OFFERING MEMORANDUM

KONTROL ENERGY CORP.

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

APRIL 3, 2019

OFFERING MEMORANDUM

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

Date:	April 3, 2019
The Issuer:	Kontrol Energy Corp. ("**Kontrol**" or the "**Corporation**")
Head Office Address:	Kontrol Energy Corp. 180 Jardin Drive, Unit# 9 Vaughan, ON L4K 1X8
Phone:	(905) 766-0400; or 1-844-566-8123
Email:	admin@kontrolenergy.com
Web Address:	www.kontrolenergy.com
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 - "*Terms of Securities*" and Item 1 - "*Use of Available Funds*".
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.
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 - "*Subscription Procedures*".
Proposed Closing Date(s)	Closing is expected to occur in tranches with a first tranche to close during the month of May, 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 *pari passu* 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 - "*Canadian Federal Income Tax Considerations and Registered Plan Eligibility*".
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 - "*Resale Restrictions*".
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 - "*Purchaser's Rights*".
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 - "*Risk Factors*".**
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 – "*Our Business – Kontrol Target Acquisitions*".
Use of Available Funds	Kontrol intends to use the net proceeds of the Offering to acquire or invest in Operating Businesses. See Item 1 - "*Use of Available Funds*" and Item 2 - "*Business of Kontrol*".
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 - "*Risk Factors*".
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 2019 Debenture certificate, 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.

TABLE OF CONTENTS

APPENDIX A – Kontrol's interim consolidated financial statements for the nine months ended September 30, 2018

APPENDIX B – Kontrol's interim consolidated financial statements for the six months ended June 30, 2018

APPENDIX C – Kontrol's interim consolidated financial statements for the three months ended March 31, 2018

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

APPENDIX E – Kontrol's consolidated financial statements for the year ended December 31, 2016

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 - "*Business of Kontrol – Development of Business* ";
"Adverse Event"	has the meaning set forth in Item 8 - "*Risk Factors – Investment Risks – Securities Regulatory Risk*";
"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 *British Columbia Business Corporations Act*, 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 - "*Securities Offered – Terms of Securities – Terms of Debentures – Debentures*";
"Discount"	has the meaning set forth in Item 6 - "*Canadian Federal Income Tax Considerations and Eligibility for Investment – Allocation of Purchase Price*";
"DPSP"	means a deferred profit sharing plan, as defined in the Tax Act;
"EBITDA"	Has the meaning set forth in Item 2.2 – "*Business of Kontrol – Our Business*";
"Event of Default"	has the meaning set forth in Item 5.1 - "*Securities Offered – Terms of Securities – Terms of Debentures – Events of Default*";
"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 - "*Canadian Federal Income Tax Considerations and Eligibility for Investment*";
"Indenture"	has the meaning set forth in Item 5.1 - "*Securities Offered – Terms of Securities – Terms of Debentures – Debentures*";
"Interest Payment Date"	has the meaning set forth in Item 5.1 - "*Securities Offered – Terms of Securities – Terms of Debentures – Debentures*";
"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 $755,000 and the exchange of $5,245,000 aggregate principal amount of 2019 Debentures for 2020 Debentures;
"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;
"misrepresentation"	has the meaning set forth in Item 11 - "*Purchaser's Rights - Rights of Action in the Event of a Misrepresentation*";
"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 – "*Use of Available Funds – Available Funds*";
"NI 45-106"	means National Instrument 45-106 *Prospectus Exemptions;*
"Non-Resident Holder"	has the meaning set forth in Item 6 - "*Canadian Federal Income Tax Considerations and Eligibility for Investment – Holders Not Resident in Canada*";
"Offering"	means the offering of a minimum of 200 Units and a maximum of 6,000 Units for aggregate cash proceeds of up to $755,000 and the exchange of up to $5,245,000 aggregate principal amount of 2019 Debentures for 2020 Debentures;
"Offering Memorandum"	means this offering memorandum dated April 3, 2019;
"Operating Businesses"	means the businesses based in North America that Kontrol owns, may acquire or may invest in. See Item 2.2 - "*Business of Kontrol – Our Business*";

“Paris Agreement”	has the meaning set forth in Item 2.2 - “*Business of Kontrol – Our Business – Energy Efficiency part of the Climate Change Solution*”;
“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 - “*Directors, Management, Promoters, and Principal Holders – Compensation and Securities Held*”;
“Proposed Amendments”	has the meaning set forth in Item 6 - “*Canadian Federal Income Tax Considerations and Eligibility for Investment*”;
“RDSP”	means a registered disability savings plan, as defined in the Tax Act;
“Redemption Date”	has the meaning set forth in Item 5.1 – “*Terms of Securities – Terms of Debentures - Early Redemption of Debenture*”;
“Redemption Premium”	has the meaning set forth in Item 5.1 – “*Terms of Securities – Terms of Debentures - Early Redemption of Debenture*”;
“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 - “*Securities Offered – Subscription Procedure*”;
“Resident Holder”	has the meaning set forth in Item 6 - “*Canadian Federal Income Tax Considerations and Eligibility for Investment – Holders Resident in Canada”*;
“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 *Securities Act* (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 *pari passu* 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 *Income Tax Act* (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 - “*Business of Kontrol – Our Business-Turn-Key Energy Retrofit Business*”;
“UNFCCC”	has the meaning set forth in Item 2.2 - “*Business of Kontrol – Development of Business – Energy Efficiency part of the Climate Change Solution*”;
“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 may raise up to $755,000 in cash and may entail the exchange of up to $5,245,000 in principal amount of 2019 Debentures for 2020 Debentures such that under the Offering the Corporation could defer repayment of up to $5,245,000 in principal from October 31, 2019 under the 2019 Debentures to October 31, 2020 under the 2020 Debentures. The exchange of 2019 Debentures for Units will not raise any cash proceeds under the Offering. 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	$755,000
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)	$355,000
E	Additional sources of funding required	NA	NA
F	Working capital deficiency	$0	$0
G	Total: G=(D+E) – F(3)	($60,000)	$355,000
H	Utilized funding to date	$0	$0
I	Amount to be raised pursuant to the new Offering(4) I=G-H	($60,000)	$355,000

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. 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 $355,000 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(1)**
Funds to be used to acquire additional Operating Businesses and Intellectual Property ("IP") and Patent technology in the energy efficiency sector	$0	$100,500
Administrative and Legal	$0	$150,000
General Operating	$0	$100,000
Total	$0	$355,000

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.

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 cancel 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 Company'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

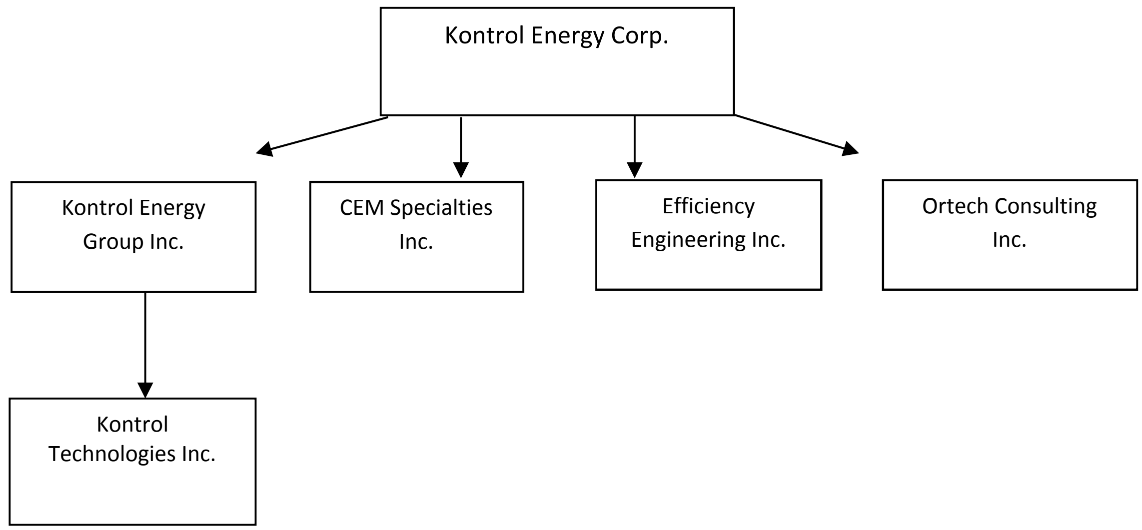
2.1 STRUCTURE

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, 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 the second half of 2018.

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 2ºC 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 ºC.

- *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 newclimateeoncomyreport.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 October 16, 2015, the Corporation announced it had signed a letter of intent with Kontrol Energy Group in which the Corporation would acquire all of the outstanding securities of Kontrol Energy Group in an all-share transaction to be completed by way of a share exchange agreement (the “**Acquisition**”). On March 29, 2016, the Corporation entered into a formal share exchange agreement with Kontrol Energy Group and its shareholders pursuant to which the Corporation agreed to acquire all of the issued and outstanding shares of Kontrol Energy Group from its shareholders.

On July 8, 2016, the Acquisition was completed, at which time (i) the outstanding Common Shares of the Corporation were consolidated and the Corporation changed its name to “Kontrol Energy Corp.”; (ii) the Corporation acquired all of the outstanding shares of Kontrol Energy Group in exchange for 13,250,000 post-consolidated shares of the Corporation; and (iii) Zachery Dingsdale and Derrick Strickland resigned as directors, Steve Smith resigned as CEO, and each of Paul Ghezzi, Claudio Del Vasto and Andrew Bowerbank were appointed as directors; with Paul Ghezzi being appointed as CEO, Claudio Del Vasto as CFO, and Kristian Lavereau as COO. On August 9, 2016 the Corporation’s Common Shares were listed on the CSE under the trading symbol “KNR”.

Prior to the Acquisition the Company was engaged in the business of mineral exploration and development. Following the Acquisition, the Corporation terminated or wrote-off all of its mineral property interests, and no longer carries on any business in the mineral exploration industry.

The transaction resulted in a reverse take-over of Kontrol (in accordance with accounting practices and CSE policies) which received both shareholders' and regulatory approval.

On December 2, 2016 Kontrol Energy Group completed the acquisition of Log-One Ltd.'s Energy Management System, an intelligent, occupancy-based heating and air-conditioning control product, including the hardware, software, intellectual property and patents (combined to be referred to as the "**EMS Technology**"). The aggregate purchase price for the EMS Technology is $800,000, of which the Company will pay $200,000 in cash on closing, with an additional $50,000 in cash paid on January 31, 2017, subject to any reduction for holdback obligations, and $550,000 by way of issuing 1 million Common Shares of Kontrol at a deemed price of $0.55 per share. Further, Kontrol will enter a 10-year royalty agreement with Log-One Ltd. pursuant to which Kontrol will pay Log-One Ltd. a graduated royalty of approximately 5% of manufactured cost in respect of sales of EMS units and a 6-month consulting agreement with the principals of Log-One Ltd.

The EMS Technology is an integrated smart, occupancy-based thermostat system which has been designed for commercial and industrial use. Unlike a programmable thermostat which requires a high level of attention by the property owner and is subject to ongoing manual adjustments, the EMS Technology provides for pre-programmed automation, smart learning algorithms and more environmental control while delivering best-in-class energy savings.

On February 10, 2017, Kontrol acquired all of the issued and outstanding common shares, business and operations of Ortech Consulting Inc. ("**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 will remain a wholly owned operating subsidiary with existing management and employees in place. Ortech's highly skilled employees are experts in their specialized field of work and as such the retention of key personnel is a key priority.

Ortech has a 20-year successful operating history and has a stable client base, including some of Canada's largest integrated oil and gas companies. A material portion of Ortech's annual revenue is from multi-year recurring contracts. For the last fiscal year ending March 31, 2016, Ortech reported audited gross revenues of $5.3 million and normalized EBITDA of $940,000.

Concurrent with the Ortech acquisition, Kontrol closed a $4 million secured bridge loan (the "**Loan**") with Pinnacle Absolute Return Trust to be used exclusively for the acquisition of Ortech. The Loan has 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 shall bear 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 Company at a price of $0.85 for a period of one (1) year.

On August 8, 2017 Kontrol acquired 100% of the commons 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. has a 20 year successful operating history and an established client base. Based on its unaudited financial statements for the fiscal years 2015, 2016 and 2017, EE Inc. generated average annual revenues of approximately $2.0 million and approximately $450,000 of average annual Net Earnings before tax (EBT).

EE Inc. will be 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 September 15, 2017, and September 28, 2017, Kontrol closed a non-brokered private placement oversubscribed for aggregate gross proceeds of $641,500. Pursuant to the offering, the Corporation issued 1,069,166 units at a price of $0.60 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 Company at a price of $0.80 for a period of one (1) year.

On December 20, 2017, Kontrol established a Blockchain Advisory Board (the "**Advisory Board**") that will assist the Company's expansion into blockchain technology solutions. Kontrol appointed Mr. Manie Eagar, Chairman of the Blockchain Association of Canada, the leading industry body representing cryptocurrency and blockchain technology in Canada to the Advisory Board.

Manie Eagar is the founder and CEO of DigitalFutures B.U.I.L.D. (Blockchain User-centric Innovation & Leadership Development), an independent strategic business development and investment consultancy with a focus on the latest innovations in fintech, cryptocurrency and blockchain technologies and ICOs (Initial Coin Offerings) at the convergence with AI, M2M, predictive analytics, IoT and cybersecurity technologies.

On January 2, 2018, Kontrol appointed Joseph C. Chen to the Advisory Board. Mr. Chen is an electrical engineer with a strong background in radio frequency, digital signal processing, VLSI, complex systems, chemistry and physics. Mr. Chen joined Research In Motion (now BlackBerry) in 1999, becoming a senior member of the office of the Chief Technology Officer ("**CTO**"), where he was instrumental in many of Blackberry's key telephony innovations and patents. Currently, Mr. Chen is the founder and chief executive officer of Conversance Inc., a Waterloo based private company, focused on developing and marketing proprietary AI supported distributed ledger technologies

On February 12, 2018 Kontrol announced that it is developing, in cooperation with the company it is proposing to acquire a utility token (GHGcoin) and Carbon Offset trading platform. The GHGcoin is expected to be a unique solution based on distributed ledger technology (DLT) and is aimed at sequestering up to 10 Billion tonnes of C02 through the carbon offset markets. The GHGcoin will be designed as a utility token and is intended to offer transparency, immutability and accountability for organizations to meet their net zero emission targets. The GHGcoin will have a finite issuance based on the reduction and/or sequestration of up to 10 Billion tonnes of C02 over 10 years. GHGcoins would be issued to participating organizations based on their own internal targets to become a net zero emission company. DLT smart contracts will allow organizations to grant the GHGcoin as a reward for consumer spending and engagement in support of carbon offset projects. The value of each GHGcoin will be pegged to the equivalent value of one tonne of C02.

On February 14, 2018 Kontrol in cooperation with the company it is proposing to acquire launched the bIOTAsphere, a Decentralized Ledger Technology (DLT) accelerator and commercialization facility serving academia, government, and business groups looking to bring solutions to market in the sectors of distributed energy, carbon reduction, smart buildings and the Internet of Things (IoT). The bIOTAsphere, powered by Kontrol Energy, will provide the technical, business and collaborative resources to accelerate the commercialization of new DLT solutions. The bIOTAsphere is focused on applications and services that are built upon the IOTA DLT protocol, and that use the unique capabilities of this technology. Kontrol Energy is committed to supporting a new generation of products, services, and solutions that will revolutionize our daily lives and the buildings and spaces in which we live, work and play. The primary goal of the bIOTAsphere is not only to minimize our current impact on the environment but also to advance technologies that will reverse the impacts of historic GHG emissions. The bIOTAsphere will offer a platform for high potential early-stage companies, established corporations, governments, and universities to collaborate, explore and demonstrate how DLT can bring new benefits to society and business.

On March 23, 2018 Kontrol terminated the acquisition of the Blockchain software development firm due to unfavorable market conditions.

On March 28, 2018 Kontrol announced that it has entered into a Letter of Intent (LOI) to acquire an established and leading provider of Emission Monitoring solutions (the "**Emission Monitoring Target**"). The Emission Monitoring Target has been providing the Canadian and US market with high quality, value added solutions for emissions and process monitoring applications for more than 20 years. The Emission Monitoring Target has averaged revenues (unaudited) of over $5 Million and normalized EBITDA of approximately $900,000 over the past 3 years. The purchase price is $3.35 Million CAD 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%.

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 consists 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. With more than 10 years of operating experience and currently installed in over 120 buildings, spanning more than 12 million square feet of real estate, the software and related services are both robust and scalable. MCW Dimax's existing customers include some of Canada's largest owners and managers of large residential, commercial, and mission-critical buildings. MCW Dimax generates approximately $1 Million of annual revenue with normalized EBITDA of 20%. Approximately 60% of the revenue is annual recurring revenue. The purchase price for the assets and intellectual property rights was $1 million with $750,000 in cash and $250,000 in holdbacks subject to closing adjustments. No Common Shares of Kontrol were issued as part of the transaction. The assets of MCW Dimax will be merged into Kontrol and re-branded as a Kontrol technology and solutions offering. The transaction was structured as an asset purchase.

On May 9, 2018, Kontrol announced the engagement of STEVLOC Management Inc. ("STEVLOC") to act as lead agent for a non-brokered private placement offering of up to $5 million in gross proceeds. STEVLOC has committed to a lead order of $2 million. The offering will be completed simultaneously with the Offering and funds will be allocated primarily to complete new operating business acquisitions that Kontrol has in due diligence.

On May 30, 2018, Kontrol announced that MCW Dimax will be adding Artificial Intelligence (AI) across its energy software platform. iDimax operates as a Software as a Service (SaaS) platform and has more than 10 years of successful operating history across 12 million square feet of commercial real estate including some of Canada's largest institutional real estate owners and managers.

On July 4, 2018, Kontrol announced its intention to enter the North American cannabis market as a supplier of integrated energy efficiency solutions and technologies. Through its operating subsidiaries and its most recent energy technology acquisition, Kontrol is intends to focus on assisting cannabis growers reduce their cost of energy and support mission critical infrastructure.

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 July 12, 2018, Kontrol announced that it has signed a Value-Added Reseller (VAR) agreement for its energy analytics software with Canyon Engineering Solutions (Canyon), an energy efficiency service and solutions provider in New York State.

On September 11, 2018, Kontrol announced that as been selected to deliver four Combined Heat and Power (CHP) projects (the “projects”) by a leading Real Estate Asset Manager. The projects have a combined value of approximately $1 Million and an electricity generation capacity of approximately 1.1 Million kilowatt hours per annum. The projects will be installed in four separate multi-residential buildings in the Greater Toronto Area

On September 13, 2018 *Canadian Business* and *Maclean’s* ranked Kontrol No. 7 on the 2018 Startup 50 ranking of Canada’s Top New Growth Companies. Serving as a companion list to the longstanding Growth 500 ranking of Canada’s Fastest-Growing Companies and produced by Canada’s premier business and current affairs media brands, the Startup 50 ranks younger companies on two-year revenue growth.

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.

With more than 25 years of successful operating history, CEMSI provides the Canadian and US market with value added solutions for emissions and process monitoring applications. For the fiscal year ending July 31, 2018 CEMSI generated revenues of $6 Million and EBITDA of approximately $1 Million. 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 is $3,350,000, of which the Company 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 shall accrue 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 has received 250,000 Common Share purchase Warrants. Each Warrant is exercisable for one Common Share of the Company 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 Company has 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 loan has a term of 12 months. It is anticipated that the loan will be replaced by long-term senior secured debt and equity financing over the next 12 months. The lenders have received 750,000 Common Share purchase Warrants in aggregate. Each Warrant is exercisable for one Common Share of the Company at a price of $0.75 per share for 4 years following the date of issue, subject to accelerated expiry in certain circumstances.

On September 25, 2018, Kontrol announced that it has been selected to deliver its proprietary energy management hardware and software solution for up to 60 multi-residential buildings across Canada.

On October 25, 2018, Kontrol has been selected by one of Canada’s leading real estate asset management firms, to deliver a central heating plant for 4 multi-residential buildings with 425 apartment units. The value of the project is $1.9 million and will begin immediately with substantial completion anticipated for Q1 of 2019. The central heating plant will be augmented with the addition of a $400,000 co-generation system in Q2 2019 to further improve efficiency. For industry competitive purposes the real estate asset manager will not be disclosed.

On October 29, 2018, Kontrol announced that its leading emission integration operating subsidiary has received a new $1.1 Million CAD order from a global cement company. The emission analyzer delivers ongoing regulatory compliance and process data to meet strict government requirements and reduce fuel and energy costs associated with production.

On November 5, 2018, Kontrol announced that its operating division CEMSI, a leading emission integration technology and solution provider, has received a new $1.2 million analyzer order from a global mining company.

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. Beginning in the first quarter of 2019, Kontrol's existing customers will pilot the SmartSuite® thermostat in commercial, multi-residential, and hospitality buildings. Kontrol's customers include some of the largest real estate investment trusts (REIT) in North America. Providing in-suite energy management with rich analytics and user interfaces, the SmartSuite® thermostat delivers energy savings, comfort and measurable GHG reductions.

On January 11, 2019 Kontrol announced that it had submitted an application to have its Common Shares listed on the OTCQB. The listing enables investors to easily trade through the broker of their choice and empowers companies to improve the quality of information available for investors. The OTCQB offers early stage and developing international companies the benefits of being publicly traded in the U.S. with lower cost and complexity than a U.S. exchange listing. Streamlined market standards enable international companies not yet ready for the OTCQX Best Market to provide a strong baseline of transparency to inform and engage U.S. investors.

On January 14, 2019, Kontrol announced that through its operating subsidiary, *ORTECH Consulting Inc*. has been engaged to provide emission and odour compliance services to a Cannabis company based in Ontario.

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 form 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 patented technology was first commercialized in 2003 and has been in continuous operation ever since. The technology is the foundation of several Kontrol Energy service offerings to date.

The transaction has been structured as an asset purchase, whereby Kontrol shall purchase 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 will be subject to a 3-year proportional escrow. A portion of the $400,000 cash payment will be 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 will be rebranded as Kontrol SmartSite®. Kontrol SmartSite® is a building energy software technology designed to assist in the operation and management of complex heating, ventilation and cooling systems for large multi-residential, commercial, and mission critical buildings. Kontrol SmartSite® operates as a Software as a Service (SaaS) platform and is highly scalable. Kontrol SmartSite® currently operates in more than 200 buildings, spanning more than 20 Million square feet of real estate.

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 "KNRLF"; 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 12, 2019 Kontrol announced it has engaged a consultant to apply for eligibility to The Depository Trust Company ("**DTC**") for the trading of the Corporation's shares on the OTC Market in the United States. The DTC, a subsidiary of the Depository Trust & Clearing Corporation DTCC, manages the electronic clearing and settlement of publicly traded companies. Securities eligible to be electronically cleared and settled through the DTC are considered "DTC eligible". This electronic method of clearing securities speeds up the receipt of stock and cash and accelerates the settlement process for investors trading on the OTC marketplace. The Corporation expects it will be fully DTC eligible in 2019.

On March 14, 2019 Kontrol announced that it has entered into a letter of intent to acquire an established and leading provider of electrical retrofit services (the "**Target**").

The Target has been providing the Canadian market with high quality, value added electrical efficiency services and retrofit applications for more than 15 years. The Target has averaged revenues (unaudited) of over $6.5 million and normalized EBITDA of approximately $700,000 over the past 3 years.

Kontrol is proceeding with this Offering to raise funds to invest in and/or acquire additional Operating Businesses based in North America.

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	$2,000,000(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)]
Engage one or more securities dealers to raise up to a minimum of $0 and a maximum of $755,000, and following Closing of the Offering, to engage in acquisitions of Operating Businesses that management believes are accretive to shareholder value	12 months	$755,000

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 Shares) will be released as to 15% (1,987,500 Common Shares) every six months thereafter over 36 months. As of February 9, 2019 the balance remaining in Escrow is 1,987,500. The following persons hold Common Shares in escrow:

Shareholder	Number of Securities	Percentage[1]
Paul Ghezzi	862,500	3.03%
The Ghezzi Family Trust	862,500	3.03%
Ed Blasiak	112,500	0.4%
Kristian Lavereau	75,000	0.3%
Patrizia Lavereau	75,000	0.3%
Total	**1,987,500**	**6.98%**

(1) Based on there being 28,484,473 Common Shares outstanding as of March 20, 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 mature on October 31, 2019 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.

On October 31, 2019, the Corporation will repay the indebtedness 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 have matured together with accrued and unpaid interest thereon. Any accrued and unpaid interest thereon will be 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 Company 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.

(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.

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	5,904,500 / 20.73%	5,904,500 / 20.51%
The Ghezzi Family Trust (3)	N/A	N/A	5,450,000 / 19.13%	5,450,000 / 18.93%
Kristian Lavereau Woodbridge, Ontario	Chief Operating Officer since July 8, 2016; Director since May 31, 2017	$140,000 anticipated in 2019	1,250,667 / 4.39%	1,250,667 / 4.34%
Claudio Del Vasto Vaughan, Ontario	Director and Chief Financial Officer since July 8, 2016	$140,000 anticipated in 2019	708,735 / 2.49%	708,735 / 2.46%
Andrew Bowerbank Richmond Hill, Ontario	Director since July 8, 2016	$16,000 anticipated in 2019	nil	nil
Steve Smith Richmond, British Columbia	Director since January 15, 2007	$16,000 anticipated in 2019	1,056,965 / 3.71%	1,056,965 / 3.67%

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)
Geoff LaFleur Calgary, Alberta	Director since May 31, 2017	$16,000 anticipated in 2019	354,174 / 1.24%	354,174 / 1.23%

Notes:

(1) Based on there being 28,484,473 Common Shares outstanding as of March 20, 2019.

(2) Based on there being 28,784,473 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.

Name	Principal Occupation and Related Experience
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.
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).
Steve Smith Director	Mr. Smith's principal occupation is to serve as President of Tangent Management Corp. He has served as a director of Taku Gold Corp. since 2005. He has over 23 years of experience in corporate management, corporate finance, public relations and administration. Mr. Smith is the former President and CEO of the Corporation, a position in which he served from 2007 to July 2016. Since March 2001, Mr. Smith has also served as a Partner of Tangent Management Corp, a consulting firm assisting public and private companies with corporate operations, capital development, corporate communications and regulatory compliance activities.

Name	Principal Occupation and Related Experience
Geoff LaFleur Director	Mr. LaFleur is President of Highwood Capital. Since 2012, Mr. LaFleur has developed and executed successful capital formation and marketing strategies that have to led to raising $200 Million across a number of different private equity investment offerings. Among these, Mr. LaFleur had direct involvement in helping to capitalize two separate offerings that had gone on to each win the Private Capital Markets Association (PCMA) Deal of the Year in their respective categories. In addition to the work he has done in Private Equity, Mr. LaFleur has held executive leadership and strategic positions across corporate and start-up environments (including Shaw Communications and TELUS Communications) in some of the fastest growing industry market segments including mobile application development, Cloud Computing, the Internet of Things (IoT), digital content delivery, renewable energy, E-commerce and wireless communications.

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 (the “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 20, 2018 the Company 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.

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 March 20, 2019	Number of Securities outstanding after Minimum Offering	Number of Securities outstanding after Maximum Offering
Common shares	Unlimited	N/A	28,484,473	28,494,473	28,784,473

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	$0.75(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

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 Share at $0.65 per Option until October 12, 2018.

(3) Exercisable into one Share at $0.80 per Option until May 8, 2019.

(4) Exercisable into on Share at $0.80 until September 28, 2018.

(5) Exercisable into on Share at $0.80 until September 15, 2019.

(6) Exercisable into on Share at $0.80 until September 28, 2018.

(7) Exercisable into on Share at $0.80 until November 21, 2018.

(8) Exercisable into on Share at $0.80 until December 5, 2018.

(9) Exercisable into one Share at $0.60 per Option until January 1, 2020.

(10) Exercisable into one Share at $0.80 per Option until January 1, 2023.

(11) Exercisable into one Share at $0.80 until December 12, 2018.

(12) Exercisable into one Share at $0.80 until December 27, 2018.

(13) Exercisable into one Share at $0.80 until January 4, 2019.

(14) Exercisable into one Share at $0.80 until January 12, 2019.

(15) Exercisable into one Share at $1.45 until January 25, 2019.

(16) Exercisable into one Share at $1.45 until January 25, 2019.

(17) Exercisable into one Share at $1.45 until January 25, 2019.

(18) Exercisable into one Share at $1.50 until January 26, 2023.

(19) Exercisable into one Share at $1.45 until February 2, 2019.

(20) Exercisable into one Share at $1.45 until February 9, 2019.

(21) Exercisable into one Share at $1.25 until February 20, 2019.

(22) Exercisable into one Share at $1.24 until February 28, 2019.

(23) Exercisable into one Share at $1.24 until February 28, 2019.

(24) Exercisable into one Share at $1.24 until February 28, 2019.

(25) Exercisable into one Share at $0.90 per Option until January 1, 2023.

(26) Exercisable into one Share at $0.76 per Option until April 18, 2023.

(27) Exercisable into one Share at $1.10 until December 11, 2020.

(28) Exercisable into one Share at $1.10 until December 18, 2020.

(29) Exercisable into one Share at $1.10 until January 4, 2021.

(30) Exercisable into one Share at $0.83 until July 9, 2023.

(31) Exercisable into one Share at $1.10 until February 28, 2021.

(32) Exercisable into one Share at $1.10 until February 13, 2021.

(33) Exercisable into one Share at $1.10 until February 24, 2021.

(34) Exercisable into one Share at $0.47 until September 10, 2023.

(35) Exercisable into one Share at $0.70 until September 20, 2023.

(36) Exercisable into one Share at $0.75 until September 20, 2021.

(37) Exercisable into one Share at $0.75 until September 20, 2022.

(38) Exercisable into one Share at $0.70 until September 20, 2023.

(39) Exercisable into one Share at $0.68 until October 1, 2023.

(40) Exercisable into one Share at $0.68 until October 2, 2023.

(41) Exercisable into one Share at $1.10 until April 4, 2021.

(42) Exercisable into one Share at $1.10 until April 5, 2021.

(43) Exercisable into one Share at $0.70 until October 15, 2023.

(44) Exercisable into one Share at $0.80 until October 25, 2023.

(45) Exercisable into one Share at $1.10 until May 5, 2021.

(46) Exercisable into one Share at $1.00 until May 5, 2021.

(47) Exercisable into one Share at $1.00 until November 9, 2021.

(48) Exercisable into one Share at $1.10 until May 9, 2021.

(49) Exercisable into one Share at $1.10 until June 7, 2021.

(50) Exercisable into one Share at $0.60 until February 19, 2021.

(51) Exercisable into one Share at $1.10 until April 22, 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	AMOUNT AS AT SEPTEMBER 30, 2018	DESCRIPTION
2019 Debentures	$5,245,000	Maturity date of October 31, 2019; interest at 8% per annum, payable monthly
7% Debentures	$600,0000	Maturity date of April 25, 2021; interest at 7% per annum, payable monthly
Term loan	$382,744	Term loan facility was entered into in Q4 2017; max term of 3 years; monthly debt service; (see section 2.7(d) for details); Security agreement and covenants in place
Debt financing	$1,925,000	Closed on $2 Million debt financing in connection with acquisition completed on September 20, 2018; (see section 2.7(f) for details); Security agreement and covenants in place
Holdbacks Payable	$1,082,500	To secure any implications in connections with acquisitions
	$9,235,244	

4.3 PRIOR SALES

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

Date of Issuance	Number and type of security issued	Deemed Value	Purpose
June 11, 2018	75,301 Shares	$0.83	Working Capital
June 18, 2018	56,626 Shares	$0.83	Working Capital
June 26, 2018	19,600 Shares	$0.80	Working Capital
July 4, 2018	90,964 Shares	$0.83	Working Capital
July 19, 2018	5,000 Shares	$0.80	Shares for Debt
July 31, 2018	3,012 Shares	$0.83	Working Capital
August 13, 2018	13,462 Shares	$0.65	Working Capital
August 13, 2018	62,558 Shares	$0.65	Working Capital
August 24, 2018	5,769 Shares	$0.65	Working Capital
August 24, 2018	600,000 Shares	N/A	Performance Shares

October 4, 2018	18,846 Shares	$0.65	Working Capital
October 5, 2018	19,230 Shares	$0.65	Working Capital
November 5, 2018	3,846 Shares	$0.65	Working Capital
November 5, 2018	265,800 Shares	$0.70	Working Capital
November 6, 2018	74,570 Shares	$0.70	Working Capital
November 9, 2018	220,000 Shares	$0.70	Working Capital
November 19, 2018	57,697 Shares	$0.65	Working Capital
November 28, 2018	100,000 Shares	N/A	Performance Shares
December 7, 2018	46,153 Shares	$0.65	Working Capital
January 21, 2019	600,000 Shares	$0.70	Acquisition of Dimax Controls Canada Inc. IP & Patents
January 21, 2019	290,672 Shares	$0.60	Performance Shares issued to Ortech, EE, CEMSI and Kontrol employees
February 22, 2019	19,231	$0.65	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 will fall due on May 31, 2019 and will represent 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 March 20, 2019, there were 28,484,473 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 surrenders 2019 Debentures for cancellation in exchange for Units:

(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 surrenders 2019 Debentures for cancellation in exchange for Units, the cost of the Debentures and Common Shares received on the disposition will equal 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 surrenders 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, or interest which has accrued (or deemed to have accrued) on the 2019 Debentures to the date of disposition and which would otherwise be payable after that date, 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 realize 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, are 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 accrues 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 Company 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 ⅓% 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 surrenders 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, 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.

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 conversation, 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 interim consolidated financial statements for the nine months ended September 30, 2018 (**Appendix A**);

(b) Kontrol’s interim consolidated financial statements for the six months ended June 30, 2018 (**Appendix B**);

(c) Kontrol’s interim consolidated financial statements for the three months ended March 31, 2018; (**Appendix C**);

(d) Kontrol’s consolidated audited financial statements for the year ended December 31, 2017 (**Appendix D**); and

(e) Kontrol’s consolidated financial statements for the year ended December 31, 2016 (**Appendix E**).

ITEM 13 - DATE AND CERTIFICATE

Dated this day of 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) "*Steve Smith*"
Director

Per: (signed) "*Andrew Bowerbank*"
Director

Per: (signed) "*Geoff LaFleur*"
Director

Per: (signed) "*Kristian Lavereau*"
Director

APPENDIX A

Kontrol Energy Corp.'s Consolidated Interim Financial Statements for the Nine Months ended September 30, 2018

KONTROL ENERGY CORP.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018
(UNAUDITED)
(Prepared in Canadian dollars)

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

	Notes	September 30 2018	December 31 2017
Assets			
Cash		$531,926	$675,594
Accounts receivable		3,698,693	1,963,342
Work-in-progress and inventory		529,541	300,953
Prepaid expenses		123,141	121,559
Current assets		4,883,301	3,061,448
Property and equipment	5	551,813	396,982
Goodwill and intangible assets	6	10,384,960	7,316,216
Long-term investment	7	1	1
Non-current assets		10,936,774	7,713,199
Total assets		$15,820,075	$10,774,647
Liabilities			
Operating line	8	$627,180	$475,000
Accounts payable and accrued liabilities		2,109,153	1,168,264
Promissory note payable	9	-	157,650
Deferred revenue		157,509	302,444
Due to shareholder	10	65,000	130,000
Loan from shareholder	11	-	70,000
Holdbacks and vendor take back	12	892,889	640,389
Current portion of term loan	14	162,000	157,477
Debt financing	15	1,866,606	-
Current liabilities		5,880,337	3,101,224
Debentures	13	5,258,671	3,706,108
Holdbacks payable	12	1,082,500	-
Term loan	14	220,744	342,523
Deferred income taxes		858,290	858,290
Non-current liabilities		7,420,205	4,906,921
Total liabilities		13,300,542	8,008,145
Equity			
Common stock	16	5,917,864	4,462,970
Obligation to issue shares		-	120,000
Contributed surplus	17	449,809	257,000
Deficit		(3,848,140)	(2,073,468)
Total equity		2,519,533	2,766,502
Total liabilities and equity		$15,820,075	$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 condensed interim 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	2018	2017	2018	2017
Revenues		**$2,408,303**	$2,202,564	**$6,632,091**	$4,911,073
Cost of sales		**795,501**	776,192	**2,172,376**	1,648,754
Gross profit		**1,612,802**	1,426,372	**4,459,715**	3,262,319
Advertising and promotion		**18,142**	18,160	**232,831**	53,297
Business fees and licenses		**80,337**	40,919	**168,088**	116,402
Consulting		**139,018**	73,538	**364,136**	132,849
Employee salaries and benefits		**1,049,759**	874,239	**3,118,745**	2,250,164
Insurance		**34,355**	22,230	**60,534**	41,576
Maintenance and repairs		**21,948**	33,368	**99,118**	73,810
Office and general		**26,819**	18,818	**59,379**	34,775
Professional fees		**118,254**	40,102	**269,555**	135,359
Rent		**133,693**	118,282	**388,188**	282,463
Supplies		**25,011**	14,495	**63,630**	38,494
Telecommunication		**20,676**	10,737	**53,090**	22,175
Travel		**9,337**	10,998	**42,928**	27,094
Amortization - intangibles	6	**98,400**	56,687	**275,200**	130,568
Depreciation - property and equipment	5	**23,853**	20,791	**73,745**	53,325
Share based compensation		**19,464**	-	**208,809**	200,000
		1,819,066	1,353,364	**5,477,976**	3,592,351
Net loss from operations		**(206,264)**	73,008	**(1,018,261)**	(330,032)
Amortization - financing fees		**102,236**	59,265	**379,821**	108,814
Finance expense		**135,242**	163,182	**376,590**	435,421
		237,478	222,447	**756,411**	544,235
Net loss and comprehensive loss		**$(443,742)**	$(149,439)	**$(1,774,672)**	$(874,267)
Basic and diluted loss per share		**$(0.02)**	$(0.01)	**$(0.07)**	$(0.04)
Basic and diluted weighted average number of common shares outstanding		**26,871,297**	22,796,827	**26,351,835**	21,413,200

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

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

	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 to acquire Efficiency Engineering	1,210,816	900,000	-	-	-	900,000
Shares to debenture holders	204,500	142,798	-	-	-	142,798
Private placement, net	2,812,523	1,698,939	-	-	-	1,698,939
Shares for debt extinguishment	100,477	62,000	-	-	-	62,000
Exercise of warrants	800,000	232,500	-	-	-	232,500
Performance shares	200,000	160,000	-	-	-	160,000
Stock options grant	-	-	-	28,000	-	28,000
Net loss for the period	-	-	-	-	(874,267)	(874,267)
As at September 30, 2017	24,853,484	$ 4,507,304	$ 120,000	$ 257,000	$ (1,636,970)	$ 3,247,334

	Number of Shares	Common Shares	Obligation to Issue Shares	Contributed Surplus	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 (Note 19)	1,240,457	990,008	-	-	-	990,008
Stock options grant (Note 17 & 18)	-		-	208,809	-	208,809
Stock options exercise	115,000	90,750	-	(16,000)	-	74,750
Share issuance costs	-	(24,353)	-	-	-	(24,353)
Treasury	(77,000)	(57,144)			-	(57,144)
Obligation to issue - prior acquisition	600,000	120,000	(120,000)		-	-
Shares for debt	5,000	-	-	-	-	-
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

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

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

	Nine months ended September 30 2018	Nine months ended September 30 2017
Operating activities		
Net loss	$(1,774,672)	$(874,267)
Non-cash items		
Amortization and depreciation	728,766	292,707
Share based compensation	208,809	200,000
Non-cash working capital items		
Accounts receivable	(645,634)	243,219
Work-in-progress	(3,252)	(64,393)
Prepaid expenses	33,210	(116,064)
Accounts payable and accrued liabilities	173,270	95,367
Deferred revenue	(144,935)	-
Cash flows used in operating activities	(1,424,438)	(223,431)
Investing activities		
Additions to property and equipment	(65,074)	(1,492)
Additions to product development	(189,003)	(106,513)
Cash acquired from acquisitions	449,330	208,327
Cash paid in respect of acquisitions	(3,015,000)	(4,921,359)
Cash flows used in investing activities	(2,819,747)	(4,821,037)
Financing activities		
Proceeds from operating line	152,180	-
Payment of promissory note	(157,650)	(150,000)
Payment of loan from shareholder	(70,000)	-
Payment of due to shareholder	(65,000)	(50,196)
Payment of term loan	(117,256)	-
Proceeds from debenture, net	1,308,376	1,998,291
Proceeds from debt financing, net	1,866,606	3,850,000
Repayment of debt financing	-	(2,145,057)
Proceeds from stock option exercise	74,750	-
Proceeds from exercise of warrants	990,008	232,500
Proceeds from shares issuance, net	200,000	1,698,939
Payment of share issue costs	(24,353)	-
Repurchase of common shares	(57,144)	-
Cash flows from financing activities	4,100,517	5,434,477
Net increase in cash	(143,668)	390,009
Cash at beginning of period	675,594	227,003
Cash at end of period	$531,926	$617,012

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

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, 2017. 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 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.

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

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

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.

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 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	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 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. 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.

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:

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.

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 condensed interim 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.

- 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;

- The measurement of the value of intangibles and goodwill;

- 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

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

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. BUSINESS ACQUISITIONS IN FISCAL YEARS 2018 AND 2017

AQUISITION OF CEM Specialties 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	1,089,717
Work-in-progress and inventory	225,336
Prepaid expenses	34,792
Property and equipment	73,503
Customer relationships	855,000
Brand names	112,394
Goodwill*	1,277,547
Accounts payable and accrued liabilities	(767,619)
	$3,350,000
Consideration	
Cash	$2,265,000
Vendor take back	502,500
Holdback payable**	582,500
	$3,350,000

*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.
Final working capital balances to be settled in Q4 2018 and the purchase price adjusted accordingly.

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

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.

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.

5. PROPERTY AND EQUIPMENT

	Office	Lab & Other	Computer	Vehicles	Computer	Leasehold	Radio	Total
Cost	**Equipment**	**Equipment**	**Equipment**		**Software**	**mprovement**	**Equipment**	
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	328,520	61,048	162,593	65,215	-	845,183
Additions	1,601	46,421	17,052	-	-	-	-	65,074
Balance at Sept 30, 2018	534,715	1,175,953	883,248	354,927	433,958	148,557	3,336	3,534,694
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	11,579	30,931	14,894	6,284	8,092	1,901	64	73,745
Balance at Sept 30, 2018	465,557	944,761	736,925	300,839	403,887	127,936	2,976	2,982,881
Carrying value								
At September 30, 2018	69,158	231,192	146,323	54,088	30,071	20,621	360	551,813
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 acquisitions of CEMSI (see Note 4).

On April 30, 2018, the Company acquired computer equipment and intangibles from MCW Dimax Ltd. The purchased assets are used to obtain data by monitoring building HVAC systems through software and cloud solutions technology. The aggregate purchase price was $1,000,000, of which the Company paid $750,000 in cash on closing, with an additional $250,000 payable in 2018, subject to any reductions under the agreement.

6. 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	1,277,547		112,394	1,765,000	-	-	3,154,941
Additions		189,003	-	-	-	-	189,003
Balance at Sept 30, 2018	4,521,860	303,947	368,394	4,941,275	640,000	160,000	10,935,476
Accumulated amortization							
Balance at January 1, 2018	-	-	16,433	172,661	39,112	47,110	275,316
Amortization	-	-	19,200	184,000	33,000	39,000	275,200
Balance at Sept 30, 2018	-	-	35,633	356,661	72,112	86,110	550,516
Carrying value							
At September 30, 2018	4,521,860	303,947	332,761	4,584,614	567,888	73,890	$10,384,960
At December 31, 2017	3,244,313	114,944	239,567	3,003,614	600,888	112,890	$7,316,216

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 recorded goodwill and intangible assets as part of the acquisition of CEMSI (see Note 4).

See (Note 5) for information relating to purchase of assets from MCW Dimax Ltd. on April 30, 2018.

7. 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 (2017: $1) is a nominal value to represent the investment.

8. OPERATING LINE

	September 30, 2018	December 31, 2017
Operating Line	$627,180	$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).

9. 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.

10. 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.

11. 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.

12. HOLDBACKS PAYABLE AND VENDOR TAKE BACK

Holdbacks payable are to secure any indemnifications of Vendors in connection with acquisitions and asset purchases. Holdbacks payable as at September 30, 2018 are $1,472,889.

The Vendor take back amount as at September 30, 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.

13. DEBENTURES

	September 30, 2018	December 31, 2017
Debentures, at face value	5,845,000	4,322,000
Deferred financing cost and unamortized discount	(586,329)	(615,892)
	$5,258,671	$3,706,108

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, 300 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

	September 30, 2018	December 31, 2017
Term loan	382,744	500,000
Less: Current portion	(162,000)	(157,477)
	$220,744	$342,523

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% 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.

15. DEBT FINANCING

	September 30, 2018	December 31, 2017
Debt financing	1,925,000	-
Deferred financing cost	(58,394)	-
	$1,866,606	-

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.

16. COMMON STOCK

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

During the nine months ended September 30, 2018, 401,892 shares were issued to Debenture Unit holders. These common shares were valued at $335,633 (see Note 13).

During the nine months ended September 30, 2018, 1,240,457 warrants were exercised resulting in proceeds of $990,008.

During the nine months ended September 30, 2018, 115,000 stock options were exercised resulting in proceeds of $74,750.

During the nine months ended September 30, 2018, 77,000 shares were repurchased under the Company's normal course issuer bid and were valued at $57,144.

During the nine months ended September 30, 2018, 600,000 shares were issued to satisfy the Obligation to issue in respect of the Kontrol Technologies Inc. acquisition of 2016.

17. CONTRIBUTED SURPLUS

Stock options outstanding as at September 30, 2018 are 1,553,665.

During the nine months ended September 30, 2018, 1,013,665 options were granted. The term of these options ranges from two to five years. The vesting period of these options ranges from one to three years.

The weighted average grant date fair value of $0.29 was estimated using the Black Scholes option pricing model. The Company recorded a stock option expense of $208,809 during the nine months ended September 30, 2018.

During the nine months ended September 30, 2018, 115,000 stock options were exercised.

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 is10% 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, 2018:

Options Outstanding	September 30, 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	1,013,665	$0.84	195,000	$0.80
Exercised	(115,000)	$0.65	-	-
Forfeited	(1,195,000)	$0.65	-	-
Closing	1,553,665	$0.80	1,850,000	$0.67

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

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.

19. WARRANTS

Warrants outstanding as at September 30, 2018 are 1,455,192.

During the nine months ended September 30, 2018, 1,240,457 warrants were exercised resulting in proceeds of $990,008.

During the nine months ended September 30, 2018, the Company issued 253,360 warrants relating to Finder fees in connection with capital raising efforts.

During the nine months ended September 30, 2018, the Company issued 156,652 warrants relating to the Securities offering (see Note 13).

During the nine months ended September 30, 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 nine months ended September 30, 2018 a total of 651,292 warrants had expired.

20. COMMITMENT

The future minimum commercial lease payments relating to office premises are as follows:

2018	$359,000
2019	$426,500
2020	$427,500
2021	$427,500
2022	$427,500
2023	$376,500
2024	$47,000

21. RELATED PARTY TRANSACTIONS

Related Party Balances

	September 30, 2018	December 31, 2017
Due to shareholder (see Note 10)	65,000	130,000

Key Management Compensation

	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Salaries and benefits	325,350	325,350
Consulting	15,000	50,000

Share based compensation	10,333	181,000
	$350,683	$556,350

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 granted to Key Management and Directors.

22. 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. Allowance for doubtful accounts as at September 30, 2018 is $13,554 (December 31, 2017 - $1,554).

(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.

(c) Market risk

Market risks to which the Company is exposed include unfavorable movement in interest rates. As at September 30, 2018, 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 September 30, 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 $7,500.

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 September 30, 2018 and December 31, 2017.

As at September 30, 2018, both the carrying and fair value amounts of all the Company's financial instruments are approximately equivalent.

23. 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.

APPENDIX B

Kontrol Energy Corp.'s Consolidated Interim Financial Statements for the Six Months ended June 30, 2018

KONTROL ENERGY CORP.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2018
(UNAUDITED)
(Prepared in Canadian dollars)

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

	Notes	June 30 2018	December 31 2017
Assets			
Cash		$516,884	$675,594
Accounts receivable		2,152,820	1,963,342
Work-in-progress		260,410	300,953
Prepaid expenses		119,516	121,559
Current assets		3,049,630	3,061,448
Property and equipment	5	501,298	396,982
Goodwill and intangible assets	6	8,138,480	7,316,216
Long-term investment	7	1	1
Non-current assets		8,639,779	7,713,199
Total assets		$11,689,409	$10,774,647
Liabilities			
Operating line	8	$476,431	$475,000
Accounts payable and accrued liabilities		1,352,199	1,168,264
Promissory note payable	9	-	157,650
Deferred revenue		78,834	302,444
Due to shareholder	10	85,000	130,000
Loan from shareholder	11	-	70,000
Holdback payable	4	640,389	640,389
Current portion of term loan	13	160,973	157,477
Current liabilities		2,793,826	3,101,224
Debentures	12	4,892,435	3,706,108
Term loans	13	261,403	342,523
Deferred income taxes		858,290	858,290
Non-current liabilities		6,012,128	4,906,921
Total liabilities		8,805,954	8,008,145
Equity			
Common stock	14	5,737,508	4,462,970
Obligation to issue shares		120,000	120,000
Contributed surplus	15	430,345	257,000
Deficit		(3,404,398)	(2,073,468)
Total equity		2,883,455	2,766,502
Total liabilities and equity		$11,689,409	$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 condensed interim consolidated financial statements.

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	**2018**	**2017**	**2018**	**2017**
Revenues		**$2,106,254**	$1,558,830	**$4,302,818**	$2,708,510
Cost of sales		**538,353**	450,770	**1,452,482**	870,063
Gross profit		**1,567,901**	1,108,060	**2,850,336**	1,838,447
Advertising and promotion		**19,334**	24,114	**214,688**	35,136
Business fees and licenses		**48,803**	35,021	**84,363**	77,984
Consulting		**94,296**	21,810	**221,770**	59,310
Employee salaries and benefits		**1,008,720**	817,779	**2,068,986**	1,375,926
Insurance		**16,186**	10,887	**26,179**	19,346
Maintenance and repairs		**25,920**	24,931	**67,551**	40,442
Office and general		**19,345**	8,914	**46,588**	15,957
Professional fees		**91,908**	21,013	**151,301**	95,257
Rent		**128,532**	106,990	**254,495**	164,181
Supplies		**32,759**	15,559	**44,370**	23,999
Telecommunication		**20,066**	6,791	**32,414**	11,438
Travel		**14,873**	8,443	**33,591**	13,596
Amortization - intangibles	6	**93,400**	56,688	**176,800**	73,881
Depreciation - property and equipment	5	**26,843**	19,678	**49,893**	32,534
Share based compensation		**18,945**	200,000	**189,345**	200,000
		1,659,930	1,378,618	**3,662,334**	2,238,987
Net loss from operations		**(92,029)**	(270,558)	**(811,998)**	(400,540)
Amortization - financing fees		**117,346**	27,325	**277,584**	49,549
Finance expense		**120,620**	169,302	**241,348**	274,739
		237,966	196,627	**518,932**	324,288
Net loss and comprehensive loss		**$(329,995)**	$(467,185)	**$(1,330,930)**	$(724,828)

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

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

(In Canadian dollars)

	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 to debenture holders	101,000	70,089	-	-	-	70,089
Private placement, net	1,743,357	1,107,059	-	-	-	1,107,059
Shares for debt extinguishment	100,477	62,000	-	-	-	62,000
Exercise of warrants	300,000	90,000	-	-	-	90,000
Performance shares	200,000	160,000	-	-	-	160,000
Stock options grant	-	-	-	28,000	-	28,000
Net loss for the period	-	-	-	-	(724,828)	(724,828)
As at June 30, 2017	21,970,002	$ 2,800,215	$ 120,000	$ 257,000	$ (1,487,531)	$ 1,689,684

	Number of Shares	Common Shares	Obligation to Issue Shares	Contributed Surplus	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 12)	226,127	245,133	-	-	-	245,133
Exercise of warrants (Note 17)	1,240,457	990,008	-	-	-	990,008
Stock options grant (Note 15 & 16)	-		-	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

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

(in Canadian dollars)

	Six months ended June 30 2018	Six months ended June 30 2017
Operating activities		
Net loss	$(1,330,930)	$(724,828)
Non-cash items		
Amortization and depreciation	504,277	155,964
Share based compensation	189,345	200,000
Non-cash working capital items		
Accounts receivable	(189,478)	(45,335)
Work-in-progress	40,543	62,817
Prepaid expenses	2,043	(33,394)
Accounts payable and accrued liabilities	(66,065)	62,455
Deferred revenue	(223,610)	-
Cash flows used in operating activities	(1,073,875)	(322,321)
Investing activities		
Additions to property and equipment	(64,209)	-
Additions to product development	(89,064)	(102,762)
Cash acquired from acquisitions	-	21,017
Cash paid in respect of acquisitions	(750,000)	(4,287,175)
Cash flows used in investing activities	(903,273)	(4,368,920)
Financing activities		
Proceeds from operating line	1,431	-
Payment of promissory note	(157,650)	-
Payment of loan from shareholder	(70,000)	-
Payment of due to shareholder	(45,000)	(30,196)
Payment of term loan	(77,624)	-
Proceeds from debenture, net	1,044,376	1,102,862
Proceeds from secured loan, net	-	2,704,943
Proceeds from stock option exercise	74,750	-
Proceeds from exercise of warrants	990,008	90,000
Proceeds from shares issuance, net	109,500	1,107,059
Payment of share issue costs	(24,353)	-
Repurchase of common shares	(27,000)	-
Cash flows from financing activities	1,818,438	4,974,668
Net increase in cash	(158,710)	283,427
Cash at beginning of period	675,594	227,003
Cash at end of period	$516,884	$510,430

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

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, 2017. 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.

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

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

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.

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 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	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 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. 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.

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:

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.

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 condensed interim 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.

- 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;

- The measurement of the value of intangibles and goodwill;

- 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

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

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. 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.

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.

5. PROPERTY AND EQUIPMENT

Cost	Office Equipment	Lab & Other Equipment	Computer Equipment	Vehicles	Computer Software	Leasehold mprovement	Radio Equipment	Total
Balance at January 1, 2018	411,087	1,023,752	537,676	293,879	271,365	83,342	3,336	2,624,437
Acquisitions	-	-	90,000	-	-	-	-	90,000
Additions	1,601	46,785	15,823	-	-	-	-	64,209
Balance at June 30, 2018	412,688	1,070,537	643,499	293,879	271,365	83,342	3,336	2,778,646
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	-	-	-	-	-	-	-	-
Depreciation	7,705	23,267	8,375	4,018	5,290	1,196	42	49,893
Balance at June 30, 2018	340,518	859,162	502,420	257,443	242,276	72,575	2,954	2,277,348
Carrying value								
At June 30, 2018	$72,170	$211,375	$141,079	$36,436	$29,089	$10,767	$382	$501,298
At December 31, 2017	$78,274	$187,857	$43,631	$40,454	$34,379	$11,963	$424	$396,982

On April 30, 2018, the Company acquired computer equipment and intangibles from MCW Dimax Ltd. The purchased assets are used to obtain data by monitoring building HVAC systems through software and cloud solutions technology. The aggregate purchase price was $1,000,000, of which the Company paid $750,000 in cash on closing, with an additional $250,000 payable in 2018, subject to any reductions under the agreement.

6. GOODWILL AND INTANGIBLE ASSETS

	Goodwill	Product	Brand	Customer	Intellectual	Certifications	Total
Cost		Development	Names	Relationships	Property	and Patents	
Balance at January 1, 2018	3,244,313	114,944	256,000	3,176,275	640,000	160,000	7,591,532
Acquisitions	-	89,064	-	910,000	-	-	999,064
Additions	-	-	-	-	-	-	-
Balance at June 30, 2018	3,244,313	204,008	256,000	4,086,275	640,000	160,000	8,590,596
Accumulated amortization							
Balance at January 1, 2018	-	-	16,433	172,661	39,112	47,110	275,316
Amortization	-	-	12,800	116,000	22,000	26,000	176,800
Balance at June 30, 2018	-	-	29,233	288,661	61,112	73,110	452,116
Carrying value							
At June 30, 2018	3,244,313	204,008	226,767	3,797,614	578,888	86,890	$8,138,480
At December 31, 2017	3,244,313	114,944	239,567	3,003,614	600,888	112,890	$7,316,216

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.

See (Note 5) for information relating to purchase of assets on April 30, 2018.

7. 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.

8. OPERATING LINE

	June 30, 2018	December 31, 2017
Operating Line	$476,431	$475,000

Operating line facilities are with two financial institutions.

Facility 1: 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).

9. 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.

10. 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.

11. 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.

12. DEBENTURES

	June 30, 2018	December 31, 2017
Debentures, at face value	5,573,500	4,322,000
Deferred financing cost and unamortized discount	(681,065)	(615,892)
	$4,892,435	$3,706,108

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, 300 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.

13. TERM LOAN

	June 30, 2018	December 31, 2017
Term loan	422,376	500,000
Less: Current portion	(160,973)	(157,477)
	$261,403	$342,523

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% 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.

14. COMMON STOCK

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

During the six months ended June 30, 2018, 226,127 shares were issued to Debenture Unit holders. These common shares were valued at $245,133 (see Note 12).

During the six months ended June 30, 2018, 1,240,457 warrants were exercised resulting in proceeds of $990,008.

During the six months ended June 30, 2018, 115,000 stock options were exercised resulting in proceeds of $74,750.

During the six months ended June 30, 2018, 29,000 shares were repurchased under the Company's normal course issuer bid and were valued at $27,000.

15. CONTRIBUTED SURPLUS

Stock options outstanding as at June 30, 2018 are 2,623,665.

During the six months ended June 30, 2018, 888,665 options were granted. The term of these options ranges from two to five years. The vesting period of these options ranges from one to three years.

The weighted average grant date fair value of $0.29 was estimated using the Black Scholes option pricing model. The Company recorded a stock option expense of $189,345 during the six months ended June 30, 2018.

During the six months ended June 30, 2018, 115,000 stock options were exercised.

16. 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 is10% 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, 2018:

Options Outstanding	June 30, 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	888,665	$0.87	195,000	$0.80
Exercised	(115,000)	$0.65	-	-
Forfeited	-	-	-	-
Closing	2,623,665	$0.74	1,850,000	$0.67

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

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.

17. WARRANTS

Warrants outstanding as at June 30, 2018 are 991,070.

During the six months ended June 30, 2018, 1,220,857 warrants were exercised resulting in proceeds of $974,328.

During the six months ended June 30, 2018, the Company issued 253,360 warrants relating to Finder fees in connection with capital raising efforts.

During the six months ended June 30, 2018, the Company issued 65,964 warrants relating to the Securities offering (see Note 12).

18. COMMITMENT

The future minimum commercial lease payments relating to office premises are as follows:

2018	$359,000
2019	$426,500
2020	$427,500

2021	$427,500
2022	$427,500
2023	$376,500
2024	$47,000

19. RELATED PARTY TRANSACTIONS

Related Party Balances

	June 30, 2018	December 31, 2017
Due to shareholder (see Note 12)	85,000	130,000

Key Management Compensation

	Six months ended June 30, 2018	Six months ended June 30, 2017
Salaries and benefits	216,900	216,900
Consulting	15,000	45,000
Share based compensation	18,945	181,000
	$250,845	$442,900

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 granted to Key Management and Directors.

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. Allowance for doubtful accounts as at June 30, 2018 is $1,554 (December 31, 2017 - $1,554).

(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.

(c) Market risk

Market risks to which the Company is exposed include unfavorable movement in interest rates. As at June 30, 2018, 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 June 30, 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 $4,700.

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, 2018 and December 31, 2017.

As at June 30, 2018, both the carrying and fair value amounts of all the Company's financial instruments are approximately equivalent.

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.

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.

APPENDIX C

Kontrol Energy Corp.’s Consolidated Interim Financial Statements for the Three Month Period Ended March 31, 2018

KONTROL ENERGY CORP.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2018 AND MARCH 31, 2017
(UNAUDITED)
(Prepared in Canadian dollars)

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

	Notes	March 31 2018	December 31 2017
Assets			
Cash		$1,360,689	$675,594
Accounts receivable		2,116,423	1,963,342
Work-in-progress		356,885	300,953
Prepaid expenses		112,307	121,559
Current assets		3,946,304	3,061,448
Property and equipment	5	393,356	396,982
Goodwill and intangible assets	6	7,259,243	7,316,216
Long-term investment	7	1	1
Non-current assets		7,652,600	7,713,199
Total assets		$11,598,904	$10,774,647
Liabilities			
Operating line	8	$529,855	$475,000
Accounts payable and accrued liabilities		1,282,012	1,168,264
Promissory note payable	9	-	157,650
Deferred revenue		130,691	302,444
Due to shareholder	10	85,000	130,000
Loan from shareholder	11	-	70,000
Holdback payable	4	640,389	640,389
Current portion of term loan	13	159,661	157,477
Current liabilities		2,827,608	3,101,224
Debentures	12	4,514,883	3,706,108
Term loans	13	301,798	342,523
Deferred income taxes		858,290	858,290
Non-current liabilities		5,674,971	4,906,921
Total liabilities		8,502,579	8,008,145
Equity			
Common stock	14	5,639,328	4,462,970
Obligation to issue shares		120,000	120,000
Contributed surplus	15	411,400	257,000
Deficit		(3,074,403)	(2,073,468)
Total equity		3,096,325	2,766,502
Total liabilities and equity		$11,598,904	$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 condensed interim consolidated financial statements.

(in Canadian dollars)

	Notes	Three months ended March 31 2018	Three months ended March 31 2017
Revenues		$2,196,564	$1,149,680
Cost of sales		914,129	418,753
Gross profit		1,282,435	730,927
Advertising and promotion		195,354	11,597
Business fees and licenses		40,510	42,964
Consulting		127,474	37,500
Employee salaries and benefits		1,060,266	558,147
Insurance		9,993	8,459
Maintenance and repairs		35,275	15,511
Office and general		25,400	7,008
Professional fees		62,641	74,245
Rent		125,964	57,190
Supplies		11,611	8,440
Telecommunication		12,349	4,647
Travel		18,717	5,154
Amortization - intangibles	6	83,400	17,194
Depreciation - property and equipment	5	23,050	12,855
Share based compensation		170,400	-
		2,002,404	860,911
Net loss from operations		(719,969)	(129,984)
Amortization - financing fees		160,238	22,224
Finance expense		120,728	105,435
		280,966	127,659
Net loss and comprehensive loss for the year		$(1,000,935)	$(257,643)
Basic and diluted loss per share		$(0.04)	$(0.01)
Basic and diluted weighted average number of common shares outstanding		25,737,107	20,377,122

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

(In Canadian dollars)

	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 to debenture holders	46,900	30,890	-	-	-	30,890
Private placement, net	1,743,357	1,107,059	-	-	-	1,107,059
Shares for debt extinguishment	100,477	62,000	-	-	-	62,000
Exercise of warrants	150,000	45,000	-	-	-	45,000
Net loss for the period	-	-	-	-	(257,643)	(257,643)
As at March 31, 2017	21,565,902	$ 2,556,016	$ 120,000	$ 229,000	$ (1,020,346)	$ 1,884,670

	Number of Shares	Common Shares	Obligation to Issue Shares	Contributed Surplus	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 12)	94,200	135,633	-	-	-	135,633
Exercise of warrants (Note 17)	1,220,857	974,328	-	-	-	974,328
Stock options grant (Note 15 & 16)	-		-	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 period	-	-	-	-	(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

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

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

	Three months ended March 31 2018	Three months ended March 31 2017
Operating activities		
Net loss	$(1,000,935)	$(257,643)
Non-cash items		
Amortization and depreciation	266,688	52,273
Share based compensation	170,400	-
Non-cash working capital items		
Accounts receivable	(153,081)	(199,920)
Work-in-progress	(55,932)	53,045
Prepaid expenses	9,252	(19,975)
Accounts payable and accrued liabilities	113,748	(48,235)
Deferred revenue	(171,753)	-
Cash flows used in operating activities	(821,613)	(420,455)
Investing activities		
Additions to property and equipment	(19,424)	-
Additions to product development	(26,427)	(72,761)
Cash acquired from acquisitions	-	21,017
Cash deposit in respect of acquisitions	-	(321,516)
Cash paid in respect of acquisitions	-	(4,287,175)
Cash flows used in investing activities	(45,851)	(4,660,435)
Financing activities		
Proceeds from operating line	54,855	-
Payment of promissory note	(157,650)	-
Payment of loan from shareholder	(70,000)	-
Payment of due to shareholder	(45,000)	(20,196)
Payment of term loan	(38,541)	-
Proceeds from debenture, net	784,170	578,360
Proceeds from secured loan, net	-	3,704,943
Proceeds from stock option exercise	74,750	-
Proceeds from exercise of warrants	974,328	45,000
Proceeds from private placement, net	-	1,107,059
Payment of share issue costs	(24,353)	-
Cash flows from financing activities	1,552,559	5,415,166
Net increase in cash	685,095	334,276
Cash at beginning of year	675,594	227,003
Cash at end of year	$1,360,689	$561,279

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

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, 2017. 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.

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

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

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.

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.
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. 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.

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:

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.

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 condensed interim 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.

- 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);

- 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

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

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. 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.

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.

5. PROPERTY AND EQUIPMENT

Cost	Office Equipment	Lab & Other Equipment	Computer Equipment	Vehicles	Computer Software	Leasehold mprovement	Radio Equipment	Total
Balance at January 1, 2018	411,087	1,023,752	537,676	293,879	271,365	83,342	3,336	2,624,437
Acquisitions	-	-	-	-	-	-	-	-
Additions	-	8,850	10,574	-	-	-	-	19,424
Balance at March 31, 2018	411,087	1,032,602	548,250	293,879	271,365	83,342	3,336	2,643,861
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	-	-	-	-	-	-	-	-
Depreciation	3,480	11,177	3,120	2,009	2,645	598	21	23,050
Balance at March 31, 2018	336,293	847,072	497,165	255,434	239,631	71,977	2,933	2,227,455
Carrying value								
At March 31, 2018	$74,794	$185,530	$51,085	$38,445	$31,734	$11,365	$403	$393,356
At December 31, 2017	$78,274	$187,857	$43,631	$40,454	$34,379	$11,963	$424	$396,982

6. 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	-	26,427	-	-	-	-	26,427
Additions	-	-	-	-	-	-	0
Balance at March 31, 2018	3,244,313	141,371	256,000	3,176,275	640,000	160,000	7,617,959
Accumulated amortization							
Balance at January 1, 2018	0	0	16,433	172,661	39,112	47,110	275,316
Amortization	-	-	6,400	53,000	11,000	13,000	83,400
Balance at March 31, 2018	0	0	22,833	225,661	50,112	60,110	358,716
Carrying value							
At March 31, 2018	3,244,313	141,371	233,167	2,950,614	589,888	99,890	$7,259,243
At December 31, 2017	3,244,313	114,944	239,567	3,003,614	600,888	112,890	$7,316,216

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.

7. 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.

8. OPERATING LINE

	March 31, 2018	December 31, 2017
Operating Line	$529,855	$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 15).

9. PROMISSORY NOTE PAYABLE

Promissory note payable is unsecured, due March 31, 2018 and is interest bearing at a rate of 1% per month. During the three months ended March 31, 2018, the note was repaid in full.

10. 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.

11. LOAN FROM SHAREHOLDER

Loan from shareholder is unsecured, interest bearing at 3% per annum and due on demand. During the three months ended March 31, 2018, the loan was repaid in full.

12. DEBENTURES

	March 31, 2018	December 31, 2017
Debentures, at face value	5,245,000	4,322,000
Deferred financing cost and unamortized discount	(730,117)	(615,892)
	$4,514,883	$3,706,108

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.

13. TERM LOAN

	March 31, 2018	December 31, 2017
Term loan	461,459	500,000
Less: Current portion	(159,661)	(157,477)
	$301,798	$342,523

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% 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.

14. COMMON STOCK

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

During the three months ended March 31, 2018, 94,200 shares were issued to Debenture Unit holders. These common shares were valued at $135,633 (see Note 14).

During the three months ended March 31, 2018, 1,220,857 warrants were exercised resulting in proceeds of $974,328.

During the three months ended March 31, 2018, 115,000 stock options were exercised resulting in proceeds of $74,750.

15. CONTRIBUTED SURPLUS

Stock options outstanding as at March 31, 2018 are 2,523,665.

During the three months ended March 31, 2018, 788,665 options were granted. The term of these options ranges from two to five years. The vesting period of these options ranges from one to three years.

The weighted average grant date fair value of $0.29 was estimated using the Black Scholes option pricing model. The Company recorded a stock option expense of $170,400 during the three months ended March 31, 2018.

During the three months ended March 31, 2018, 115,000 stock options were exercised.

16. 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 is10% 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, 2018:

Options Outstanding	March 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	788,665	$0.88	195,000	$0.80
Exercised	(115,000)	$0.65	-	-
Forfeited	-	-	-	-
Closing	2,523,665	$0.74	1,850,000	$0.67

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

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.

17. WARRANTS

Warrants outstanding as at March 31, 2018 are 922,106.

During the three months ended March 31, 2018, 1,220,857 warrants were exercised resulting in proceeds of \$974,328.

During the three months ended March 31, 2018, the Company issued 230,760 warrants relating to Finder fees in connection with capital raising efforts.

18. 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

19. RELATED PARTY TRANSACTIONS

Related Party Balances

	March 31, 2018	December 31, 2017
Due to shareholder (see Note 12)	85,000	130,000

Key Management Compensation

	Three months ended March 31, 2018	Three months ended March 31, 2017
Salaries and benefits	130,000	125,800
Consulting	10,000	25,000
	$140,000	$150,800

Salaries and benefits paid to Key Management includes all Officers of the Company.
Consulting fees were paid to a Director of the Company.

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. Allowance for doubtful accounts as at March 31, 2018 is $1,554 (December 31, 2017 - $1,554).

(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.

(c) Market risk

Market risks to which the Company is exposed include unfavorable movement in interest rates. As at March 31, 2018, 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 March 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 first quarter 2018 net income before tax by approximately $2,500.

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, 2018 and December 31, 2017.

As at March 31, 2018, both the carrying and fair value amounts of all the Company's financial instruments are approximately equivalent.

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.

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 period ended March 31, 2017.

APPENDIX D

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.

MNP LLP

Burlington, Ontario — Chartered Professional Accountants

April 30, 2018 — Licensed Public Accountants

MNP LLP

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.

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.

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.

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.

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.

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.

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:

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.

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 it 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);

- 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.

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.

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 Engery 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 Engery 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. AQUISITION 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.

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.

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.

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**

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.

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.

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 Acquistion		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:

	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
	$ 1,335,950

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 l, 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 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:

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).

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
	$200,000	$332,671

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
	$684,800	$261,600

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.

(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	-
	$1,963,342	$682,975

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	-
	$1,306,648	$193,244

(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	$3,228,140	$4.973,025	-	$8,201,165

(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.

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%.

APPENDIX E

Kontrol Energy Corp. Consolidated Financial Statements for the year ended December 31, 2016

KONTROL ENERGY CORP.

(formerly Arrowhead Gold Corp.)

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016 AND THE PERIOD FROM INCORPORATION ON AUGUST 28, 2015 TO DECEMBER 31, 2015

(Prepared in Canadian dollars)

DeVISSERGRAY LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

401-905 West Pender St
Vancouver BC V6C 1L6
t 604.687.5447
f 604.687.6737

INDEPENDENT AUDITOR'S 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, 2016, 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 as issued by the International Accounting Standards Board, 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.

Auditor's 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 whether the consolidated financial statements are free of 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 auditor's 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 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, 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Other Matters

The comparative financial statements as at and for the period ended December 31, 2015 are those of Kontrol Energy Group Inc. (formerly Nuvo Energy Grid Inc.), the continuing entity for accounting and financial reporting purposes as a result of the reverse take-over transaction (see Note 5). These financial statements were audited by other auditors, who expressed an unmodified opinion on those statements in their report to the shareholders dated March 8, 2016.

De Visser Gray LLP

CHARTERED PROFESSIONAL ACCOUNTANTS
Vancouver, BC
April 26, 2017

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

	Notes	December 31 2016	December 31 2015
Assets			
Cash		$227,003	$2,198
Accounts receivable		682,975	-
Deposit		12,038	7,850
Current assets		922,016	10,048
Furniture and equipment		10,398	-
Intangible assets	6	1,434,999	-
Long term investment	7	1	1
Non-current assets		1,445,398	1
Total assets		$2,367,414	$10,049
Liabilities			
Accounts payable and accrued liabilities		$648,703	$11,227
Due to shareholders	8	252,671	14,284
Current liabilities		901,374	25,511
Loan from shareholder	9	80,000	-
Debenture	10	488,676	-
Non-current liabilities		568,676	-
Total liabilities		1,470,050	25,511
Equity			
Common stock	11	1,311,067	100
Obligation to issue shares	4	120,000	-
Contributed surplus	12	229,000	-
Deficit		(762,703)	(15,562)
Total equity		897,364	(15,462)
Total liabilities and equity		$2,367,414	$10,049

Subsequent Events: Note 10 & 19

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.

(in Canadian dollars)

	Notes	For the year ended ended December 31 2016	For the period from incorporation on August 28, 2015 to December 31 2015
Revenues		$1,886,222	-
Cost of Sales		1,504,891	-
Gross Margin		381,331	-
Advertising and Promotion		43,929	133
Amortization		25,395	-
Business fees and licenses		53,446	-
Consulting		44,769	-
Employee salaries and benefits		290,252	-
Insurance		2,006	-
Office and general		11,747	1,310
Professional fees		151,982	11,783
Rent		38,562	-
Telecommunication		5,321	139
Travel		40,625	2,197
Share based compensation	12	229,000	-
Listing expense	5	183,847	-
Expenses		1,120,881	15,562
Net loss from operations		(739,550)	-
Finance expense		(7,591)	-
Net loss and comprehensive loss for the period		$(747,141)	$(15,562)
Basic and diluted earnings per share		$(0.04)	$(16)
Basic and diluted weighted average number of common shares outstanding		16,823,781	1,000

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(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 4)	1,000,000	200,000	-	-	-	200,000
Obligation to issue shares (Note 4)	-	-	120,000	-	-	120,000
Issue of common shares to former						
Arrowhead shareholders (Note 5)	3,490,068	139,603	-	-	-	139,603
Private placement, net	1,600,000	309,600	-	-	-	309,600
Shares to debenture holders (Note 10)	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 August 28, 2015	-	$ -			$ -	$ -
Incorporation shares	12,250,000	100	-	-	-	100
Net loss for the period	-	-	-	-	(15,562)	(15,562)
As at December 31, 2015	12,250,000	$ 100	$ -	$ -	$ (15,562)	$ (15,462)

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

(in Canadian dollars)

	For the year ended ended December 31 2016	For the period ended December 31 2015
Operating activities		
Net loss	$(747,141)	$(15,562)
Non-cash items		-
Amortization	25,395	-
Share based compensation	229,000	-
Listing expense	183,847	-
Non-cash working capital items		-
Accounts receivable	(664,456)	-
Deposit	(4,188)	(7,851)
Accounts payable and accrued liabilities	537,995	11,227
Cash flows used in operating activities	(439,548)	(12,186)
Investing activities		
Additions to furniture and equipment	(12,517)	-
Cash acquired from acquisitions	9,918	-
Cash paid in respect of acquisitions	(255,000)	-
Cash flows used in investing activities	(257,599)	-
Financing activities		
Due to shareholder	(3,088)	-
Proceeds of loan from shareholder	80,000	14,284
Shares issued per incorporation	-	100
Proceeds from debenture, net	535,440	-
Proceeds from private placement, net	309,600	-
Cash flows from financing activities	921,952	14,384
Net increase in cash	224,805	2,198
Cash at beginning of period	2,198	-
Cash at end of period	$227,003	$2,198

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

1. NATURE OF OPERATIONS

Kontrol Energy Corp. ("Kontrol" or 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 our customers overall cost of energy while providing a corresponding reduction in Green House Gas (GHG) emissions.

Kontrol Energy Corp. (formerly Arrowhead Gold Corp.) completed its reverse take-over transaction (the "RTO") on July 8, 2016, pursuant to which it acquired all the issued and outstanding shares of Kontrol Energy Group Inc. (formerly Nuvo Energy Grid Inc.). The Company's securities trade on the Canadian Securities Exchange ("CSE") under the symbol "KNR". (see Note 5).

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 26, 2017, the date the Board of Directors approved the consolidated financial statements.

These consolidated financial statements are presented in the Company's reporting currency on a historical cost basis.

Statement of compliance to International Financial Reporting Standards

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

3. SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed.

Revenue from a contract to provide services such as installation is recognised by reference to the stage of completion of the contract.

Basis of Consolidation

The consolidated financial statements include the accounts of Kontrol Energy Corp. (formerly Arrowhead Gold Corp.) and its 100% wholly-owned subsidiaries, Kontrol Technologies Inc. and Kontrol Energy Group Inc. (formerly Nuvo Energy Grid Inc.). All significant intercompany balances and transactions have been eliminated upon consolidation.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

Cash and cash equivalents include cash on hand and deposits held with banks.

Furniture and Equipment

Equipment is carried at cost, less accumulated depreciation and accumulated impairment losses. Depreciation is calculated using the declining balance method at a rate of 20% per year.

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

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 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 income when the asset is derecognized.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)

Amortization

Customer Relationships	Straight-line	15 years
Intellectual Property	Straight-line	15 years
Certifications and Patents	Straight-line	3 years

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. The Company's accounting policy for each category is as follows:

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. They are carried at cost less any provision for 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 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 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:

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities (continued)

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 due to shareholders and accounts payable and accrued liabilities, which are recognized at amortized cost.

Significant accounting judgments and estimates

The preparation of the consolidated financial statements in accordance with IFRS requires the Company to make judgments, apart from those involving estimates, in applying accounting policies. 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;
- the determination that there have been no events or changes in circumstances that indicate the carrying amount of the intangible assets may not be recoverable;
- the assessment of the useful life of the intangible assets; and
- the classification of financial instruments.

Use of Estimates and Assumptions

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

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 furniture 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment (continued)

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 income.

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.

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 as reserves.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes (continued)

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 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.

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.

Accounting Standards Issued but not yet Effective

At the date of authorization of these consolidated financial statements, the IASB and IFRIC have issued the following new and revised standards and amendments which are not yet effective:

- IFRS 9 – Financial Instruments
  This standard is effective for annual periods beginning on or after January 1, 2018 and replaces IAS 39 and IFRIC 9 for classification and measurement of financial assets and financial liabilities.

- IFRS 15 – Revenue from Contracts with Customers
  This standard is effective for annual periods ending on or before December 31, 2017 and is available for early adoption and replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programs, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers, and SIC 31Revenue – Barter Transactions Involving Advertising Services.

- IFRS 16 – Leases
  This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard is effective for annual periods beginning on or after January 1, 2019.

4. AQUISITION OF KONTROL TECHNOLOGIES INC.

In June 2016, prior to the reverse take-over transaction (see Note 5) 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
Intangible assets*		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

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

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. Of the $300,000 non-share consideration, an amount of $55,000 was paid in cash and $245,000 is Due to Shareholder. (see Note 15).

5. 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.

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 Engery 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 Engery Group Inc. from the date of the RTO on July 8, 2016.

5. REVERSE TAKEOVER (continued)

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 @ $0.04 per common share	$	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.

6. INTANGIBLE ASSETS

Cost	**Customer Relationships**	**Intellectual Property**	**Certifications and Patents**	**Total**
Balance at January 1, 2016	-	-	-	-
Acquisitions	658,275	640,000	160,000	1,458,275
Balance at December 31, 2016	658,275	640,000	160,000	1,458,275
Accumulated amortization				
Balance at January 1, 2016	-	-	-	-
Amortization	15,276	3,556	4,444	23,276
Balance at December 31, 2016	15,276	3,556	4,444	23,276
Carrying value				
At December 31, 2016	$642,999	$636,444	$155,556	$1,434,999
At December 31, 2015	-	-	-	-

In June 2016, the Company acquired a customer relationship list as part of the acquisition of Kontrol Technolgies Inc. (see Note 4).

On December 1, 2016, the Company acquired intellectual property, certifications and patents in connection with Log-One Ltd.'s Energy Management System ("EMS"), an intelligent, occupancy-based heating and air-conditioning control product. The aggregate purchase price for the EMS Technology was $800,000, of which the Company paid $200,000 in cash on closing, with an additional $50,000 payable in 2017, subject to any reduction for holdback obligations, and $550,000 by way of issuing 1 million common shares of the Company at a deemed price of $0.55 per share. Further, the Company entered a 10-year royalty agreement with Log-One Ltd. pursuant to which the Company will pay Log-One Ltd. a graduated royalty of approximately 5% of manufactured cost in respect of sales of EMS units and a 6-month consulting agreement with the principals of Log-One Ltd.

7. 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 located in the Ashanti region of Ghana. The project is in the final stages of development and is anticipated to begin construction in 2017. 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 is a nominal value to represent the investment.

8. DUE TO SHAREHOLDER

Due to shareholder is unsecured, non-interest bearing and due on demand. This amount includes $245,000 in contingent consideration related to the acquisition of Kontrol Technologies Inc. (see Note 4).

9. LOAN FROM SHAREHOLDER

Loan from shareholder is unsecured, interest bearing at 3% per annum and due on demand. The shareholder has agreed not to demand repayment prior to January 1, 2018.

10. DEBENTURE

	December 31, 2016	December 31, 2015
Debenture	592,000	-
Deferred financing cost	(103,324)	-
	$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 $5,000,000 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 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.

Of the Debenture Offering raised in the month of December 2016, an amount of $259,000 was closed before year end, however, the funds were received subsequent to year end and therefore not included in the balance of $592,000.

11. 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).

11. COMMON STOCK (continued)

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, 85,100 shares were issued to Debenture Unit holders. These common shares were valued at $46,764 (see Note 10).

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.

12. SHARE BASED COMPENSATION AND CONTRIBUTED SURPLUS

On October 12, 2016, the Board of Directors granted 1,655,000 stock options to eligible persons, for the right and option to purchase common shares of the Company at an exercise price of $0.65 per share. These stock options vest immediately and may be exercised for a period of two years up to and including October 12, 2018. No stock options were exercised as at December 31, 2016.

The Corporation recorded a stock based compensation expense of $229,000 during the year and the contributed surplus at December 31, 2016 was $229,000.

The fair value of stock options at the grant date was measured using the Black-Scholes option pricing model. The following illustrates the inputs used in the measurement of the fair values of the stock options at the grant date.

The stock options that were outstanding prior to the RTO (see Note 5) expired unexercised on April 7, 2016.

13. 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 CDN $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.

The warrants that were outstanding prior to the RTO (see Note 5) expired unexercised on December 3, 2016.

14. COMMITMENT

On January 21, 2016, the Company entered a commercial office lease. The term of the lease was two years. The remaining scheduled lease payments for the 2017 fiscal year is $42,612.

15. RELATED PARTY TRANSACTIONS

Related Party Balances

	December 31, 2016	December 31, 2015
Due to shareholders (see Note 8)	$252,671	$14,284
Loan from shareholder (see Note 9)	80,000	-
	$332,671	$14,284

Related Party Transactions

	December 31, 2016	December 31, 2015
Salaries and benefits	$144,600	-
Consulting	10,000	-
Share based compensation	107,000	-
	$261,600	-

Salaries and benefits paid to Key Management includes all Officers of the Company.
Consulting was paid to a Director of the Company.
Share based compensation relates to options granted to Key Management and Directors.

16. INCOME TAXES

The reconciliation of the income tax provision computed at statutory rates to the reported income tax provision is as follows:

	December 31, 2016	December 31, 2015
Net loss	$ 747,141	$15,562
Effective statutory rate	26.00%	26.00%
Expected income tax recovery	194,257	4,046
Net effect of deductible and non-deductible amounts	(85,343)	-
Unrecognized benefits of non-capital losses	(108,914)	(4,046)
Income tax recovery	$ -	$ -

Deductible temporary differences, unused tax losses and unused tax credits for which no deferred tax assets have been recognized are attributable to the following:

	December 31, 2016	December 31, 2015
Non-capital losses and other investments	$961,991	$15,561
Furniture and equipment	2,119	-
Intangible assets	(834,999)	-
Share issue costs	90,979	-
	$220,090	$15,561

The Company has non-capital losses of approximately $342,000 (2015 - $16,000) which are available to reduce future taxable income in Canada and which expire between 2035 and 2036.

17. 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.

(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 in order to meet short-term business requirements after taking into account cash flow from operations and the Company's holdings of cash. 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) Market risk

Market risks to which the Company is exposed include unfavorable movement in interest rates. As at December 31, 2016, 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.

i) Interest rate risk

As at December 31, 2016, the Company's exposure to movements in interest rates was limited to potential decreases in interest income from changes to the variable portion of the interest rates for its cash. Market interest rates in Canada are at historically low levels, so management does not consider the risk of interest rate declines to be significant, but should such risks increase the Company may mitigate future exposure by entering into fixed-rate deposits.

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).

17. FINANCIAL INSTRUMENTS (continued)

The following table sets forth the Company's financial assets measured at fair value by level within the fair value hierarchy.

December 31, 2016	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:				
Cash	$227,003	$ -	$ -	$227,003

December 31, 2015	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:				
Cash	$2,198	$ -	$ -	$2,198

18. 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 in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents.

In order 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.

In order 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, 2015.

19. SUBSEQUENT EVENTS

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 purchase price for the acquisition was $4,600,000.

During February 2017, the Company completed a private placement for gross proceeds of $570,300, by issuance of 950,500 common shares.

During March 2017, the Company completed a private placement for gross proceeds of $555,000, by issuance of 792,857 common shares.

During February, March and April 2017, the Company issued its fourth, fifth and sixth tranches of Debenture units for aggregate gross proceeds of $592,000. Per the terms of the debentures agreement, the Company issued an aggregate of 59,200 commons shares.

During February 2017, the Company issued 83,334 common shares to the former shareholders of Kontrol Technologies Inc. to settle debt of $50,000.

During March 2017, the Company issued 17,143 common shares to settle debt of $12,000.

19. SUBSEQUENT EVENTS (continued)

During March and April 2017, 300,000 warrants were exercised at $0.30 per common share for gross proceeds of $90,000.