securities by Kontrol and may also, in certain circumstances, exceed the cash flow of Kontrol for any particular period.

Valuation of Kontrol's Investments

Valuation of its Operating Businesses will involve uncertainties and judgmental determinations and, if such valuations should prove to be incorrect, the value of the Corporation and its various Securities could be adversely affected.

Less than Full Offering

If less than the Maximum Offering is raised pursuant to this Offering, Kontrol's business development plans and prospects could be adversely affected and Kontrol's ability to complete acquisitions and/or investments will be impacted.

Changes in Applicable Law

Legal, tax and regulatory changes in law may occur that can adversely affect Kontrol and Securityholders. There can be no assurance that income tax, securities and other laws will not be changed in a manner which adversely affects the interest by the Securityholders.

Financing Risks

In addition to the Net Proceeds of the Offering, Kontrol may require additional capital to implement and achieve its objectives. There can be no assurance that debt or equity financing will be available or sufficient to meet the requirements of Kontrol to implement its objectives or, if debt or equity financing is available, that it will be on terms acceptable to Kontrol. The inability of Kontrol or its acquisitions to access sufficient capital for its operations could have a material adverse effect on Kontrol's financial condition, results of operations or prospects which in turn would likely have a material adverse effect on Securityholders.

Uninsured and Underinsured Losses and Insurance Costs

Kontrol and its Operating Businesses use their discretion in determining amounts, coverage and limits and deductibility provisions of insurance for their operations and assets, with a view to maintaining appropriate insurance coverage on their assets at a commercially reasonable cost and on suitable terms. This may result in insurance coverage that, in the event of a substantial loss, would not be sufficient to pay the full current market value or current replacement cost of their assets. A substantial loss without adequate insurance coverage could have a material adverse effect on the business, financial condition, liquidity and results of operation for the entity in question, whether it be Kontrol or its Operating Businesses which in turn would likely have a material adverse effect on Securityholders.

Potential Undisclosed Liabilities Associated with Acquisitions

There may be liabilities and contingencies that Kontrol does not discover in its due diligence prior to consummation of an acquisition for which Kontrol has to bear responsibility for and which could have a material adverse effect on the business, financial condition, liquidity and results of operation of Kontrol.

Potential Lack of Operating Business Diversification

Kontrol operates in the energy efficiency sector and is focused on acquiring and/or investing in Operating Businesses which also operate in the energy efficiency sector. Kontrol will not be providing economic sector diversification across its acquisitions and/or investments.

Operating Hazards

The operations to be conducted by Kontrol and its Operating Businesses will be subject to all of the operating risks normally attendant upon such businesses. The Operating Businesses will seek to acquire insurance when and as, and in such amounts as, management of such Operating Businesses best sees fit, but there is no assurance that such insurance will be available or adequate.

Litigation

In the ordinary course of its business, Kontrol and the subsidiaries or legal entities that Kontrol has acquired and/or invested in may initiate or be subject to litigation from time to time. The outcome of any such proceedings may adversely affect Kontrol to a material extent, and may continue without resolution for long periods of time. Any litigation may consume substantial amounts of management's time and attention, and that time and the devotion of resources to litigation may, at times, be disproportionate to the amounts at stake in the litigation.

Management of Growth

Kontrol may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of Kontrol to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of Kontrol to deal with this growth may have a material adverse effect on Kontrol's business, financial condition, results of operations and prospects.

Foreign Currency Exchange Rate Risk

The funds that will be raised under this Offering and the functional currency of Kontrol will be Canadian dollars. Kontrol may acquire and/or invest in Operating Businesses with US dollar exposure. Accordingly, Kontrol may have Canada/US foreign currency exchange rate risk which cannot be quantified at this time. Management of Kontrol will use prudent measures to manage such exchange rate risk but the success of any management efforts cannot be guaranteed.

Interest Rate Fluctuations

Kontrol and its Operating Businesses may be required to obtain third party financing in or to fund their business, which may include indebtedness that, if any, would likely be subject to interest rates based on variable lending rates that may fluctuate over time and which will cause fluctuations in Kontrol's and its Operating Businesses' cost of borrowing.

Conflicts of Interest

Certain of the directors and officers of Kontrol may be engaged in, and may continue to engage in, other business activities on their own behalf and on behalf of other companies and, as a result of these and other activities, such directors and officers of Kontrol may become subject to conflicts of interest. Canadian corporate law provides that in the event that a director has a material interest in a contract or proposed contract or agreement that is material to the Corporation, the director must disclose his interest in such contract or agreement and refrain from voting on any matter in respect of such contract or agreement, subject to and in accordance with the Applicable Law. To the extent that such conflicts arise, such conflicts will be resolved in accordance with the provisions of corporate law.

ITEM 9 - REPORTING OBLIGATIONS

Holders of Common Shares are entitled to receive an information circular and to be given notice of any meeting of shareholders. Provided holders of Common Shares are identified under National Instrument 54-101 *Communication with Beneficial Owners of Securities of a Reporting Issuer* as having chosen to receive all securityholder materials sent to beneficial owners of securities, as a holder of Common Shares, you will also be entitled to receive an annual request form permitting you to request any of the following: (i) a paper copy of the Kontrol's annual financial statements and MD&A for the annual financial statements; and (ii) a copy of Kontrol's interim financial reports and MD&A for the interim financial reports.

For Debenture holders, we are not required to send you any documentation on an annual or ongoing basis. However, the Corporation will provide all Debenture holders with access to the same materials as are received by holders of Common Shares by posting same on SEDAR, which can be accessed at www.sedar.com, or on the Corporation's website.

As a reporting issuer, Kontrol is required to comply with the provisions of National Instrument 51-102 *Continuous Disclosure Obligations*, which includes the periodic filing of its financial statements and reporting all material information.

Kontrol is obliged to file all of its continuous disclosure information on SEDAR which can be accessed at www.sedar.com.

ITEM 10 - RESALE RESTRICTIONS

The Debentures and Common Shares, comprising the Units will be subject to a number of resale restrictions under securities legislation, including a restriction on trading. The Debentures are non-convertible and non-redeemable. The Debentures partially comprising the Units are not listed on any stock exchange or market. Until the restriction on trading expires, you will not be able to trade the Debentures and Common Shares, except pursuant to an exemption from the prospectus requirements under securities legislation. For more information about these resale restrictions, you should consult a lawyer.

Unless permitted under securities legislation, you cannot trade the Securities before the date that is four (4) months and a day after the distribution date.

ITEM 11 - PURCHASER'S RIGHTS

If you purchase the Units you will have certain rights, some of which are described below. These rights may not be available to you if you purchase the Units pursuant to an exemption from prospectus requirements other than the offering memorandum exemption in Section 2.9 of NI 45-106. For complete information about your rights, you should consult a lawyer.

Two Day Cancellation Right for a Subscriber

You can cancel your agreement to purchase the Units. To do so, you must send a notice to us by midnight on the second (2nd) Business Day after you sign the agreement to buy the Units.

Rights of Action in the Event of a Misrepresentation

Applicable securities legislation in the provinces and territories of Canada provides purchasers with a statutory right of action for damages or rescission in cases where an offering memorandum or any amendment thereto

contains an untrue statement of a material fact or omits to state a material fact that is required to be stated or is necessary to make any statement contained therein not misleading in light of the circumstances in which it was made (a "**misrepresentation**"). These rights, or notice with respect thereto, must be exercised or delivered, as the case may be, by purchasers within the time limits prescribed and are subject to the defenses and limitations contained under applicable securities legislation.

The following summaries are subject to the express provisions of the securities legislation applicable in each of the provinces and territories of Canada and the regulations, rules and policy statements thereunder. Purchasers should refer to the securities legislation applicable in their province along with the regulations, rules and policy statements thereunder for the complete text of these provisions or should consult with their legal advisor. The contractual and statutory rights of action described in this Offering Memorandum are in addition to and without derogation from any other right or remedy that purchasers may have at law.

Rights of Purchasers in Alberta

If you are a resident of Alberta, and if there is a misrepresentation in this Offering Memorandum, you have a statutory right to sue:

- (a) the Corporation to cancel your agreement to buy these securities, or
- (b) for damages against the Corporation, every person who was a director of the Corporation at the date of this Offering Memorandum and every person or company who signed this Offering Memorandum.

If you elect to exercise a right to cancel your agreement to buy these securities against the Corporation, you will have no right of action against the persons described in (b) above.

This statutory right to sue is available to you whether or not you relied on the misrepresentation. However, there are various defences available to the persons or companies that you have a right to sue. In particular, they have a defence if you knew of the misrepresentation when you purchased the securities. In an action for damages, the amount recoverable shall not exceed the price at which the securities were offered and the defendant will not be liable for all or any portion of such damages that the defendant proves does not represent the depreciation in value of the securities as a result of the misrepresentation.

If you intend to rely on the rights described in (a) or (b) above, you must do so within strict time limitations. You must commence your action to cancel the agreement within 180 days after the date that you purchased the securities. You must commence your action for damages within the earlier of 180 days after you first had knowledge of the facts giving rise to the cause of action and three (3) years after the date you purchased the securities.

Rights of Purchasers in British Columbia

If you are a resident of British Columbia, and if there is a misrepresentation in this Offering Memorandum, you have a statutory right to sue:

- (a) the Corporation to cancel your agreement to buy these securities, or
- (b) for damages against the Corporation, every person who was a director of the Corporation at the date of this Offering Memorandum and every person who signed this Offering Memorandum.

If you elect to exercise a right to cancel your agreement to buy these securities against the Corporation, you will have no right of action against the Corporation.

This statutory right to sue is available to you whether or not you relied on the misrepresentation. However, there are various defences available to the persons or companies that you have a right to sue. In particular, they have a defence if you knew of the misrepresentation when you purchased the securities. In an action for

damages, the amount recoverable shall not exceed the price at which the securities were offered and the defendant will not be liable for all or any portion of such damages that the defendant proves does not represent the depreciation in value of the securities as a result of the misrepresentation.

If you intend to rely on the rights described in (a) or (b) above, you must do so within strict time limitations. You must commence your action to cancel the agreement within 180 days after the date that you purchased the securities. You must commence your action for damages within the earlier of 180 days after you first had knowledge of the facts giving rise to the cause of action and three (3) years after the date you purchased the securities.

Rights of Purchasers in Saskatchewan

If you are a resident of Saskatchewan and if there is a misrepresentation in this Offering Memorandum, you have a statutory right to sue:

- (a) the Corporation to cancel your agreement to buy these securities, or
- (b) for damages against the Corporation, every promoter of the Corporation and every person who was a director of the Corporation at the date of this Offering Memorandum, every person whose consent has been filed respecting the offering but only with respect to reports, opinions or statements that have been made by them, every person who or company that signed this Offering Memorandum and every person who or company that sells securities on behalf of the Corporation under this Offering Memorandum.

If you elect to exercise a right to cancel your agreement to buy these securities against the Corporation, you will have no right of action against the Corporation.

This statutory right to sue is available to you whether or not you relied on the misrepresentation. However, there are various defences available to the persons or companies that you have a right to sue. In particular, they have a defence if you knew of the misrepresentation when you purchased the securities. In an action for damages, the amount recoverable shall not exceed the price at which the securities were offered and the defendant will not be liable for all or any portion of such damages that the defendant proves does not represent the depreciation in value of the securities as a result of the misrepresentation.

If you intend to rely on the rights described in (a) or (b) above, you must do so within strict time limitations. You must commence your action to cancel the agreement within 180 days after the date that you purchased the securities. You must commence your action for damages within the earlier of one (1) year after you first had knowledge of the facts giving rise to the cause of action and six (6) years after the date you purchased the securities.

Rights of Purchasers in Manitoba

If you are a resident of Manitoba, and if there is a misrepresentation in this Offering Memorandum, you have a statutory right to sue:

- (a) the Corporation to cancel your agreement to buy these securities, or
- (b) for damages against the Corporation, every person who was a director of the Corporation at the date of this Offering Memorandum and every person or company who signed this Offering Memorandum.

If you elect to exercise a right to cancel your agreement to buy these securities against the Corporation, you will have no right of action against the persons described in (b) above.

This statutory right to sue is available to you whether or not you relied on the misrepresentation. However, there are various defences available to the persons or companies that you have a right to sue. In particular, they have a defence if you knew of the misrepresentation when you purchased the securities. In an action for

damages, the amount recoverable shall not exceed the price at which the securities were offered and the defendant will not be liable for all or any portion of such damages that the defendant proves does not represent the depreciation in value of the securities as a result of the misrepresentation.

If you intend to rely on the rights described in (a) or (b) above, you must do so within strict time limitations. You must commence your action to cancel the agreement within 180 days after the date that you purchased the securities. You must commence your action for damages within the earlier of 180 days after you first had knowledge of the facts giving rise to the cause of action or two (2) years after the date you purchased the securities.

Rights of Purchasers in Ontario

If you are a resident of Ontario, and if there is a misrepresentation in this Offering Memorandum, you have a right to sue:

- (a) the Corporation to cancel your agreement to buy these securities, or
- (b) for damages against the Corporation.

If you elect to exercise a right to cancel your agreement to buy these securities against the Corporation, you will have no right of action against the Corporation.

This statutory right to sue is available to you whether or not you relied on the misrepresentation. However, there are various defences available to the persons or companies that you have a right to sue. In particular, they have a defence if you knew of the misrepresentation when you purchased the securities. In an action for damages, the amount recoverable shall not exceed the price at which the securities were offered and the defendant will not be liable for all or any portion of such damages that the defendant proves does not represent the depreciation in value of the securities as a result of the misrepresentation.

If you intend to rely on the rights described in (a) or (b) above, you must do so within strict time limitations. You must commence your action to cancel the agreement within 180 days after the date that you purchased the securities. You must commence your action for damages within the earlier of 180 days after you first had knowledge of the facts giving rise to the cause of action and three (3) years after the date you purchased the securities.

Rights of Purchasers in Nova Scotia

If you are a resident of Nova Scotia and if there is a misrepresentation in this Offering Memorandum, you have a statutory right to sue:

- (a) the Corporation to cancel your agreement to buy these securities, or
- (b) for damages against the Corporation, every person who was a director of the Corporation at the date of this Offering Memorandum and every person who signed this Offering Memorandum.

If you elect to exercise a right to cancel your agreement to buy these securities against the Corporation, you will have no right of action against the persons described in (b) above.

This statutory right to sue is available to you whether or not you relied on the misrepresentation. However, there are various defences available to the persons or companies that you have a right to sue. In particular, they have a defence if you knew of the misrepresentation when you purchased the securities. In an action for damages, the amount recoverable shall not exceed the price at which the securities were offered and the defendant will not be liable for all or any portion of such damages that the defendant proves does not represent the depreciation in value of the securities as a result of the misrepresentation.

If you intend to rely on the rights described in (a) or (b) above, you must do so within strict time limitations. You must commence your action to cancel the agreement within 180 days after the date that you purchased the securities. You must commence your action for damages within the earlier of 180 days after you first had knowledge of the facts giving rise to the cause of action and three (3) years after the date you purchased the securities. Furthermore, no action shall be commenced to enforce the right of action discussed above unless an action is commenced to enforce that right not later than 120 days after the date on which payment was made for the securities or after the date on which the initial payment for the securities was made where payments subsequent to the initial payment are made pursuant to a contractual commitment assumed prior to, or concurrently with, the initial payment.

Rights of Purchasers in New Brunswick

If you are a resident of New Brunswick and if there is a misrepresentation in this Offering Memorandum, you have a statutory right to sue:

- (a) the Corporation to cancel your agreement to buy these securities, or
- (b) for damages against the Corporation.

If you elect to exercise a right to cancel your agreement to buy these securities against the Corporation, you will have no right of action against the Corporation.

This statutory right to sue is available to you whether or not you relied on the misrepresentation. However, there are various defences available to the persons or companies that you have a right to sue. In particular, they have a defence if you knew of the misrepresentation when you purchased the securities. In an action for damages, the amount recoverable shall not exceed the price at which the securities were offered and the defendant will not be liable for all or any portion of such damages that the defendant proves does not represent the depreciation in value of the securities as a result of the misrepresentation.

If you intend to rely on the rights described in (a) or (b) above, you must do so within strict time limitations. You must commence your action to cancel the agreement within 180 days after the date that you purchased the securities. You must commence your action for damages within the earlier of one (1) year after you first had knowledge of the facts giving rise to the cause of action and six (6) years after the date you purchased the securities.

Rights of Purchasers in Newfoundland and Labrador

If you are a resident of Newfoundland and Labrador and if there is a misrepresentation in this Offering Memorandum, you have a statutory right to sue:

- (a) the Corporation to cancel your agreement to buy these securities, or
- (b) for damages against the Corporation, every person who was a director of the Corporation at the date of this Offering Memorandum and every person or company who signed this Offering Memorandum.

If you elect to exercise a right to cancel your agreement to buy these securities against the Corporation, you will have no right of action against the persons described in (b) above.

This statutory right to sue is available to you whether or not you relied on the misrepresentation. However, there are various defences available to the persons or companies that you have a right to sue. In particular, they have a defence if you knew of the misrepresentation when you purchased the securities. In an action for damages, the amount recoverable shall not exceed the price at which the securities were offered and the defendant will not be liable for all or any portion of such damages that the defendant proves does not represent the depreciation in value of the securities as a result of the misrepresentation.

If you intend to rely on the rights described in (a) or (b) above, you must do so within strict time limitations. You must commence your action to cancel the agreement within 180 days after the date that you purchased the securities. You must commence your action for damages within the earlier of 180 days after you first had knowledge of the facts giving rise to the cause of action and three (3) years after the date you purchased the securities.

Rights of Purchasers in Prince Edward Island, Northwest Territories, Yukon and Nunavut

If you are a resident of Prince Edward Island, Northwest Territories, Yukon or Nunavut and if there is a misrepresentation in this Offering Memorandum, you have a statutory right to sue:

- (a) the Corporation to cancel your agreement to buy these securities, or
- (b) for damages against the Corporation, every person who was a director of the Corporation at the date of this Offering Memorandum and every person who signed this Offering Memorandum.

If you elect to exercise a right to cancel your agreement to buy these securities against the Corporation, you will have no right of action against the persons described in (b) above.

This statutory right to sue is available to you whether or not you relied on the misrepresentation. However, there are various defences available to the persons or companies that you have a right to sue. In particular, they have a defence if you knew of the misrepresentation when you purchased the securities. In an action for damages, the amount recoverable shall not exceed the price at which the securities were offered and the defendant will not be liable for all or any portion of such damages that the defendant proves does not represent the depreciation in value of the securities as a result of the misrepresentation.

If you intend to rely on the rights described in (a) or (b) above, you must do so within strict time limitations. You must commence your action to cancel the agreement within 180 days after the date that you purchased the securities. You must commence your action for damages within the earlier of 180 days after you first had knowledge of the facts giving rise to the cause of action and three (3) years after the date you purchased the securities.

ITEM 12 - FINANCIAL STATEMENTS

Attached to this Offering Memorandum as Appendices are:

- (a) Kontrol's consolidated interim financial statements for the nine-month period ended September 30, 2019 (Appendix A);
- (b) Kontrol's consolidated interim financial statements for the six-month period ended June 30, 2019 (**Appendix B**);
- (c) Kontrol's consolidated interim financial statements for the three-month period ended March 31, 2019 (**Appendix C**);
- (d) Kontrol's consolidated audited financial statements for the year ended December 31, 2018 (**Appendix D**); and
- (e) Kontrol's consolidated audited financial statements for the year ended December 31, 2017 (**Appendix E**).

ITEM 13 - DATE AND CERTIFICATE

Dated as of this 3rd day of December, 2019.

This Offering Memorandum does not contain a misrepresentation.

Per: (signed) "Paul Ghezzi"
Chief Executive Officer and Promoter

Per: (signed) "Claudio Del Vasto"
Chief Financial Officer

Per: (signed) "Andrew Bowerbank"
Director

Per: (signed) "Kristian Lavereau"
Director

Per: (signed) "Ernest William Belyea"
Director

APPENDIX A

**Kontrol Energy Corp.'s Consolidated Interim Financial Statements for the Nine-Month
Period Ended September 30, 2019**

KONTROL ENERGY CORP.

**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2019
(UNAUDITED)
(Prepared in Canadian dollars)**

KONTROL ENERGY CORP.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(UNAUDITED)
AS AT
(in Canadian dollars)

		September 30 2019	December 31 2018
	Notes		
Assets			
Cash		\$1,069,520	\$1,022,061
Accounts receivable	5	3,058,128	4,259,464
Unbilled revenue		331,641	164,818
Finished inventory		190,177	194,021
Prepaid expenses		131,203	108,516
Current assets		4,780,669	5,748,880
Property and equipment	6	539,368	551,621
Right-of-use assets	7	1,400,069	-
Goodwill	8	4,642,566	4,642,566
Intangible assets	8	7,073,680	6,453,074
Long-term investment	9	1	1
Non-current assets		13,655,684	11,647,262
Total assets		\$18,436,353	\$17,396,142
Liabilities			
Operating line	10	\$392,663	\$701,824
Accounts payable and accrued liabilities		2,599,931	2,982,526
Deferred revenue		167,723	128,889
Due to shareholder	11	39,500	45,000
Holdbacks and vendor take back	12	982,500	1,635,000
Current portion of debentures	13	1,584,000	5,245,000
Current portion of term loan	14	172,813	165,739
Debt financing	15	1,838,776	1,767,720
Current portion of lease liabilities	7	362,250	-
Current liabilities		8,140,156	12,671,698
Debentures	13	4,917,396	398,165
Convertible debentures	16	899,391	-
Term loan	14	48,917	176,814
Lease liabilities	7	1,084,595	-
Deferred income taxes		1,270,849	1,270,849
Non-current liabilities		8,221,148	1,845,828
Total liabilities		16,361,304	14,517,526
Equity			
Common stock	17	7,203,023	6,465,051
Equity portion of convertible debentures	16	138,941	-
Contributed surplus		791,373	503,200
Warrant reserve		210,000	210,000
Deficit		(6,268,288)	(4,299,635)
Total equity		2,075,049	2,878,616
Total liabilities and equity		\$18,436,353	\$17,396,142

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

KONTROL ENERGY CORP.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(UNAUDITED)
(in Canadian dollars)

		Three months ended		Nine months ended	
		September 30	September 30	September 30	September 30
	Notes	2019	2018	2019	2018
Revenues		\$3,266,270	\$2,408,303	\$10,856,816	\$6,632,091
Cost of sales		1,557,022	795,501	5,391,808	2,172,376
Gross profit		1,709,248	1,612,802	5,465,008	4,459,715
Advertising and promotion		31,998	18,142	132,324	232,831
Business fees and licenses		74,903	80,337	218,067	168,088
Consulting		133,733	139,018	448,052	364,136
Employee salaries and benefits		1,114,167	1,049,759	3,315,324	3,118,745
Insurance		40,827	34,355	86,951	60,534
Maintenance and repairs		27,863	21,948	89,239	99,118
Office and general		20,814	26,819	66,282	59,379
Professional fees		30,421	118,254	180,320	269,555
Rent and utilities		18,724	133,693	63,865	388,188
Supplies		20,990	25,011	66,996	63,630
Telecommunication		19,491	20,676	61,105	53,090
Travel		36,161	9,337	107,597	42,928
Amortization - intangibles	8	143,938	98,400	431,814	275,200
Depreciation - property & equip. and right-of-use	6 & 7	144,352	23,853	457,896	73,745
Share based compensation		72,686	19,464	462,576	208,809
		1,931,068	1,819,066	6,188,408	5,477,976
Net loss from operations		(221,820)	(206,264)	(723,400)	(1,018,261)
Amortization - financing fees		197,897	102,236	465,976	379,821
Finance expense		272,458	135,242	779,277	376,590
		470,355	237,478	1,245,253	756,411
Net loss and comprehensive loss for the period		\$(692,175)	\$(443,742)	\$(1,968,653)	\$(1,774,672)
Basic and diluted loss per share		\$(0.02)	\$(0.02)	\$(0.07)	\$(0.07)
Basic and diluted weighted average number of common shares outstanding		29,189,421	26,871,297	29,043,017	26,351,835

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

KONTROL ENERGY CORP.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(UNAUDITED)
AS AT
(In Canadian dollars)

	Equity portion							
	Number of Shares	Common Shares	Convertible Debentures	Obligation to Issue Shares	Contributed Surplus	Warrant Reserve	Deficit	Total Equity
As at December 31, 2017	24,996,084	\$ 4,462,970	-	\$ 120,000	\$ 257,000	-	\$ (2,073,468)	\$ 2,766,502
Shares to debenture holders (Note 13)	401,892	335,633	-	-	-	-	-	335,633
Exercise of warrants	1,240,457	990,008	-	-	-	-	-	990,008
Stock options grant (Note 18)	-	-	-	-	208,809	-	-	208,809
Stock options exercise	115,000	90,750	-	-	(16,000)	-	-	74,750
Share issuance costs	-	(24,353)	-	-	-	-	-	(24,353)
Repurchase of common shares	(77,000)	(57,144)	-	-	-	-	-	(57,144)
Obligation to issue - prior acquisition	605,000	120,000	-	(120,000)	-	-	-	-
Net loss for the period	-	-	-	-	-	-	(1,774,672)	(1,774,672)
As at September 30, 2018	27,281,433	\$ 5,917,864	\$ -	\$ -	\$ 449,809	\$ -	\$ (3,848,140)	\$ 2,519,533
	Equity portion							
	Number of Shares	Common Shares	Convertible Debentures	Obligation to Issue Shares	Contributed Surplus	Warrant Reserve	Deficit	Total Equity
As at December 31, 2018	28,089,570	\$ 6,465,051	-	-	\$ 503,200	210,000	\$ (4,299,635)	\$ 2,878,616
Shares to debenture holders (Note 13)	222,581	163,864	-	-	-	-	-	163,864
Shares to acquire Dimax Controls assets	600,000	420,000	-	-	-	-	-	420,000
Stock options grant (Note 18)	-	-	-	-	288,173	-	-	288,173
Share based compensation	290,672	174,403	-	-	-	-	-	174,403
Repurchase of common shares	(30,500)	(20,295)	-	-	-	-	-	(20,295)
Convertible debentures issue	-	-	138,941	-	-	-	-	138,941
Net loss for the period	-	-	-	-	-	-	(1,968,653)	(1,968,653)
As at September 30, 2019	29,172,323	\$ 7,203,023	\$ 138,941	\$ -	\$ 791,373	\$ 210,000	\$ (6,268,288)	\$ 2,075,049

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

KONTROL ENERGY CORP.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOW
(UNAUDITED)
(in Canadian dollars)

	Nine months ended September 30	Nine months ended September 30
	2019	2018
Operating activities		
Net loss	\$(1,968,653)	\$(1,774,672)
Non-cash items		
Amortization and depreciation	1,355,686	728,766
Share based compensation	462,576	208,809
Non-cash working capital items		
Accounts receivable	1,201,336	(645,634)
Unbilled revenue	(166,823)	(3,252)
Finished inventory	3,844	-
Prepaid expenses	(22,687)	33,210
Accounts payable and accrued liabilities	(682,595)	173,270
Deferred revenue	38,834	(144,935)
Cash flows from (used) operating activities	221,518	(1,424,438)
Investing activities		
Additions to property and equipment	(43,156)	(65,074)
Additions to product development	(282,420)	(189,003)
Cash paid in respect of asset purchase	(100,000)	(3,015,000)
Cash acquired from acquisitions	-	449,330
Cash flows used in investing activities	(425,576)	(2,819,747)
Financing activities		
(Payment) Proceeds of operating line	(309,161)	152,180
Payment of promissory note	-	(157,650)
Payment of holdbacks and vendor take back	(652,500)	-
Payment of loan from shareholder	-	(70,000)
Payment of due to shareholder	(5,500)	(65,000)
Payment of term loan	(120,823)	(117,256)
Proceeds from debenture, net	637,987	1,308,376
(Payment) Proceeds of debt financing, net	(23,312)	1,866,606
Payment of lease principal <i>(Lease interest payment of \$104,372 incl. in operating activities)</i>	(305,711)	-
Proceeds from convertible debentures, net	899,391	-
Proceeds from equity portion of convertible debentures, net	138,941	-
Proceeds from stock option exercise	-	74,750
Proceeds from exercise of warrants	-	990,008
Proceeds from share issuance, net	12,500	200,000
Payment of share issue costs	-	(24,353)
Repurchase of common shares	(20,295)	(57,144)
Cash flows from from financing activities	251,517	4,100,517
Net increase (decrease) in cash	47,459	(143,668)
Cash at beginning of period	1,022,061	675,594
Cash at end of period	\$1,069,520	\$531,926

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

KONTROL ENERGY CORP.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018

1. NATURE OF OPERATIONS

Kontrol Energy Corp. (“Kontrol” or the “Company”) is incorporated under the laws of the Province of British Columbia and its common shares are listed in the Canadian Securities Exchange (“CSE”). The Company is a provider of energy efficiency solutions to commercial energy consumers. Through a disciplined mergers and acquisition strategy, combined with a growing technology platform, Kontrol’s market-based energy solutions are designed to reduce its customers overall cost of energy while providing a corresponding reduction in Green House Gas (GHG) emissions. Management of the Company considers there to be one operating segment being the provision of energy compliance and consulting services. All of the Company’s operations are in Canada. The address of the Company’s head office is 180 Jardin Drive, Unit 9, Vaughan, ON, L4K 1X8.

2. BASIS OF PRESENTATION

Statement of Compliance

The Company’s condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting”.

These condensed interim consolidated financial statements should be read in conjunction with the Company’s annual audited consolidated financial statements for the year ended December 31, 2018. The accounting policies and methods of computation followed in the preparation of these condensed interim consolidated financial statements are consistent with those used in the preparation of the most recent annual audited consolidated financial statements.

The condensed interim consolidated financial statements are presented in Canadian dollars which is the currency of the primary economic environment in which the Company operates in.

The condensed interim consolidated financial statements have been prepared on a historical cost basis.

Basis of Presentation

These condensed interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Details of the Company’s subsidiaries are as follows:

On June 30, 2016 the Company acquired 100% of Kontrol Technologies Inc., a company incorporated in Ontario. This entity and its parent company’s activities are designed for commercial building applications and include deep energy retrofits, distributed power generation, conservation solutions, and energy audits.

On February 10, 2017 the Company acquired 100% of ORTECH Consulting Inc. (“ORTECH”), a company incorporated in Ontario. ORTECH is an engineering consulting firm specializing in Green House Gas reporting, air quality testing, emission testing and renewable energy/power consulting.

On August 4, 2017 the Company acquired 100% of Efficiency Engineering Inc. (“EE Inc.”), a company incorporated in Ontario. EE Inc. provides engineering services to industrial, municipal and commercial building owners across Canada.

On April 30, 2018, the Company acquired assets from MCW Dimax Ltd. The purchased assets are used to manage HVAC systems in real time through ongoing monitoring and analysis.

On September 20, 2018, the Company acquired 100% of CEM Specialties Inc. (“CEMSI”), a company incorporated in Ontario. CEMSI provides the Canadian and US market with value added solutions for continuous emissions and process monitoring applications.

KONTROL ENERGY CORP.

**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018**

Basis of Consolidation

The condensed interim consolidated financial statements incorporate the financial statements of the Company and its subsidiaries after intercompany balances and transactions have been eliminated. Subsidiaries are consolidated from the date that control is obtained and deconsolidated on the date control ceases. The acquisition method is used to account for the acquisition of a subsidiary from an unrelated party at the date that control is obtained, with the difference between the consideration transferred and the fair value of the subsidiary's net identifiable assets acquired recorded as goodwill. Acquisition related costs are recognized in profit and loss as incurred.

3. SIGNIFICANT ACCOUNTING POLICIES

Significant accounting judgments and estimates

The preparation of these condensed interim consolidated financial statements requires management to make judgments and estimates and form assumptions that affect the reported amounts of assets and liabilities at the date of the condensed interim consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Such estimates primarily relate to unsettled transactions and events as at the date of the condensed interim consolidated financial statements. On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities, revenues, and expenses. Management uses various factors it believes to be reasonable under the given circumstances as the basis for its judgments and estimates. Actual outcomes differ from these estimates under different assumptions and conditions.

Application of new and revised International Financial Reporting Standards

IFRS 15, Revenue from Contracts with Customers

IFRS 15 is required for reporting periods beginning on or after January 1, 2018. This new standard supersedes existing standards and interpretations, including IAS 18, Revenue IAS 11, Construction Contracts, and several revenue-related Interpretations. The Company has applied the standard retrospectively to prior periods, subject to permitted and elected practical expedients.

This standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

More prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. The application of IFRS 15 has not had a significant impact on the financial position and financial performance of the Company considering there was no change in the manner in which revenue was recognized under the new standard for revenue streams which existed prior to January 1, 2018.

IFRS 9 Financial Instruments ("IFRS 9"):

IFRS 9 is required for reporting periods beginning on or after January 1, 2018, with retrospective application. The Company applied IFRS 9 on January 1, 2018, and in accordance with the transition requirements, comparative periods have not been restated. The adoption of IFRS 9 did not have a significant impact on the carrying amounts of financial instruments as at January 1, 2018.

IFRS 9 replaces the classification and measurement models in IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39"), with a single model under which financial assets are classified and measured at amortized

KONTROL ENERGY CORP.

**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018**

cost, fair value through other comprehensive income (“FVOCI”) or fair value through profit or loss (“FVTPL”). This classification is based on the business model in which a financial asset is managed, as well as its contractual cash flow characteristics, and eliminates the IAS 39 categories of held-to-maturity, loans and receivables, and available-for-sale.

All other financial assets and financial liabilities will continue to be measured on the same basis as is currently adopted under IAS 39.

The Company has assessed the classification and measurement of our financial instruments under IFRS 9, with reference to the former classification under IAS 39, as follows:

Financial Assets	IFRS 9	IAS 39
Cash and cash equivalents	FVTPL	FVTPL
Long-term investments	FVTPL	FVTPL
Accounts receivable	Amortized cost	Loans and receivables
Financial Liabilities		
Operating line	Amortized cost	Other financial liabilities
Accounts payable and accrued liabilities	Amortized cost	Other financial liabilities
Promissory note payable	Amortized cost	Other financial liabilities
Due to shareholder	Amortized cost	Other financial liabilities
Loan from shareholder	Amortized cost	Other financial liabilities
Holdbacks and vendor take back	Amortized cost	Other financial liabilities
Term loan	Amortized cost	Other financial liabilities
Debentures	Amortized cost	Other financial liabilities

Impairment

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition.

The Company has applied the simplified approach to recognise lifetime expected credit losses for its trade receivables and has adjusted for credit losses under IFRS 9.

In general, the Company anticipates that the application of the expected credit loss model of IFRS 9 results in earlier recognition of credit losses for accounts receivable.

Upon adoption of IFRS 9, the Company did not recognize any adjustment to its consolidated statement of financial position as of January 1, 2018.

IFRS 16, Leases (“IFRS 16”):

IFRS 16 *Leases* replaces IAS 17, *Leases*. The new model requires the recognition of almost all lease contracts on

KONTROL ENERGY CORP.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018

a lessee's statement of financial position as a lease liability reflecting future lease payments and a "right-of-use asset" with exception for certain short-term leases and leases of low-value assets. In addition, the lease payments are required to be presented on the statement of cash flow within the operating and financing activities for the interest and principal portions, respectively.

IFRS 16 has been applied by the Company using the cumulative catch-up approach for annual periods beginning on January 1, 2019. Under this approach, the Company will not restate its comparative figures and will recognize a right-of-use asset equal to the present value of the future lease payments.

On transition to IFRS 16, the Company has elected to apply the practical expedient to only transition contracts which were previously identified as leases. The Company has also elected to not recognize right-of-use assets and lease liabilities for leases that have a lease term of 12 months or less and for leases of low-value assets. The Company accounts for leases for which the lease term ends within 12 months of the date of initial application as short-term leases.

On initial application, the Company elected to record right-of-use assets of \$2,011,667 and lease liabilities of \$2,011,667 as at January 1, 2019.

At the inception, the Company assesses whether a contract is or contains a lease. Lease assets are capitalized at the commencement date of the lease initially measured based on the present value of the lease payments, plus initial direct costs incurred when entering into the lease and lease payments made at or before the commencement date, less any lease incentives received. The right-of-use assets are depreciated over the shorter of the lease term or the estimated useful life of the underlying asset. The Company uses the straight-line method of depreciation. An impairment review is undertaken for any asset that shows indicators of impairment and an impairment loss is recognized against the asset that is impaired. The lease liability is initially measured at the present value of the lease payments discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The property lease payments have been discounted using an incremental borrowing rate of 8% at January 1, 2019.

The following table reconciles the operating lease payments as at December 31, 2018 to the lease liabilities recognized as at January 1, 2019.

Operating lease payments as at December 31, 2018	2,413,126
Impact of discounting	(401,459)
Lease liabilities as at January 1, 2019	<u>\$2,011,667</u>

IFRIC 22 Foreign Currency Transactions and Advance Consideration issued by the IASB in December 2016, provides guidance on the issue of the "date of the transaction" for the purpose of determining the exchange rate at the time of the transaction, to apply to transactions that are within the scope of IAS 21, Effects of Changes in Foreign Exchange Rates, which involve the receipt or payment of an advance consideration in a foreign currency. The interpretation applies for annual reporting periods beginning on or after January 1, 2018. The Company is currently evaluating the impact if the new standard on the consolidated financial statements.

IFRIC 23 Uncertainty over income tax treatments issued by the IASB in June 2017, provides guidance as to when it is appropriate to recognize a current tax asset when the taxation authority requires an entity to make an immediate payment related to an amount in dispute. This interpretation applies for annual reporting periods beginning on or after January 1, 2019. The Company is currently evaluating the impact if the new standard on the consolidated financial statements.

KONTROL ENERGY CORP.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018

4. BUSINESS ACQUISITIONS IN 2018

AQUISITION OF ASSETS FROM MCW DIMAX LTD.

On April 30, 2018, the Company acquired various assets and intangibles from MCW Dimax Ltd. The purchased assets are used to manage HVAC systems in real time through ongoing monitoring and analysis. Through Internet of things ("IOT") and Cloud services, the acquisition adds Software as a Service (SaaS) revenue to Kontrol's operating and technology platform. The aggregate cash purchase price of \$1,008,239 was paid in 2018. The acquisition of assets was accounted for using the acquisition method for business combinations. The assets of MCW Dimax Ltd. are included at their fair value.

Assets acquired

Computer equipment	\$98,239
Customer relationships	512,000
Goodwill*	398,000
	\$1,008,239

Consideration

Cash	\$1,008,239
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*The excess of consideration over the identifiable net assets is allocated to Goodwill.

Goodwill reflects how the acquisition will impact the Company's ability to generate future profits in excess of existing profits due to the reputation of MCW Dimax Ltd. and credibility it has established in the Canadian and U.S. market for providing IOT services. The goodwill has been allocated to the Kontrol Energy Group CGU for the purposes of testing for impairment.

The useful life of the customer relationships is 15 years.

AQUISITION OF CEM SPECIALITIES INC.

On September 20, 2018, the Company completed its acquisition of CEM Specialties Inc. ("CEMSI"). With more than 25 years of operating history, CEMSI provides the Canadian and US market with value added solutions for continuous emissions and process monitoring applications. The Company acquired 100% of the issued and outstanding shares of CEMSI. The acquisition of CEMSI was accounted for using the acquisition method for business combinations. The net assets of CEMSI are included at their fair value.

Net assets acquired

Cash	\$449,330
Accounts receivable	1,154,204
Unbilled revenue	36,456
Finished inventory	195,498
Prepaid expenses	34,792
Property and equipment	73,503
Customer relationships	1,821,000
Brand names	227,000
Goodwill*	1,000,253
Accounts payable and accrued liabilities	(838,724)
Deferred income taxes	(539,256)
	\$3,614,056

Consideration

Cash	\$2,476,556
Vendor take back	502,500
Holdback payable**	582,500

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Share purchase warrants	52,500
	\$3,614,056

*The excess of consideration over the identifiable net assets is allocated to Goodwill.

**Holdback is to secure any indemnifications of Vendors; payable 15 months after acquisition date.

Goodwill reflects how the acquisition will impact the Company's ability to generate future profits in excess of existing profits due to the reputation of CEMSI and credibility it has established in the Canadian and U.S. market for providing continuous emissions monitoring services. The consideration paid relate to combined synergies, related mainly to revenue growth. The goodwill is not deductible for income tax purposes. The goodwill has been allocated to the CEM Speciality CGU for the purposes of testing for impairment.

The useful life of the customer relationships is 15 years. Brand names have a useful life of 10 years.

5. ACCOUNTS RECEIVABLE

All amounts included in accounts receivable are collectible within a short-term period and the net carrying value reasonably approximates the fair value of the receivables.

Allowance for expected credit losses as at September 30, 2019 is \$66,013 (December 31, 2018 - \$71,513).

6. PROPERTY AND EQUIPMENT

	Office	Lab & Other	Computer	Vehicles	Computer	Leasehold	Radio	Total
Cost	Equipment	Equipment	Equipment		Software	Improvements	Equipment	
Balance at January 1, 2019	536,561	1,196,393	895,051	354,927	433,958	148,557	3,336	3,568,783
Acquisitions	-	-	50,000	-	-	-	-	50,000
Additions	-	18,240	3,658	1,900	325	26,845	-	50,968
Disposals	(67,690)	-	-	(44,101)	-	-	-	(111,791)
Balance at Sept 30, 2019	468,871	1,214,633	948,709	312,726	434,283	175,402	3,336	3,557,960
Accumulated depreciation								
Balance at January 1, 2019	469,624	957,868	744,693	304,966	407,602	129,412	2,997	3,017,162
Acquisitions	-	-	-	-	-	-	-	-
Disposals	(63,219)	-	-	(40,760)	-	-	-	(103,979)
Depreciation	9,632	29,060	40,804	10,804	9,867	5,191	51	105,409
Balance at Sept 30, 2019	416,037	986,928	785,497	275,010	417,469	134,603	3,048	3,018,592
Carrying value								
At September 30, 2019	\$52,834	\$227,705	\$163,212	\$37,716	\$16,814	\$40,799	\$288	\$539,368
At December 31, 2018	\$66,937	\$238,525	\$150,358	\$49,961	\$26,356	\$19,145	\$339	\$551,621

The Company acquired computer equipment from Dimax Controls Canada Inc. on January 14, 2019.

KONTROL ENERGY CORP.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018

7. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

Right-of-Use Assets

Cost	Property	Vehicles	Total
Balance at January 1, 2019	2,011,667	-	2,011,667
Additions	-	22,240	22,240
Disposals	(281,351)	-	(281,351)
Balance at September 30, 2019	1,730,315	22,240	1,752,556
Accumulated depreciation			
Balance at January 1, 2019	-	-	-
Disposals	-	-	-
Depreciation	350,633	1,853	352,487
Balance at September 30, 2019	350,633	1,853	352,487
Carrying value			
At September 30, 2019	\$1,379,682	\$20,387	\$1,400,069

Lease Liabilities

Opening balance at January 1, 2019	2,011,667
Additions	22,240
Disposals	(281,351)
Principal repayment	(305,711)
Closing balance at September 30, 2019	<u>\$1,446,845</u>
Current	\$362,250
Long-term	\$1,084,595

Lease payments for the nine months ended September 30, 2019

Principal payments	305,711
Interest expense	104,372
Lease payments	<u>\$410,084</u>

Contractual lease payments by fiscal year

2019	\$535,498
2020	\$428,731
2021	\$376,641
2022	\$376,641
2023	\$324,449
2024	\$61,802

KONTROL ENERGY CORP.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018

8. GOODWILL AND INTANGIBLE ASSETS

	Goodwill	Product Development	Brand Names	Customer Relationships	Intellectual Property	Patents	Total Intangible Assets
Cost							
Balance at January 1, 2019	4,642,566	330,715	483,000	5,509,275	640,000	160,000	7,122,990
Acquisitions	-	-	-	-	385,000	385,000	770,000
Additions	-	282,420	-	-	-	-	282,420
Balance at Sept 30, 2019	4,642,566	613,135	483,000	5,509,275	1,025,000	545,000	8,175,410
Accumulated amortization							
Balance at January 1, 2019	-	-	48,033	439,661	83,112	99,110	669,916
Amortization	-	-	36,225	275,464	51,250	68,875	431,814
Balance at Sept 30, 2019	-	-	84,258	715,125	134,362	167,985	1,101,730
Carrying value							
At September 30, 2019	\$4,642,566	\$613,135	\$398,742	\$4,794,150	\$890,638	\$377,015	\$7,073,680
At December 31, 2018	\$4,642,566	\$330,715	\$434,967	\$5,069,614	\$556,888	\$60,890	\$6,453,074

Product development costs relate to the development of the Company's next generation Energy Management System (SmartSuite). The new SmartSuite will include a robust Internet of Things (IOT) upgrade to allow device to device communication, device to Cloud communication and device to smart phone communication.

The Company recorded patents and intellectual property acquired from Dimax Controls Canada Inc. on January 14, 2019.

9. LONG-TERM INVESTMENT

On October 5, 2015, a consulting agreement with Ghana Energy One ("project") was assigned to Kontrol Energy Group Inc. (formerly Nuvo Energy Grid Inc.), which entitles the Company to have a 4% interest in the project's revenue. The project is approximately 157 Megawatts in total size and is to be in the Ashanti region of Ghana. The project is in the final stages of development and is anticipated to begin construction in 2019. The project will have a long-term Power Purchase Agreement (PPA) with the Government of Ghana for a period of 20 years. The balance \$1 (2018: \$1) is a nominal value to represent the investment.

10. OPERATING LINE

	September 30, 2019	December 31, 2018
Operating Line	\$392,663	\$701,824

Operating line facilities are with two financial institutions.

Facility I: Capacity of \$400,000. Bank Prime rate plus 1.50% per annum. Drawdowns as required; repayment on demand. General security agreement issued on all assets of Efficiency Engineering Inc.

Facility II: Capacity of \$500,000. Bank Prime rate plus 1.75% per annum. Drawdowns as required; repayment on demand. General security agreement issued on all assets of ORTECH Consulting Inc. The Company has provided a Guarantee over ORTECH Consulting Inc.'s borrowing under this facility. Also see financial covenants noted in the Term Loan in connection with this same financial institution (Note 14).

KONTROL ENERGY CORP.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018

11. DUE TO SHAREHOLDER

Due to shareholder is unsecured, non-interest bearing and due on demand. This amount is related to the acquisition of Kontrol Technologies Inc.

12. HOLDBACKS PAYABLE AND VENDOR TAKE BACK

	September 30, 2019	December 31, 2018
Holdback relating to EE acquisition	400,000	550,000
Holdback relating to CEMSI acquisition	582,500	582,500
Vendor take back relating to CEMSI acquisition	-	502,500
	\$982,500	\$1,635,000

Holdbacks payable are to secure any indemnifications of Vendors in connection with acquisitions. The holdback relating the CEMSI acquisition is due December 20, 2019, is non-interest bearing and is unsecured. The holdback due dates relating the to EE acquisition were extended and amounts are owing in December 2019 and January 2020.

The Vendor take back amount relates to the CEMSI acquisition and is in the form of a promissory note with subordinated security, due September 20, 2019 was repaid in full.

13. DEBENTURES

	September 30, 2019	December 31, 2018
Debentures, at face value	7,109,750	6,129,250
Deferred financing cost and unamortized discount	(608,354)	(486,085)
	6,501,396	5,643,165
Less: Current portion	1,584,000	5,245,000
	\$4,917,396	\$398,165

Debenture offering – 2016

The Debentures bear interest at a rate of 8% per annum, payable quarterly in arrears and will mature on October 31, 2019. The Debentures are non-convertible and non-redeemable. The Debenture Offering is up to \$5,300,000 of units at a price of \$1,000 per unit, each unit to be comprised of one 8% unsecured non-convertible debenture and 100 common shares of the Company (“Debenture units”). The 2016 Debenture Offering was fully subscribed and closed during the first quarter of 2018. However, the offering was expanded in 2019 to allow for additional proceeds having the same maturity date as the extended debentures noted below.

During the nine months ended September 30, 2019, a material amount of the 2016 debenture offering originally due October 31, 2019 were extended to October 31, 2020 as reflected in the table above. A new offering memorandum was issued, and subscriptions were processed for a one-year extension.

Securities offering – 2018

Proceeds raised were \$1,229,000 and the offering was closed in the first quarter of 2019. Each unit at a price of \$1,000 consisting of a \$750 Debenture, \$250 of common shares, and 150 common share purchase warrants

KONTROL ENERGY CORP.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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("Units"). The Debentures bear interest at a rate of 7% per annum, payable monthly and will mature on April 25, 2021. The Debentures are non-convertible and non-redeemable

Commissions paid to registered securities dealers to effect sales of the offerings and professional fees relating to preparation of the offerings is recorded as a reduction of the Debenture amount and amortized over the term of the Debenture. The common shares included in the 2016 offering are fair valued at the time of each Debenture closing and recorded as a reduction of the Debenture amount and amortized over the term of the Debenture.

14. TERM LOAN

	September 30, 2019	December 31, 2018
Term loan	221,730	342,553
Less: Current portion	(172,813)	(165,739)
	<u>\$48,917</u>	<u>\$176,814</u>

A term loan of \$500,000 was taken out in the fourth quarter of 2017. Interest is payable at Bank Prime rate plus 2.40%. The repayment term of the loan is 36 months, regardless of potential adjustments made to the interest rate. The blended principal and interest repayment plus mandatory repayment is linked to ORTECH Consulting Inc.'s cash flow. In addition, a general security agreement was issued on all assets of ORTECH Consulting Inc. The Company has provided a guarantee over ORTECH Consulting Inc.'s borrowing under this facility. ORTECH Consulting Inc.'s financial covenants under this facility include the following: (i) Debt service coverage ratio on a rolling four quarters basis for the fiscal quarter then ended and the immediately preceding three fiscal quarters of not less than 1.25:1; and (ii) a ratio of funded debt to EBITDA, calculated on a rolling four quarter basis for the fiscal quarter then ended and the immediately preceding three fiscal quarters of not greater than 3:1.

15. DEBT FINANCING

	September 30, 2019	December 31, 2018
Debt financing	1,925,000	1,925,000
Deferred financing cost	(86,224)	(157,280)
	<u>\$1,838,776</u>	<u>\$1,767,720</u>

In connection with the acquisition of CEMSI, the Company closed on a \$2 Million bridge debt financing. The bridge debt financing has a term of one year with an option to renew for an additional period. The outstanding principal amount of the debt bears interest at a rate per annum equal to 15%. Payments are interest only on a monthly basis and the outstanding principal is due on the maturity date. The debt is secured by general security agreements, shares pledge and guarantee. Fees recorded as a reduction of the debt and will be amortized over the term of the financing. CEMSI financial covenants under this debt financing include the following: (i) a ratio of EBITDA to interest expense calculated on a rolling four quarters basis for the fiscal quarter then ended and the immediately preceding three fiscal quarters of not less than 1.50:1; and (ii) a ratio of funded debt to EBITDA, calculated on a rolling four quarter basis for the fiscal quarter then ended and the immediately preceding three fiscal quarters of not greater than 5:1.

Subsequent to quarter ended September 30, 2019 the debt was refinanced on a 3-year term, providing incremental increased funding capacity and converts the existing short-term debt into a long-term obligation. As such the debt financing will be re-classified to long-term in the fourth quarter of 2019.

KONTROL ENERGY CORP.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018

16. CONVERTIBLE DEBENTURES

	Liability Portion	Equity Portion	Total
December 31, 2018	-	-	-
Issuance of convertible debentures	899,391	138,941	1,038,332
September 30, 2019	<u>\$899,391</u>	<u>\$138,841</u>	<u>\$1,038,332</u>

During the third quarter of 2019, the Company completed a private placement offering unsecured Convertible Debentures of the Company, at a price of \$1,000 per \$1,000 principal amount Convertible Debenture. The Convertible Debentures are convertible into common shares of the Company at the Conversion Price. Gross proceeds of \$1,114,00,000 were received.

The Convertible Debentures shall bear interest at a rate of 8.0% per annum from and including their date of issue until the earlier of their date of conversion and the maturity date, payable semi-annually in arrears in cash on December 31 and June 30 of each year. The first interest payment shall be on December 31, 2019 for the period from the Closing Date to December 31, 2019.

The Convertible Debentures may be converted in full or in part, at the holders' option into Common Shares, at any time prior to the maturity date, at a conversion price of \$0.80. Holders converting their Convertible Debentures will receive a cash payment equal to accrued and unpaid interest thereon for the period from and including the date of the latest interest payment date to, and including, the date of conversion.

At any time after the date that is eighteen months following the Closing Date, the Company may force the conversion of the principal amount of the then outstanding Convertible Debentures at the Conversion Price on not less than 30 days' notice if the volume weighted average trading price of the Common Shares on the CSE for any 20 consecutive trading day period is greater than \$1.25.

The Convertible Debentures will mature on August 31, 2024.

The Company shall pay a cash commission to finders and brokers equal to 7.0% of the gross proceeds from the sale of the Convertible Debentures attributable to such finders or brokers. In addition, the Company agrees to grant to finders and brokers common share purchase warrants equal to the quotient obtained by dividing 6.0% of the gross proceeds attributable to such finders or brokers by \$0.80. Each Compensation Warrant shall be exercisable to purchase one Common Share of the Company at a price of \$0.80 for a period of 24 months from the Closing Date.

The Convertible Debentures will be unsecured obligations of the Company and shall rank pari passu in right of payment of principal and interest with all other Convertible Debentures issued under the private placement and all previously existing and future unsecured indebtedness of the Company.

The liability portion of the Convertible Debentures was assigned a value based on the present value of the contractually determined stream of future cash flows discounted at 12%. The rate estimated to be equivalent market interest rate that would apply to a similar liability which does not contain an equity conversion option. The difference between the principal amount of the Convertible Debentures and the discounted cash flows represents the fair value of the conversion feature and was recognized in Equity. The transaction costs directly attributable to the offering were allocated to the liability and equity portions of the Convertible Debentures.

Accretion of the liability portion and interest payable on the Convertible Debentures are included in finance expense in the Consolidated Statements of Loss and Comprehensive Loss.

KONTROL ENERGY CORP.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018

17. COMMON STOCK

The Company is authorized to issue an unlimited number of common shares.

During the nine months ended September 30, 2019, 222,581 shares were issued to Debenture Unit holders. These common shares were valued at \$163,864 (see Note 13).

On January 14, 2019, the Company issued 600,000 to Dimax Controls Canada Inc. in connection with the purchase of computer equipment, patents and intellectual property. Escrow conditions apply.

During the nine months ended September 30, 2019, 290,672 performance shares were issued.

During the nine months ended September 30, 2019, 30,500 shares were repurchased under the Company's normal course issuer bid and were valued at \$20,295.

18. STOCK OPTIONS

The Company has established a stock option plan for directors, employees, and consultants. Under the Company's stock option plan, the exercise price of each option is determined by the Board, subject to the Discounted Market Price policies of the CSE. The aggregate number of common shares issuable pursuant to options granted under the plan is 10% of the Company's issued common shares. The board of directors has the exclusive power over the granting of options and their vesting and cancellation provisions.

The following is a summary of the changes in the Company's stock option plan for the nine months ended September 30, 2019:

Options Outstanding	September 30, 2019		September 30, 2018	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Opening	2,631,165	\$0.75	1,850,000	\$0.67
Granted	400,000	\$0.80	1,013,665	\$0.84
Exercised	-	-	(115,000)	\$0.65
Forfeited	(260,000)	\$0.77	(1,195,000)	\$0.65
Closing	2,771,165	\$0.76	1,553,665	\$0.80

The fair value of stock options is determined using the Black-Scholes Model. Volatility is calculated by using the historical volatility of other companies that the Company considers comparable that have trading and volatility history prior to the Company becoming public. The expected life in years represents the time that the options granted are expected to be outstanding. The risk-free rate is based on zero coupon Canada government bonds with a remaining term equal to the expected life of the options. The following outlines the range of assumptions used for the options issued during the nine months ended September 30, 2019:

Black-Scholes assumptions	September 30, 2019	September 30, 2018
Exercise price	\$0.60 - \$0.80	\$0.60 - \$1.50
Risk-free interest rate	1.0%	1.0%
Expected life	2 years – 5 years	2 years – 5 years
Expected volatility	46%	46%
Expected dividend yield	0%	0%
Weighted average grant date fair value per option	\$0.24	\$0.29

KONTROL ENERGY CORP.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018

19. WARRANTS

During the nine months ended September 30, 2019, the Company issued 7,500 warrants relating to the Securities offering (see Note 13).

During the nine months ended September 30, 2019, the Company issued 330,780 warrants relating to Finder fees in connection with capital raising efforts.

During the nine months ended September 30, 2019 a total of 246,760 warrants had expired.

Warrants outstanding as at September 30, 2019 are 2,036,282 (December 31, 2018 – 1,944,762).

20. RELATED PARTY TRANSACTIONS

Related Party Balances

	September 30, 2019	December 31, 2018
Due to shareholder (see Note 11)	\$39,500	\$45,000

Key Management Compensation

The Company's key management personnel have the authority and responsibility for planning, directing and controlling the activities of the Company and consists of the Company's executive management team and management directors. The following is a summary of the related party transactions, including key management compensation for the six months ended September 30, 2019.

	September 30, 2019	September 30, 2018
Salaries, benefits and consulting	389,100	340,350
Share-based compensation	141,196	10,333
	\$530,296	\$350,683

21. FINANCIAL INSTRUMENTS

The Company's financial instruments are exposed to certain financial risks, including credit risk, liquidity risk, and market risk.

(a) Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to the liquidity of its cash and accounts receivable. The Company limits exposure to credit risk by maintaining its cash with a large Canadian financial institution. To mitigate credit risk with respect to accounts receivable the Company subjects all major customer accounts to its credit evaluation process. The Company's maximum exposure to credit risk is the carrying value of cash held with financial institutions and accounts receivable.

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company ensures there is sufficient capital to meet short-term business requirements after taking into account

KONTROL ENERGY CORP.

**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018**

cash flow from operations, the Company's holdings of cash, and the available credit facilities. The Company manages liquidity risk through the management of its capital structure. Accounts payable and accrued liabilities are due within the current operating period.

(c) Interest rate risk

As at September 30, 2019, the Company's Operating Line and Term Loan are subject to varying rates with the financial institution's prime rate and are subject to cash flow risks. The Company monitors its exposure to interest rates and has not entered into any derivative contracts to mitigate this risk. Based on the outstanding credit facilities, a 1% increase in interest rates for the Company would decrease year to date 2019 net income before tax by approximately \$6,220 (September 30, 2018 - \$7,500).

(d) Fair Value

IFRS 7 establishes a fair value hierarchy that prioritizes the input to valuation techniques used to measure fair value as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities:

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e., derived from prices); and

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(e) Foreign currency risk

Foreign currency risk arises because of fluctuations in exchange rates. The Company's newly acquired subsidiary, CEMSI, conducts a portion of its business activities in U.S. dollars. Management of foreign exchange currency exposure is governed by the Company's foreign exchange policy as approved by its Board. The objective of the policy is to minimize the earnings impact of foreign currency gains and losses associated with foreign exchange rate fluctuations.

The financial assets and liabilities that are denominated in foreign currencies will be affected by changes in the exchange rate between the Canadian dollar and the U.S. dollar. This primarily includes cash, accounts receivable, and accounts payables and accrued liabilities which are denominated in foreign currencies.

22. MANAGEMENT OF CAPITAL RISK

The Company considers items included in shareholders' equity as capital. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company manages the capital structure and makes adjustment to it considering 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 new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents.

To facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions.

To maximize the ongoing development efforts, the Company does not pay out dividends. The Company's investment policy is to invest its short-term excess cash in highly liquid short-term interest-bearing investments with maturities of 90 days or less from the original date of acquisition selected with regard to the expected timing of expenditures from continuing operations. The Company's approach to managing capital remains unchanged from the year ended December 31, 2018.

KONTROL ENERGY CORP.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018

23. SUBSEQUENT EVENTS

Subsequent to quarter ended September 30, 2019 the Debt Financing of \$1,838,776 (Note 15) was refinanced on a 3-year term, providing incremental increased funding capacity and converts the existing short-term debt into a long-term obligation. As such the Debt Financing will be re-classified to long-term in the fourth quarter of 2019.

APPENDIX B

**Kontrol Energy Corp.'s Consolidated Interim Financial Statements for the Six-Month
Period Ended June 30, 2019**

KONTROL ENERGY CORP.

**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019
(UNAUDITED)
(Prepared in Canadian dollars)**

KONTROL ENERGY CORP.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(UNAUDITED)
AS AT
(in Canadian dollars)

		June 30 2019	December 31 2018
	Notes		
Assets			
Cash		\$884,810	\$1,022,061
Accounts receivable	5	3,130,015	4,259,464
Unbilled revenue		245,230	164,818
Finished inventory		186,365	194,021
Prepaid expenses		154,030	108,516
Current assets		4,600,450	5,748,880
Property and equipment	6	559,585	551,621
Right-of-use assets	7	1,790,106	-
Goodwill	8	4,642,566	4,642,566
Intangible assets	8	7,114,508	6,453,074
Long-term investment	9	1	1
Non-current assets		14,106,766	11,647,262
Total assets		\$18,707,216	\$17,396,142
Liabilities			
Operating line	10	\$626,923	\$701,824
Accounts payable and accrued liabilities		2,111,493	2,982,526
Deferred revenue		149,586	128,889
Due to shareholder	11	39,500	45,000
Holdbacks and vendor take back	12	1,635,000	1,635,000
Current portion of debentures	13	2,136,000	5,245,000
Current portion of term loan	14	170,235	165,739
Debt financing	15	1,830,632	1,767,720
Current portion of lease liabilities	7	440,280	-
Current liabilities		9,139,649	12,671,698
Debentures	13	4,248,453	398,165
Term loan	14	92,868	176,814
Lease liabilities	7	1,384,491	-
Deferred income taxes		1,270,849	1,270,849
Non-current liabilities		6,996,661	1,845,828
Total liabilities		16,136,310	14,517,526
Equity			
Common stock	16	7,218,332	6,465,051
Contributed surplus		718,687	503,200
Warrant reserve		210,000	210,000
Deficit		(5,576,113)	(4,299,635)
Total equity		2,570,906	2,878,616
Total liabilities and equity		\$18,707,216	\$17,396,142

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

KONTROL ENERGY CORP.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(UNAUDITED)
(in Canadian dollars)

		Three months ended		Six months ended	
		June 30	June 30	June 30	June 30
	Notes	2019	2018	2019	2018
Revenues		\$3,912,186	\$2,027,363	\$7,590,546	\$4,223,927
Cost of sales		2,016,686	462,884	3,834,785	1,377,013
Gross profit		1,895,500	1,564,479	3,755,761	2,846,914
Advertising and promotion		21,262	19,334	100,326	214,688
Business fees and licenses		60,012	48,803	143,165	84,363
Consulting		177,822	94,296	314,318	221,770
Employee salaries and benefits		1,114,215	1,008,720	2,201,157	2,068,986
Insurance		22,072	16,186	46,124	26,179
Maintenance and repairs		24,166	25,920	59,831	67,551
Office and general		22,952	19,345	47,014	46,588
Professional fees		116,377	91,908	149,899	151,301
Rent and utilities		22,129	128,532	45,141	254,495
Supplies		23,695	29,337	46,005	40,948
Telecommunication		18,405	20,066	41,615	32,414
Travel		44,582	14,873	71,436	33,591
Amortization - intangibles	8	143,938	93,400	287,876	176,800
Depreciation - property & equip. and right-of-use	6 & 7	157,457	26,843	313,544	49,893
Share based compensation		135,710	18,945	389,890	189,345
		2,104,794	1,656,508	4,257,341	3,658,912
Net loss from operations		(209,294)	(92,029)	(501,580)	(811,998)
Amortization - financing fees		108,678	117,346	268,078	277,584
Finance expense		277,309	120,620	506,820	241,348
		385,987	237,966	774,898	518,932
Net loss and comprehensive loss for the period		\$(595,281)	\$(329,995)	\$(1,276,478)	\$(1,330,930)
Basic and diluted loss per share		\$(0.02)	\$(0.01)	\$(0.04)	\$(0.05)
Basic and diluted weighted average number of common shares outstanding		29,099,200	26,435,361	28,968,150	26,085,452

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

KONTROL ENERGY CORP.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
AS AT
(In Canadian dollars)

	Number of Shares	Common Shares	Obligation to Issue Shares	Contributed Surplus	Warrant Reserve	Deficit	Total Equity
As at December 31, 2017	24,996,084	\$ 4,462,970	\$ 120,000	\$ 257,000	-	\$ (2,073,468)	\$ 2,766,502
Shares to debenture holders (Note 13)	226,127	245,133	-	-	-	-	245,133
Exercise of warrants	1,240,457	990,008	-	-	-	-	990,008
Stock options grant (Note 17)	-	-	-	189,345	-	-	189,345
Stock options exercise	115,000	90,750	-	(16,000)	-	-	74,750
Share issuance costs	-	(24,353)	-	-	-	-	(24,353)
Repurchase of common shares	(29,000)	(27,000)	-	-	-	-	(27,000)
Net loss for the period	-	-	-	-	-	(1,330,930)	(1,330,930)
As at June 30, 2018	26,548,668	\$ 5,737,508	\$ 120,000	\$ 430,345	\$ -	\$ (3,404,398)	\$ 2,883,455
	Number of Shares	Common Shares	Obligation to Issue Shares	Contributed Surplus	Warrant Reserve	Deficit	Total Equity
As at December 31, 2018	28,089,570	\$ 6,465,051	\$ -	\$ 503,200	210,000	\$ (4,299,635)	\$ 2,878,616
Shares to debenture holders (Note 13)	215,981	158,878	-	-	-	-	158,878
Shares to acquire Dimax Controls assets	600,000	420,000	-	-	-	-	420,000
Stock options grant (Note 17)	-	-	-	215,487	-	-	215,487
Share based compensation	290,672	174,403	-	-	-	-	174,403
Net loss for the period	-	-	-	-	-	(1,276,478)	(1,276,478)
As at June 30, 2019	29,196,223	\$ 7,218,332	\$ -	\$ 718,687	\$ 210,000	\$ (5,576,113)	\$ 2,570,906

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

KONTROL ENERGY CORP.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOW
(UNAUDITED)
(in Canadian dollars)

	Six months ended June 30	Six months ended June 30
	2019	2018
Operating activities		
Net loss	\$(1,276,478)	\$(1,330,930)
Non-cash items		
Amortization and depreciation	869,498	504,277
Share based compensation	389,890	189,345
Non-cash working capital items		
Accounts receivable	1,129,449	(189,478)
Unbilled revenue	(80,412)	40,543
Finished inventory	7,656	-
Prepaid expenses	(45,514)	2,043
Accounts payable and accrued liabilities	(1,171,033)	(66,065)
Deferred revenue	20,697	(223,610)
Cash flows used in operating activities	(156,247)	(1,073,875)
Investing activities		
Additions to property and equipment	(27,778)	(64,209)
Additions to product development	(179,310)	(89,064)
Cash paid in respect of asset purchase	(100,000)	(750,000)
Cash flows used in investing activities	(307,088)	(903,273)
Financing activities		
(Payment) Proceeds of operating line	(74,901)	1,431
Payment of promissory note	-	(157,650)
Payment of loan from shareholder	-	(70,000)
Payment of due to shareholder	(5,500)	(45,000)
Payment of term loan	(79,450)	(77,624)
Proceeds from debenture, net	682,500	1,044,376
Payment of lease principal <i>(Lease interest payment of \$75,199 incl. in operating activities)</i>	(209,065)	-
Proceeds from stock option exercise	-	74,750
Proceeds from exercise of warrants	-	990,008
Proceeds from share issuance, net	12,500	109,500
Payment of share issue costs	-	(24,353)
Repurchase of common shares	-	(27,000)
Cash flows from from financing activities	326,084	1,818,438
Net decrease in cash	(137,251)	(158,710)
Cash at beginning of period	1,022,061	675,594
Cash at end of period	\$884,810	\$516,884

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

KONTROL ENERGY CORP.

**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2019 AND 2018**

1. NATURE OF OPERATIONS

Kontrol Energy Corp. (“Kontrol” or the “Company”) is incorporated under the laws of the Province of British Columbia and its common shares are listed in the Canadian Securities Exchange (“CSE”). The Company is a provider of energy efficiency solutions to commercial energy consumers. Through a disciplined mergers and acquisition strategy, combined with a growing technology platform, Kontrol’s market-based energy solutions are designed to reduce its customers overall cost of energy while providing a corresponding reduction in Green House Gas (GHG) emissions. Management of the Company considers there to be one operating segment being the provision of energy compliance and consulting services. All of the Company’s operations are in Canada. The address of the Company’s head office is 180 Jardin Drive, Unit 9, Vaughan, ON, L4K 1X8.

2. BASIS OF PRESENTATION

Statement of Compliance

The Company’s condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting”.

These condensed interim consolidated financial statements should be read in conjunction with the Company’s annual audited consolidated financial statements for the year ended December 31, 2018. The accounting policies and methods of computation followed in the preparation of these condensed interim consolidated financial statements are consistent with those used in the preparation of the most recent annual audited consolidated financial statements.

The condensed interim consolidated financial statements are presented in Canadian dollars which is the currency of the primary economic environment in which the Company operates in.

The condensed interim consolidated financial statements have been prepared on a historical cost basis.

Basis of Presentation

These condensed interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Details of the Company’s subsidiaries are as follows:

On June 30, 2016 the Company acquired 100% of Kontrol Technologies Inc., a company incorporated in Ontario. This entity and its parent company’s activities are designed for commercial building applications and include deep energy retrofits, distributed power generation, conservation solutions, and energy audits.

On February 10, 2017 the Company acquired 100% of ORTECH Consulting Inc. (“ORTECH”), a company incorporated in Ontario. ORTECH is an engineering consulting firm specializing in Green House Gas reporting, air quality testing, emission testing and renewable energy/power consulting.

On August 4, 2017 the Company acquired 100% of Efficiency Engineering Inc. (“EE Inc.”), a company incorporated in Ontario. EE Inc. provides engineering services to industrial, municipal and commercial building owners across Canada.

On April 30, 2018, the Company acquired assets from MCW Dimax Ltd. The purchased assets are used to manage HVAC systems in real time through ongoing monitoring and analysis.

On September 20, 2018, the Company acquired 100% of CEM Specialties Inc. (“CEMSI”), a company incorporated in Ontario. CEMSI provides the Canadian and US market with value added solutions for continuous emissions and process monitoring applications.

KONTROL ENERGY CORP.

**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2019 AND 2018**

Basis of Consolidation

The condensed interim consolidated financial statements incorporate the financial statements of the Company and its subsidiaries after intercompany balances and transactions have been eliminated. Subsidiaries are consolidated from the date that control is obtained and deconsolidated on the date control ceases. The acquisition method is used to account for the acquisition of a subsidiary from an unrelated party at the date that control is obtained, with the difference between the consideration transferred and the fair value of the subsidiary's net identifiable assets acquired recorded as goodwill. Acquisition related costs are recognized in profit and loss as incurred.

3. SIGNIFICANT ACCOUNTING POLICIES

Significant accounting judgments and estimates

The preparation of these condensed interim consolidated financial statements requires management to make judgments and estimates and form assumptions that affect the reported amounts of assets and liabilities at the date of the condensed interim consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Such estimates primarily relate to unsettled transactions and events as at the date of the condensed interim consolidated financial statements. On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities, revenues, and expenses. Management uses various factors it believes to be reasonable under the given circumstances as the basis for its judgments and estimates. Actual outcomes differ from these estimates under different assumptions and conditions.

Application of new and revised International Financial Reporting Standards

IFRS 15, Revenue from Contracts with Customers

IFRS 15 is required for reporting periods beginning on or after January 1, 2018. This new standard supersedes existing standards and interpretations, including IAS 18, Revenue IAS 11, Construction Contracts, and several revenue-related Interpretations. The Company has applied the standard retrospectively to prior periods, subject to permitted and elected practical expedients.

This standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

More prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. The application of IFRS 15 has not had a significant impact on the financial position and financial performance of the Company considering there was no change in the manner in which revenue was recognized under the new standard for revenue streams which existed prior to January 1, 2018.

IFRS 9 Financial Instruments ("IFRS 9"):

IFRS 9 is required for reporting periods beginning on or after January 1, 2018, with retrospective application. The Company applied IFRS 9 on January 1, 2018, and in accordance with the transition requirements, comparative periods have not been restated. The adoption of IFRS 9 did not have a significant impact on the carrying amounts of financial instruments as at January 1, 2018.

IFRS 9 replaces the classification and measurement models in IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39"), with a single model under which financial assets are classified and measured at amortized

KONTROL ENERGY CORP.

**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2019 AND 2018**

cost, fair value through other comprehensive income (“FVOCI”) or fair value through profit or loss (“FVTPL”). This classification is based on the business model in which a financial asset is managed, as well as its contractual cash flow characteristics, and eliminates the IAS 39 categories of held-to-maturity, loans and receivables, and available-for-sale.

All other financial assets and financial liabilities will continue to be measured on the same basis as is currently adopted under IAS 39.

The Company has assessed the classification and measurement of our financial instruments under IFRS 9, with reference to the former classification under IAS 39, as follows:

Financial Assets	IFRS 9	IAS 39
Cash and cash equivalents	FVTPL	FVTPL
Long-term investments	FVTPL	FVTPL
Accounts receivable	Amortized cost	Loans and receivables
Financial Liabilities		
Operating line	Amortized cost	Other financial liabilities
Accounts payable and accrued liabilities	Amortized cost	Other financial liabilities
Promissory note payable	Amortized cost	Other financial liabilities
Due to shareholder	Amortized cost	Other financial liabilities
Loan from shareholder	Amortized cost	Other financial liabilities
Holdbacks and vendor take back	Amortized cost	Other financial liabilities
Term loan	Amortized cost	Other financial liabilities
Debentures	Amortized cost	Other financial liabilities

Impairment

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition.

The Company has applied the simplified approach to recognise lifetime expected credit losses for its trade receivables and has adjusted for credit losses under IFRS 9.

In general, the Company anticipates that the application of the expected credit loss model of IFRS 9 results in earlier recognition of credit losses for accounts receivable.

Upon adoption of IFRS 9, the Company did not recognize any adjustment to its consolidated statement of financial position as of January 1, 2018.

IFRS 16, Leases (“IFRS 16”):

IFRS 16 *Leases* replaces IAS 17, *Leases*. The new model requires the recognition of almost all lease contracts on

KONTROL ENERGY CORP.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2019 AND 2018

a lessee's statement of financial position as a lease liability reflecting future lease payments and a "right-of-use asset" with exception for certain short-term leases and leases of low-value assets. In addition, the lease payments are required to be presented on the statement of cash flow within the operating and financing activities for the interest and principal portions, respectively.

IFRS 16 has been applied by the Company using the cumulative catch-up approach for annual periods beginning on January 1, 2019. Under this approach, the Company will not restate its comparative figures and will recognize a right-of-use asset equal to the present value of the future lease payments.

On transition to IFRS 16, the Company has elected to apply the practical expedient to only transition contracts which were previously identified as leases. The Company has also elected to not recognize right-of-use assets and lease liabilities for leases that have a lease term of 12 months or less and for leases of low-value assets. The Company accounts for leases for which the lease term ends within 12 months of the date of initial application as short-term leases.

On initial application, the Company elected to record right-of-use assets of \$2,011,667 and lease liabilities of \$2,011,667 as at January 1, 2019.

At the inception, the Company assesses whether a contract is or contains a lease. Lease assets are capitalized at the commencement date of the lease initially measured based on the present value of the lease payments, plus initial direct costs incurred when entering into the lease and lease payments made at or before the commencement date, less any lease incentives received. The right-of-use assets are depreciated over the shorter of the lease term or the estimated useful life of the underlying asset. The Company uses the straight-line method of depreciation. An impairment review is undertaken for any asset that shows indicators of impairment and an impairment loss is recognized against the asset that is impaired. The lease liability is initially measured at the present value of the lease payments discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The property lease payments have been discounted using an incremental borrowing rate of 8% at January 1, 2019.

The following table reconciles the operating lease payments as at December 31, 2018 to the lease liabilities recognized as at January 1, 2019.

Operating lease payments as at December 31, 2018	2,413,126
Impact of discounting	(401,459)
Lease liabilities as at January 1, 2019	<u>\$2,011,667</u>

IFRIC 22 Foreign Currency Transactions and Advance Consideration issued by the IASB in December 2016, provides guidance on the issue of the "date of the transaction" for the purpose of determining the exchange rate at the time of the transaction, to apply to transactions that are within the scope of IAS 21, Effects of Changes in Foreign Exchange Rates, which involve the receipt or payment of an advance consideration in a foreign currency. The interpretation applies for annual reporting periods beginning on or after January 1, 2018. The Company is currently evaluating the impact if the new standard on the consolidated financial statements.

IFRIC 23 Uncertainty over income tax treatments issued by the IASB in June 2017, provides guidance as to when it is appropriate to recognize a current tax asset when the taxation authority requires an entity to make an immediate payment related to an amount in dispute. This interpretation applies for annual reporting periods beginning on or after January 1, 2019. The Company is currently evaluating the impact if the new standard on the consolidated financial statements.

KONTROL ENERGY CORP.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2019 AND 2018

4. BUSINESS ACQUISITIONS IN 2018

AQUISITION OF ASSETS FROM MCW DIMAX LTD.

On April 30, 2018, the Company acquired various assets and intangibles from MCW Dimax Ltd. The purchased assets are used to manage HVAC systems in real time through ongoing monitoring and analysis. Through Internet of things ("IOT") and Cloud services, the acquisition adds Software as a Service (SaaS) revenue to Kontrol's operating and technology platform. The aggregate cash purchase price of \$1,008,239 was paid in 2018. The acquisition of assets was accounted for using the acquisition method for business combinations. The assets of MCW Dimax Ltd. are included at their fair value.

Assets acquired

Computer equipment	\$98,239
Customer relationships	512,000
Goodwill*	398,000
	\$1,008,239

Consideration

Cash	\$1,008,239
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*The excess of consideration over the identifiable net assets is allocated to Goodwill.

Goodwill reflects how the acquisition will impact the Company's ability to generate future profits in excess of existing profits due to the reputation of MCW Dimax Ltd. and credibility it has established in the Canadian and U.S. market for providing IOT services. The goodwill has been allocated to the Kontrol Energy Group CGU for the purposes of testing for impairment.

The useful life of the customer relationships is 15 years.

AQUISITION OF CEM SPECIALITIES INC.

On September 20, 2018, the Company completed its acquisition of CEM Specialties Inc. ("CEMSI"). With more than 25 years of operating history, CEMSI provides the Canadian and US market with value added solutions for continuous emissions and process monitoring applications. The Company acquired 100% of the issued and outstanding shares of CEMSI. The acquisition of CEMSI was accounted for using the acquisition method for business combinations. The net assets of CEMSI are included at their fair value.

Net assets acquired

Cash	\$449,330
Accounts receivable	1,154,204
Unbilled revenue	36,456
Finished inventory	195,498
Prepaid expenses	34,792
Property and equipment	73,503
Customer relationships	1,821,000
Brand names	227,000
Goodwill*	1,000,253
Accounts payable and accrued liabilities	(838,724)
Deferred income taxes	(539,256)
	\$3,614,056

Consideration

Cash	\$2,476,556
Vendor take back	502,500
Holdback payable**	582,500

KONTROL ENERGY CORP.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2019 AND 2018

Share purchase warrants	52,500
	\$3,614,056

*The excess of consideration over the identifiable net assets is allocated to Goodwill.

**Holdback is to secure any indemnifications of Vendors; payable 15 months after acquisition date.

Goodwill reflects how the acquisition will impact the Company's ability to generate future profits in excess of existing profits due to the reputation of CEMSI and credibility it has established in the Canadian and U.S. market for providing continuous emissions monitoring services. The consideration paid relate to combined synergies, related mainly to revenue growth. The goodwill is not deductible for income tax purposes. The goodwill has been allocated to the CEM Speciality CGU for the purposes of testing for impairment.

The useful life of the customer relationships is 15 years. Brand names have a useful life of 10 years.

5. ACCOUNTS RECEIVABLE

All amounts included in accounts receivable are collectible within a short-term period and the net carrying value reasonably approximates the fair value of the receivables.

Allowance for expected credit losses as at June 30, 2019 is \$71,013 (December 31, 2018 - \$71,513).

6. PROPERTY AND EQUIPMENT

	Office	Lab & Other	Computer	Vehicles	Computer	Leasehold	Radio	Total
Cost	Equipment	Equipment	Equipment		Software	Improvements	Equipment	
Balance at January 1, 2019	536,561	1,196,393	895,051	354,927	433,958	148,557	3,336	3,568,783
Acquisitions	-	-	50,000	-	-	-	-	50,000
Additions	-	9,772	3,658	1,900	325	18,145	-	33,800
Disposals	(67,690)	-	-	(19,883)	-	-	-	(87,573)
Balance at June 30, 2019	468,871	1,206,165	948,709	336,944	434,283	166,702	3,336	3,565,010
Accumulated depreciation								
Balance at January 1, 2019	469,624	957,868	744,693	304,966	407,602	129,412	2,997	3,017,162
Acquisitions	-	-	-	-	-	-	-	-
Disposals	(63,219)	-	-	(18,332)	-	-	-	(81,551)
Depreciation	6,585	18,908	27,218	7,330	6,575	3,165	34	69,814
Balance at June 30, 2019	412,990	976,776	771,911	293,964	414,177	132,577	3,031	3,005,425
Carrying value								
At June 30, 2019	\$55,881	\$229,389	\$176,798	\$42,980	\$20,106	\$34,125	\$305	\$559,585
At December 31, 2018	\$66,937	\$238,525	\$150,358	\$49,961	\$26,356	\$19,145	\$339	\$551,621

The Company acquired computer equipment from Dimax Controls Canada Inc. on January 14, 2019.

KONTROL ENERGY CORP.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2019 AND 2018

7. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

Right-of-Use Assets

Cost	Property	Vehicles	Total
Balance at January 1, 2019	2,011,667	-	2,011,667
Additions	-	22,169	22,169
Disposals	-	-	-
Balance at June 30, 2019	2,011,667	22,169	2,033,836
Accumulated depreciation			
Balance at January 1, 2019	-	-	-
Disposals	-	-	-
Depreciation	243,361	369	243,730
Balance at June 30, 2019	243,361	369	243,730
Carrying value			
At June 30, 2019	\$1,768,306	\$21,800	\$1,790,106

Lease Liabilities

Opening balance at January 1, 2019	2,011,667
Additions	22,169
Principal repayment	(209,065)
Closing balance at June 30, 2019	<u>\$1,824,771</u>
Current	\$440,280
Long-term	\$1,384,491

Lease payments for the six months ended June 30, 2019

Principal payments	209,065
Interest expense	75,199
Lease payments	<u>\$284,264</u>

Contractual lease payments by fiscal year

2019	\$569,330
2020	\$498,020
2021	\$445,930
2022	\$445,930
2023	\$393,738
2024	\$62,208

KONTROL ENERGY CORP.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2019 AND 2018

8. GOODWILL AND INTANGIBLE ASSETS

	Goodwill	Product Development	Brand Names	Customer Relationships	Intellectual Property	Patents	Total Intangible Assets
Cost							
Balance at January 1, 2019	4,642,566	330,715	483,000	5,509,275	640,000	160,000	7,122,990
Acquisitions	-	-	-	-	385,000	385,000	770,000
Additions	-	179,310	-	-	-	-	179,310
Balance at June 30, 2019	4,642,566	510,025	483,000	5,509,275	1,025,000	545,000	8,072,300
Accumulated amortization							
Balance at January 1, 2019	-	-	48,033	439,661	83,112	99,110	669,916
Amortization	-	-	24,150	183,643	34,167	45,917	287,876
Balance at June 30, 2019	-	-	72,183	623,304	117,279	145,027	957,792
Carrying value							
At June 30, 2019	\$4,642,566	\$510,025	\$410,817	\$4,885,972	\$907,721	\$399,973	\$7,114,508
At December 31, 2018	\$4,642,566	\$330,715	\$434,967	\$5,069,614	\$556,888	\$60,890	\$6,453,074

Product development costs relate to the development of the Company's next generation Energy Management System (SmartSuite). The new SmartSuite will include a robust Internet of Things (IOT) upgrade to allow device to device communication, device to Cloud communication and device to smart phone communication.

The Company recorded patents and intellectual property acquired from Dimax Controls Canada Inc. on January 14, 2019.

9. LONG-TERM INVESTMENT

On October 5, 2015, a consulting agreement with Ghana Energy One ("project") was assigned to Kontrol Energy Group Inc. (formerly Nuvo Energy Grid Inc.), which entitles the Company to have a 4% interest in the project's revenue. The project is approximately 157 Megawatts in total size and is to be in the Ashanti region of Ghana. The project is in the final stages of development and is anticipated to begin construction in 2019. The project will have a long-term Power Purchase Agreement (PPA) with the Government of Ghana for a period of 20 years. The balance \$1 (2018: \$1) is a nominal value to represent the investment.

10. OPERATING LINE

	June 30, 2019	December 31, 2018
Operating Line	\$626,923	\$701,824

Operating line facilities are with two financial institutions.

Facility I: Capacity of \$400,000. Bank Prime rate plus 1.50% per annum. Drawdowns as required; repayment on demand. General security agreement issued on all assets of Efficiency Engineering Inc.

Facility II: Capacity of \$500,000. Bank Prime rate plus 1.75% per annum. Drawdowns as required; repayment on demand. General security agreement issued on all assets of ORTECH Consulting Inc. The Company has provided a Guarantee over ORTECH Consulting Inc.'s borrowing under this facility. Also see financial covenants noted in the Term Loan in connection with this same financial institution (Note 14).

KONTROL ENERGY CORP.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2019 AND 2018

11. DUE TO SHAREHOLDER

Due to shareholder is unsecured, non-interest bearing and due on demand. This amount is related to the acquisition of Kontrol Technologies Inc.

12. HOLDBACKS PAYABLE AND VENDOR TAKE BACK

	June 30, 2019	December 31, 2018
Holdback relating to EE acquisition	550,000	550,000
Holdback relating to CEMSI acquisition	582,500	582,500
Vendor take back relating to CEMSI acquisition	502,500	502,500
	<u>\$1,635,000</u>	<u>\$1,635,000</u>

Holdbacks payable are to secure any indemnifications of Vendors in connection with acquisitions. The holdback relating the CEMSI acquisition is due December 20, 2019, is non-interest bearing and is unsecured. The holdback relating the to EE acquisition originally due on November 30, 2018 was extended to October 31, 2019.

The Vendor take back amount relates to the CEMSI acquisition and is in the form of a promissory note with subordinated security, due September 20, 2019 and interest accruing at a rate of 6% per annum until the principal is repaid in full.

13. DEBENTURES

	June 30, 2019	December 31, 2018
Debentures, at face value	6,992,750	6,129,250
Deferred financing cost and unamortized discount	(608,297)	(486,085)
	6,384,453	5,643,165
Less: Current portion	2,136,000	5,245,000
	<u>\$4,248,453</u>	<u>\$398,165</u>

Debenture offering – 2016

The Debentures bear interest at a rate of 8% per annum, payable quarterly in arrears and will mature on October 31, 2019. The Debentures are non-convertible and non-redeemable. The Debenture Offering is up to \$5,300,000 of units at a price of \$1,000 per unit, each unit to be comprised of one 8% unsecured non-convertible debenture and 100 common shares of the Company ("Debenture units"). The 2016 Debenture Offering was fully subscribed and closed during the first quarter of 2018. However, the offering was expanded in 2019 to allow for additional proceeds having the same maturity date as the extended debentures noted below.

During the second quarter of 2019 a material amount of the 2016 debenture offering originally due October 31, 2019 were extended to October 31, 2020 as reflected in the table above. A new offering memorandum was issued, and subscriptions were processed for a one year extension. As at the date of the Company's release of the June 30, 2019 Financial Statements, additional subscription received or under review for maturity extension totalled \$552,000, which would reduce the current portion in the table above from \$2,136,000 to \$1,584,000. The final total extended subscription amount will be known in third quarter of this fiscal year.

KONTROL ENERGY CORP.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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Securities offering – 2018

Proceeds raised were \$1,229,000 and the offering was closed in the first quarter of 2019. Each unit at a price of \$1,000 consisting of a \$750 Debenture, \$250 of common shares, and 150 common share purchase warrants (“Units”). The Debentures bear interest at a rate of 7% per annum, payable monthly and will mature on April 25, 2021. The Debentures are non-convertible and non-redeemable

Commissions paid to registered securities dealers to effect sales of the offerings and professional fees relating to preparation of the offerings is recorded as a reduction of the Debenture amount and amortized over the term of the Debenture. The common shares included in the 2016 offering are fair valued at the time of each Debenture closing and recorded as a reduction of the Debenture amount and amortized over the term of the Debenture.

14. TERM LOAN

	June 30, 2019	December 31, 2018
Term loan	263,103	342,553
Less: Current portion	(170,235)	(165,739)
	<u>\$92,868</u>	<u>\$176,814</u>

A term loan of \$500,000 was taken out in the fourth quarter of 2017. Interest is payable at Bank Prime rate plus 2.40%. The repayment term of the loan is 36 months, regardless of potential adjustments made to the interest rate. The blended principal and interest repayment plus mandatory repayment is linked to ORTECH Consulting Inc.’s cash flow. In addition, a general security agreement was issued on all assets of ORTECH Consulting Inc. The Company has provided a guarantee over ORTECH Consulting Inc.’s borrowing under this facility. ORTECH Consulting Inc.’s financial covenants under this facility include the following: (i) Debt service coverage ratio on a rolling four quarters basis for the fiscal quarter then ended and the immediately preceding three fiscal quarters of not less than 1.25:1; and (ii) a ratio of funded debt to EBITDA, calculated on a rolling four quarter basis for the fiscal quarter then ended and the immediately preceding three fiscal quarters of not greater than 3:1.

15. DEBT FINANCING

	June 30, 2019	December 31, 2018
Debt financing	1,925,000	1,925,000
Deferred financing cost	(94,368)	(157,280)
	<u>\$1,830,632</u>	<u>\$1,767,720</u>

In connection with the acquisition of CEMSI, the Company closed on a \$2 Million bridge debt financing. The bridge debt financing has a term of one year with an option to renew for an additional period. The outstanding principal amount of the debt bears interest at a rate per annum equal to 15%. Payments are interest only on a monthly basis and the outstanding principal is due on the maturity date. The debt is secured by general security agreements, shares pledge and guarantee. Fees recorded as a reduction of the debt and will be amortized over the term of the financing. CEMSI financial covenants under this debt financing include the following: (i) a ratio of EBITDA to interest expense calculated on a rolling four quarters basis for the fiscal quarter then ended and the immediately preceding three fiscal quarters of not less than 1.50:1; and (ii) a ratio of funded debt to EBITDA, calculated on a rolling four quarter basis for the fiscal quarter then ended and the immediately preceding three fiscal quarters of not greater than 5:1.

KONTROL ENERGY CORP.
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16. COMMON STOCK

The Company is authorized to issue an unlimited number of common shares.

During the six months ended June 30, 2019, 215,981 shares were issued to Debenture Unit holders. These common shares were valued at \$158,878 (see Note 13).

On January 14, 2019, the Company issued 600,000 to Dimax Controls Canada Inc. in connection with the purchase of computer equipment, patents and intellectual property. Escrow conditions apply.

During the six months ended June 30, 2019, 290,672 performance shares were issued.

17. STOCK OPTIONS

The Company has established a stock option plan for directors, employees, and consultants. Under the Company's stock option plan, the exercise price of each option is determined by the Board, subject to the Discounted Market Price policies of the CSE. The aggregate number of common shares issuable pursuant to options granted under the plan is 10% of the Company's issued common shares. The board of directors has the exclusive power over the granting of options and their vesting and cancellation provisions.

The following is a summary of the changes in the Company's stock option plan for the six months ended June 30, 2019:

Options Outstanding	June 30, 2019		June 30, 2018	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Opening	2,631,165	\$0.75	1,850,000	\$0.67
Granted	400,000	\$0.80	888,665	\$0.87
Exercised	-	-	(115,000)	\$0.65
Forfeited	(150,000)	\$0.80	-	-
Closing	2,881,165	\$0.75	2,623,665	\$0.74

The fair value of stock options is determined using the Black-Scholes Model. Volatility is calculated by using the historical volatility of other companies that the Company considers comparable that have trading and volatility history prior to the Company becoming public. The expected life in years represents the time that the options granted are expected to be outstanding. The risk-free rate is based on zero coupon Canada government bonds with a remaining term equal to the expected life of the options. The following outlines the range of assumptions used for the options issued during the six months ended June 30, 2019:

Black-Scholes assumptions	June 30, 2019	June 30, 2018
Exercise price	\$0.60 - \$0.80	\$0.60 - \$1.50
Risk-free interest rate	1.0%	1.0%
Expected life	2 years – 5 years	2 years – 5 years
Expected volatility	46%	46%
Expected dividend yield	0%	0%
Weighted average grant date fair value per option	\$0.24	\$0.29

KONTROL ENERGY CORP.

**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2019 AND 2018**

18. WARRANTS

During the six months ended June 30, 2019, the Company issued 7,500 warrants relating to the Securities offering (see Note 13).

During the six months ended June 30, 2019, the Company issued 241,110 warrants relating to Finder fees in connection with capital raising efforts.

During the six months ended June 30, 2019 a total of 230,760 warrants had expired.

Warrants outstanding as at June 30, 2019 are 1,962,612 (December 31, 2018 – 1,944,762).

19. RELATED PARTY TRANSACTIONS

Related Party Balances

	June 30, 2019	December 31, 2018
Due to shareholder (see Note 11)	\$39,500	\$45,000

Key Management Compensation

The Company's key management personnel have the authority and responsibility for planning, directing and controlling the activities of the Company and consists of the Company's executive management team and management directors. The following is a summary of the related party transactions, including key management compensation for the six months ended June 30, 2019.

	June 30, 2019	June 30, 2018
Salaries, benefits and consulting	259,400	231,900
Share-based compensation	141,196	18,945
	\$400,596	\$250,845

20. FINANCIAL INSTRUMENTS

The Company's financial instruments are exposed to certain financial risks, including credit risk, liquidity risk, and market risk.

(a) Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to the liquidity of its cash and accounts receivable. The Company limits exposure to credit risk by maintaining its cash with a large Canadian financial institution. To mitigate credit risk with respect to accounts receivable the Company subjects all major customer accounts to its credit evaluation process. The Company's maximum exposure to credit risk is the carrying value of cash held with financial institutions and accounts receivable.

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company ensures there is sufficient capital to meet short-term business requirements after taking into account

KONTROL ENERGY CORP.

**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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cash flow from operations, the Company's holdings of cash, and the available credit facilities. The Company manages liquidity risk through the management of its capital structure. Accounts payable and accrued liabilities are due within the current operating period.

(c) Interest rate risk

As at June 30, 2019, the Company's Operating Line and Term Loan are subject to varying rates with the financial institution's prime rate and are subject to cash flow risks. The Company monitors its exposure to interest rates and has not entered into any derivative contracts to mitigate this risk. Based on the outstanding credit facilities, a 1% increase in interest rates for the Company would decrease year to date 2019 net income before tax by approximately \$4,800 (June 30, 2018 - \$4,700).

(d) Fair Value

IFRS 7 establishes a fair value hierarchy that prioritizes the input to valuation techniques used to measure fair value as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities:

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e., derived from prices); and

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company has no financial instruments recorded at level 3 fair value at June 30, 2019 and December 31, 2018.

As at June 30, 2019, both the carrying and fair value amounts of all the Company's financial instruments are approximately equivalent.

(e) Foreign currency risk

Foreign currency risk arises because of fluctuations in exchange rates. The Company's newly acquired subsidiary, CEMSI, conducts a portion of its business activities in U.S. dollars. Management of foreign exchange currency exposure is governed by the Company's foreign exchange policy as approved by its Board. The objective of the policy is to minimize the earnings impact of foreign currency gains and losses associated with foreign exchange rate fluctuations.

The financial assets and liabilities that are denominated in foreign currencies will be affected by changes in the exchange rate between the Canadian dollar and the U.S. dollar. This primarily includes cash, accounts receivable, and accounts payables and accrued liabilities which are denominated in foreign currencies.

21. MANAGEMENT OF CAPITAL RISK

The Company considers items included in shareholders' equity as capital. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company manages the capital structure and makes adjustment to it considering 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 new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents.

To facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions.

KONTROL ENERGY CORP.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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To maximize the ongoing development efforts, the Company does not pay out dividends. The Company's investment policy is to invest its short-term excess cash in highly liquid short-term interest-bearing investments with maturities of 90 days or less from the original date of acquisition selected with regard to the expected timing of expenditures from continuing operations. The Company's approach to managing capital remains unchanged from the year ended December 31, 2018.

22. SUBSEQUENT EVENTS

During the second quarter of 2019 a material amount of the 2016 debenture offering originally due October 31, 2019 were extended to October 31, 2020. A new offering memorandum was issued, and subscriptions were processed for a one year extension. As at the date of the Company's release of the June 30, 2019 Financial Statements, additional subscription received or under review for maturity extension totalled \$552,000, which would reduce the current portion from \$2,136,000 to \$1,584,000. The final total extended subscription amount will be known in third quarter of this fiscal year.

APPENDIX C

**Kontrol Energy Corp.'s Consolidated Interim Financial Statements for the Three-Month
Period Ended March 31, 2019**

KONTROL ENERGY CORP.

**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2019
(UNAUDITED)
(Prepared in Canadian dollars)**

KONTROL ENERGY CORP.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(UNAUDITED)
AS AT
(in Canadian dollars)

	Notes	March 31 2019	December 31 2018
Assets			
Cash		\$1,081,787	\$1,022,061
Accounts receivable	5	2,502,931	4,259,464
Unbilled revenue		228,636	164,818
Finished inventory		185,872	194,021
Prepaid expenses		99,689	108,516
Current assets		4,098,915	5,748,880
Property and equipment	6	569,620	551,621
Right-of-use assets	7	1,889,987	-
Goodwill	8	4,642,566	4,642,566
Intangible assets	8	7,184,972	6,453,074
Long-term investment	9	1	1
Non-current assets		14,287,146	11,647,262
Total assets		\$18,386,061	\$17,396,142
Liabilities			
Operating line	10	\$687,453	\$701,824
Accounts payable and accrued liabilities		1,941,546	2,982,526
Deferred revenue		106,653	128,889
Due to shareholder	11	42,500	45,000
Holdbacks and vendor take back	12	1,635,000	1,635,000
Current portion of debentures	13	5,245,000	5,245,000
Current portion of term loan	14	168,500	165,739
Debt financing	15	-	1,767,720
Current portion of lease liabilities	7	437,199	-
Current liabilities		10,263,851	12,671,698
Debentures	13	563,610	398,165
Term loan	14	133,171	176,814
Debt financing	15	1,799,176	-
Lease liabilities	7	1,471,304	-
Deferred income taxes		1,270,849	1,270,849
Non-current liabilities		5,238,110	1,845,828
Total liabilities		15,501,961	14,517,526
Equity			
Common stock	16	7,071,954	6,465,051
Contributed surplus		582,977	503,200
Warrant reserve		210,000	210,000
Deficit		(4,980,831)	(4,299,635)
Total equity		2,884,100	2,878,616
Total liabilities and equity		\$18,386,061	\$17,396,142

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

KONTROL ENERGY CORP.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(UNAUDITED)
(in Canadian dollars)

		Three months ended March 31	Three months ended March 31
	Notes	2019	2018
Revenues	20	\$3,678,360	\$2,196,564
Cost of sales		1,818,100	914,129
Gross profit		1,860,260	1,282,435
Advertising and promotion		79,063	195,354
Business fees and licenses		83,155	40,510
Consulting		136,497	127,474
Employee salaries and benefits		1,086,942	1,060,266
Insurance		24,052	9,993
Maintenance and repairs		35,665	35,275
Office and general		24,061	25,400
Professional fees		33,521	62,641
Rent		23,012	125,964
Supplies		22,310	11,611
Telecommunication		23,210	12,349
Travel		26,854	18,717
Amortization - intangibles	8	143,937	83,400
Depreciation - property & equipment and right-of-use	6 & 7	156,086	23,050
Share based compensation		254,180	170,400
		2,152,545	2,002,404
Net loss from operations		(292,285)	(719,969)
Amortization - financing fees		159,401	160,238
Finance expense		229,510	120,728
		388,911	280,966
Net loss and comprehensive loss for the year		\$(681,196)	\$(1,000,935)
Basic and diluted loss per share		\$(0.03)	\$(0.04)
Basic and diluted weighted average number of common shares outstanding		26,710,807	25,737,107

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

KONTROL ENERGY CORP.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
AS AT
(In Canadian dollars)

	Number of Shares	Common Shares	Obligation to Issue Shares	Contributed Surplus	Warrant Reserve	Deficit	Total Equity
As at December 31, 2017	24,996,084	\$ 4,462,970	\$ 120,000	\$ 257,000	-	\$ (2,073,468)	\$ 2,766,502
Shares to debenture holders (Note 13)	94,200	135,633	-	-	-	-	135,633
Exercise of warrants	1,220,857	974,328	-	-	-	-	974,328
Stock options grant (Note 17)	-	-	-	170,400	-	-	170,400
Stock options exercise	115,000	90,750	-	(16,000)	-	-	74,750
Share issuance costs	-	(24,353)	-	-	-	-	(24,353)
Net loss for the year	-	-	-	-	-	(1,000,935)	(1,000,935)
As at March 31, 2018	26,426,141	\$ 5,639,328	\$ 120,000	\$ 411,400	\$ -	\$ (3,074,403)	\$ 3,096,325
	Number of Shares	Common Shares	Obligation to Issue Shares	Contributed Surplus	Warrant Reserve	Deficit	Total Equity
As at December 31, 2018	28,089,570	\$ 6,465,051	\$ -	\$ 503,200	210,000	\$ (4,299,635)	\$ 2,878,616
Shares to debenture holders (Note 13)	19,231	12,500	-	-	-	-	12,500
Shares to acquire Dimax Controls assets	600,000	420,000	-	-	-	-	420,000
Stock options grant (Note 17)	-	-	-	79,777	-	-	79,777
Share based compensation	290,672	174,403	-	-	-	-	174,403
Net loss for the year	-	-	-	-	-	(681,196)	(681,196)
As at March 31, 2019	28,999,473	\$ 7,071,954	\$ -	\$ 582,977	\$ 210,000	\$ (4,980,831)	\$ 2,884,100

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

KONTROL ENERGY CORP.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOW
(UNAUDITED)
(in Canadian dollars)

	Three months ended March 31	Three months ended March 31
	2019	2018
Operating activities		
Net loss	\$(681,196)	\$(1,000,935)
Non-cash items		
Amortization and depreciation	459,424	266,688
Share based compensation	254,180	170,400
Non-cash working capital items		
Accounts receivable	1,756,533	(153,081)
Unbilled revenue	(63,818)	(55,932)
Finished inventory	8,149	-
Prepaid expenses	8,827	9,252
Accounts payable and accrued liabilities	(1,365,980)	113,748
Deferred revenue	(22,236)	(171,753)
Cash flows from (used in) operating activities	353,883	(821,613)
Investing activities		
Additions to property and equipment	(2,405)	(19,424)
Additions to product development	(105,835)	(26,427)
Cash paid in respect of asset purchase	(75,000)	-
Cash flows used in investing activities	(183,240)	(45,851)
Financing activities		
(Payment) Proceeds of operating line	(14,371)	54,855
Payment of promissory note	-	(157,650)
Payment of loan from shareholder	-	(70,000)
Payment of due to shareholder	(2,500)	(45,000)
Payment of term loan	(40,882)	(38,541)
Proceeds from debenture, net	37,500	784,170
Payment of lease principal <i>(Lease interest payment of \$38,604 incl. in operating activities)</i>	(103,164)	-
Proceeds from stock option exercise	-	74,750
Proceeds from exercise of warrants	-	974,328
Proceeds from share issuance, net	12,500	-
Payment of share issue costs	-	(24,353)
Cash flows (used in) from financing activities	(110,917)	1,552,559
Net increase in cash	59,726	685,095
Cash at beginning of period	1,022,061	675,594
Cash at end of period	\$1,081,787	\$1,360,689

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

KONTROL ENERGY CORP.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018

1. NATURE OF OPERATIONS

Kontrol Energy Corp. (“Kontrol” or the “Company”) is incorporated under the laws of the Province of British Columbia and its common shares are listed in the Canadian Securities Exchange (“CSE”). The Company is a provider of energy efficiency solutions to commercial energy consumers. Through a disciplined mergers and acquisition strategy, combined with a growing technology platform, Kontrol’s market-based energy solutions are designed to reduce its customers overall cost of energy while providing a corresponding reduction in Green House Gas (GHG) emissions. Management of the Company considers there to be one operating segment being the provision of energy compliance and consulting services. All of the Company’s operations are in Canada. The address of the Company’s head office is 180 Jardin Drive, Unit 9, Vaughan, ON, L4K 1X8.

2. BASIS OF PRESENTATION

Statement of Compliance

The Company’s condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting”.

These condensed interim consolidated financial statements should be read in conjunction with the Company’s annual audited consolidated financial statements for the year ended December 31, 2018. The accounting policies and methods of computation followed in the preparation of these condensed interim consolidated financial statements are consistent with those used in the preparation of the most recent annual audited consolidated financial statements.

The condensed interim consolidated financial statements are presented in Canadian dollars which is the currency of the primary economic environment in which the Company operates in.

The condensed interim consolidated financial statements have been prepared on a historical cost basis.

Basis of Presentation

These condensed interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Details of the Company’s subsidiaries are as follows:

On June 30, 2016 the Company acquired 100% of Kontrol Technologies Inc., a company incorporated in Ontario. This entity and its parent company’s activities are designed for commercial building applications and include deep energy retrofits, distributed power generation, conservation solutions, and energy audits.

On February 10, 2017 the Company acquired 100% of ORTECH Consulting Inc. (“ORTECH”), a company incorporated in Ontario. ORTECH is an engineering consulting firm specializing in Green House Gas reporting, air quality testing, emission testing and renewable energy/power consulting.

On August 4, 2017 the Company acquired 100% of Efficiency Engineering Inc. (“EE Inc.”), a company incorporated in Ontario. EE Inc. provides engineering services to industrial, municipal and commercial building owners across Canada.

On April 30, 2018, the Company acquired assets from MCW Dimax Ltd. The purchased assets are used to manage HVAC systems in real time through ongoing monitoring and analysis.

On September 20, 2018, the Company acquired 100% of CEM Specialties Inc. (“CEMSI”), a company incorporated in Ontario. CEMSI provides the Canadian and US market with value added solutions for continuous emissions and process monitoring applications.

KONTROL ENERGY CORP.

**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018**

Basis of Consolidation

The condensed interim consolidated financial statements incorporate the financial statements of the Company and its subsidiaries after intercompany balances and transactions have been eliminated. Subsidiaries are consolidated from the date that control is obtained and deconsolidated on the date control ceases. The acquisition method is used to account for the acquisition of a subsidiary from an unrelated party at the date that control is obtained, with the difference between the consideration transferred and the fair value of the subsidiary's net identifiable assets acquired recorded as goodwill. Acquisition related costs are recognized in profit and loss as incurred.

3. SIGNIFICANT ACCOUNTING POLICIES

Significant accounting judgments and estimates

The preparation of these condensed interim consolidated financial statements requires management to make judgments and estimates and form assumptions that affect the reported amounts of assets and liabilities at the date of the condensed interim consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Such estimates primarily relate to unsettled transactions and events as at the date of the condensed interim consolidated financial statements. On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities, revenues, and expenses. Management uses various factors it believes to be reasonable under the given circumstances as the basis for its judgments and estimates. Actual outcomes differ from these estimates under different assumptions and conditions.

Application of new and revised International Financial Reporting Standards

IFRS 15, Revenue from Contracts with Customers

IFRS 15 is required for reporting periods beginning on or after January 1, 2018. This new standard supersedes existing standards and interpretations, including IAS 18, Revenue IAS 11, Construction Contracts, and several revenue-related Interpretations. The Company has applied the standard retrospectively to prior periods, subject to permitted and elected practical expedients.

This standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

More prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. The application of IFRS 15 has not had a significant impact on the financial position and financial performance of the Company considering there was no change in the manner in which revenue was recognized under the new standard for revenue streams which existed prior to January 1, 2018.

IFRS 9 Financial Instruments ("IFRS 9"):

IFRS 9 is required for reporting periods beginning on or after January 1, 2018, with retrospective application. The Company applied IFRS 9 on January 1, 2018, and in accordance with the transition requirements, comparative periods have not been restated. The adoption of IFRS 9 did not have a significant impact on the carrying amounts of financial instruments as at January 1, 2018.

IFRS 9 replaces the classification and measurement models in IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39"), with a single model under which financial assets are classified and measured at amortized

KONTROL ENERGY CORP.

**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018**

cost, fair value through other comprehensive income (“FVOCI”) or fair value through profit or loss (“FVTPL”). This classification is based on the business model in which a financial asset is managed, as well as its contractual cash flow characteristics, and eliminates the IAS 39 categories of held-to-maturity, loans and receivables, and available-for-sale.

All other financial assets and financial liabilities will continue to be measured on the same basis as is currently adopted under IAS 39.

The Company has assessed the classification and measurement of our financial instruments under IFRS 9, with reference to the former classification under IAS 39, as follows:

Financial Assets	IFRS 9	IAS 39
Cash and cash equivalents	FVTPL	FVTPL
Long-term investments	FVTPL	FVTPL
Accounts receivable	Amortized cost	Loans and receivables
Financial Liabilities		
Operating line	Amortized cost	Other financial liabilities
Accounts payable and accrued liabilities	Amortized cost	Other financial liabilities
Promissory note payable	Amortized cost	Other financial liabilities
Due to shareholder	Amortized cost	Other financial liabilities
Loan from shareholder	Amortized cost	Other financial liabilities
Holdbacks and vendor take back	Amortized cost	Other financial liabilities
Term loan	Amortized cost	Other financial liabilities
Debentures	Amortized cost	Other financial liabilities

Impairment

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition.

The Company has applied the simplified approach to recognise lifetime expected credit losses for its trade receivables and has adjusted for credit losses under IFRS 9.

In general, the Company anticipates that the application of the expected credit loss model of IFRS 9 results in earlier recognition of credit losses for accounts receivable.

Upon adoption of IFRS 9, the Company did not recognize any adjustment to its consolidated statement of financial position as of January 1, 2018.

IFRS 16, Leases (“IFRS 16”):

IFRS 16 *Leases* replaces IAS 17, *Leases*. The new model requires the recognition of almost all lease contracts on

KONTROL ENERGY CORP.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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a lessee's statement of financial position as a lease liability reflecting future lease payments and a "right-of-use asset" with exception for certain short-term leases and leases of low-value assets. In addition, the lease payments are required to be presented on the statement of cash flow within the operating and financing activities for the interest and principal portions, respectively.

IFRS 16 has been applied by the Company using the cumulative catch-up approach for annual periods beginning on January 1, 2019. Under this approach, the Company will not restate its comparative figures and will recognize a right-of-use asset equal to the present value of the future lease payments.

On transition to IFRS 16, the Company has elected to apply the practical expedient to only transition contracts which were previously identified as leases. The Company has also elected to not recognize right-of-use assets and lease liabilities for leases that have a lease term of 12 months or less and for leases of low-value assets. The Company accounts for leases for which the lease term ends within 12 months of the date of initial application as short-term leases.

On initial application, the Company elected to record right-of-use assets of \$2,011,667 and lease liabilities of \$2,011,667 as at January 1, 2019.

At the inception, the Company assesses whether a contract is or contains a lease. Lease assets are capitalized at the commencement date of the lease initially measured based on the present value of the lease payments, plus initial direct costs incurred when entering into the lease and lease payments made at or before the commencement date, less any lease incentives received. The right-of-use assets are depreciated over the shorter of the lease term or the estimated useful life of the underlying asset. The Company uses the straight-line method of depreciation. An impairment review is undertaken for any asset that shows indicators of impairment and an impairment loss is recognized against the asset that is impaired. The lease liability is initially measured at the present value of the lease payments discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The property lease payments have been discounted using an incremental borrowing rate of 8% at January 1, 2019.

The following table reconciles the operating lease payments as at December 31, 2018 to the lease liabilities recognized as at January 1, 2019.

Operating lease payments as at December 31, 2018	2,413,126
Impact of discounting	(401,459)
Lease liabilities as at January 1, 2019	<u>\$2,011,667</u>

IFRIC 22 Foreign Currency Transactions and Advance Consideration issued by the IASB in December 2016, provides guidance on the issue of the "date of the transaction" for the purpose of determining the exchange rate at the time of the transaction, to apply to transactions that are within the scope of IAS 21, Effects of Changes in Foreign Exchange Rates, which involve the receipt or payment of an advance consideration in a foreign currency. The interpretation applies for annual reporting periods beginning on or after January 1, 2018. The Company is currently evaluating the impact if the new standard on the consolidated financial statements.

IFRIC 23 Uncertainty over income tax treatments issued by the IASB in June 2017, provides guidance as to when it is appropriate to recognize a current tax asset when the taxation authority requires an entity to make an immediate payment related to an amount in dispute. This interpretation applies for annual reporting periods beginning on or after January 1, 2019. The Company is currently evaluating the impact if the new standard on the consolidated financial statements.

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4. BUSINESS ACQUISITIONS IN 2018

AQUISITION OF ASSETS FROM MCW DIMAX LTD.

On April 30, 2018, the Company acquired various assets and intangibles from MCW Dimax Ltd. The purchased assets are used to manage HVAC systems in real time through ongoing monitoring and analysis. Through Internet of things ("IOT") and Cloud services, the acquisition adds Software as a Service (SaaS) revenue to Kontrol's operating and technology platform. The aggregate cash purchase price of \$1,008,239 was paid in 2018. The acquisition of assets was accounted for using the acquisition method for business combinations. The assets of MCW Dimax Ltd. are included at their fair value.

Assets acquired

Computer equipment	\$98,239
Customer relationships	512,000
Goodwill*	398,000
	\$1,008,239

Consideration

Cash	\$1,008,239
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*The excess of consideration over the identifiable net assets is allocated to Goodwill.

Goodwill reflects how the acquisition will impact the Company's ability to generate future profits in excess of existing profits due to the reputation of MCW Dimax Ltd. and credibility it has established in the Canadian and U.S. market for providing IOT services. The goodwill has been allocated to the Kontrol Energy Group CGU for the purposes of testing for impairment.

The useful life of the customer relationships is 15 years.

AQUISITION OF CEM SPECIALITIES INC.

On September 20, 2018, the Company completed its acquisition of CEM Specialties Inc. ("CEMSI"). With more than 25 years of operating history, CEMSI provides the Canadian and US market with value added solutions for continuous emissions and process monitoring applications. The Company acquired 100% of the issued and outstanding shares of CEMSI. The acquisition of CEMSI was accounted for using the acquisition method for business combinations. The net assets of CEMSI are included at their fair value.

Net assets acquired

Cash	\$449,330
Accounts receivable	1,154,204
Unbilled revenue	36,456
Finished inventory	195,498
Prepaid expenses	34,792
Property and equipment	73,503
Customer relationships	1,821,000
Brand names	227,000
Goodwill*	1,000,253
Accounts payable and accrued liabilities	(838,724)
Deferred income taxes	(539,256)
	\$3,614,056

Consideration

Cash	\$2,476,556
Vendor take back	502,500
Holdback payable**	582,500

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Share purchase warrants	52,500
	\$3,614,056

*The excess of consideration over the identifiable net assets is allocated to Goodwill.

**Holdback is to secure any indemnifications of Vendors; payable 15 months after acquisition date.

Goodwill reflects how the acquisition will impact the Company's ability to generate future profits in excess of existing profits due to the reputation of CEMSI and credibility it has established in the Canadian and U.S. market for providing continuous emissions monitoring services. The consideration paid relate to combined synergies, related mainly to revenue growth. The goodwill is not deductible for income tax purposes. The goodwill has been allocated to the CEM Speciality CGU for the purposes of testing for impairment.

The useful life of the customer relationships is 15 years. Brand names have a useful life of 10 years.

5. ACCOUNTS RECEIVABLE

All amounts included in accounts receivable are collectible within a short-term period and the net carrying value reasonably approximates the fair value of the receivables.

Allowance for expected credit losses as at March 31, 2019 is \$71,513 (December 31, 2018 - \$71,513).

6. PROPERTY AND EQUIPMENT

	Office	Lab & Other	Computer	Vehicles	Computer	Leasehold	Radio	Total
Cost	Equipment	Equipment	Equipment		Software	Improvements	Equipment	
Balance at January 1, 2019	536,561	1,196,393	895,051	354,927	433,958	148,557	3,336	3,568,783
Acquisitions	-	-	50,000	-	-	-	-	50,000
Additions	-	2,405	-	-	-	-	-	2,405
Balance at March 31, 2019	536,561	1,198,798	945,051	354,927	433,958	148,557	3,336	3,621,188
Accumulated depreciation								
Balance at January 1, 2019	469,624	957,868	744,693	304,966	407,602	129,412	2,997	3,017,162
Acquisitions	-	-	-	-	-	-	-	-
Depreciation	3,471	9,000	13,553	3,726	3,284	1,355	17	34,406
Balance at March 31, 2019	473,095	966,868	758,246	308,692	410,886	130,767	3,014	3,051,568
Carrying value								
At March 31, 2019	\$63,466	\$231,930	\$186,805	\$46,235	\$23,072	\$17,790	\$322	\$569,620
At December 31, 2018	\$66,937	\$238,525	\$150,358	\$49,961	\$26,356	\$19,145	\$339	\$551,621

The Company acquired computer equipment from Dimax Controls Canada Inc. on January 14, 2019.

KONTROL ENERGY CORP.

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7. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

Right-of-Use Assets

Cost	Property
Balance at January 1, 2019	2,011,667
Additions	-
Disposals	-
Balance at March 31, 2019	2,011,667
Accumulated depreciation	
Balance at January 1, 2019	-
Disposals	-
Depreciation	121,680
Balance at March 31, 2019	121,680
Carrying value	
At March 31, 2019	\$1,889,987

Lease Liabilities

Opening balance at January 1, 2019	2,011,667
Additions	-
Principal repayment	(103,164)
Closing balance at March 31, 2019	\$1,908,503
Current	\$437,199
Long-term	\$1,471,304

Lease payments for the three months ended March 31, 2019

Principal payments	103,164
Interest expense	38,604
Lease payments	\$141,767

Contractual lease payments by fiscal year

2019	\$569,330
2020	\$498,020
2021	\$445,930
2022	\$445,930
2023	\$393,738
2024	\$60,178

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8. GOODWILL AND INTANGIBLE ASSETS

	Goodwill	Product Development	Brand Names	Customer Relationships	Intellectual Property	Patents	Total Intangible Assets
Cost							
Balance at January 1, 2019	4,642,566	330,715	483,000	5,509,275	640,000	160,000	7,122,990
Acquisitions	-	-	-	-	385,000	385,000	770,000
Additions	-	105,835	-	-	-	-	105,835
Balance at March 31, 2019	4,642,566	436,550	483,000	5,509,275	1,025,000	545,000	7,998,825
Accumulated amortization							
Balance at January 1, 2019	-	-	48,033	439,661	83,112	99,110	669,916
Amortization	-	-	12,075	91,821	17,083	22,958	143,937
Balance at March 31, 2019	-	-	60,108	531,482	100,195	122,068	813,853
Carrying value							
At March 31, 2019	\$4,642,566	\$436,550	\$422,892	\$4,977,793	\$924,805	\$422,932	\$7,184,972
At December 31, 2018	\$4,642,566	\$330,715	\$434,967	\$5,069,614	\$556,888	\$60,890	\$6,453,074

Product development costs relate to the development of the Company's next generation Energy Management System (SmartSuite). The new SmartSuite will include a robust Internet of Things (IOT) upgrade to allow device to device communication, device to Cloud communication and device to smart phone communication.

The Company recorded patents and intellectual property acquired from Dimax Controls Canada Inc. on January 14, 2019.

9. LONG-TERM INVESTMENT

On October 5, 2015, a consulting agreement with Ghana Energy One ("project") was assigned to Kontrol Energy Group Inc. (formerly Nuvo Energy Grid Inc.), which entitles the Company to have a 4% interest in the project's revenue. The project is approximately 157 Megawatts in total size and is to be in the Ashanti region of Ghana. The project is in the final stages of development and is anticipated to begin construction in 2019. The project will have a long-term Power Purchase Agreement (PPA) with the Government of Ghana for a period of 20 years. The balance \$1 (2018: \$1) is a nominal value to represent the investment.

10. OPERATING LINE

	March 31, 2019	December 31, 2018
Operating Line	\$687,453	\$701,824

Operating line facilities are with two financial institutions.

Facility I: Capacity of \$400,000. Bank Prime rate plus 1.50% per annum. Drawdowns as required; repayment on demand. General security agreement issued on all assets of Efficiency Engineering Inc.

Facility II: Capacity of \$500,000. Bank Prime rate plus 1.75% per annum. Drawdowns as required; repayment on demand. General security agreement issued on all assets of ORTECH Consulting Inc. The Company has provided a Guarantee over ORTECH Consulting Inc.'s borrowing under this facility. Also see financial covenants noted in the Term Loan in connection with this same financial institution (Note 14).

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11. DUE TO SHAREHOLDER

Due to shareholder is unsecured, non-interest bearing and due on demand. This amount is related to the acquisition of Kontrol Technologies Inc.

12. HOLDBACKS PAYABLE AND VENDOR TAKE BACK

	March 31, 2019	December 31, 2018
Holdback relating to EE acquisition	550,000	550,000
Holdback relating to CEMSI acquisition	582,500	582,500
Vendor take back relating to CEMSI acquisition	502,500	502,500
	<u>\$1,635,000</u>	<u>\$1,635,000</u>

Holdbacks payable are to secure any indemnifications of Vendors in connection with acquisitions. The holdback relating the CEMSI acquisition is due December 20, 2019, is non-interest bearing and is unsecured. The holdback relating the to EE acquisition originally due on November 30, 2018 was extended to October 31, 2019.

The Vendor take back amount relates to the CEMSI acquisition and is in the form of a promissory note with subordinated security, due September 20, 2019 and interest accruing at a rate of 6% per annum until the principal is repaid in full.

13. DEBENTURES

	March 31, 2019	December 31, 2018
Debentures, at face value	6,166,750	6,129,250
Deferred financing cost and unamortized discount	(358,140)	(486,085)
	<u>5,808,610</u>	<u>5,643,165</u>
Less: Current portion	<u>5,245,000</u>	<u>5,245,000</u>
	<u>\$563,610</u>	<u>\$398,165</u>

Debenture offering – 2016

The Debentures bear interest at a rate of 8% per annum, payable quarterly in arrears and will mature on October 31, 2019. The Debentures are non-convertible and non-redeemable. The Debenture Offering is up to \$5,300,000 of units at a price of \$1,000 per unit, each unit to be comprised of one 8% unsecured non-convertible debenture and 100 common shares of the Company ("Debenture units"). The 2016 Debenture Offering was fully subscribed and closed during the first quarter of 2018.

During the first quarter of 2019 a material amount of the 2016 debenture offering originally due October 31, 2019 were in the process of being extended to October 31, 2020. A new offering memorandum was issued, and subscriptions were being processed for a one year extension. As at the date of the Company's release of the March 31, 2019 Financial Statements, \$2,764,000 in extension subscription documents were received. An additional amount of approximately \$700,000 was under review and should the Company receive extension subscriptions for this additional amount, the estimated total extension would be \$3,464,000 in connection with the Debenture offering of 2016. The final total extended subscription amount will be reclassified from current liabilities to long term liabilities in the second quarter of 2019.

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Securities offering – 2018

The Securities offering is up to \$5,000,000 of units at a price of \$1,000 per unit, each unit consisting of a \$750 Debenture, \$250 of common shares, and 150 common share purchase warrants (“Units”). The Debentures bear interest at a rate of 7% per annum, payable monthly and will mature on April 25, 2021. The Debentures are non-convertible and non-redeemable

Commissions paid to registered securities dealers to effect sales of the offerings and professional fees relating to preparation of the offerings is recorded as a reduction of the Debenture amount and amortized over the term of the Debenture. The common shares included in the 2016 offering are fair valued at the time of each Debenture closing and recorded as a reduction of the Debenture amount and amortized over the term of the Debenture.

14. TERM LOAN

	March 31, 2019	December 31, 2018
Term loan	301,671	342,553
Less: Current portion	(168,500)	(165,739)
	<u>\$133,171</u>	<u>\$176,814</u>

A term loan of \$500,000 was taken out in the fourth quarter of 2017. Interest is payable at Bank Prime rate plus 2.40%. The repayment term of the loan is 36 months, regardless of potential adjustments made to the interest rate. The blended principal and interest repayment plus mandatory repayment is linked to ORTECH Consulting Inc.’s cash flow. In addition, a general security agreement was issued on all assets of ORTECH Consulting Inc. The Company has provided a guarantee over ORTECH Consulting Inc.’s borrowing under this facility. ORTECH Consulting Inc.’s financial covenants under this facility include the following: (i) Debt service coverage ratio on a rolling four quarters basis for the fiscal quarter then ended and the immediately preceding three fiscal quarters of not less than 1.25:1; and (ii) a ratio of funded debt to EBITDA, calculated on a rolling four quarter basis for the fiscal quarter then ended and the immediately preceding three fiscal quarters of not greater than 3:1.

15. DEBT FINANCING

	March 31, 2019	December 31, 2018
Debt financing	1,925,000	1,925,000
Deferred financing cost	(125,824)	(157,280)
	<u>\$1,799,176</u>	<u>\$1,767,720</u>

In connection with the acquisition of CEMSI, the Company closed on a \$2 Million bridge debt financing. The bridge debt financing has a term of one year with an option to renew for an additional period. The outstanding principal amount of the debt bears interest at a rate per annum equal to 15%. Payments are interest only on a monthly basis and the outstanding principal is due on the maturity date. The debt is secured by general security agreements, shares pledge and guarantee. Fees recorded as a reduction of the debt and will be amortized over the term of the financing. CEMSI financial covenants under this debt financing include the following: (i) a ratio of EBITDA to interest expense calculated on a rolling four quarters basis for the fiscal quarter then ended and the immediately preceding three fiscal quarters of not less than 1.50:1; and (ii) a ratio of funded debt to EBITDA, calculated on a rolling four quarter basis for the fiscal quarter then ended and the immediately preceding three fiscal quarters of not greater than 5:1.

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16. COMMON STOCK

The Company is authorized to issue an unlimited number of common shares.

During the three months ended March 31, 2019, 19,231 shares were issued to Debenture Unit holders. These common shares were valued at \$12,500 (see Note 13).

On January 14, 2019, the Company issued 600,000 to Dimax Controls Canada Inc. in connection with the purchase of computer equipment, patents and intellectual property. Escrow conditions apply.

During the three months ended March 31, 2019, 290,672 performance shares were issued.

17. STOCK OPTIONS

The Company has established a stock option plan for directors, employees, and consultants. Under the Company's stock option plan, the exercise price of each option is determined by the Board, subject to the Discounted Market Price policies of the CSE. The aggregate number of common shares issuable pursuant to options granted under the plan is 10% of the Company's issued common shares. The board of directors has the exclusive power over the granting of options and their vesting and cancellation provisions.

The following is a summary of the changes in the Company's stock option plan for the three months ended March 31, 2019:

Options Outstanding	March 31, 2019		March 31, 2018	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Opening	2,631,165	\$0.75	1,850,000	\$0.67
Granted	150,000	\$0.79	788,665	\$0.88
Exercised	-	-	(115,000)	\$0.65
Forfeited	-	-	-	-
Closing	2,781,165	\$0.75	2,523,665	\$0.74

The fair value of stock options is determined using the Black-Scholes Model. Volatility is calculated by using the historical volatility of other companies that the Company considers comparable that have trading and volatility history prior to the Company becoming public. The expected life in years represents the time that the options granted are expected to be outstanding. The risk-free rate is based on zero coupon Canada government bonds with a remaining term equal to the expected life of the options. The following outlines the range of assumptions used for the options issued during the three months ended March 31, 2019:

Black-Scholes assumptions	March 31, 2019	March 31, 2018
Exercise price	\$0.60 - \$0.80	\$0.60 - \$1.50
Risk-free interest rate	1.0%	1.0%
Expected life	2 years – 3 years	2 years – 5 years
Expected volatility	46%	46%
Expected dividend yield	0%	0%
Weighted average grant date fair value per option	\$0.24	\$0.29

KONTROL ENERGY CORP.

**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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18. WARRANTS

During the three months ended March 31, 2019, the Company issued 7,500 warrants relating to the Securities offering (see Note 13).

During the three months ended March 31, 2019 a total of 230,760 warrants had expired.

Warrants outstanding as at March 31, 2019 are 1,721,502 (December 31, 2018 – 1,944,762).

19. RELATED PARTY TRANSACTIONS

Related Party Balances

	March 31, 2019	December 31, 2018
Due to shareholder (see Note 11)	\$42,500	\$45,000

Key Management Compensation

The Company's key management personnel have the authority and responsibility for planning, directing and controlling the activities of the Company and consists of the Company's executive management team and management directors. The following is a summary of the related party transactions, including key management compensation for the three months ended March 31, 2019.

	March 31, 2019	March 31, 2018
Salaries, benefits and consulting	129,700	140,000
Share-based compensation	161,867	-
	\$291,567	\$140,000

20. REVENUE

The Company earned the Canadian equivalent \$259,055 of U.S. revenue for the three months ended March 31, 2019 (March 31, 2018 – \$0).

21. FINANCIAL INSTRUMENTS

The Company's financial instruments are exposed to certain financial risks, including credit risk, liquidity risk, and market risk.

(a) Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to the liquidity of its cash and accounts receivable. The Company limits exposure to credit risk by maintaining its cash with a large Canadian financial institution. To mitigate credit risk with respect to accounts receivable the Company subjects all major customer accounts to its credit evaluation process. The Company's maximum exposure to credit risk is the carrying value of cash held with financial institutions and accounts receivable.

(b) Liquidity risk

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Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company ensures there is sufficient capital to meet short-term business requirements after taking into account cash flow from operations, the Company's holdings of cash, and the available credit facilities. The Company manages liquidity risk through the management of its capital structure. Accounts payable and accrued liabilities are due within the current operating period.

(c) Interest rate risk

As at March 31, 2019, the Company's Operating Line and Term Loan are subject to varying rates with the financial institution's prime rate and are subject to cash flow risks. The Company monitors its exposure to interest rates and has not entered into any derivative contracts to mitigate this risk. Based on the outstanding credit facilities, a 1% increase in interest rates for the Company would decrease year to date 2019 net income before tax by approximately \$2,500 (March 31, 2018 - \$2,500).

(d) Fair Value

IFRS 7 establishes a fair value hierarchy that prioritizes the input to valuation techniques used to measure fair value as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities:

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e., derived from prices); and

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company has no financial instruments recorded at level 3 fair value at March 31, 2019 and December 31, 2018.

As at March 31, 2019, both the carrying and fair value amounts of all the Company's financial instruments are approximately equivalent.

(e) Foreign currency risk

Foreign currency risk arises because of fluctuations in exchange rates. The Company's newly acquired subsidiary, CEMSI, conducts a portion of its business activities in U.S. dollars. Management of foreign exchange currency exposure is governed by the Company's foreign exchange policy as approved by its Board. The objective of the policy is to minimize the earnings impact of foreign currency gains and losses associated with foreign exchange rate fluctuations.

The financial assets and liabilities that are denominated in foreign currencies will be affected by changes in the exchange rate between the Canadian dollar and the U.S. dollar. This primarily includes cash, accounts receivable, and accounts payables and accrued liabilities which are denominated in foreign currencies.

22. MANAGEMENT OF CAPITAL RISK

The Company considers items included in shareholders' equity as capital. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company manages the capital structure and makes adjustment to it considering 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 new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents.

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To facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions.

To maximize the ongoing development efforts, the Company does not pay out dividends. The Company's investment policy is to invest its short-term excess cash in highly liquid short-term interest-bearing investments with maturities of 90 days or less from the original date of acquisition selected with regard to the expected timing of expenditures from continuing operations. The Company's approach to managing capital remains unchanged from the year ended December 31, 2018.

23. SUBSEQUENT EVENTS

During the first quarter of 2019 a material amount of the 2016 debenture offering originally due October 31, 2019 were in the process of being extended to October 31, 2020. A new offering memorandum was issued, and subscriptions were being processed for a one year extension. As at the date of the Company's release of the March 31, 2019 Financial Statements, \$2,764,000 in extension subscription documents were received. An additional amount of approximately \$700,000 was under review and should the Company receive extension subscriptions for this additional amount, the estimated total extension would be \$3,464,000 in connection with the Debenture offering of 2016. The final total extended subscription amount will be reclassified from current liabilities to long term liabilities in the second quarter of 2019.

APPENDIX D

**Kontrol Energy Corp. Consolidated Audited Financial Statements for the year ended
December 31, 2018**

KONTROL ENERGY CORP.

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND DECEMBER 31, 2017
(Prepared in Canadian dollars)**

Independent Auditor's Report

To the Shareholders of Kontrol Energy Corp.:

Opinion

We have audited the consolidated financial statements of Kontrol Energy Corp. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and December 31, 2017, and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018 and December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Jaspreet Chahal.

Burlington, Ontario

April 30, 2019

MNP LLP

Chartered Professional Accountants

Licensed Public Accountants

KONTROL ENERGY CORP.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT
(in Canadian dollars)

		December 31 2018	December 31 2017
	Notes		
Assets			
Cash		\$1,022,061	\$675,594
Accounts receivable	5	4,259,464	1,963,342
Unbilled revenue	23	164,818	300,953
Finished inventory		194,021	-
Prepaid expenses		108,516	121,559
Current assets		5,748,880	3,061,448
Property and equipment	6	551,621	396,982
Goodwill	7	4,642,566	3,244,313
Intangible assets	7	6,453,074	4,071,903
Long-term investment	8	1	1
Non-current assets		11,647,262	7,713,199
Total assets		\$17,396,142	\$10,774,647
Liabilities			
Operating line	9	\$701,824	\$475,000
Accounts payable and accrued liabilities		2,982,526	1,168,264
Promissory note payable	10	-	157,650
Deferred revenue	23	128,889	302,444
Due to shareholder	11	45,000	130,000
Loan from shareholder	12	-	70,000
Holdbacks and vendor take back	13	1,635,000	640,389
Debentures	14	5,245,000	-
Current portion of term loan	15	165,739	157,477
Debt financing	16	1,767,720	-
Current liabilities		12,671,698	3,101,224
Debentures	14	398,165	3,706,108
Term loan	15	176,814	342,523
Deferred income taxes	17	1,270,849	858,290
Non-current liabilities		1,845,828	4,906,921
Total liabilities		14,517,526	8,008,145
Equity			
Common stock	18	6,465,051	4,462,970
Obligation to issue shares		-	120,000
Contributed surplus		503,200	257,000
Warrant reserve		210,000	-
Deficit		(4,299,635)	(2,073,468)
Total equity		2,878,616	2,766,502
Total liabilities and equity		\$17,396,142	\$10,774,647

Approved on Behalf of the Board

"Paul Ghezzi"

Director

"Claudio Del Vasto"

Director

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

KONTROL ENERGY CORP.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
For the years ended December 31
(in Canadian dollars)

	Notes	2018	2017
Revenues	23	\$10,727,301	\$6,888,265
Cost of sales		4,307,482	2,270,839
Gross profit		6,419,819	4,617,426
Advertising and promotion		272,425	66,273
Business fees and licenses		283,532	132,101
Consulting		489,791	202,892
Employee salaries and benefits		4,254,064	3,265,644
Insurance		83,468	59,302
Maintenance and repairs		128,509	93,228
Office and general		127,247	65,455
Professional fees		282,950	184,751
Rent		550,793	410,694
Supplies		92,734	58,024
Telecommunication		77,377	38,778
Travel		64,530	42,222
Amortization - intangibles	7	394,600	252,041
Depreciation - property and equipment	6	108,026	81,169
Share based compensation		282,000	188,000
		7,492,046	5,140,574
Net loss from operations		(1,072,227)	(523,148)
Amortization - financing fees		673,759	293,180
Finance expense		606,878	575,401
		1,280,637	868,581
Loss before income taxes		(2,352,864)	(1,391,729)
Deferred taxes recovery	17	(126,697)	(80,964)
Net loss and comprehensive loss for the year		\$(2,226,167)	\$(1,310,765)
Basic and diluted loss per share		\$(0.08)	\$(0.06)
Basic and diluted weighted average number of common shares outstanding		26,710,807	22,563,482

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

KONTROL ENERGY CORP.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
AS AT
(In Canadian dollars)

	Number of Shares	Common Shares	Obligation to Issue Shares	Contributed Surplus	Warrant Reserve	Deficit	Total Equity
As at December 31, 2016	19,525,168	\$ 1,311,067	\$ 120,000	\$ 229,000	-	\$ (762,703)	\$ 897,364
Shares issued to acquire							
Efficiency Engineering Inc.	1,210,816	756,000	-	-	-	-	756,000
Shares to debenture holders (Note 14)	347,100	242,463	-	-	-	-	242,463
Private placement, net	2,812,523	1,698,940	-	-	-	-	1,698,940
Shares for debt extinguishment	100,477	62,000	-	-	-	-	62,000
Exercise of warrants (Note 20)	800,000	232,500	-	-	-	-	232,500
Performance shares	200,000	160,000	-	-	-	-	160,000
Stock options grant (Note 19)	-	-	-	28,000	-	-	28,000
Net loss for the year	-	-	-	-	-	(1,310,765)	(1,310,765)
As at December 31, 2017	24,996,084	\$ 4,462,970	\$ 120,000	\$ 257,000	\$ -	\$ (2,073,468)	\$ 2,766,502
	Number of Shares	Common Shares	Obligation to Issue Shares	Contributed Surplus	Warrant Reserve	Deficit	Total Equity
As at December 31, 2017	24,996,084	\$ 4,462,970	\$ 120,000	\$ 257,000	-	\$ (2,073,468)	\$ 2,766,502
Shares to debenture holders (Note 14)	547,659	430,383	-	-	-	-	430,383
Private placement, net	560,370	392,259	-	-	-	-	392,259
Exercise of warrants (Note 20)	1,250,457	990,008	-	-	-	-	990,008
Stock options grant (Note 19)	-	-	-	262,200	-	-	262,200
Stock options exercise	115,000	90,750	-	(16,000)	-	-	74,750
Share issuance costs	-	(24,353)	-	-	-	-	(24,353)
Treasury (Note 18)	(85,000)	(62,966)	-	-	-	-	(62,966)
Obligation to issue - prior acquisition	605,000	120,000	(120,000)	-	-	-	-
Shares relating to prior acquisition	70,000	46,200	-	-	-	-	46,200
Share based compensation	30,000	19,800	-	-	-	-	19,800
Warrants issued	-	-	-	-	210,000	-	210,000
Net loss for the year	-	-	-	-	-	(2,226,167)	(2,226,167)
As at December 31, 2018	28,089,570	\$ 6,465,051	\$ -	\$ 503,200	\$ 210,000	\$ (4,299,635)	\$ 2,878,616

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

KONTROL ENERGY CORP.
CONSOLIDATED STATEMENTS OF CASH FLOW
For the years ending December 31
(in Canadian dollars)

	2018	2017
Operating activities		
Net loss	\$(2,226,167)	\$(1,310,765)
Non-cash items		
Amortization and depreciation	1,176,385	626,390
Share based compensation	282,000	200,000
Deferred taxes recovery	(126,697)	(80,964)
Non-cash working capital items		-
Accounts receivable	(1,206,405)	(80,429)
Unbilled revenue	172,592	34,129
Finished inventory	(5,141)	
Prepaid expenses	47,835	(38,639)
Accounts payable and accrued liabilities	1,046,643	10,430
Deferred revenue	(173,555)	190,024
Cash flows used in operating activities	(1,012,510)	(449,824)
Investing activities		
Additions to property and equipment	(90,924)	(14,092)
Additions to product development	(215,771)	(114,944)
Cash acquired from acquisitions	449,330	208,327
Cash paid in respect of acquisitions	(3,484,795)	(4,921,359)
Cash flows used in investing activities	(3,342,160)	(4,842,068)
Financing activities		
Proceeds from operating line	226,824	475,000
Payment of promissory note	(157,650)	(250,000)
Payment of loan from shareholder	(70,000)	(10,000)
Payment of due to shareholder	(85,000)	(72,671)
(Payment) Proceeds of term loan	(157,447)	500,000
Proceeds from debenture, net	1,563,356	3,166,715
Proceeds from debt financing, net	1,866,606	-
Payment of holdbacks	(150,000)	-
Proceeds from stock option exercise	74,750	-
Proceeds from exercise of warrants	990,008	232,500
Proceeds from share issuance, net	687,009	1,698,939
Payment of share issue costs	(24,353)	-
Repurchase of common shares	(62,966)	-
Cash flows from financing activities	4,701,137	5,740,483
Net increase in cash	346,467	448,591
Cash at beginning of year	675,594	227,003
Cash at end of year	\$1,022,061	\$675,594

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

KONTROL ENERGY CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

1. NATURE OF OPERATIONS

Kontrol Energy Corp. (“Kontrol” or the “Company”) is incorporated under the laws of the Province of British Columbia and its common shares are listed in the Canadian Securities Exchange (“CSE”). The Company is a provider of energy efficiency solutions to commercial energy consumers. Through a disciplined mergers and acquisition strategy, combined with a growing technology platform, Kontrol’s market-based energy solutions are designed to reduce its customers overall cost of energy while providing a corresponding reduction in Green House Gas (GHG) emissions. Management of the Company considers there to be one operating segment being the provision of energy compliance and consulting services. All of the Company’s operations are in Canada. The address of the Company’s head office is 180 Jardin Drive, Unit 9, Vaughan, ON, L4K 1X8.

2. BASIS OF PRESENTATION

Statement of Compliance

The Company’s consolidated financial statements, including comparatives, have been prepared in accordance with and using accounting policies in full compliance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and Interpretations of the IFRS Interpretations Committee.

The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of April 30, 2019, the date the Board of Directors approved the consolidated financial statements.

The consolidated financial statements are presented in Canadian dollars which is the currency of the primary economic environment in which the Company operates in.

The consolidated financial statements have been prepared on a historical cost basis, except where financial instruments have been designated as fair value through profit and loss.

Fair value measurements are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 – valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
Level 3 – valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist.

Basis of Presentation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Details of the Company’s subsidiaries are as follows:

On June 30, 2016 the Company acquired 100% of Kontrol Technologies Inc., a company incorporated in Ontario. This entity and its parent company’s activities are designed for commercial building applications and include deep energy retrofits, distributed power generation, conservation solutions, and energy audits.

On February 10, 2017 the Company acquired 100% of ORTECH Consulting Inc. (“ORTECH”), a company incorporated in Ontario. ORTECH is an engineering consulting firm specializing in Green House Gas reporting, air quality testing, emission testing and renewable energy/power consulting.

KONTROL ENERGY CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

On August 4, 2017 the Company acquired 100% of Efficiency Engineering Inc. ("EE Inc."), a company incorporated in Ontario. EE Inc. provides engineering services to industrial, municipal and commercial building owners across Canada.

On September 20, 2018, the Company acquired 100% of CEM Specialties Inc. ("CEMSI"), a company incorporated in Ontario. CEMSI provides the Canadian and US market with value added solutions for continuous emissions and process monitoring applications.

On April 30, 2018, the Company acquired assets from MCW Dimax Ltd. The purchased assets are used to manage HVAC systems in real time through ongoing monitoring and analysis.

The significant accounting policies used in the preparation of these consolidated financial statements are summarized below and have been applied consistently across all periods presented.

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries after intercompany balances and transactions have been eliminated. Subsidiaries are consolidated from the date that control is obtained and deconsolidated on the date control ceases. The acquisition method is used to account for the acquisition of a subsidiary from an unrelated party at the date that control is obtained, with the difference between the consideration transferred and the fair value of the subsidiary's net identifiable assets acquired recorded as goodwill. Acquisition related costs are recognized in profit and loss as incurred.

3. SIGNIFICANT ACCOUNTING POLICIES

Cash

Cash includes cash on hand, bank balances and short-term deposits with original maturities of three months and less held with banks.

Property and Equipment

Property and Equipment is carried at cost, less accumulated depreciation and accumulated impairment losses. Depreciation is calculated using the declining balance or straight line method as noted below.

The cost of an item consists of the purchase price, plus any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

An item is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss in the consolidated statement of comprehensive loss.

Where an item comprises major components with different useful lives, the components are accounted for as separate items of property and equipment. Expenditures incurred to replace a component of an item that is accounted for separately, including major inspection and overhaul expenditures, are capitalized.

KONTROL ENERGY CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

Depreciation – Property and Equipment

Laboratory and other equipment	Declining balance	20%
Computer equipment	Declining balance	25%
Office equipment	Declining balance	20%
Vehicles	Declining balance	20%
Computer software	Straight-line	5 years
Leasehold improvements	Declining balance	20%
Radio equipment	Declining balance	20%

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over their useful economic life on a straight-line basis and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of comprehensive loss in the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit (“CGU”) level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

For the purposes of testing goodwill for impairment, the Company has four CGUs – Kontrol Energy Group, CEM Specialty, ORTECH and Efficiency Engineering.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statement of comprehensive loss when the asset is derecognized.

Development costs are recognized as an intangible asset when the Company can demonstrate all the following:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- its intention to complete the intangible asset and use or sell it;
- its ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- its ability to measure reliably the expenditure attributable to the intangible asset during its development.

KONTROL ENERGY CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

Following initial recognition of the development costs as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortization and accumulated impairment losses. Development costs are amortized on a straight-line basis over a period of 5 years or are expensed immediately if capitalized projects are not completed.

Amortization - Intangibles

Customer Relationships	Straight-line	10 years to 15 years
Brand Names	Straight-line	10 years
Intellectual Property	Straight-line	15 years
Certifications and Patents	Straight-line	3 years

Business combinations

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

When the consideration transferred by the Company in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not re-measured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is re-measured at subsequent reporting dates in accordance with IFRS 9 Financial Instruments, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

When a business combination is achieved in stages, the Company's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date (i.e. the date when the Company obtains control) and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

Where goodwill forms part of a cash-generating unit and part of the operation within the unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation and the portion of the cash-generating unit retained.

KONTROL ENERGY CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

Impairment

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired.

If such evidence exists, the Company recognizes an impairment loss for financial assets. The carrying amount of the asset is reduced by this amount either directly or indirectly using an allowance account.

The carrying amount of long-lived non-financial assets, including intangible assets and property and equipment, is reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Intangible assets with indefinite lives and intangible assets not yet put into use are evaluated for impairment at least annually. Goodwill is tested for impairment annually or more frequently if events or circumstances indicate that the carrying value may not be recoverable.

Impairment exists when the carrying value of an asset exceeds its recoverable amount, which is the higher of its fair value less costs to sell or its value in use. The fair value less costs to sell calculation is based on available data from observable market prices, less incremental costs. The value in use calculation is based on a discounted cash flow model. These calculations require the use of estimates and forecasts of future cash flows. Qualitative factors, including market size and market growth trends, strength of customer demand and degree of variability in cash flows, as well as other factors, are considered when making assumptions with regard to future cash flows and the appropriate discount rate. A change in any of the significant assumptions of estimates used to evaluate the underlying assets could result in a material change to the results of operations. Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed, to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of amortization, if no impairment had been recognized. Write-downs as a result of impairment are recognized in the consolidated statement of comprehensive loss.

Share capital

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity. Common shares issued for consideration other than cash are valued based on their market value at the date the shares are issued.

Warrants

Financing warrants have been issued in combination with common shares as part of a financing exercise. They are evaluated and classified under IAS 32 Financial Instruments: Presentation. Equity classification applies to instruments where a fixed amount of cash (or liability) denominated in the issuer's functional currency is exchanged for a fixed number of shares (often referred to as the "fixed-for-fixed" criteria). Warrants classified as equity are valued using the Black-Scholes Model. When the warrants are exercised, the fair value of the warrants is transferred to share capital from the warrant reserve. If a warrant expires, the value of the warrant remains in contributed surplus.

Compensation warrants are also issued in combination with debt agreements, such as the debt financing. These warrants are also valued using the Black-Scholes Model. The warrants are classified as a reduction of the associated debt and amortized on a straight-line basis over the life of the debt agreement.

KONTROL ENERGY CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

Revenue Recognition

With the implementation of IFRS 15, Revenue from Contracts with Customers (“IFRS 15”) came a single 5-step model for revenue recognition for customer contracts. This new model for revenue recognition is based on identifying the contract with the customer, identifying the performance obligations, determining the individual transaction price and allocating said price to the individual performance obligations making up the contract. Revenue is recognized when it is probable that the economic benefits associated with a transaction will flow to the Company, and when the amount of revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, excluding trade discounts, volume rebates, and amounts collected on behalf of third parties.

The Company generates revenue from contracts in which goods or services are typically provided over time. Revenue is measured based on the consideration the Company expects to be entitled to in exchange for providing goods and services, excluding discounts, duty, and taxes collected from clients that are reimbursable to government authorities.

Most of the Company’s contracts include a single performance obligation because the promise to transfer the individual goods or services is not separately identifiable from other promises in the contract and therefore is not distinct. The Company’s contracts may include multiple goods or services that are accounted for as separate performance obligations if they are distinct—if a good or service is separately identifiable from other items in the contract and if a customer can benefit from it. If a contract has multiple performance obligations, the consideration in the contract is allocated to each performance obligation based on the estimated stand-alone selling price.

The Company transfers control of the goods or services it provides to clients over time and therefore recognizes revenue progressively as the services are performed. Revenue from fixed-fee and variable-fee contracts is recognized based on the percentage of completion method where the stage of completion is measured using costs incurred to date as a percentage of total estimated costs for each contract, and the percentage of completion is applied to total estimated revenue. When the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are eligible to be recovered. Provisions for estimated losses on incomplete contracts are made in the period that the losses are determined. Revenue from time-and-material contracts without stated ceilings is recognized as costs are incurred based on the amount that the Company has a right to invoice.

The timing of revenue recognition, billings, and cash collections results in accounts receivable, unbilled revenues, contract assets, and deferred revenue (contract liabilities) in the consolidated statements of financial position. Amounts are typically invoiced as work progresses in accordance with agreed-upon contractual terms, either at periodic intervals or when contractual milestones are achieved. Receivables represent amounts due from customers: accounts receivable consist of invoiced amounts, and unbilled receivables consist of work in progress that has not yet been invoiced. Contract assets represent unbilled amounts where the right to payment is subject to more than the passage of time and includes performance-based incentives and services provided ahead of agreed contractual milestones. Contract assets are transferred to receivables when the right to consideration becomes unconditional. Deferred revenue (contract liabilities) represents amounts that have been invoiced but not yet recognized as revenue, including advance payments and billings in excess of revenue. Deferred revenue is recognized as revenue when (or as) the Company performs under the contract.

Revenue is adjusted for the effects of a significant financing component when the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. Advance payments and holdbacks typically do not result in a significant financing component because the intent is to provide protection against the failure of one party to adequately complete some or all of its obligations under the contract.

KONTROL ENERGY CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

Deferred contract costs

Contract costs are typically expensed as incurred. Contract costs are deferred if the costs are expected to be recoverable and if either of the following criteria is met:

- The costs of obtaining the contract are incremental or explicitly chargeable to the customer
- The fulfillment costs relate directly to the contract or an anticipated contract and generate or enhance the Company's resources that will be used in satisfying performance obligations in the future

Deferred contract costs are included in the consolidated statements of financial position and amortized over the period of expected benefit using the percentage of completion applied to estimated revenue. Amortization of deferred contract costs is included in cost of sales in the consolidated statements of income.

Share-based payments

The Company operates an employee stock option plan. Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured and are recorded at the date the goods or services are received. The corresponding amount is recorded to the option reserve (contributed surplus). The fair value of options is determined using a Black-Scholes pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

Income taxes

Income tax on the loss for the periods presented comprises current and deferred tax. Income tax is recognized in the loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Income tax provisions are recognized when it is considered probable that there will be a future outflow of funds to a taxing authority. In such cases, a provision is made for the amount that is expected to be settled, where this can be reasonably estimated. This requires the application of judgment as to the ultimate outcome, which can change over time depending on facts and circumstances. A change in estimate of the likelihood of a future outflow and/or in the expected amount to be settled would be recognized in income in the period in which the change occurs.

Deferred tax assets or liabilities arising from temporary differences between the tax and accounting values of assets and liabilities, are recorded based on tax rates expected to be substantially enacted when these differences are reversed. Deferred tax assets are recognized only to the extent it is considered probable that those assets will be recovered. This involves an assessment of when those deferred tax assets are likely to be realized, and a judgment as to whether there will be sufficient taxable profits available to offset the tax assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. To the extent assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in respect of deferred tax assets as well as in the amounts recognized in income in the period in which the change occurs.

Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognized in income both in the period of change, which would include any impact on cumulative provisions, and in future periods.

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Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating policy decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

Loss per share

The Company presents basic and diluted loss per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by dividing the loss attributable to common shareholders by the weighted average number of common shares outstanding, adjusted for own shares held and for the effects of all potential dilutive common shares related to outstanding stock options and warrants issued by the Company.

If the Company incurs a net loss during a reporting period, the calculation of fully diluted loss per share will not include potentially dilutive equity instruments such as restricted stock units, stock option, warrants, contingently issuable shares and convertible debt.

Financial instruments

Financial assets

Recognition and initial measurement

The Company recognizes financial assets when it becomes party to the contractual provisions of the instrument. Financial assets are measured initially at their fair value plus, in the case of financial assets not subsequently measured at fair value through profit or loss, transaction costs that are directly attributable to their acquisition. Transaction costs attributable to the acquisition of financial assets subsequently measured at fair value through profit or loss are expensed in profit or loss *when incurred*.

Classification and subsequent measurement (under IFRS 9)

On initial recognition, financial assets are classified as subsequently measured at amortized cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL"). The Company determines the classification of its financial assets, together with any embedded derivatives, based on the business model for managing the financial assets and their contractual cash flow characteristics.

Financial assets are classified as follows:

- Amortized cost - Assets that are held for collection of contractual cash flows where those cash flows are solely payments of principal and interest are measured at amortized cost. Interest revenue is calculated using the effective interest method and gains or losses arising from impairment, foreign exchange and derecognition are recognized in profit or loss. Financial assets measured at amortized cost are comprised of accounts receivables, unbilled revenues and other assets

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- Fair value through other comprehensive income - Assets that are held for collection of contractual cash flows and for selling the financial assets, and for which the contractual cash flows are solely payments of principal and interest, are measured at fair value through other comprehensive income. Interest income calculated using the effective interest method and gains or losses arising from impairment and foreign exchange are recognized in profit or loss. All other changes in the carrying amount of the financial assets are recognized in other comprehensive income. Upon derecognition, the cumulative gain or loss previously recognized in other comprehensive income is reclassified to profit or loss. The Company does not hold any financial assets measured at fair value through other comprehensive income.
- Mandatorily at fair value through profit or loss - Assets that do not meet the criteria to be measured at amortized cost, or fair value through other comprehensive income, are measured at fair value through profit or loss. All interest income and changes in the financial assets' carrying amount are recognized in profit or loss. Financial assets mandatorily measured at fair value through profit or loss are comprised of cash and cash equivalents and the long-term investment.
- Designated at fair value through profit or loss – On initial recognition, the Company may irrevocably designate a financial asset to be measured at fair value through profit or loss in order to eliminate or significantly reduce an accounting mismatch that would otherwise arise from measuring assets or liabilities, or recognizing the gains and losses on them, on different bases. All interest income and changes in the financial assets' carrying amount are recognized in profit or loss. The Company does not hold any financial assets designated to be measured at fair value through profit or loss.

The Company measures all equity investments at fair value. Changes in fair value are recorded in profit or loss. During the years ended December 31, 2018 and December 31, 2017, the Company did not hold any equity investments.

Business model assessment

The Company assesses the objective of its business model for holding a financial asset at a level of aggregation which best reflects the way the business is managed and information is provided to management. Information considered in this assessment includes stated policies and objectives.

Contractual cash flow assessment

The cash flows of financial assets are assessed as to whether they are solely payments of principal and interest on the basis of their contractual terms. For this purpose, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money, the credit risk associated with the principal amount outstanding, and other basic lending risks and costs. In performing this assessment, the Company considers factors that would alter the timing and amount of cash flows such as prepayment and extension features, terms that might limit the Company's claim to cash flows, and any features that modify consideration for the time value of money.

Impairment

The Company recognizes a loss allowance for the expected credit losses associated with its financial assets, other than financial assets measured at fair value through profit or loss. Expected credit losses are measured to reflect a probability-weighted amount, the time value of money, and reasonable and supportable information regarding past events, current conditions and forecasts of future economic conditions.

The Company applies the simplified approach for accounts receivables. Using the simplified approach, the Company records a loss allowance equal to the expected credit losses resulting from all possible default events over the assets' contractual lifetime.

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The Company assesses whether a financial asset is credit-impaired at the reporting date. Regular indicators that a financial instrument is credit-impaired include significant financial difficulties as evidenced through borrowing patterns or observed balances in other accounts and breaches of borrowing contracts such as default events or breaches of borrowing covenants. For financial assets assessed as credit-impaired at the reporting date, the Company continues to recognize a loss allowance equal to lifetime expected credit losses.

For financial assets measured at amortized cost, loss allowances for expected credit losses are presented in the statement of financial position as a deduction from the gross carrying amount of the financial asset.

Financial assets are written off when the Company has no reasonable expectations of recovering all or any portion thereof.

Derecognition of financial assets

The Company derecognizes a financial asset when its contractual rights to the cash flows from the financial asset expire.

Financial liabilities

Recognition and initial measurement

The Company recognizes a financial liability when it becomes party to the contractual provisions of the instrument. At initial recognition, the Company measures financial liabilities at their fair value plus transaction costs that are directly attributable to their issuance, with the exception of financial liabilities subsequently measured at fair value through profit or loss for which transaction costs are immediately recorded in profit or loss.

Where an instrument contains both a liability and equity component, these components are recognized separately based on the substance of the instrument, with the liability component measured initially at fair value and the equity component assigned the residual amount.

Classification and subsequent measurement

Subsequent to initial recognition, all financial liabilities are measured at amortized cost using the effective interest rate method. Interest, gains and losses relating to a financial liability are recognized in profit or loss.

Derecognition of financial liabilities

The Company derecognizes a financial liability only when its contractual obligations are discharged, cancelled or expire.

Significant accounting judgments and estimates

The preparation of these consolidated financial statements requires management to make judgments and estimates and form assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Such estimates primarily relate to unsettled transactions and events as at the date of the consolidated financial statements. On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities, revenues, and expenses. Management uses various factors it believes to be reasonable under the given circumstances as the basis for its judgments and estimates. Actual outcomes differ from these estimates under different assumptions and conditions.

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The most significant judgments applying to the Company's consolidated financial statements include:

- The assessment of the Company's ability to continue as a going concern and whether there are events or conditions that may give rise to significant uncertainty.

These consolidated financial statements have been prepared based on the going concern assumption, which assumes the Company will continue to operate for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. In assessing whether this assumption is appropriate, management considers all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. The assessment is based upon planned actions that may or may not occur for a number of reasons including the Company's own resources and external market conditions.

- Impairment of non-financial assets. Non-financial assets include property and equipment, intangible assets and goodwill. Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The recoverable amount is most sensitive to the discount rate and cash flow projections;
- Assessing the stage of completion on revenue contracts; and
- The classification of financial instruments.

Key sources of estimation uncertainty include:

- The determination of deferred taxes;
- The measurement of the value of intangibles and goodwill;
- Allowance for expected credit losses. The Company makes an assessment of whether accounts receivable is collectible from customers. Accordingly, the Company establishes an allowance for estimated losses arising from non-payment and other sales adjustments, taking into consideration customer credit-worthiness, current economic trends and past experience. If future collections differ from estimates, future earnings would be affected;
- Useful lives of equipment. The Company estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the relevant assets. In addition, the estimation of the useful lives of property, plant and equipment are based on internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in the estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of the property, plant and equipment would increase the recorded expenses and decrease the non-current assets;
- Useful lives of intangible assets. The Company estimates the useful lives of intangible assets over the period in which it expects to obtain economic benefits from the intangible asset. The estimated useful lives of intangible assets are reviewed periodically by management for a change in circumstances which could lead to a change in the useful lives of intangible assets;

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- Share-based payment transactions and warrants. The Company measures the cost of equity-settled transactions with employees and directors by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining and making assumptions about the most appropriate inputs to the valuation model including the expected life, volatility, dividend yield of the share option and forfeiture rate. Similar calculations are made in order to value warrants. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates; and
- Fair value of financial instruments. The estimated fair value of financial assets and liabilities, by their very nature, are subject to measurement uncertainty. The Company uses consistent valuation methodologies by third party experts to determine the fair value of financial assets and liabilities such as those acquired in business combinations. Determining the fair value of intangible assets acquired in asset purchases requires management to make assumptions and estimates about future events.

Application of new and revised International Financial Reporting Standards

IFRS 15, Revenue from Contracts with Customers

IFRS 15 is required for reporting periods beginning on or after January 1, 2018. This new standard supersedes existing standards and interpretations, including IAS 18, Revenue IAS 11, Construction Contracts, and several revenue-related Interpretations. The Company has applied the standard retrospectively to prior periods, subject to permitted and elected practical expedients.

This standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

More prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. The application of IFRS 15 has not had a significant impact on the financial position and financial performance of the Company considering there was no change in the manner in which revenue was recognized under the new standard for revenue streams which existed prior to January 1, 2018.

IFRS 9 Financial Instruments ("IFRS 9"):

IFRS 9 is required for reporting periods beginning on or after January 1, 2018, with retrospective application. The Company applied IFRS 9 on January 1, 2018, and in accordance with the transition requirements, comparative periods have not been restated. The adoption of IFRS 9 did not have a significant impact on the carrying amounts of financial instruments as at January 1, 2018.

IFRS 9 replaces the classification and measurement models in IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39"), with a single model under which financial assets are classified and measured at amortized cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL"). This classification is based on the business model in which a financial asset is managed, as well as its contractual cash flow characteristics, and eliminates the IAS 39 categories of held-to-maturity, loans and receivables, and available-for-sale.

All other financial assets and financial liabilities will continue to be measured on the same basis as is currently adopted under IAS 39.

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The Company has assessed the classification and measurement of our financial instruments under IFRS 9, with reference to the former classification under IAS 39, as follows:

Financial Assets	IFRS 9	IAS 39
Cash and cash equivalents	FVTPL	FVTPL
Long-term investments	FVTPL	FVTPL
Accounts receivable	Amortized cost	Loans and receivables
Financial Liabilities		
Operating line	Amortized cost	Other financial liabilities
Accounts payable and accrued liabilities	Amortized cost	Other financial liabilities
Promissory note payable	Amortized cost	Other financial liabilities
Due to shareholder	Amortized cost	Other financial liabilities
Loan from shareholder	Amortized cost	Other financial liabilities
Holdbacks and vendor take back	Amortized cost	Other financial liabilities
Term loan	Amortized cost	Other financial liabilities
Debentures	Amortized cost	Other financial liabilities

Impairment

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition.

The Company has applied the simplified approach to recognise lifetime expected credit losses for its trade receivables and has adjusted for credit losses under IFRS 9.

In general, the Company anticipates that the application of the expected credit loss model of IFRS 9 results in earlier recognition of credit losses for accounts receivable.

Upon adoption of IFRS 9, the Company did not recognize any adjustment to its consolidated statement of financial position as of January 1, 2018.

Accounting Standards Issued Not Yet Effective

IFRS 16 *Leases* replaces IAS 17, *Leases*. The new model requires the recognition of almost all lease contracts on a lessee's statement of financial position as a lease liability reflecting future lease payments and a "right-of-use asset" with exception for certain short-term leases and leases of low-value assets. In addition, the lease payments are required to be presented on the statement of cash flow within the operating and financing activities for the interest and principal portions, respectively.

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IFRS 16 will be applied by the Company using the cumulative catch-up approach for annual periods beginning on January 1, 2019. Under this approach, the Company will not restate its comparative figures and will recognize a right-of-use asset equal to the present value of the future lease payments.

The Company has several leases in place as disclosed in Note 21. On transition to IFRS 16, the Company will elect to apply the practical expedient to only transition contracts which were previously identified as leases. The Company will also elect to not recognize right-of-use assets and lease liabilities for leases that have a lease term of 12 months or less and for leases of low-value assets. The Company will account for leases for which the lease term ends within 12 months of the date of initial application as short-term leases. The Company is currently finalizing the quantitative assessment of the impact of the adoption of this new standard.

IFRIC 22 Foreign Currency Transactions and Advance Consideration issued by the IASB in December 2016, provides guidance on the issue of the "date of the transaction" for the purpose of determining the exchange rate at the time of the transaction, to apply to transactions that are within the scope of IAS 21, Effects of Changes in Foreign Exchange Rates, which involve the receipt or payment of an advance consideration in a foreign currency. The interpretation applies for annual reporting periods beginning on or after January 1, 2018. The Company is currently evaluating the impact if the new standard on the consolidated financial statements.

IFRIC 23 Uncertainty over income tax treatments issued by the IASB in June 2017, provides guidance as to when it is appropriate to recognize a current tax asset when the taxation authority requires an entity to make an immediate payment related to an amount in dispute. This interpretation applies for annual reporting periods beginning on or after January 1, 2019. The Company is currently evaluating the impact if the new standard on the consolidated financial statements.

4. BUSINESS ACQUISITIONS IN FISCAL YEARS 2018 AND 2017

AQUISITION OF ASSETS FROM MCW DIMAX LTD.

On April 30, 2018, the Company acquired various assets and intangibles from MCW Dimax Ltd. The purchased assets are used to manage HVAC systems in real time through ongoing monitoring and analysis. Through Internet of things ("IOT") and Cloud services, the acquisition adds Software as a Service (SaaS) revenue to Kontrol's operating and technology platform. The aggregate cash purchase price of \$1,008,239 was paid in 2018. The acquisition of assets was accounted for using the acquisition method for business combinations. The assets of MCW Dimax Ltd. are included at their fair value.

Assets acquired

Computer equipment	\$98,239
Customer relationships	512,000
Goodwill*	398,000
	\$1,008,239

Consideration

Cash	\$1,008,239
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*The excess of consideration over the identifiable net assets is allocated to Goodwill.

Goodwill reflects how the acquisition will impact the Company's ability to generate future profits in excess of existing profits due to the reputation of MCW Dimax Ltd. and credibility it has established in the Canadian and U.S. market for providing IOT services. The goodwill has been allocated to the Kontrol Energy Group CGU for the purposes of testing for impairment.

The useful life of the customer relationships is 15 years.

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AQUISITION OF CEM SPECIALITIES INC.

On September 20, 2018, the Company completed its acquisition of CEM Specialties Inc. ("CEMSI"). With more than 25 years of operating history, CEMSI provides the Canadian and US market with value added solutions for continuous emissions and process monitoring applications. The Company acquired 100% of the issued and outstanding shares of CEMSI. The acquisition of CEMSI was accounted for using the acquisition method for business combinations. The net assets of CEMSI are included at their fair value.

Net assets acquired

Cash	\$449,330
Accounts receivable	1,154,204
Unbilled revenue	36,456
Finished inventory	195,498
Prepaid expenses	34,792
Property and equipment	73,503
Customer relationships	1,821,000
Brand names	227,000
Goodwill*	1,000,253
Accounts payable and accrued liabilities	(838,724)
Deferred income taxes	(539,256)
	\$3,614,056

Consideration

Cash	\$2,476,556
Vendor take back	502,500
Holdback payable**	582,500
Share purchase warrants	52,500
	\$3,614,056

*The excess of consideration over the identifiable net assets is allocated to Goodwill.

**Holdback is to secure any indemnifications of Vendors; payable 15 months after acquisition date.

Goodwill reflects how the acquisition will impact the Company's ability to generate future profits in excess of existing profits due to the reputation of CEMSI and credibility it has established in the Canadian and U.S. market for providing continuous emissions monitoring services. The consideration paid relate to combined synergies, related mainly to revenue growth. The goodwill is not deductible for income tax purposes. The goodwill has been allocated to the CEM Speciality CGU for the purposes of testing for impairment.

The useful life of the customer relationships is 15 years. Brand names have a useful life of 10 years.

CEMSI contributed \$2,090,415 to revenue and \$477,424 to income before management fee and tax for the period between the date of acquisition and the balance sheet date. If the acquisition of CEMSI had been completed on the first day of the fiscal year, consolidated revenue for the Company would be \$15,832,089 and loss before taxes would be \$882,599.

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AQUISITION OF EFFICIENCY ENGINEERING INC.

On August 4, 2017, the Company completed its acquisition of Efficiency Engineering Inc. ("EE Inc."). EE Inc. has been operating for more than 20 years and provides engineering services to industrial, municipal and commercial building owners across Canada. The Company acquired 100% of the issued and outstanding shares of EE Inc. The acquisition of EE Inc. was accounted for using the acquisition method for business combinations. The net assets of EE Inc. are included at their fair value.

Net assets acquired

Cash	\$187,310
Accounts receivable	779,508
Unbilled revenues	103,693
Term deposit and prepaid expenses	70,882
Property and equipment	55,832
Customer relationships	558,000
Brand names	83,000
Goodwill*	830,362
Accounts payable and accrued liabilities	(64,890)
Deferred income taxes	(165,474)
Promissory note payable	(407,650)
	\$2,030,573

Consideration

Cash	\$634,184
1,210,816 Common shares	756,000
Holdback payable**	640,389
	\$2,030,573

*The excess of consideration over the identifiable net assets is allocated to Goodwill.

**Holdback is to secure any indemnifications of Vendors; payable 15 months after acquisition date.

Goodwill reflects how the acquisition will impact the Company's ability to generate future profits in excess of existing profits due to the reputation of Energy Efficiency and credibility it has established in the Ontario market for providing quality energy consulting services. The consideration paid relate to combined synergies, related mainly to revenue growth. The goodwill is not deductible for income tax purposes. The goodwill has been allocated to the Efficiency Engineering CGU for the purposes of testing for impairment.

The useful life of the customer relationships is 15 years. Brand names have a useful life of 10 years.

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AQUISITION OF ORTECH CONSULTING INC.

On February 10, 2017, the Company completed its acquisition of Ortech Consulting Inc. ("ORTECH"). ORTECH is an engineering consulting firm specializing in Green House Gas (GHG) reporting, air quality testing, emission testing and renewable energy/power consulting. The Company acquired 100% of the issued and outstanding shares of ORTECH. The acquisition of ORTECH was accounted for using the acquisition method for business combinations. The net assets of ORTECH are included at their fair value.

Net assets acquired	
Cash	\$21,017
Accounts receivable	420,430
Unbilled revenue and other assets	231,389
Property and equipment	397,829
Customer relationships	1,960,000
Brand names	173,000
Goodwill*	2,242,799
Accounts payable and accrued liabilities	(444,241)
Deferred revenue	(112,420)
Deferred income taxes	(602,628)
	\$4,287,175
Consideration	
Cash	\$4,287,175

*The excess of consideration over the identifiable net assets is allocated to Goodwill.

Goodwill reflects how the acquisition will impact the Company's ability to generate future profits in excess of existing profits due to the reputation of ORTECH and credibility it has established in the Ontario market for providing quality emissions testing and compliance services. The consideration paid relate to combined synergies, related mainly to revenue growth. The goodwill is not deductible for income tax purposes. The goodwill has been allocated to the ORTECH CGU for the purposes of testing for impairment.

The useful life of the customer relationships is 15 years.

5. ACCOUNTS RECEIVABLE

All amounts included in accounts receivable are collectible within a short-term period and the net carrying value reasonably approximates the fair value of the receivables.

Allowance for expected credit losses

	December 31, 2018	December 31, 2017
Opening credit loss allowance	1,554	-
Expected credit loss allowance recognized during the year	69,959	1,554
Receivables written off during the year, net of recoveries	-	-
Ending allowance for credit losses	\$71,513	\$1,554

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The credit loss provision for 2017 was determined using the incurred loss measurement basis under IAS 39, while the 2018 credit loss provision was determined using the IFRS 9 expected loss model (Note 3). Trade receivables are derecognised when there is no reasonable expectation of recovery.

Aging of accounts receivables

Age of receivables and the credit loss assessed and provided for are as shown below:

December 31, 2018

	Accounts receivable past due					Total
	Current	< 30 days	31 - 60	61 - 90	> 90 days	
Expected credit loss percentage	-	0.1%	0.0%	8.3%	4.9%	1.7%
Gross carrying amount	1,965,693	545,124	541,347	256,336	1,022,477	4,330,977
Lifetime expected credit loss	-	(300)	-	(21,256)	(49,957)	(71,513)
Net accounts receivable	1,965,693	544,824	541,347	235,080	972,520	4,259,464

December 31, 2017

	Accounts receivable past due					Total
	Current	< 30 days	31 - 60	61 - 90	> 90 days	
Expected credit loss percentage	-	0.0%	0.0%	0.0%	0.4%	0.1%
Gross carrying amount	318,778	677,233	444,101	116,874	407,910	1,964,896
Lifetime expected credit loss	-	-	-	-	(1,554)	(1,554)
Net accounts receivable	318,778	677,233	444,101	116,874	406,356	1,963,342

6. PROPERTY AND EQUIPMENT

	Office Equipment	Lab & Other Equipment	Computer Equipment	Vehicles	Computer Software	Leasehold Improvements	Radio Equipment	Total
Cost								
Balance at January 1, 2018	411,087	1,023,752	537,676	293,879	271,365	83,342	3,336	2,624,437
Acquisitions	122,027	105,780	336,759	61,048	162,593	65,215	-	853,422
Additions	3,447	66,861	20,616	-	-	-	-	90,924
Balance at Dec 31, 2018	536,561	1,196,393	895,051	354,927	433,958	148,557	3,336	3,568,783
Accumulated amortization								
Balance at January 1, 2018	332,813	835,895	494,045	253,425	236,986	71,379	2,912	2,227,455
Acquisitions	121,165	77,935	227,986	41,130	158,809	54,656	-	681,681
Depreciation	15,646	44,038	22,662	10,411	11,807	3,377	85	108,026
Balance at Dec 31, 2018	469,624	957,868	744,693	304,966	407,602	129,412	2,997	3,017,162
Carrying value								
At December 31, 2018	\$66,937	\$238,525	\$150,358	\$49,961	\$26,356	\$19,145	\$339	\$551,621
At December 31, 2017	\$78,274	\$187,857	\$43,631	\$40,454	\$34,379	\$11,963	\$424	\$396,982

The Company recorded property and equipment as part of the acquisition of CEMSI (see Note 4). The Company acquired computer equipment as part of the asset acquisition of MCW Dimax Ltd. (see Note 4).

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Cost	Office Equipment	Lab & Other Equipment	Computer Equipment	Vehicles	Computer Software	Leasehold Improvement	Radio Equipment	Total
Balance at January 1, 2017	12,517	-	-	-	-	-	-	12,517
Acquisitions	397,861	1,023,053	525,584	293,287	271,365	83,342	3,336	2,597,828
Additions	709	699	12,092	592	-	-	-	14,092
Balance at Dec 31, 2017	411,087	1,023,752	537,676	293,879	271,365	83,342	3,336	2,624,437
Accumulated amortization								
Balance at January 1, 2017	2,119	-	-	-	-	-	-	2,119
Acquisitions	317,968	797,917	484,792	244,241	227,632	68,796	2,821	2,144,167
Depreciation	12,726	37,978	9,253	9,184	9,354	2,583	91	81,169
Balance at Dec 31, 2017	332,813	835,895	494,045	253,425	236,986	71,379	2,912	2,227,455
Carrying value								
At December 31, 2017	\$78,274	\$187,857	\$43,631	\$40,454	\$34,379	\$11,963	\$424	\$396,982
At December 31, 2016	\$10,398	-	-	-	-	-	-	\$10,398

7. GOODWILL AND INTANGIBLE ASSETS

Cost	Goodwill	Product Development	Brand Names	Customer Relationships	Intellectual Property	Certifications and Patents	Total
Balance at January 1, 2018	3,244,313	114,944	256,000	3,176,275	640,000	160,000	7,591,532
Acquisitions	1,398,253	-	227,000	2,333,000	-	-	3,958,253
Additions	-	215,771	-	-	-	-	215,771
Balance at Dec 31, 2018	4,642,566	330,715	483,000	5,509,275	640,000	160,000	11,765,556
Accumulated amortization							
Balance at January 1, 2018	-	-	16,433	172,661	39,112	47,110	275,316
Amortization	-	-	31,600	267,000	44,000	52,000	394,600
Balance at Dec 31, 2018	-	-	48,033	439,661	83,112	99,110	669,916
Carrying value							
At December 31, 2018	\$4,642,566	\$330,715	\$434,967	\$5,069,614	\$556,888	\$60,890	\$11,095,640

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	Goodwill	Product Development	Brand Names	Customer Relationships	Intellectual Property	Certifications and Patents	Total
Cost							
Balance at January 1, 2017	-	-	-	658,275	640,000	160,000	1,458,275
Acquisitions	3,073,161	-	256,000	2,518,000	-	-	5,847,161
Additions	171,152	114,944	-	-	-	-	286,096
Balance at Dec 31, 2017	3,244,313	114,944	256,000	3,176,275	640,000	160,000	7,591,532
Accumulated amortization							
Balance at January 1, 2017	-	-	-	15,276	3,556	4,444	23,276
Amortization	-	-	16,433	157,385	35,556	42,666	252,040
Balance at Dec 31, 2017	0	0	16,433	172,661	39,112	47,110	275,316
Carrying value							
At December 31, 2017	\$3,244,313	\$114,944	\$239,567	\$3,003,614	\$600,888	\$112,890	\$7,316,216
At December 31, 2016	-	-	-	\$642,999	\$636,444	\$155,556	\$1,434,999

Product development costs relate to the development of the Company's next generation Energy Management System (SmartSuite). The new SmartSuite will include a robust Internet of Things (IOT) upgrade to allow device to device communication, device to Cloud communication and device to smart phone communication.

The Company recorded goodwill and intangible assets as part of the acquisitions of CEMSI and MCW Dimax Ltd. (see Note 4).

The Company performs an impairment test annually on December 31 or whenever there is an indication of impairment. Management uses the value in use model to determine potential impairment and performs a sensitivity analysis on the key assumptions, including the discount rates. The range of discount rates used in the impairment analysis is 17.8% - 26.0%. The sensitivity analysis indicated reasonable changes in the key assumptions will not result in an impairment loss.

The carrying amount of goodwill allocated to each of the CGUs is as follows:

	December 31, 2018	December 31, 2017
Kontrol Energy Group	569,152	171,152
ORTECH	2,242,799	2,242,799
EE	830,362	830,362
CEMSI	1,000,253	-
	\$4,642,566	\$3,244,313

8. LONG-TERM INVESTMENT

On October 5, 2015, a consulting agreement with Ghana Energy One ("project") was assigned to Kontrol Energy Group Inc. (formerly Nuvo Energy Grid Inc.), which entitles the Company to have a 4% interest in the project's revenue. The project is approximately 157 Megawatts in total size and is to be in the Ashanti region of Ghana. The project is in the final stages of development and is anticipated to begin construction in 2018. The project will have a long-term Power Purchase Agreement (PPA) with the Government of Ghana for a period of 20 years. The balance \$1 (2017: \$1) is a nominal value to represent the investment.

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9. OPERATING LINE

	December 31, 2018	December 31, 2017
Operating Line	\$701,824	\$475,000

Operating line facilities are with two financial institutions.

Facility I: Capacity of \$400,000. Bank Prime rate plus 1.50% per annum. Drawdowns as required; repayment on demand. General security agreement issued on all assets of Efficiency Engineering Inc.

Facility II: Capacity of \$500,000. Bank Prime rate plus 1.75% per annum. Drawdowns as required; repayment on demand. General security agreement issued on all assets of ORTECH Consulting Inc. The Company has provided a Guarantee over ORTECH Consulting Inc.'s borrowing under this facility. Also see financial covenants noted in the Term Loan in connection with this same financial institution (Note 14).

10. PROMISSORY NOTE PAYABLE

Promissory note payable was unsecured and interest bearing at a rate of 1% per month. The note was repaid in full during the first quarter of 2018.

11. DUE TO SHAREHOLDER

Due to shareholder is unsecured, non-interest bearing and due on demand. This amount is related to the acquisition of Kontrol Technologies Inc.

12. LOAN FROM SHAREHOLDER

Loan from shareholder was unsecured, interest bearing at 3% per annum and due on demand. The note was repaid in full during the first quarter of 2018.

13. HOLDBACKS PAYABLE AND VENDOR TAKE BACK

	December 31, 2018	December 31, 2017
Holdback relating to EE acquisition	550,000	700,000
Holdback relating to CEMSI acquisition	582,500	-
Vendor take back relating to CEMSI acquisition	502,500	-
Unamortized discount	-	(59,611)
	<u>\$1,635,000</u>	<u>\$640,389</u>

Holdbacks payable are to secure any indemnifications of Vendors in connection with acquisitions. The holdback relating the CEMSI acquisition is due December 20, 2019, is non-interest bearing and is unsecured.

The holdback relating the to EE acquisition originally due on November 30, 2018 was extended to October 31, 2019. During the year, accretion of the unamortized discount on initial recognition of the holdback was recorded in finance expense in the consolidated statement of loss and comprehensive loss.

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The Vendor take back amount as at December 31, 2018 is \$502,500. This indebtedness relates to the CEMSI acquisition and is in the form of a promissory note with subordinated security, due September 20, 2019 and interest accruing at a rate of 6% per annum until the principal is repaid in full.

14. DEBENTURES

	December 31, 2018	December 31, 2017
Debentures, at face value	6,129,250	4,322,000
Deferred financing cost and unamortized discount	(486,085)	(615,892)
	5,643,165	3,706,108
Less: Current portion	5,245,000	-
	<u>\$398,165</u>	<u>\$3,706,108</u>

See Subsequent Events (see Note 26) for information relating to maturity extension of the Debentures.

Debenture offering – 2016

The Debentures bear interest at a rate of 8% per annum, payable quarterly in arrears and will mature on October 31, 2019. The Debentures are non-convertible and non-redeemable. The Debenture Offering is up to \$5,300,000 of units at a price of \$1,000 per unit, each unit to be comprised of one 8% unsecured non-convertible debenture and 100 common shares of the Company ("Debenture units"). The 2016 Debenture Offering was fully subscribed and closed during the first quarter of 2018.

Securities offering – 2018

The Securities offering is up to \$5,000,000 of units at a price of \$1,000 per unit, each unit consisting of a \$750 Debenture, \$250 of common shares, and 150 common share purchase warrants ("Units"). The Debentures bear interest at a rate of 7% per annum, payable monthly and will mature on April 25, 2021. The Debentures are non-convertible and non-redeemable.

Commissions paid to registered securities dealers to effect sales of the offerings and professional fees relating to preparation of the offerings is recorded as a reduction of the Debenture amount and amortized over the term of the Debenture. The common shares included in the 2016 offering are fair valued at the time of each Debenture closing and recorded as a reduction of the Debenture amount and amortized over the term of the Debenture. During the year, \$302,464 (2017 - \$148,123) of deferred financing costs and accretions of the discount at issuance related to the debentures was amortized into the consolidated statements of loss and comprehensive loss.

15. TERM LOAN

	December 31, 2018	December 31, 2017
Term loan	342,553	500,000
Less: Current portion	(165,739)	(157,477)
	<u>\$176,814</u>	<u>\$342,523</u>

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A term loan of \$500,000 was taken out in the fourth quarter of 2017. Interest is payable at Bank Prime rate plus 2.40%. The repayment term of the loan is 36 months, regardless of potential adjustments made to the interest rate. The blended principal and interest repayment plus mandatory repayment is linked to ORTECH Consulting Inc.'s cash flow. In addition, a general security agreement was issued on all assets of ORTECH Consulting Inc. The Company has provided a guarantee over ORTECH Consulting Inc.'s borrowing under this facility. ORTECH Consulting Inc.'s financial covenants under this facility include the following: (i) Debt service coverage ratio on a rolling four quarters basis for the fiscal quarter then ended and the immediately preceding three fiscal quarters of not less than 1.25:1; and (ii) a ratio of funded debt to EBITDA, calculated on a rolling four quarter basis for the fiscal quarter then ended and the immediately preceding three fiscal quarters of not greater than 3:1. As at December 31, 2018, the Company was in compliance with the covenants.

16. DEBT FINANCING

	December 31, 2018	December 31, 2017
Debt financing	1,925,000	-
Deferred financing cost	(43,794)	-
	<u>\$1,881,206</u>	<u>-</u>

See Subsequent Events (see Note 26) for information relating to maturity extension of the Debt Financing.

In connection with the acquisition of CEMSI, the Company closed on a \$2 Million bridge debt financing. The bridge debt financing has a term of one year with an option to renew for an additional period. The outstanding principal amount of the debt bears interest at a rate per annum equal to 15%. Payments are interest only on a monthly basis and the outstanding principal is due on the maturity date. The debt is secured by general security agreements, shares pledge and guarantee. Fees recorded as a reduction of the debt and will be amortized over the term of the financing. CEMSI financial covenants under this debt financing include the following: (i) a ratio of EBITDA to interest expense calculated on a rolling four quarters basis for the fiscal quarter then ended and the immediately preceding three fiscal quarters of not less than 1.50:1; and (ii) a ratio of funded debt to EBITDA, calculated on a rolling four quarter basis for the fiscal quarter then ended and the immediately preceding three fiscal quarters of not greater than 5:1. As at December 31, 2018, the Company was in compliance with the covenants.

During the year, \$14,600 of deferred financing costs related to the debt financing was amortized into the consolidated statements of loss and comprehensive loss.

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17. INCOME TAX

Income tax expense varies from the amount that would computed by applying the basic federal and provincial tax rates to loss from operations before income taxes, shown as follows:

	December 31, 2018	December 31, 2017
Expected tax rate	26.50%	26.50%
Expected tax resulting from loss before income taxes	(623,509)	(368,808)
Permanent differences	83,493	67,637
Effect of losses not recognized	305,548	188,212
Effect of other temporary difference not recognized	91,934	34,683
Recognition of previously unrecognized losses	-	(1,931)
Impact of change in tax rates	-	3,291
Other	15,837	(4,048)
Recovery of income tax	(\$126,697)	(\$80,964)

Deferred income taxes reflect the impact of loss carry forwards and of temporary differences between amounts of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws. The following deferred tax assets and liabilities have been recognized for accounting purposes:

	December 31, 2018	December 31, 2017
Deferred tax asset	79,379	70,685
Deferred tax liability	(1,350,228)	(928,975)
Net deferred tax liability	(\$1,270,849)	(\$858,290)

The effect of temporary differences and loss carry forwards that give rise to significant portions of the deferred tax liability, which has been recognized during the year are as follows:

	December 31, 2017	Recognized in profit and loss	Recognized in goodwill	December 31, 2018
Deferred tax asset				
Loss carry forwards	68,775	11,817	-	80,592
Property and equipment	1,910	(6,586)	3,464	(1,212)
	70,685	5,231	3,464	79,380
Deferred tax liability				
Property and equipment	(25,825)	5,255	-	(20,570)
Intangible assets	(859,443)	72,504	(542,720)	(1,329,659)
Deferred financing fees	(3,300)	3,300	-	-
Other	(40,407)	40,407	-	-
	(928,975)	121,466	(542,720)	(1,350,229)
Net deferred tax liability	(\$858,290)	\$126,697	(\$539,256)	(\$1,270,849)

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The tax effects of temporary differences and loss carry forwards that give rise to significant portions of the deferred tax asset, which have not been recognized, are approximately as follows:

	December 31, 2018	December 31, 2017
Property and equipment	-	258
Intangible assets	40,962	3,832
Loans payable	262,944	56,074
Deferred financing fees	269,033	116,046
Share issue costs	65,435	61,605
Non-capital losses	2,337,763	1,076,421
Capital losses	465,076	465,076
Net deferred tax liability	<u>\$3,441,213</u>	<u>\$1,779,312</u>

The Company has the following non-capital losses available to reduce future years' federal and provincial taxable income, which expire as follows:

2036	385,309
2037	851,143
2038	<u>1,405,432</u>
	<u>\$2,641,884</u>

As at December 31, 2018, the company does not have any gross temporary differences associated with the investment in subsidiaries.

18. COMMON STOCK

The Company is authorized to issue an unlimited number of common shares.

On March 9, 2017, the Company completed a private placement of 792,857 units at a price of CDN \$0.70 per unit, each unit consisting of one common share and one share purchase warrant, resulting in aggregate proceeds of \$555,000. There were no share issue costs incurred.

In August 2017, the Company issued 1,210,816 common shares relating to the acquisition of Efficiency Engineering Inc.

During the 2017 fiscal year, the Company completed two private placements that totalled 1,069,166 units at a price of CDN \$0.60 per unit, each unit consisting of one common share and one-half of one share purchase warrant, resulting in aggregate gross proceeds of \$641,500. Share issue costs of \$49,620 were incurred.

During the 2017 fiscal year, 347,100 shares were issued to Debenture Unit holders. These common shares were valued at \$242,463.

During the 2017 fiscal year, the Company entered debt settlement agreements with the former shareholders of Kontrol Technologies Inc. and an arm's length creditor of the Company. Pursuant to the Settlement Agreements, the Company issued 100,477 common shares of the Company in settlement of \$62,000 owing.

During the 2017 fiscal year, 800,000 warrants were exercised resulting in proceeds of \$232,500.

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During the 2017 fiscal year, 200,000 performance shares were issued.

During the year ended December 31, 2018, 547,659 shares were issued to Debenture Unit holders. These common shares were valued at \$430,383 (see Note 14).

During the year ended December 31, 2018, 1,250,457 warrants were exercised resulting in proceeds of \$990,008.

During the year ended December 31, 2018, 115,000 stock options were exercised resulting in proceeds of \$74,750.

During the year ended December 31, 2018, 85,000 shares were repurchased under the Company's normal course issuer bid and were valued at \$62,966.

During the year ended December 31, 2018, 600,000 shares were issued to satisfy the Obligation to issue in respect of the Kontrol Technologies Inc. acquisition of 2016.

During the year ended December 31, 2018, the Company completed private placements of 560,370 units at a price of \$0.70 per unit resulting in aggregate proceeds of \$392,259. There were no share issue costs incurred. A total of 434,300 purchase warrants were issued in connection with the private placements.

19. STOCK OPTIONS

The Company has established a stock option plan for directors, employees, and consultants. Under the Company's stock option plan, the exercise price of each option is determined by the Board, subject to the Discounted Market Price policies of the CSE. The aggregate number of common shares issuable pursuant to options granted under the plan is 10% of the Company's issued common shares. The board of directors has the exclusive power over the granting of options and their vesting and cancellation provisions.

The following is a summary of the changes in the Company's stock option plan for the years ended December 31, 2018 and December 31, 2017:

Options Outstanding	December 31, 2018		December 31, 2017	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Opening	1,850,000	\$0.67	1,655,000	\$0.65
Granted	2,388,665	\$0.75	195,000	\$0.80
Exercised	(115,000)	\$0.65	-	-
Forfeited	(1,492,500)	\$0.65	-	-
Closing	2,631,165	\$0.75	1,850,000	\$0.67

The fair value of stock options is determined using the Black-Scholes Model. Volatility is calculated by using the historical volatility of other companies that the Company considers comparable that have trading and volatility history prior to the Company becoming public. The expected life in years represents the time that the options granted are expected to be outstanding. The risk-free rate is based on zero coupon Canada government bonds with a remaining term equal to the expected life of the options. The following outlines the range of assumptions used for the options issued during the years ended December 31, 2018 and December 31, 2017:

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Black-Scholes assumptions	December 31, 2018	December 31, 2017
Exercise price	\$0.60 - \$1.50	\$0.80
Risk-free interest rate	1.0%	0.7%
Expected life	2 years - 5 years	2 years
Expected volatility	46%	46%
Expected dividend yield	0%	0%
Weighted average grant date fair value per option	\$0.28	\$0.14

The following table summarizes the stock options that remain outstanding as at December 31, 2018:

Range of Exercise Prices	Number of Options Outstanding	Number of Options Vested	Weighted Average Remaining Life (Years)
\$0.47	35,000	-	4.69
\$0.60	400,000	400,000	1.00
\$0.68	1,165,000	-	4.75
\$0.70	360,000	-	4.78
\$0.76	85,000	28,333	4.29
\$0.80	255,000	245,000	1.08
\$0.90	91,165	30,388	4.01
\$1.25	140,000	46,667	4.14
\$1.50	100,000	100,000	4.07
	2,631,165	850,388	3.72

20. WARRANTS

In connection with the February 6, 2017 private placement, the Company issued 475,250 warrants that shall entitle the holder to acquire one share of the Company at a price of \$0.80 at any time on the date that is 12 months from the date of issuance of the warrant. However, should the price of the shares on the Canadian Securities Exchange close at a minimum of \$0.80 for a period of 10 consecutive trading days, the Company may accelerate the expiry date of the warrants to the date which is 20 days following the date upon notice is served of the acceleration.

In connection with the March 9, 2017 private placement, the Company issued 792,857 warrants that shall entitle the holder to acquire one share of the Company at a price of \$0.85 at any time on the date that is 12 months from the date of issuance of the warrant.

In connection with the two September 2017 private placements, the Company issued 534,583 warrants that shall entitle the holder to acquire one share of the Company at a price of \$0.80 at any time on the date that is 12 months from the date of issuance of the warrant. The Company also issued 80,533 warrants relating to Finder fees.

During the fourth quarter of 2017, the Company issued 28,980 warrants relating to Finder fees in connection with capital raising efforts.

During the year ended December 31, 2018, the Company issued 280,960 warrants relating to Finder fees in connection with capital raising efforts.

During the year ended December 31, 2018, the Company issued 213,502 warrants relating to the Securities offering (see Note 14).

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During the year ended December 31, 2018, the Company issued a total of 1,000,000 warrants to the Vendor and lenders in connection with the acquisition of CEMSI.

During the year ended December 31, 2018, a total of 434,300 purchase warrants were issued in connection with private placements. The warrants shall entitle the holder to acquire one share of the Company at a price of \$1.00 at any time that is 4 months from the date of issuance of the warrant.

During the year ended December 31, 2018, 1,250,457 warrants were exercised resulting in proceeds of \$990,008 (2017 – 800,000 warrant exercised for proceeds of \$232,500).

During the year ended December 31, 2018 a total of 680,272 warrants had expired.

Warrants outstanding as at December 31, 2018 are 1,944,762 (2017 – 1,936,729).

Warrants issued during the are recorded at their fair value which is determined using the Black-Scholes Model. Key inputs to the model include exercise price, grant-date fair value of the Company's shares, the risk-free rate of return and volatility (46%). The inputs are adjusted on each issuance based on the prevailing rates and prices on the grant date.

21. COMMITMENTS

The future minimum commercial lease payments relating to office premises are as follows:

2019	\$568,000
2020	\$497,000
2021	\$445,000
2022	\$445,000
2023	\$394,000
2024	\$60,000

22. RELATED PARTY TRANSACTIONS

Related Party Balances

	December 31, 2018	December 31, 2017
Due to shareholder (see Note 11)	45,000	130,000
Loan from shareholder (see Note 12)	-	70,000
	\$45,000	\$200,000

Key Management Compensation

The Company's key management personnel have the authority and responsibility for planning, directing and controlling the activities of the Company and consists of the Company's executive management team and management directors. The following is a summary of the related party transactions, including key management compensation for the year ended December 31, 2018 and the year ended December 31, 2017.

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	December 31, 2018	December 31, 2017
Salaries and benefits	433,800	433,800
Consulting	15,000	70,000
Share-based compensation	149,660	181,000
	\$598,460	\$684,800

Consulting fees were paid to a Director of the Company.
Share-based compensation relates to options granted to Key Management and Directors.

23. REVENUE

Disaggregation of revenues

The Company earns revenues from the following geographic regions:

	December 31, 2018	December 31, 2017
Canada	9,402,975	6,888,265
United States	1,324,326	-
	\$10,727,301	\$6,888,265

Contract balances

The following tables provides information about receivables, unbilled revenues and deferred revenues (contract liabilities) from contracts with customers:

	December 31, 2018	December 31, 2017
Accounts receivable	4,259,464	1,963,342
Unbilled revenue	164,818	300,953
Deferred revenue	(128,889)	(302,444)
Net contract balances	\$4,295,393	\$1,958,851

A reconciliation of the beginning and ending carrying amounts of contract balances is as follows:

	December 31, 2018	December 31, 2017
Opening balance, contract balances	1,958,851	682,975
Revenue earned during the year	10,727,301	6,888,265
Billings collected in the year	(8,390,759)	(5,612,389)
Net contract balances, end of year	\$4,295,393	\$1,958,851

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Significant increase (decreases) in unbilled revenues and deferred revenues in the year are as follows

	December 31, 2018	December 31, 2017
Unbilled revenues recognized on acquisitions	36,456	335,082
Deferred revenue recognized on acquisitions	(53,465)	(112,420)
	<u>(\$17,009)</u>	<u>\$222,662</u>

Revenue recognized in 2018 and included in deferred revenue at December 31, 2017 was \$302,444 (2017 - \$nil).

24. FINANCIAL INSTRUMENTS

The Company's financial instruments are exposed to certain financial risks, including credit risk, liquidity risk, and market risk.

(a) Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to the liquidity of its cash and accounts receivable. The Company limits exposure to credit risk by maintaining its cash with a large Canadian financial institution. To mitigate credit risk with respect to accounts receivable the Company subjects all major customer accounts to its credit evaluation process. The Company's maximum exposure to credit risk as at December 31, 2018 is the carrying value of cash held with financial institutions and accounts receivable.

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company ensures there is sufficient capital to meet short-term business requirements after taking into account cash flow from operations, the Company's holdings of cash, and the available credit facilities. The Company manages liquidity risk through the management of its capital structure. Accounts payable and accrued liabilities are due within the current operating period.

The Company's contractual liabilities and obligations are as follows:

	Less than 1 year	Between 1 year and 5 years	More than 5 years	Total
Accounts payable	2,982,526	-	-	2,982,526
Operating line	701,824	-	-	701,824
Due to shareholder	45,000	-	-	45,000
Holdback payable	1,657,613	-	-	1,657,613
Debt financing	2,141,563	-	-	2,141,563
Debenture	5,656,565	966,780	-	6,623,345
Term loan	175,683	187,423	-	363,106
Total	<u>\$13,360,774</u>	<u>\$1,154,203</u>	<u>-</u>	<u>\$14,514,977</u>

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(c) Interest rate risk

As at December 31, 2018, the Company's Operating Line and Term Loan are subject to varying rates with the financial institution's prime rate and are subject to cash flow risks. The Company monitors its exposure to interest rates and has not entered into any derivative contracts to mitigate this risk. Based on the outstanding credit facilities, a 1% increase in interest rates for the Company would decrease year to date 2018 net income before tax by approximately \$10,100 (2017 - \$9,800).

(d) Fair Value

IFRS 7 establishes a fair value hierarchy that prioritizes the input to valuation techniques used to measure fair value as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities:

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e., derived from prices); and

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company has no financial instruments recorded at level 3 fair value at December 31, 2018 and December 31, 2017.

As at December 31, 2018, both the carrying and fair value amounts of all the Company's financial instruments are approximately equivalent.

(e) Foreign currency risk

Foreign currency risk arises because of fluctuations in exchange rates. The Company's newly acquired subsidiary, CEMSI, conducts a portion of its business activities in U.S. dollars. Management of foreign exchange currency exposure is governed by the Company's foreign exchange policy as approved by its Board. The objective of the policy is to minimize the earnings impact of foreign currency gains and losses associated with foreign exchange rate fluctuations.

The financial assets and liabilities that are denominated in foreign currencies will be affected by changes in the exchange rate between the Canadian dollar and the U.S. dollar. This primarily includes cash, accounts receivable, and accounts payable and accrued liabilities which are denominated in foreign currencies.

The following is the Canadian dollar equivalent of financial assets and liabilities denominated in U.S. dollars which are exposed to changes in the foreign exchange rate:

	December 31, 2018	December 31, 2017
Cash	560,672	-
Accounts receivable	400,798	-
Accounts payable and accrued liabilities	(38,315)	-
	<u>\$923,155</u>	<u>\$-</u>

In addition to the above amounts, accounts payable and accrued liabilities includes \$274,326 (2017 - \$nil) payable is Swiss Francs.

KONTROL ENERGY CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

25. MANAGEMENT OF CAPITAL RISK

The Company considers items included in shareholders' equity as capital. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company manages the capital structure and makes adjustment to it considering 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 new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents.

To facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions.

To maximize the ongoing development efforts, the Company does not pay out dividends. The Company's investment policy is to invest its short-term excess cash in highly liquid short-term interest-bearing investments with maturities of 90 days or less from the original date of acquisition selected with regard to the expected timing of expenditures from continuing operations. The Company's approach to managing capital remains unchanged from the year ended December 31, 2017.

26. SUBSEQUENT EVENTS

On January 16, 2019, the Company announced that it has purchased the IP and Patents of Dimax Controls Canada Inc. and rebranded the energy software technology as Kontrol SmartSite®. The purchase price for IP and Patents Assets is 600,000 common shares of Kontrol at 70 cents per share and \$400,000 in cash to be paid over the course of 18 months, for a combined total of \$820,000.

On March 14, 2019, the Company announced that it has entered into a Letter of Intent to acquire the shares of an established and leading provider of electrical retrofit services. The entity has been providing the Canadian market with high quality, value added electrical efficiency services and retrofit applications for more than 15 years. The purchase price is \$3.0 Million CAD, subject to working capital adjustments with a holdback of \$300,000 for 12 months. Additional performance payments may be made based on achieving certain EBITDA targets.

Subsequent to the December 31, 2018 year end a material amount of the 2016 debenture offering originally due October 31, 2019 were being extended to October 31, 2020. Based on strong investor demand from unit holders, a new offering memorandum was issued subsequent to the year end, and subscriptions were being processed for a one year extension. The amount outstanding as at December 31, 2018 is \$5,245,000 and recorded as current liabilities. However, Subscription extension documentation in process totalled \$3,455,000 as at the date of the Company's release of the December 31, 2018 financial statements. As such the final extended amount total will be reclassified from current liabilities to long term liabilities in the 2019 first quarter financial statements (see Note 14).

Subsequent to the December 31, 2018 year end, the debt financing originally due September 20, 2019 was extended to April 1, 2020. The amount outstanding as at December 31, 2018 is \$1,925,000 and recorded as current liabilities. As such the debt financing will be reclassified from current liabilities to long term liabilities in the 2019 first quarter financing statements (see Note 16).

APPENDIX E

**Kontrol Energy Corp. Consolidated Audited Financial Statements for the year ended
December 31, 2017**

KONTROL ENERGY CORP.

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND DECEMBER 31, 2016
(Prepared in Canadian dollars)**

Independent Auditors' Report

To the Shareholders of Kontrol Energy Corp.:

We have audited the accompanying consolidated financial statements of Kontrol Energy Corp. which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Kontrol Energy Corp. as at December 31, 2017 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matter

The consolidated financial statements of Kontrol Energy Corp. for the year ended December 31, 2016 were audited by another auditor who expressed an unmodified opinion on those financial statements on April 26, 2017.

Burlington, Ontario

April 30, 2018

MNP LLP

Chartered Professional Accountants

Licensed Public Accountants

KONTROL ENERGY CORP.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT
(in Canadian dollars)

	Notes	December 31 2017	December 31 2016
Assets			
Cash		\$675,594	\$227,003
Accounts receivable		1,963,342	682,975
Work-in-progress		300,953	-
Prepaid expenses		121,559	12,038
Current assets		3,061,448	922,016
Property and equipment	7	396,982	10,398
Goodwill and intangible assets	8	7,316,216	1,434,999
Long-term investment	9	1	1
Non-current assets		7,713,199	1,445,398
Total assets		\$10,774,647	\$2,367,414
Liabilities			
Operating line	10	\$475,000	-
Accounts payable and accrued liabilities		1,168,264	648,703
Promissory note payable	11	157,650	-
Deferred revenue		302,444	-
Due to shareholder	12	130,000	252,671
Loan from shareholder	13	70,000	-
Holdback payable	6	640,389	-
Current portion of term loan	15	157,477	-
Current liabilities		3,101,224	901,374
Loan from shareholder	13	-	80,000
Debentures	14	3,706,108	488,676
Term loans	15	342,523	-
Deferred income taxes	16	858,290	-
Non-current liabilities		4,906,921	568,676
Total liabilities		8,008,145	1,470,050
Equity			
Common stock	17	4,462,970	1,311,067
Obligation to issue shares		120,000	120,000
Contributed surplus	18	257,000	229,000
Deficit		(2,073,468)	(762,703)
Total equity		2,766,502	897,364
Total liabilities and equity		\$10,774,647	\$2,367,414

Approved on Behalf of the Board

"Paul Ghezzi"
Director

"Claudio Del Vasto"
Director

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

KONTROL ENERGY CORP.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
For the years ended December 31
(in Canadian dollars)

	Notes	2017	2016
Revenues		\$6,888,265	\$1,886,222
Cost of sales		2,270,839	1,504,891
Gross profit		4,617,426	381,331
Advertising and promotion		66,273	43,929
Business fees and licenses		132,101	53,446
Consulting		202,892	44,769
Employee salaries and benefits		3,265,644	290,252
Insurance		59,302	2,006
Maintenance and repairs		93,228	-
Office and general		65,455	11,747
Professional fees		184,751	151,982
Rent		410,694	38,562
Supplies		58,024	-
Telecommunication		38,778	5,321
Travel		42,222	40,625
Amortization - intangibles	8	252,041	23,276
Depreciation - property and equipment	7	81,169	2,119
Share based compensation		28,000	229,000
Performance shares		160,000	-
		5,140,574	937,034
Net loss from operations		(523,148)	(555,703)
Amortization - financing fees		293,180	-
Finance expense		575,401	7,591
Listing expense	4	-	183,847
		868,581	191,438
Loss before income taxes		(1,391,729)	(747,141)
Deferred taxes recovery	16	(80,964)	
Net loss and comprehensive loss for the year		\$(1,310,765)	\$(747,141)
Basic and diluted loss per share		\$(0.06)	\$(0.04)
Basic and diluted weighted average number of common shares outstanding		22,563,482	16,823,781

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

KONTROL ENERGY CORP.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
AS AT
(In Canadian dollars)

	Number of Shares	Common Shares	Obligation to Issue Shares	Contributed Surplus	Deficit	Total Equity
As at December 31, 2015	12,250,000	\$ 100	\$ -	\$ -	\$ (15,562)	\$ (15,462)
Shares issued to acquire						
Kontrol Technologies Inc. (Note 5)	1,000,000	200,000	-	-	-	200,000
Obligation to issue shares	-	-	120,000	-	-	120,000
Issue of common shares to former						
Arrowhead shareholders	3,490,068	139,603	-	-	-	139,603
Private placement, net	1,600,000	309,600	-	-	-	309,600
Shares to debenture holders	85,100	46,764	-	-	-	46,764
Shares relating to intangibles purchase	1,000,000	550,000	-	-	-	550,000
Shares for debt extinguishment	100,000	65,000	-	-	-	65,000
Stock options grant	-	-	-	229,000	-	229,000
Net loss for the year	-	-	-	-	(747,141)	(747,141)
As at December 31, 2016	19,525,168	\$ 1,311,067	\$ 120,000	\$ 229,000	\$ (762,703)	\$ 897,364
	Number of Shares	Common Shares	Obligation to Issue Shares	Contributed Surplus	Deficit	Total Equity
As at December 31, 2016	19,525,168	\$ 1,311,067	\$ 120,000	\$ 229,000	\$ (762,703)	\$ 897,364
Shares issued to acquire						
Efficiency Engineering Inc. (Note 6)	1,210,816	756,000	-	-	-	756,000
Shares to debenture holders (Note 14)	347,100	242,463	-	-	-	242,463
Private placement, net	2,812,523	1,698,940	-	-	-	1,698,940
Shares for debt extinguishment	100,477	62,000	-	-	-	62,000
Exercise of warrants (Note 20)	800,000	232,500	-	-	-	232,500
Performance shares	200,000	160,000	-	-	-	160,000
Stock options grant (Note 18 & 19)	-	-	-	28,000	-	28,000
Net loss for the year	-	-	-	-	(1,310,765)	(1,310,765)
As at December 31, 2017	24,996,084	\$ 4,462,970	\$ 120,000	\$ 257,000	\$ (2,073,468)	\$ 2,766,502

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

KONTROL ENERGY CORP.
CONSOLIDATED STATEMENTS OF CASH FLOW
For the years ending December 31
(in Canadian dollars)

	2017	2016
Operating activities		
Net loss	\$(1,310,765)	\$(747,141)
Non-cash items		
Amortization and depreciation	626,390	25,395
Shares for debt and share compensation	200,000	229,000
Listing expense	-	183,847
Deferred taxes recovery	(80,964)	-
Non-cash working capital items		
Accounts receivable	(80,429)	(664,456)
Work-in-progress	34,129	-
Prepaid expenses	(38,639)	(4,188)
Accounts payable and accrued liabilities	10,430	537,995
Deferred revenue	190,024	-
Cash flows used in operating activities	(449,824)	(439,548)
Investing activities		
Additions to property and equipment	(14,092)	(12,517)
Additions to product development	(114,944)	-
Cash acquired from acquisitions	208,327	9,918
Cash paid in respect of acquisitions	(4,921,359)	(255,000)
Cash flows used in investing activities	(4,842,068)	(257,599)
Financing activities		
Proceeds from operating line	475,000	-
Payment of promissory note	(250,000)	-
(Payment) advance of loan from shareholder	(10,000)	80,000
Payment of due to shareholder	(72,671)	(3,088)
Proceeds from term loan	500,000	-
Proceeds from debenture, net	3,166,715	535,440
Proceeds from private placement, net	1,698,939	309,600
Proceeds from exercise of warrants	232,500	-
Cash flows from financing activities	5,740,483	921,952
Net increase in cash	448,591	224,805
Cash at beginning of year	227,003	2,198
Cash at end of year	\$675,594	\$227,003

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

KONTROL ENERGY CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

1. NATURE OF OPERATIONS

Kontrol Energy Corp. (“Kontrol” or the “Company”) is incorporated under the laws of the Province of British Columbia and its common shares are listed in the Canadian Securities Exchange (“CSE”). The Company is a provider of energy efficiency solutions to commercial energy consumers. Through a disciplined mergers and acquisition strategy, combined with a growing technology platform, Kontrol’s market-based energy solutions are designed to reduce its customers overall cost of energy while providing a corresponding reduction in Green House Gas (GHG) emissions. Management of the Company considers there to be one operating segment being the provision of energy compliance and consulting services. All of the Company’s operations are in Canada. The address of the Company’s head office is 180 Jardin Drive, Unit 9, Vaughan, ON, L4K 1X8.

2. BASIS OF PRESENTATION

Statement of Compliance

The Company’s consolidated financial statements, including comparatives, have been prepared in accordance with and using accounting policies in full compliance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and Interpretations of the IFRS Interpretations Committee.

The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of April 30, 2018, the date the Board of Directors approved the consolidated financial statements.

The consolidated financial statements are presented in Canadian dollars which is the currency of the primary economic environment in which the Company operates in.

The consolidated financial statements have been prepared on a historical cost basis.

Basis of Presentation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Details of the Company’s subsidiaries as at December 31, 2017 are as follows:

On June 30, 2016 the Company acquired 100% of Kontrol Technologies Inc., a company incorporated in Ontario. Its operations and financial results have been included in these consolidated financial statements from July 1, 2016 (Note 4). This entity and its parent company’s activities are designed for commercial building applications and include deep energy retrofits, distributed power generation, conservation solutions, and energy audits.

On February 10, 2017 the Company acquired 100% of ORTECH Consulting Inc. (“ORTECH”), a company incorporated in Ontario. The operations of ORTECH and its financial results have been included in these consolidated financial statements from February 11, 2017 (Note 6). ORTECH is an engineering consulting firm specializing in Green House Gas reporting, air quality testing, emission testing and renewable energy/power consulting.

On August 4, 2017 the Company acquired 100% of Efficiency Engineering Inc. (“EE Inc.”), a company incorporated in Ontario. The operations of EE Inc. and its financial results have been included in these consolidated financial statements from August 2, 2017 to December 31, 2017 (Note 6). EE Inc. provides engineering services to industrial, municipal and commercial building owners across Canada.

The significant accounting policies used in the preparation of these consolidated financial statements are summarized below and have been applied consistently across all periods presented.

KONTROL ENERGY CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries after intercompany balances and transactions have been eliminated. Subsidiaries are consolidated from the date that control is obtained and deconsolidated on the date control ceases. The acquisition method is used to account for the acquisition of a subsidiary from an unrelated party at the date that control is obtained, with the difference between the consideration transferred and the fair value of the subsidiary's net identifiable assets acquired recorded as goodwill. Acquisition related costs are recognized in profit and loss as incurred.

3. SIGNIFICANT ACCOUNTING POLICIES

Cash

Cash includes cash on hand, bank balances and short-term deposits with original maturities of three months and less held with banks.

Property and Equipment

Property and Equipment is carried at cost, less accumulated depreciation and accumulated impairment losses. Depreciation is calculated using the declining balance method.

The cost of an item consists of the purchase price, plus any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

An item is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss in the consolidated statement of comprehensive loss.

Where an item comprises major components with different useful lives, the components are accounted for as separate items of property and equipment. Expenditures incurred to replace a component of an item that is accounted for separately, including major inspection and overhaul expenditures, are capitalized.

Depreciation – Property and Equipment

Laboratory and other equipment	Declining balance	20%
Computer equipment	Declining balance	25%
Office equipment	Declining balance	20%
Vehicles	Declining balance	20%
Computer software	Straight-line	5 years
Leasehold improvements	Declining balance	20%
Radio equipment	Declining balance	20%

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

KONTROL ENERGY CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over their useful economic life on a straight-line basis and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of comprehensive loss in the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statement of comprehensive loss when the asset is derecognized.

Development costs are recognized as an intangible asset when the Company can demonstrate all the following:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- its intention to complete the intangible asset and use or sell it;
- its ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Following initial recognition of the development costs as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortization and accumulated impairment losses. Development costs are amortization on a straight-line basis over a period of 5 years or are expensed immediately if capitalized projects are not completed.

Amortization - Intangibles

Customer Relationships	Straight-line	15 years
Brand Names	Straight-line	10 years
Intellectual Property	Straight-line	15 years
Certifications and Patents	Straight-line	3 years

Business combinations

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

KONTROL ENERGY CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

When the consideration transferred by the Company in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not re-measured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is re-measured at subsequent reporting dates in accordance with IAS 39 Financial Instruments: recognition and measurement, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

When a business combination is achieved in stages, the Company's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date (i.e. the date when the Company obtains control) and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

Where goodwill forms part of a cash-generating unit and part of the operation within the unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation and the portion of the cash-generating unit retained.

Impairment

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired.

If such evidence exists, the Company recognizes an impairment loss for financial assets. The carrying amount of the asset is reduced by this amount either directly or indirectly using an allowance account.

The carrying amount of long-lived non-financial assets, including intangible assets, property and equipment, is reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Intangible assets with indefinite lives and intangible assets not yet put into use are evaluated for impairment at least annually. Goodwill is tested for impairment annually or more frequently if events or circumstances indicate that the carrying value may not be recoverable.

Impairment exists when the carrying value of an asset exceeds its recoverable amount, which is the higher of its fair value less costs to sell or its value in use. The fair value less costs to sell calculation is based on available data from observable market prices, less incremental costs. The value in use calculation is based on a discounted cash flow model. These calculations require the use of estimates and forecasts of future cash flows. Qualitative factors, including market size and market growth trends, strength of customer demand and degree of variability in cash flows, as well as other factors, are considered when making assumptions with regard to future cash flows and the appropriate discount rate. A change in any of the significant assumptions of estimates used to evaluate the underlying assets could result in a material change to the results of operations.

KONTROL ENERGY CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed, to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of amortization, if no impairment had been recognized. Write-downs as a result of impairment are recognized in the consolidated statement of comprehensive loss.

Share capital

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity. Common shares issued for consideration other than cash, are valued based on their market value at the date the shares are issued.

Warrants

The Company issues share purchase warrants as part of private placement units as well as to brokers as part of their finder's fees. The use of Warrants has been an effective means of attracting investors and overall capital raising efforts. Their inclusion in any private placement is evaluated by management based on the circumstances of each financing transaction.

The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component. The Company considers the fair value of common shares issued in a private placement to be the more easily measurable component and the common shares are valued at their fair value, as determined by the closing quoted bid price on the announcement date. The balance, if any, is allocated to the attached warrants. Any fair value attributed to the warrants is recorded in a separate component of equity to the extent that they do not meet the definition of a financial liability or financial asset.

Revenue Recognition

Revenue is recognized when it is probable that the economic benefits associated with a transaction will flow to the Company, and when the amount of revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, excluding trade discounts, volume rebates, and amounts collected on behalf of third parties.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed.

Revenue from a contract to provide installation, compliance and consulting services are recognised as services are performed by reference to the stage of completion. The Company measures the stage of completion based on the costs incurred to date compared to the total estimated costs for the project. Fees received in advance are deferred and recognized as income when the service is performed. Revenues relating to services performed but not billed are recognized to the extent they are collectible from the customer and are treated as work-in-progress.

Share-based payments

The Company operates an employee stock option plan. Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the option reserve (contributed surplus). The fair value of options is determined using a Black-Scholes pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

KONTROL ENERGY CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

Income taxes

Income tax on the loss for the periods presented comprises current and deferred tax. Income tax is recognized in the loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Income tax provisions are recognized when it is considered probable that there will be a future outflow of funds to a taxing authority. In such cases, a provision is made for the amount that is expected to be settled, where this can be reasonably estimated. This requires the application of judgment as to the ultimate outcome, which can change over time depending on facts and circumstances. A change in estimate of the likelihood of a future outflow and/or in the expected amount to be settled would be recognized in income in the period in which the change occurs.

Deferred tax assets or liabilities arising from temporary differences between the tax and accounting values of assets and liabilities, are recorded based on tax rates expected to be substantially enacted when these differences are reversed. Deferred tax assets are recognized only to the extent it is considered probable that those assets will be recovered. This involves an assessment of when those deferred tax assets are likely to be realized, and a judgment as to whether there will be sufficient taxable profits available to offset the tax assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. To the extent assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in respect of deferred tax assets as well as in the amounts recognized in income in the period in which the change occurs.

Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognized in income both in the period of change, which would include any impact on cumulative provisions, and in future periods.

Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating policy decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

Loss per share

The Company presents basic and diluted loss per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by dividing the loss attributable to common shareholders by the weighted average number of common shares outstanding, adjusted for own shares held and for the effects of all potential dilutive common shares related to outstanding stock options and warrants issued by the Company.

Financial instruments

Financial assets

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. Financial assets are initially measured at fair value, plus transactions costs, except for those financial assets classified as fair value through profit or loss, which are initially measured at fair value. The Company's accounting policy for each category is as follows:

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Fair value through profit or loss - This category comprises derivatives, or assets acquired or incurred principally for selling or repurchasing it in the near term. They are carried in the consolidated statement of financial position at fair value with changes in fair value recognized in the consolidated statement of comprehensive loss. The Company's cash has been classified as fair value through profit or loss.

Loans and receivables - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortized costs using the effective interest rate method, less any impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. The Company's accounts receivable, prepaid expenses and work-in-progress have been classified as loans and receivables.

Held-to-maturity investments - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in the consolidated statement of comprehensive loss. No financial assets have been classified as held-to-maturity.

Available-for-sale - Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in the consolidated statement of comprehensive loss. No financial assets have been classified as available-for-sale.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

Financial assets are derecognized when the Company's contractual rights to the cash flows from the respective assets have expired or have been transferred and the Company has neither exposure to the risks inherent in those assets nor entitlement to rewards from them.

Financial liabilities

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

Fair value through profit or loss - This category comprises derivatives, or liabilities acquired or incurred principally for selling or repurchasing it in the near term. They are carried in the consolidated statement of financial position at fair value with changes in fair value recognized in the consolidated statement of comprehensive loss. No financial liabilities have been classified as fair value through profit or loss.

Other financial liabilities - This category includes amounts operating line, due to shareholder, accounts payable and accrued liabilities, promissory note, holdback payable, loan from shareholder, debentures and term loans which are initially measured at fair value, net of transactions costs, and subsequently measured at amortized cost using the effective interest rate method.

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Significant accounting judgments and estimates

The preparation of these consolidated financial statements requires management to make judgments and estimates and form assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Such estimates primarily relate to unsettled transactions and events as at the date of the consolidated financial statements. On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities, revenues, and expenses. Management uses various factors it believes to be reasonable under the given circumstances as the basis for its judgments and estimates. Actual outcomes differ from these estimates under different assumptions and conditions.

The most significant judgments applying to the Company's consolidated financial statements include:

- The assessment of the Company's ability to continue as a going concern and whether there are events or conditions that may give rise to significant uncertainty.

These financial statements have been prepared based on the going concern assumption, which assumes the Company will continue to operate for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. In assessing whether this assumption is appropriate, management considers all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. The assessment is based upon planned actions that may or may not occur for a number of reasons including the Company's own resources and external market conditions.

As at December 31, 2017, the Company has a working capital deficiency of \$39,776, including \$675,594 in cash. For the year ended December 31, 2017 the Company had a \$1,310,765 net loss and accumulative deficit of \$2,073,468. Management anticipates having sufficient funds to discharge its current liabilities and meet its corporate administrative expenses for at least 12 months. However, the Company may require additional financing through various means, including but not limited to equity financing, to complete development of its products, complete future acquisitions and to drive revenue growth and profitability.

The carrying amounts of assets, liabilities, revenues and expenses presented in the consolidated financial statements and the classifications used in the consolidated statement of financial position have not been adjusted as would be required if the going concern assumption was not appropriate.

- Impairment of non-financial assets. Non-financial assets include property and equipment and intangible assets. Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The recoverable amount is most sensitive to the discount rate;
- Assessing the stage of completion on revenue contracts; and
- The classification of financial instruments.

Key sources of estimation uncertainty include:

- The determination of deferred taxes (Note 16);
- The measurement of the value of intangibles and goodwill (Note 8);

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- Allowance for doubtful accounts. The Company makes an assessment of whether accounts receivable is collectible from customers. Accordingly, we establish an allowance for estimated losses arising from non-payment and other sales adjustments, taking into consideration customer credit-worthiness, current economic trends and past experience. If future collections differ from estimates, future earnings would be affected;
- Useful lives of equipment. The Company estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the relevant assets. In addition, the estimation of the useful lives of property, plant and equipment are based on internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in the estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of the property, plant and equipment would increase the recorded expenses and decrease the non-current assets;
- Useful lives of intangible assets. The Company estimates the useful lives of intangibles assets over the period in which it expects to obtain economic benefits from the intangible asset. The estimated useful lives of intangible assets are reviewed periodically by management for a change in circumstances which could lead to a change in the useful lives of intangible assets;
- Share-based payment transactions and warrants. The Company measures the cost of equity-settled transactions with employees and directors by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining and making assumptions about the most appropriate inputs to the valuation model including the expected life, volatility, dividend yield of the share option and forfeiture rate. Similar calculations are made in order to value warrants. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates; and
- Fair value of financial instruments. The estimated fair value of financial assets and liabilities, by their very nature, are subject to measurement uncertainty. The Company uses consistent valuation methodologies by third party experts to determine the fair value of financial assets and liabilities such as those acquired in business combinations. Determining the fair value of intangible assets acquired in asset purchases requires management to make assumptions and estimates about future events.

New standards effective in the year

IAS 7 *Statement of Cash Flows* has been revised to incorporate amendments issued by the IASB in January 2016. The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendments are effective for annual periods beginning on or after January 1, 2017. This application of this amendment had no impact on the Company.

Accounting Standards Issued but not yet Effective

At the date of authorization of these consolidated financial statements, the IASB and IFRS Interpretations Committee (IFRIC) have issued the following new and revised Standards and Interpretations which were either effective during the fiscal year or are not yet effective as indicated and which the Company has not early adopted.

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IFRS 9 *Financial Instruments* was issued in final form in July 2014 by the IASB and will replace IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 also includes requirements relating to a new hedge accounting model, which represents a substantial overhaul of hedge accounting which will allow entities to better reflect their risk management activities in the financial statements. The most significant improvements apply to those that hedge non-financial risk, and so these improvements are expected to be of particular interest to non-financial institutions. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, however early adoption is permitted. The classification of financial assets and liabilities and subsequent measurement is not expected to change under the new standard. The Company is currently evaluating the impact of the new standard on the consolidated financial statements.

IFRS 15 *Revenue from Contracts with Customers*. In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers. IFRS 15 specifies how and when to recognize revenue as well as requiring entities to provide users of financial statements with more informative, relevant disclosures. The standard supersedes IAS 18, Revenue, IAS 11, Construction Contracts, and a number of revenue-related interpretations. Application of the standard is mandatory for all IFRS reporters and it applies to nearly all contracts with customers: the main exceptions are leases, financial instruments and insurance contracts. IFRS 15 must be applied in an entity's first annual IFRS financial statements for periods beginning on or after January 1, 2018, with early adoption permitted. The Company is currently evaluating the impact if the new standard on the consolidated financial statements.

IFRS 16 *Leases* replaces IAS 17, Leases. The new model requires the recognition of almost all lease contracts on a lessee's statement of financial position as a lease liability reflecting future lease payments and a "right-of-use asset" with exception for certain short-term leases and leases of low-value assets. In addition, the lease payments are required to be presented on the statement of cash flow within the operating and financing activities for the interest and principal portions, respectively. IFRS 16 is effective for annual period beginning on or after January 1, 2019, with early adoption permitted if IFRS 15, Revenue of Contracts with Customers, is also applied. The Company is currently evaluating the impact if the new standard on the consolidated financial statements.

IFRIC 22 *Foreign Currency Transactions and Advance Consideration* issued by the IASB in December 2016, provides guidance on the issue of the "date of the transaction" for the purpose of determining the exchange rate at the time of the transaction, to apply to transactions that are within the scope of IAS 21, Effects of Changes in Foreign Exchange Rates, which involve the receipt or payment of an advance consideration in a foreign currency. The interpretation applies for annual reporting periods beginning on or after January 1, 2018. The Company is currently evaluating the impact if the new standard on the consolidated financial statements.

IFRIC 23 *Uncertainty over income tax treatments* issued by the IASB in June 2017, provides guidance as to when it is appropriate to recognize a current tax asset when the taxation authority requires an entity to make an immediate payment related to an amount in dispute. This interpretation applies for annual reporting periods beginning on or after January 1, 2019. The Company is currently evaluating the impact if the new standard on the consolidated financial statements.

4. REVERSE TAKEOVER

On July 8, 2016, Kontrol Energy Corp. (formerly Arrowhead Gold Corp.) completed a reverse take-over transaction ("RTO"), pursuant to which it acquired all the issued and outstanding shares of Kontrol Energy Group Inc. (formerly Nuvo Energy Grid Inc.). Under the terms of the Share Exchange Agreement, Kontrol Energy Corp. acquired all the outstanding shares of Kontrol Energy Group Inc. in exchange for 13,250,000 post-consolidated shares. Kontrol Energy Group Inc. became a wholly owned subsidiary of Kontrol Energy Corp.

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Prior to completing the RTO, on July 7, 2016, the Company consolidated its issued and outstanding common shares based on one post-consolidated common share for every six pre-consolidated common shares held reducing the issued and outstanding common shares to 3,490,068 from 20,940,494. The Company also changed its name from "Arrowhead Gold Corp" to "Kontrol Energy Corp."

For accounting purposes the transaction constitutes a RTO, as the shareholders of Kontrol Energy Group Inc. acquired control of the consolidated entity. Kontrol Energy Group Inc. is considered the acquiring and continuing entity, and Kontrol Energy Corp. was the acquired entity. The consolidated financial statements are in the name of Kontrol Energy Corp. (formerly Arrowhead Gold Corp.); however, these are a continuation of the financial statements of Kontrol Energy Group Inc. The results of operations of Kontrol Energy Corp. are included in the consolidated financial statements of Kontrol Energy Group Inc. from the date of the RTO on July 8, 2016.

The net assets of the Company acquired by Kontrol Energy Group Inc. are included at their fair value.

Net assets acquired

Cash	\$ 5,431
Accounts receivable	2,825
Accounts payable	- 52,500
Net assets acquired	- 44,244
Listing expense	183,847
Fair value of consideration paid to former Arrowhead Gold Corp. holders of 3,490,068 common shares @ \$.04 per shares	\$ 139,603

The transaction allowed Kontrol Energy Group Inc., a private company, to obtain a listing on the Canadian Securities Exchange without having to complete an initial public offering. As the acquisition was not considered a business combination, a total of \$183,847, being the excess of the fair value of the consideration paid to obtain the listing over the fair value of the net assets acquired, was recorded as a RTO listing expense in the consolidated statement of loss and comprehensive loss.

5. AQISITION OF KONTROL TECHNOLOGIES INC.

In June 2016, prior to the reverse take-over transaction (see Note 4) in which the Company acquired all the issued and outstanding shares of Kontrol Energy Group Inc. (formerly Nuvo Energy Grid Inc.), Kontrol Energy Group Inc. acquired 100% of the issued and outstanding shares of Kontrol Technologies Inc. The acquisition of Kontrol Technologies Inc. was accounted for using the acquisition method for business combinations. The net assets of Kontrol Technologies Inc. are included at their fair value.

Net assets acquired

Cash	\$ 4,487
Accounts receivable	15,694
Due from shareholder	3,525
Customer Relationships	658,275
Accounts payable	(61,981)
	\$ 620,000

Consideration

Cash and Due to Shareholder	\$ 300,000
1,600,000 common shares	320,000
	\$ 620,000

In June 2016, the Company issued 1,000,000 common shares relating to the acquisition of Kontrol Technologies Inc. The Company has an obligation to issue an additional 600,000 common shares.

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6. BUSINESS ACQUISITIONS IN FISCAL YEAR 2017

AQUISITION OF EFFICIENCY ENGINEERING INC.

On August 4, 2017, the Company completed its acquisition of Efficiency Engineering Inc. ("EE Inc."). EE Inc. has been operating for more than 20 years and provides engineering services to industrial, municipal and commercial building owners across Canada. The Company acquired 100% of the issued and outstanding shares of EE Inc. The acquisition of EE Inc. was accounted for using the acquisition method for business combinations. The net assets of EE Inc. are included at their fair value.

Net assets acquired

Cash	\$187,310
Accounts receivable	779,508
Work-in-progress	103,693
Term deposit and prepaid expenses	70,882
Property and equipment	55,832
Customer relationships	558,000
Brand names	83,000
Goodwill*	830,362
Accounts payable and accrued liabilities	(64,890)
Deferred income taxes	(165,474)
Promissory note payable	(407,650)
	\$2,030,573

Consideration

Cash	\$634,184
1,210,816 Common shares	756,000
Holdback payable**	640,389
	\$2,030,573

*The excess of consideration over the identifiable net assets is allocated to Goodwill.

**Holdback is to secure any indemnifications of Vendors; payable 15 months after acquisition date.

Goodwill reflects how the acquisition will impact the Company's ability to generate future profits in excess of existing profits due to the reputation of Energy Efficiency and credibility it has established in the Ontario market for providing quality energy consulting services. The consideration paid relate to combined synergies, related mainly to revenue growth. The goodwill is not deductible for income tax purposes.

The useful life of the customer relationships is 15 years. Brand names have a useful life of 10 years.

Total acquisition costs related to the business combination amounted to \$22,000. These expenses related mainly to legal costs incurred which are included in the consolidated statement of comprehensive loss.

EE Inc. contributed to \$902,000 to revenue and \$188,000 to income before management fees and tax for the period between the date of acquisition and the balance sheet date.

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AQUISITION OF ORTECH CONSULTING INC.

On February 10, 2017, the Company completed its acquisition of Ortech Consulting Inc. ("ORTECH"). ORTECH is an engineering consulting firm specializing in Green House Gas (GHG) reporting, air quality testing, emission testing and renewable energy/power consulting. The Company acquired 100% of the issued and outstanding shares of ORTECH. The acquisition of ORTECH was accounted for using the acquisition method for business combinations. The net assets of ORTECH are included at their fair value.

Net assets acquired	
Cash	\$21,017
Accounts receivable	420,430
Work-in-progress and other assets	231,389
Property and equipment	397,829
Customer relationships	1,960,000
Brand names	173,000
Goodwill*	2,242,799
Accounts payable and accrued liabilities	(444,241)
Deferred revenue	(112,420)
Deferred income taxes	(602,628)
	\$4,287,175
Consideration	
Cash	\$4,287,175

*The excess of consideration over the identifiable net assets is allocated to Goodwill.

Goodwill reflects how the acquisition will impact the Company's ability to generate future profits in excess of existing profits due to the reputation of ORTECH and credibility it has established in the Ontario market for providing quality emissions testing and compliance services. The consideration paid relate to combined synergies, related mainly to revenue growth. The goodwill is not deductible for income tax purposes.

The useful life of the customer relationships is 15 years.

Total acquisition costs related to the business combination amounted to \$180,000. These expenses related mainly to bridge financing and legal costs incurred which are included in the consolidated statement of comprehensive loss.

ORTECH contributed to \$4,809,000 to revenue and \$860,000 to income before management fees and tax for the period between the date of acquisition and the balance sheet date.

If the acquisitions of ORTECH and EE Inc. had been completed on the first day of the fiscal year, consolidated revenue for the Company would be \$8,387,265 and loss before taxes would be \$1,436,729.

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7. PROPERTY AND EQUIPMENT

Cost	Office Equipment	Lab & Other Equipment	Computer Equipment	Vehicles	Computer Software	Leasehold Improvements	Radio Equipment	Total
Balance at January 1, 2017	12,517	-	-	-	-	-	-	12,517
Acquisitions	397,861	1,023,053	525,584	293,287	271,365	83,342	3,336	2,597,828
Additions	709	699	12,092	592	-	-	-	14,092
Balance at Dec 31, 2017	411,087	1,023,752	537,676	293,879	271,365	83,342	3,336	2,624,437
Accumulated amortization								
Balance at January 1, 2017	2,119	-	-	-	-	-	-	2,119
Acquisitions	317,968	797,917	484,792	244,241	227,632	68,796	2,821	2,144,167
Amortization	12,726	37,978	9,253	9,184	9,354	2,583	91	81,169
Balance at Dec 31, 2017	332,813	835,895	494,045	253,425	236,986	71,379	2,912	2,227,455
Carrying value								
At December 31, 2017	\$78,274	\$187,857	\$43,631	\$40,454	\$34,379	\$11,963	\$424	\$396,982
At December 31, 2016	\$10,398	-	-	-	-	-	-	\$10,398

The Company recorded property and equipment as part of the acquisitions of ORTECH and EE Inc. (see Note 6).

8. GOODWILL AND INTANGIBLE ASSETS

Cost	Goodwill	Product Development	Customer Relationships	Intellectual Property	Certifications and Patents	Brand Names	Total
Balance at January 1, 2016	-	-	-	-	-	-	-
Acquisitions	-	-	658,275	640,000	160,000	-	1,458,275
Additions	-	-	-	-	-	-	-
Balance at Dec 31, 2016	-	-	658,275	640,000	160,000	-	1,458,275
Acquisitions	3,073,161	-	2,518,000	-	-	256,000	5,847,161
Additions	171,152	114,945	-	-	-	-	286,097
Balance at Dec 31, 2017	3,244,313	114,945	3,176,275	640,000	160,000	256,000	7,591,533
Accumulated amortization							
Balance at January 1, 2016	-	-	-	-	-	-	-
Amortization for the year	-	-	15,276	3,556	4,444	-	23,276
Balance at Dec 31, 2016	-	-	15,276	3,556	4,444	-	23,276
Amortization for the year	-	-	157,385	35,557	42,666	16,433	252,041
Balance at Dec 31, 2017	-	-	172,661	39,113	47,110	16,433	275,317
Carrying values							
At December 31, 2016	-	-	\$642,999	\$636,444	\$155,556	-	\$1,434,999
At December 31, 2017	\$3,244,313	\$114,945	\$3,003,614	\$600,887	\$112,890	\$239,567	\$7,316,216

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The Company recorded goodwill and intangible assets as part of the acquisitions of ORTECH and EE Inc. (see Note 6).

Product development costs relate to the development of the Company's next generation Energy Management System (EMS). The new EMS will include a robust Internet of Things (IOT) upgrade to allow device to device communication, device to Cloud communication and device to smart phone communication. The Company capitalized product development costs of \$114,944 for the year ended December 31, 2017.

The Company performs an impairment test annually on December 31 or whenever there is an indication of impairment. For the purposes of testing for impairment, goodwill has been allocation to the following cash generating units: ORTECH - \$2,242,799, Kontrol Technologies - \$171,152 and EE Inc - \$830,362. Management uses the value in use model to determine potential impairment and performs a sensitivity analysis on the key assumptions. The sensitivity analysis indicated reasonable changes to key assumptions will not result in an impairment loss.

9. LONG-TERM INVESTMENT

On October 5, 2015, a consulting agreement with Ghana Energy One ("project") was assigned to Kontrol Energy Group Inc. (formerly Nuvo Energy Grid Inc.), which entitles the Company to have a 4% interest in the project. The project is approximately 157 Megawatts in total size and is to be in the Ashanti region of Ghana. The project is in the final stages of development and is anticipated to begin construction in 2018. The project will have a long-term Power Purchase Agreement (PPA) with the Government of Ghana for a period of 20 years. The balance \$1 (2016: \$1) is a nominal value to represent the investment.

10. OPERATING LINE

	December 31, 2017	December 31, 2016
Operating Line	\$475,000	\$-

Operating line facilities were closed with two financial institutions during the year.

Facility I: Capacity of \$400,000. Bank Prime rate plus 1.50% per annum. Drawdowns as required; repayment on demand. General security agreement issued on all assets of Efficiency Engineering Inc.

Facility II: Capacity of \$500,000. Bank Prime rate plus 1.75% per annum. Drawdowns as required; repayment on demand. General security agreement issued on all assets of ORTECH Consulting Inc. The Company has provided a Guarantee over ORTECH Consulting Inc.'s borrowing under this facility. Also see financial covenants noted in the Term Loan in connection with this same financial institution (Note 15).

11. PROMISSORY NOTE PAYABLE

Promissory note payable is unsecured, due March 31, 2018 and is interest bearing at a rate of 1% per month. Subsequent to year end the note was repaid in full.

12. DUE TO SHAREHOLDER

Due to shareholder of \$130,000 (2016: \$245,000) is unsecured, non-interest bearing and due on demand. This amount is related to the acquisition of Kontrol Technologies Inc.

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13. LOAN FROM SHAREHOLDER

Loan from shareholder is unsecured, interest bearing at 3% per annum and due on demand.

14. DEBENTURES

	December 31, 2017	December 31, 2016
Debentures, at face value	4,322,000	592,000
Deferred financing cost and unamortized discount	(615,892)	(103,324)
	\$3,706,108	\$488,676

The Debentures bear interest at a rate of 8% per annum, payable quarterly in arrears and will mature on October 31, 2019. The Debentures are non-convertible and non-redeemable. The Debenture Offering is up to \$5,300,000 of units at a price of \$1,000 per unit, each unit to be comprised of one 8% unsecured non-convertible debenture and 100 common shares of the Company ("Debenture units").

Commissions paid to registered securities dealers to effect sales of the Debenture units and professional fees relating to preparation of the Debenture Offering is recorded as a reduction of the Debenture amount and amortized over the term of the Debenture. The common shares included in the offering are fair valued at the time of each Debenture closing and recorded as a reduction of the Debenture amount and amortized over the term of the Debenture. During the year, \$148,123 of deferred financing costs and accretion of the discount at issuance related to the debentures was amortized into the consolidated statements of loss and comprehensive loss.

15. TERM LOAN

	December 31, 2017	December 31, 2016
Term loan	500,000	-
Less: Current portion	(157,477)	-
	\$342,523	\$-

A term loan of \$500,000 was taken out in the year. Interest is payable at Bank Prime rate plus 2.40% until December 5, 2018 at which time the loan is to be renewed and the interest rate may be adjusted. The repayment term of the loan is 36 months, regardless of potential adjustments made to the interest rate. The blended principal and interest repayment plus mandatory repayment is linked to ORTECH Consulting Inc.'s cash flow. In addition, a general security agreement was issued on all assets of ORTECH Consulting Inc. The Company has provided a guarantee over ORTECH Consulting Inc.'s borrowing under this facility. ORTECH Consulting Inc.'s financial covenants under this facility include the following: (i) Debt service coverage ratio on a rolling four quarters basis for the fiscal quarter then ended and the immediately preceding three fiscal quarters of not less than 1.25:1; and (ii) a ratio of funded debt to EBITDA, calculated on a rolling four quarter basis for the fiscal quarter then ended and the immediately preceding three fiscal quarters of not greater than 3:1.

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16. INCOME TAX

Income tax expense varies from the amount that would be computed by applying the basic federal and provincial tax rates to income (loss) from operations before income taxes, shown as follows:

	December 31, 2017	December 31, 2016
Expected Tax Rate	26.50%	26%
Expected tax Benefit Resulting From Loss	(368,808)	(194,257)
Permanent Differences	67,637	108,308
Effect of losses not recognized	188,212	62,983
Effect of other temporary differences not recognized	34,683	22,966
Recognition of previously unrecognized losses	(1,931)	-
Impact of a change in rates	3,291	-
Other	(4,049)	-
Income tax expense (recovery)	\$ (80,964)	\$ -

Deferred income taxes reflect the impact of loss carry forwards and of temporary differences between amounts of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws. The following deferred tax assets and liabilities have been recognized for accounting purposes:

	December 31, 2017	December 31, 2016
Deferred tax asset	70,684	45,948
Deferred tax liability	(928,974)	(45,948)
Net deferred tax liability	\$ (858,290)	\$ -

The effect of temporary differences and loss carry forwards that give rise to significant portions of the deferred tax liability, which has been recognized during the year are as follows:

	December 31, 2016	Recognized on Acquisition	Recognized in profit and loss	Recognized in goodwill	December 31, 2017
Deferred tax asset					
Loss carry forwards	45,948	-	20,686	2,141	68,775
Fixed assets	-	-	(340)	2,250	1,910
	45,948	-	20,346	4,391	70,685
Deferred tax liability					
Property and equipment	-	(27,208)	1,383	-	(25,825)
Intangible assets	(45,948)	-	92,767	(906,262)	(859,443)
Deferred financing fees	-	-	(3,300)	-	(3,300)
Other	-	(2,592)	(30,232)	(7,583)	(40,407)
	(45,948)	(29,800)	60,619	(913,845)	(928,974)
Net deferred tax liability	\$ -	\$ (29,800)	\$ 80,964	\$ (909,454)	\$ (858,290)

The tax effects of temporary differences and loss carry forwards that give rise to significant portions of the deferred tax asset, which have not been recognized, are approximately as follows:

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	December 31, 2017	December 31, 2016
Property and equipment	258	2,119
Intangible Assets	3,832	-
Loans Payable	56,074	-
Deferred Financing Fees	116,046	-
Share Issue Costs	61,605	90,979
Non-Capital Losses	1,076,421	165,277
Capital Losses	465,076	-
Total	\$ 1,779,311	\$ 258,375

The Company has the following non-capital losses available to reduce future years' federal and provincial taxable income, which expire as follows:

2036	385,309
2037	950,641
	<u>\$ 1,335,950</u>

As at December 31, 2017, the Company does not have any gross temporary differences associated with the investment in subsidiaries.

17. COMMON STOCK

The Company is authorized to issue an unlimited number of common shares.

In June 2016, the Company issued 1,000,000 common shares relating to the acquisition of Kontrol Technologies Inc. (see Note 4).

Prior to completing the RTO, on July 7, 2016, the Company consolidated its issued and outstanding common shares based on one post-consolidated common share for every six pre-consolidated common shares held. As such the common shares were consolidated from 20,940,494 to 3,490,068 (see Note 5).

On July 8, 2016, the Company completed the RTO and acquired all the outstanding shares of Kontrol Energy Group Inc. in exchange for 13,250,000 post-consolidated shares (see Note 5).

On September 6, 2016, the Company completed a private placement of 1,600,000 units at a price of CDN \$0.20 per unit, each unit consisting of one common share and one-half of one share purchase warrant, resulting in aggregate gross proceeds of \$320,000. Share issue costs of \$10,400 were incurred.

During the year end December 31, 2016, 85,100 shares were issued to Debenture Unit holders. These common shares were valued at \$46,764 (see Note 14).

On December 1, 2016, the Company acquired Log-One Ltd.'s Energy Management System Technology including intellectual property and patents. The purchase price included 1 million common shares of the Company at a deemed price of \$0.55 per share (see Note 6).

In December 2016, the Company entered debt settlement agreements with two arm's length creditors of the Company. Pursuant to the Settlement Agreements, the Company issued 100,000 common shares of the Company at a deemed price of \$0.65 per common share in settlement of \$65,000 owing to said creditors. On February 6, 2017, the Company completed a private placement of 950,500 units at a price of CDN \$0.60 per unit, each unit consisting of one common share and one-half of one share purchase warrant, resulting in aggregate gross proceeds

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of \$570,300. Share issue costs of \$18,240 were incurred.

On March 9, 2017, the Company completed a private placement of 792,857 units at a price of CDN \$0.70 per unit, each unit consisting of one common share and one share purchase warrant, resulting in aggregate proceeds of \$555,000. There were no share issue costs incurred.

In August 2017, the Company issued 1,210,816 common shares relating to the acquisition of Efficiency Engineering Inc. (see Note 6).

During the 2017 fiscal year, the Company completed two private placements that totalled 1,069,166 units at a price of CDN \$0.60 per unit, each unit consisting of one common share and one-half of one share purchase warrant, resulting in aggregate gross proceeds of \$641,500. Share issue costs of \$49,620 were incurred.

During the 2017 fiscal year, 347,100 shares were issued to Debenture Unit holders. These common shares were valued at \$242,463 (see Note 14).

During the 2017 fiscal year, the Company entered debt settlement agreements with the former shareholders of Kontrol Technologies Inc. and an arm's length creditor of the Company. Pursuant to the Settlement Agreements, the Company issued 100,477 common shares of the Company in settlement of \$62,000 owing.

During the 2017 fiscal year, 800,000 warrants were exercised resulting in proceeds of \$232,500.

During the 2017 fiscal year, 200,000 performance shares were issued.

18. CONTRIBUTED SURPLUS

Stock options outstanding as at December 2017 are 1,860,000 and relate to the October 12, 2016 grant and May 8, 2017 grant to directors.

The October 12, 2016 grant represents 1,655,000 options, which are vested immediately and can be exercised at a price of \$0.65. Of this grant, 1,330,000 and 325,000 can be exercised for a period of two years and five years respectively.

The May 8, 2017 grant represents 205,000 options, which are vested immediately and can be exercised at a price of \$0.80 for a period of two years.

The weighted average grant date fair value of \$0.14 was estimated using the Black Scholes option pricing model. The Corporation recorded a stock option expense of \$28,000 during the year (2016 - \$229,000).

No stock options were exercised as at December 31, 2017 or December 31, 2016.

19. STOCK OPTIONS

The Company has established a stock option plan for directors, employees, and consultants. Under the Company's stock option plan, the exercise price of each option is determined by the Board, subject to the Discounted Market Price policies of the CSE. The aggregate number of common shares issuable pursuant to options granted under the plan is 2,499,608 common shares, being 10% of the Company's issued common shares under the plan. The board of directors has the exclusive power over the granting of options and their vesting and cancellation provisions.

The following is a summary of the changes in the Company's stock option plan for the twelve months ending December 31, 2017:

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Options Outstanding	December 31, 2017		December 31, 2016	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Beginning of year	1,655,000	\$0.65	-	-
Granted	195,000	\$0.80	1,655,000	\$0.65
Exercised	-	-	-	-
Forfeited	-	-	-	-
End of year	1,850,000	\$0.67	1,655,000	\$0.65

Black-Scholes assumptions	December 31, 2017	December 31, 2016
Exercise price	\$0.80	\$0.65
Risk-free interest rate	0.70%	0.60%
Expected life	2 years	2 years
Expected volatility	46%	46%
Expected dividend yield	0%	0%
Weighted average grant date fair value per option	\$0.14	\$0.14

Volatility is calculated by using the historical volatility of other companies that the Company considers comparable that have trading and volatility history prior to the Company becoming public. The expected life in years represents the time that the options granted are expected to be outstanding. The risk-free rate is based on zero coupon Canada government bonds with a remaining term equal to the expected life of the options.

20. WARRANTS

In connection with the September 6, 2016 private placement, the Company issued 800,000 warrants that shall entitle the holder to acquire one share of the Company at a price of \$0.30 at any time on the date that is 12 months from the date of issuance of the warrant. However, should the price of the shares on the Canadian Securities Exchange close at a minimum of \$0.50 for a period of 10 consecutive trading days, the Company may accelerate the expiry date of the warrants to the date which is 20 days following the date upon notice is served of the acceleration.

In connection with the February 6, 2017 private placement, the Company issued 475,250 warrants that shall entitle the holder to acquire one share of the Company at a price of \$0.80 at any time on the date that is 12 months from the date of issuance of the warrant. However, should the price of the shares on the Canadian Securities Exchange close at a minimum of \$0.80 for a period of 10 consecutive trading days, the Company may accelerate the expiry date of the warrants to the date which is 20 days following the date upon notice is served of the acceleration.

In connection with the March 9, 2017 private placement, the Company issued 792,857 warrants that shall entitle the holder to acquire one share of the Company at a price of \$0.85 at any time on the date that is 12 months from the date of issuance of the warrant.

In connection with the two September 2017 private placements, the Company issued 534,583 warrants that shall entitle the holder to acquire one share of the Company at a price of \$0.80 at any time on the date that is 12 months from the date of issuance of the warrant. The Company also issued 80,533 warrants relating to Finder fees.

During the year, 2017, 800,000 warrants were exercised resulting in proceeds of \$232,500 (2016 - \$nil).

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During the fourth quarter of 2017, the Company issued 28,980 warrants relating to Finder fees in connection with capital raising efforts.

Warrants outstanding as at December 31, 2017 are 1,912,203 (2016 – 800,000).

21. COMMITMENT

The future minimum commercial lease payments relating to office premises are as follows:

2018	\$359,000
2019	\$113,000
2020	\$114,000
2021	\$114,000
2022	\$114,000
2023	\$63,000
2024	\$47,000

22. RELATED PARTY TRANSACTIONS

Related Party Balances

	December 31, 2017	December 31, 2016
Due to shareholder (see Note 12)	130,000	252,671
Loan from shareholder (see Note 13)	70,000	80,000
	<u>\$200,000</u>	<u>\$332,671</u>

Key Management Compensation

	December 31, 2017	December 31, 2016
Salaries and benefits	433,800	144,600
Consulting	70,000	10,000
Share based compensation	181,000	107,000
	<u>\$684,800</u>	<u>\$261,600</u>

Salaries and benefits paid to Key Management includes all Officers of the Company.

Consulting fees were paid to a Director of the Company.

Share based compensation relates to options and performance shares granted to Key Management and Directors.

23. FINANCIAL INSTRUMENTS

The Company's financial instruments are exposed to certain financial risks, including credit risk, liquidity risk, and market risk.

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(a) Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to the liquidity of its cash and accounts receivable. The Company limits exposure to credit risk by maintaining its cash with a large Canadian financial institution. To mitigate credit risk with respect to accounts receivable the Company subjects all major customer accounts to its credit evaluation process. The Company's maximum exposure to credit risk as at December 31, 2017 is the carrying value of cash held with financial institutions and accounts receivable.

Accounts receivable is comprised of the following:

	December 31, 2017	December 31, 2016
Trade receivables	1,964,896	682,975
Allowance for doubtful accounts	1,554	-
	<u>\$1,963,342</u>	<u>\$682,975</u>

The aging analysis of trade receivables past due but not impaired is as follows:

	December 31, 2017	December 31, 2016
31 to 60 days	732,563	193,244
61 to 90 days	113,458	-
>90 days	460,627	-
	<u>\$1,306,648</u>	<u>\$193,244</u>

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company ensures there is sufficient capital to meet short-term business requirements after taking into account cash flow from operations, the Company's holdings of cash, and the available credit facilities. The Company manages liquidity risk through the management of its capital structure. Accounts payable and accrued liabilities are due within the current operating period.

The Company's contractual liabilities and obligations are as follows:

	Less than 1 year	Between 1 year and 5 years	More than 5 years	Total
Accounts payable	1,168,264	-	-	1,168,264
Operating line	475,000	-	-	475,000
Promissory note	157,650	-	-	157,650
Due to shareholder	130,000	-	-	130,000
Loan from shareholder	70,000	-	-	70,000
Holdback payable	700,000	-	-	700,000
Debenture	345,760	4,610,133	-	4,955,893
Term loan	181,466	362,892	-	544,358
Total	<u>\$3,228,140</u>	<u>\$4,973,025</u>	<u>-</u>	<u>\$8,201,165</u>

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(c) Market risk

Market risks to which the Company is exposed include unfavorable movement in interest rates. As at December 31, 2017, the Company holds the majority of its cash in secure, Canadian dollar-denominated deposits. Consequently, its exposure to these risks has been significantly reduced, but as the Company redeploys its cash, exposure to these risks may increase. The objective of the Company is to mitigate exposure to these risks while maximizing returns.

(d) Interest rate risk

As at December 31, 2017, the Company's Operating Line and Term Loan are subject to varying rates with the financial institution's prime rate and are subject to cash flow risks. The Company monitors its exposure to interest rates and has not entered into any derivative contracts to mitigate this risk. Based on the outstanding credit facilities, a 1% increase in interest rates for the Company would decrease 2017 net income before tax by approximately \$9,800.

Fair Value

IFRS 7 establishes a fair value hierarchy that prioritizes the input to valuation techniques used to measure fair value as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities:

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e., derived from prices); and

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company has no financial instruments recorded at level 3 fair value at December 31, 2017 and 2016.

As at December 31, 2017, both the carrying and fair value amounts of all the Company's financial instruments are approximately equivalent.

24. MANAGEMENT OF CAPITAL RISK

The Company considers items included in shareholders' equity as capital. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company manages the capital structure and makes adjustment to it considering 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 new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents.

To facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions.

To maximize the ongoing development efforts, the Company does not pay out dividends. The Company's investment policy is to invest its short-term excess cash in highly liquid short-term interest-bearing investments with maturities of 90 days or less from the original date of acquisition selected with regard to the expected timing of expenditures from continuing operations. The Company's approach to managing capital remains unchanged from the year ended December 31, 2016.

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25. SUBSEQUENT EVENTS

On January 3, 2018, the Company announced that it has entered into a Letter of Intent to acquire the assets of an energy analytics company which specializes in the application of energy software tools to analyze the management of complex heating, ventilation and cooling systems for large residential, commercial, and mission critical real estate owners. The purchase price is expected to be \$1 Million, subject to closing adjustments.

On March 28, 2018, the Company announced that it has entered into a Letter of Intent to acquire an established and leading provider of Emission Monitoring solutions. The purchase price is expected to be \$3.35 Million subject to working capital adjustments with a vendor take back of up to approximately \$500,000 for 12 months at an interest rate of 6%.