KCO Capital Inc.

Financial Statements

For the year ended May 31, 2013 and the period from Incorporation on July 29, 2011 to May 31, 2012

(Expressed in Canadian Dollars)

August 16, 2013

Independent Auditor's Report

To the Shareholders of KCO Capital Inc.

We have audited the accompanying financial statements of KCO Capital Inc., which comprise the statements of financial position as at May 31, 2013 and May 31, 2012, the statements of operations and comprehensive loss, changes in shareholders' equity and cash flows for the year ended May 31, 2013 and for the period from incorporation on July 29, 2011 to May 31, 2012, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these 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.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of KCO Capital Inc. as at May 31, 2013 and May 31, 2012, its financial performance and its cash flows for the year ended May 31, 2013 and for the period from incorporation on July 29, 2011 to May 31, 2012 in accordance with International Financial Reporting Standards.

signed "PricewaterhouseCoopers LLP"
Chartered Accountants

PricewaterhouseCoopers LLP
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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

KCO Capital Inc.

Statements of Financial Position

(Expressed in Canadian Dollars)

		May 31, 2013		May 31, 2012
Assets				
Current				
Cash	**$**	425,032	$	160,226
GST/HST receivable		511		2,898
Prepaid expenses		-		364
		425,543		163,488
Deferred financing costs		-		36,314
	$	425,543	$	199,802
Liabilities				
Current				
Accounts payable and accrued liabilities	**$**	28,649	$	28,037
Shareholders' Equity				
Share capital (Note 3)		513,014		198,739
Options reserve		57,262		21,879
Warrants reserve		18,928		-
Deficit		(192,310)		(48,853)
		396,894		171,765
	$	425,543	$	199,802

On behalf of the board:

"Kim Oishi", Director

"Adam Kniec", Director

KCO Capital Inc.

Statements of Changes in Shareholders' Equity

(Expressed in Canadian Dollars)

	Common shares	Share capital	Options reserve	Warrants reserve	Deficit	Total
Balance, July 29, 2011	-	$ -	$ -	$ -	$ -	$ -
Shares issued for cash	4,000,000	200,000	-	-	-	200,000
Share issuance costs	-	(1,261)	-	-	-	(1,261)
Share-based compensation	-	-	21,879	-	-	21,879
Net loss	-	-	-	-	(48,853)	(48,853)
Balance, May 31, 2012	4,000,000	198,739	21,879	-	(48,853)	171,765
Shares issued for cash on initial public offering	4,000,000	400,000	-	-	-	400,000
Share issuance costs	-	(76,261)	-	-	-	(76,261)
Fair value of agent's warrants (Note 5)	-	(9,464)	-	18,928	-	9,464
Share-based compensation	-	-	35,383	-	-	35,383
Net loss	-	-	-	-	(143,457)	(143,457)
Balance, May 31, 2013	**8,000,000**	**$ 513,014**	**$ 57,262**	**$ 18,928**	**$ (192,310)**	**$ 396,894**

KCO Capital Inc.

Statements of Operations and Comprehensive Loss

(Expressed in Canadian Dollars)

	Year ended May 31, 2013	From Incorporation on July 29, 2011 to May 31, 2012
Expenses		
Accounting and audit	$ 28,512	$ 21,400
Bank charges	158	112
Legal	26,575	3,821
Listing and filing fees	14,241	-
Office	12,180	1,641
Professional fees	12,535	-
Project investigation	4,409	-
Share-based compensation (Note 4, 5)	44,847	21,879
Net loss and comprehensive loss	143,457	48,853
Basic and diluted loss per share	$ (0.02)	$ (0.02)
Basic and diluted weighted average shares outstanding	6,378,082	2,332,249

KCO Capital Inc.

Statements of Cash Flows

(Expressed in Canadian Dollars)

	Year ended May 31, 2013	From Incorporation on July 29, 2011 to May 31, 2012
Cash flows used in operating activities		
Net loss	$ (143,457)	$ (48,853)
Items not affecting cash:		
Share-based compensation	44,847	21,879
Changes in non-cash working capital		
GST/HST receivable	2,387	(2,898)
Prepaid expenses	364	(364)
Accounts payable and accrued liabilities	612	28,037
	(95,247)	(2,199)
Cash flows from financing activities		
Proceeds from issuance of shares	400,000	200,000
Share issuance costs	(39,947)	(1,261)
Deferred financing costs	-	(36,314)
	360,053	162,425
Increase in cash	264,806	160,226
Cash, beginning of year / period	160,226	-
Cash, end of year / period	$ 425,032	$ 160,226

1. Nature of operations

KCO Capital Inc. ("KCO" or the "Company") was incorporated on July 29, 2011 under the laws of British Columbia. On August 1, 2012, the Company filed a final Initial Public Offering ("IPO") prospectus with the regulatory authorities in British Columbia and Alberta. On October 26, 2012, the Company completed its IPO and commenced trading on Tier 2 of the TSX Venture Exchange ("TSX-V"). The Company is classified as a Capital Pool Company ("CPC"), as defined in the TSX-V Policy 2.4, and its sole business is to identify, evaluate and negotiate an acquisition or participation in a business or an asset, subject to receipt of shareholder approval and acceptance by regulatory authorities ("Qualifying Transaction").

The Company's head office address is #300 - 1055 West Hastings Street, Vancouver, BC, V6E 2E9, Canada.

The financial statements of the Company are presented in Canadian dollars, which is the functional and reporting currency of the Company.

The Company's continuing operations are dependent upon its ability to identify, evaluate and negotiate an agreement to acquire an interest in a material asset or business within 24 months of listing on the TSX-V.

On May 17, 2013, the Company entered into a letter of intent regarding a proposed transaction. It is intended that the proposed transaction will constitute a Qualifying Transaction (Note 9).

2. Significant accounting policies

Statement of compliance

These financial statements:

(i) have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

(ii) are based on IFRS issued as of May 31, 2013.

(iii) were approved by the Board of Directors on August 16, 2013.

Basis of measurement

The financial statements have been prepared under the historical cost convention.

Cash and cash equivalents

The Company considers cash and cash equivalents to include amounts held in banks and highly liquid investments with remaining maturities at point of purchase of 90 days or less. The Company places its cash and cash equivalents with major financial institutions in Canada.

2. Significant accounting policies *(continued)*

Deferred financing costs

Costs directly identifiable with the raising of capital will be charged against the related capital stock. Costs related to shares not yet issued are recorded as deferred financing costs. These costs will be deferred until the issuance of the shares to which the costs relate, at which time the costs will be charged against the related capital stock or charged to operations if the shares are not issued.

Share-based payments

The Company grants stock options to certain directors and employees of the Company. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. Compensation expense is recognized over the tranche's vesting period by increasing share-based payment reserve based on the number of awards expected to vest. The number of awards expected to vest is reviewed at least annually, with any impact being recognized immediately.

Share capital

The Company records proceeds from share issuances net of issue costs and any tax effects. The Company records proceeds from the exercise of stock options and warrants as share capital. Share capital issued for non-monetary consideration is recorded at an amount based on fair market value. The proceeds from the issue of units is allocated between common shares and common share purchase warrants on a pro-rata basis on a relative fair value basis, wherein, the fair value of the common shares is based on the market close on the date the units are issued; and the fair value of the common share purchase warrants is determined using the Black-Scholes pricing model.

Income taxes

Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded by providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the date of the statement of financial position.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority.

2. Significant accounting policies *(continued)*

Loss per share

The Company presents basic loss per share for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year. Diluted loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

Financial instruments

Financial assets

Financial assets are classified into one of four categories:

- Fair value through profit or loss ("FVTPL");
- Held-to-Maturity ("HTM");
- Loans and receivables; and
- Available for sale ("AFS").

Financial assets at fair value through profit or loss ("FVTPL")

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated as at FVTPL if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's risk management strategy. Attributable transaction costs are recognized in profit or loss when incurred. FVTPL are measured at fair value, and changes are recognized in profit or loss.

Held to maturity ("HTM")

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 costs using the effective interest method. If there is objective evidence that the asset 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 profit or loss.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted on an active market. Such assets are initially recognized at fair value plus any direct attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

2. Significant accounting policies *(continued)*

Financial instruments *(continued)*

Available for sale ("AFS")

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 profit or loss.

Financial liabilities

Financial liabilities are classified into one of two categories:

- Fair value through profit or loss; and
- Other financial liabilities

Fair value through profit or loss

This category comprises of derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the balance sheet at fair value with the changes in fair value recognized in profit or loss.

Other financial liabilities

This category includes trade and other payables which are recognized at amortized cost.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting year. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investments have been impacted.

For all financial assets objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

2. Significant accounting policies *(continued)*

Financial instruments *(continued)*

Impairment of financial assets (continued)

For certain categories of financial assets, such as receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. The carrying amount of financial assets is reduced by the impairment loss directly for all financial assets with the exception of receivables, where the carrying amount is reduced through the use of an allowance account. When a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

If, in a subsequent year, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Use of judgements and estimates

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reported years. Actual results could differ from those estimates.

Critical accounting estimates are estimates and assumptions made by management that may result in material adjustments to the carrying amount of assets and liabilities. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected. Significant areas where estimates are applied in these financial statements include the determination of accrued liabilities. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future years could be significant.

Critical accounting judgments are accounting policies that have been identified as being complex or involving subjective judgments or assessments. Significant areas where management judgment is applied in these financial statements include the going concern assumption.

2. Significant accounting policies *(continued)*

Accounting standards issued but not yet effective

The following section summarizes accounting standards which have been issued but are not yet effective. The Company has not early adopted these standards, has evaluated and does not expect these standards to have a significant impact on the Company's financial statements.

IFRS 9 "*Financial Instruments*"

IFRS 9, *Financial Instruments*, replaces the current standard IAS 39, *Financial Instruments: Recognition and Measurement*, replacing the current classification and measurement criteria for financial assets and liabilities with only two classification categories: amortized cost and fair value. This standard is effective for annual periods beginning on or after January 1, 2015.

IFRS 10 "Consolidated Financial Statements"

IFRS 10, *Consolidated Financial Statements* establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This standard (i) requires a parent entity (an entity that controls one or more other entities) to present consolidated financial statements; (ii) defines the principle of control, and establishes control as the basis for consolidation; (iii) sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee; and (iv) sets out the accounting requirements for the preparation of consolidated financial statements. IFRS 10 supersedes IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation-Special Purpose Entities* and is effective for annual periods beginning on or after January 1, 2013, with early application permitted. *IFRS 13 "Fair Value Measurement"*

IFRS 13 *Fair Value Measurement* defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except for: share-based payment transactions within the scope of IFRS 2 *Share-based Payment*; leasing transactions within the scope of IAS 17 *Leases*; measurements that have some similarities to fair value but that are not fair value, such as net realizable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*. This standard is effective for annual periods beginning on or after January 1, 2013, with early application permitted.

IAS 1, "Presentation of Financial Statements"

IAS 1 *Presentation of Financial Statements* has been amended to require entities to separate items presented in other comprehensive income into two groups, based on whether or not items may be recycled in the future. Entities that choose to present other comprehensive income items before tax will be required to show the amount of tax related to the two groups separately. The amendment is effective for annual periods beginning on or after July 1, 2012, with early application permitted.

2. Significant accounting policies *(continued)*

Accounting standards issued but not yet effective *(continued)*

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's financial statements.

3. Share capital

a) Authorized share capital

The authorized share capital of the Company is an unlimited number of common shares without par value.

b) Private placements

(i) On July 29, 2011, in connection with incorporation, the Company issued 1 share of common stock for gross proceeds of $0.05, to a director of the Company.

(ii) On September 8, 2011, the Company completed a private placement of 1,999,999 shares of common stock for gross proceeds of $99,999.95, to directors and companies controlled by directors of the Company.

(iii) On February 29, 2012, the Company completed a private placement of 2,000,000 shares of common stock for gross proceeds of $100,000.

c) Initial public offering

On August 1, 2012, the Company filed a final IPO prospectus with the regulatory authorities in British Columbia and Alberta. On October 26, 2012, the Company completed its IPO by issuing 4,000,000 common shares at $0.10 per common share for gross proceeds of $400,000. The Company's shares are trading on the TSX-V.

As compensation for acting as the IPO Agent, Canaccord Genuity Corp. received:

(i) $40,000 cash commission equal to 10% of the gross proceeds raised under the Offering;

(ii) 400,000 Agent's Warrants equal to 10% of the number of common shares issued in the Offering, with an exercise price of $0.10 per share, expiring on October 26, 2014, and valued at $18,928 (Note 5); and

(iv) a $10,000 administration fee.

The Company incurred $62,521 of additional IPO related costs, consisting of legal, filing, and accounting fees, which included $16,000 as reimbursement for expenses to Canaccord Genuity Corp.

$36,314 of the share issuance costs incurred related to the IPO were recorded as deferred financing costs at May 31, 2012.

4. Stock options

On April 23, 2012, the Company adopted a rolling stock option plan ("the plan") whereby directors may, from time to time, authorize the issuance of options to directors, officers, employees and consultants of the Company. While the Company is a CPC the aggregate number of shares which may be subject to issuance pursuant to options granted under this Plan shall not exceed 10% of the issued and outstanding shares of the Company as at the closing of its initial public offering, and after the completion of the Company's Qualifying Transaction the maximum number of shares reserved under the Plan shall be up to 10% of the issued and outstanding shares of the Company at any time any options are granted to a maximum of 10% of the issued and outstanding common shares of the Company at the time of the grant, with a maximum of 5% of the Company's issued and outstanding shares reserved for any one person on a yearly basis.

On April 23, 2012, the Company agreed to grant 700,000 incentive stock options to its directors and officers. These options became effective on October 26, 2012, the date the Company completed its IPO. The options are exercisable at $0.10 per share and expire on October 26, 2017. Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate. On the date of grant, these options were valued at approximately $57,000 using the Black-Scholes option-pricing model with the following assumptions:

Stock price volatility	117.7%
Risk-free interest rate	1.37%
Expected life of options	5 years
Expected dividend yield	0.00%

During the year ended May 31, 2013, the Company recorded share-based compensation of $35,383 (2012 - $21,879) relating to the stock options. No options were exercised during the year ended May 31, 2013 and the period from incorporation to May 31, 2012.

5. Warrants

On October 26, 2012, 400,000 Agent's Warrants were issued pursuant to the IPO, with an exercise price of $0.10 per share and expiring on October 26, 2014. The total fair value of the Agent's Warrants issued of $18,928, $9,464 has been recorded as a reduction against share capital as a part of share issuance costs and the remaining $9,464 recorded as share-based compensation expense, was calculated using the Black-Scholes option pricing model with the following assumptions:

Stock price volatility	88.1%
Risk-free interest rate	1.22%
Expected life of options	2 years
Expected dividend yield	0.00%

No warrants were exercised during the year ended May 31, 2013.

6. Income taxes

The differences between the effective tax rate in the provision for income taxes and the Canadian statutory income tax rate are as follows:

	2013 $	2012 $
Canadian statutory income tax rate	25%	25%
Income tax recovery at statutory rate	35,864	12,213
Tax effect of:		
Non-deductible expenses	(21,354)	(5,470)
Change due to difference in tax rates	1,278	-
Change in deferred tax assets not recognized	(15,788)	(6,743)
Income tax provision	-	-

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

	2013 $	2012 $
Deferred income tax assets		
Non-capital losses carried forward	28,327	6,743
Financing costs	(5,795)	-
Deferred tax assets not recognized	(22,532)	(6,743)
Net deferred income tax asset	-	-

Deferred tax assets have not been recorded due to uncertainty regarding their use.

As of May 31, 2013, the Company has accumulated non-capital losses for Canadian income tax purposes that may be carried forward to reduce taxable income in future years. If not used, these losses will expire as follows:

	$
2032	26,974
2033	83,033
	110,007

7. Financial instruments and risk management

Fair value

Fair values of each classification of financial instruments as at May 31, 2013 are as follows:

		Loans and receivables		Other financial liabilities
Financial assets				
Cash	$	425,032	$	-
Financial liabilities				
Accounts payable and accrued liabilities	$	-	$	28,649

Credit risk

The Company's only significant financial asset is cash which is on deposit at a high credit-worthy financial institution.

Market risk

The Company is not subject to significant interest rate risk as none of its financial instruments are interest-bearing, except cash in the bank which is nominal.

Liquidity risk

Liquidity risk refers to the risk that the Company will not be able to meet its financial obligations when they become due, or can only do so at excessive cost. The Company expects to satisfy obligations under accounts payable and accrued liabilities. Management intends to continue to finance its activities by raising funds through equity investments.

8. Capital management

The Company includes shareholders' equity and long-term debt in the definition of capital. The Company's objectives when managing capital are:

- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and
- to provide an adequate return to shareholders by pricing products commensurately with the level of risk.

The Company sets the amount of capital in proportion to risk. The company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the company may adjust the amount of dividends paid to shareholders, or sell assets to reduce debt.

The Company is not subject to any externally imposed capital requirements.

9. Proposed Qualifying Transaction

On May 17, 2013, the Company entered into a letter of intent ("LOI") regarding a proposed transaction ("Transaction") with Grey Hawk Exploration Inc. ("Grey Hawk"), a privately held company incorporated under the Business Corporations Act (British Columbia), which operates as a mining exploration company with various oil and gas interests in Utah. It is intended that the Transaction will constitute KCO's Qualifying Transaction in accordance with the Policy 2.4 of the TSX-V.

Subject to any regulatory, director or other approvals that may be required, the completion of satisfactory due diligence by KCO and other conditions contained in the LOI, it is anticipated that the Transaction will involve an acquisition, merger, amalgamation, plan of arrangement, reorganization, sale of all or substantially all of the assets, or exchange of assets or securities in a similar transaction. Upon completion of the Qualifying Transaction, it is expected that KCO will be listed on the TSX-V as a Tier 2 oil and gas issuer.

Under the proposed Transaction, KCO will acquire 100% of the issued and outstanding common shares of Grey Hawk from all of its shareholders in exchange for 23,750,000 common shares of KCO. Upon completion of the Transaction, KCO is expected to change its name to "Grey Hawk Energy Inc." or such other name as may be selected by the resulting company.

Subject to TSX-V approval, in connection with the Transaction, a finder's fee consisting of $148,437 in cash will be paid and 890,625 common shares of the Company issued.

In conjunction with the Transaction, it is expected that KCO will undertake a brokered or non-brokered private placement to raise gross proceeds of up to $3,000,000 through the issuance of securities of KCO at an expected price of $0.50 per share (the "Offering").

10. Subsequent Event

On June 18, 2013, KCO signed an Advisory Agreement with Canaccord Genuity Corp. ("Canaccord") to retain Canaccord as its exclusive financial advisor for the Transaction as described in Note 9. For advisory services, an initial fee of $30,000 was paid to Canaccord upon the signing of this agreement. Commencing July 2013, a monthly advisory fee of $10,000 will be payable for a maximum of three months. Upon closing of the Transaction, a final advisory fee of $35,000 will be payable.

On June 18, 2013, KCO signed an agency agreement with Canaccord to retain Canaccord as its sole agent for the Offering as described in Note 9. As an agent for the Offering, Canaccord will receive from KCO:

1) a cash commission equal to 8.0% of the gross proceeds raised; and

2) warrants to acquire that number of common shares of KCO which is equal to 8.0% of the number of shares sold in the Offering, exercisable at the Offering price.

Upon closing of the Offering, KCO will issue to the agent 95,000 common shares as a corporate finance fee and pay an administrative fee of $3,000. Upon signing of the agency agreement, KCO paid to Canaccord a $35,000 retainer to cover the agent's expenses that will be incurred in the connection with the Offering.