KCO Capital Inc.

Financial Statements

For the years ended May 31, 2014 and 2013

(Expressed in Canadian Dollars)

September 10, 2014

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, 2014 and May 31, 2013, the statements of operations and comprehensive loss, changes in shareholders' equity and cash flows for the years ended May 31, 2014 and May 31, 2013, 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, 2014 and May 31, 2013, its financial performance and its cash flows for the years ended May 31, 2014 and May 31, 2013 in accordance with International Financial Reporting Standards.

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, 2014	May 31, 2013
Assets		
Current		
Cash	$ 133,961	$ 425,032
Amounts receivable	30,851	–
GST/HST receivable	8,742	511
Prepaid expenses	13,675	–
Loan receivable (Note 3)	25,444	–
	212,673	425,543
Deferred financing costs (Note 10)	11,702	–
	$ 224,375	$ 425,543
Liabilities		
Current		
Accounts payable and accrued liabilities	$ 86,491	$ 28,649
Shareholders' Equity		
Share capital (Note 4)	513,014	513,014
Options reserve	57,262	57,262
Warrants reserve	18,928	18,928
Deficit	(451,320)	(192,310)
	137,884	396,894
	$ 224,375	$ 425,543

Nature of operations – Note 1

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, 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 6)	–	(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
Net loss	–	–	–	–	(259,010)	(259,010)
Balance, May 31, 2014	8,000,000	$ 513,014	$ 57,262	$ 18,928	$ (451,320)	$ 137,884

KCO Capital Inc.

Statements of Operations and Comprehensive Loss

(Expressed in Canadian Dollars)

	Year ended May 31,	
	2014	2013
Expenses		
Accounting and audit	$ 25,810	$ 28,512
Bank charges	215	158
Legal	938	26,575
Listing and filing fees	7,695	14,241
Office	9,459	12,180
Professional fees	–	12,535
Project investigation (Note 10)	215,337	4,409
Share-based compensation (Notes 5, 6)	–	44,847
Loss before other income (expense)	(259,454)	(143,457)
Other income (expense)		
Interest and other income	444	–
Total other income (expense)	444	–
Net loss and comprehensive loss	$ (259,010)	$ (143,457)
Basic and diluted loss per share	$ (0.03)	$ (0.02)
Basic and diluted weighted average shares outstanding	8,000,000	6,378,082

KCO Capital Inc.

Statements of Cash Flows

(Expressed in Canadian Dollars)

	Year ended May 31,	
	2014	2013
Cash flows used in operating activities		
Net loss	$ (259,010)	$ (143,457)
Items not affecting cash:		
Share-based compensation	–	44,847
Changes in non-cash working capital		
Amounts receivable	(30,851)	–
Interest receivable	(444)	–
GST/HST receivable	(8,231)	2,387
Prepaid expenses	(13,675)	364
Accounts payable and accrued liabilities	57,842	612
	(254,369)	(95,247)
Cash flows (used in) / from investing activities		
Loan receivable (Note 3)	(25,000)	–
	(25,000)	–
Cash flows (used in) / from financing activities		
Proceeds from issuance of shares	–	400,000
Share issuance costs	–	(39,947)
Deferred financing costs	(11,702)	–
	(11,702)	360,053
Increase (decrease) in cash	(291,071)	264,806
Cash, beginning of period	425,032	160,226
Cash, end of period	$ 133,961	$ 425,032

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" or "QT").

As a Capital Pool Company, KCO is restricted in its ability to spend cash until completion of its QT. The lesser of (a) 30% of the gross proceeds from the sale of all securities issued by the Company, being $180,000, or (b) $210,000, can be used for purposes other than identifying and evaluating businesses or assets and obtain shareholder approval for a proposed QT. Since incorporation on July 29, 2011, the Company raised $600,000 of gross proceeds from the issuance of shares, therefore up to $180,000 can be spent on general and administrative costs, regulatory compliance and share issuance costs, and the remaining $420,000 needs to be reserved for QT related costs. As of May 31, 2014, the Company had exceeded the $180,000 threshold for non-QT related spending by approximately $91,000. Subsequent to the year ended May 31, 2014, the Company completed a private placement of 5,000,000 common shares for gross proceeds of $500,000, which increased the threshold to the lessor of $330,000, being 30% of the gross proceeds from the sale of all securities, and $210,000.

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 (October 26, 2014). If a Qualifying Transaction is not completed by October 26, 2014, the TSX-V may suspend or delist the Company's shares from trading.

On March 10, 2014, the Company entered into a share exchange agreement with a privately held company. It is intended that the transaction will constitute a Qualifying Transaction (Note 10 (b)).

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) were approved by the Board of Directors on September 10, 2014.

Basis of measurement

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

2. Significant accounting policies *(continued)*

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.

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.

2. Significant accounting policies *(continued)*

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.

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. The Company does not have any financial assets classified as fair value through 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. The Company does not have any financial assets classified as held-to-maturity.

2. Significant accounting policies *(continued)*

Financial instruments *(continued)*

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. Cash, amounts receivable and loan receivable are classified as loans and receivables.

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. The Company does not have any financial assets classified as available-for-sale.

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 recoverability of deferred financing costs and loan receivable. 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. There are no judgments made by management in the application of IFRS that have a significant effect on the financial statements with a significant risk of material adjustment in the current and following reporting periods.

Accounting standards issued but not yet effective

Standards and interpretations issued but not yet effective include the following:

- IAS 32, Offsetting Financial Assets and Financial Liabilities (effective January 1, 2014)
- IFRS 9, Financial Instruments (proposed effective date of January 1, 2018)
- IFRIC 21, Levies (effective January 1, 2014)

2. Significant accounting policies *(continued)*

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

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. 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. Loan receivable

On February 12, 2014, the Company advanced a loan of $25,000 to 3 Tier Logic Inc. ("3TL") in relation to the proposed transaction (Note 10 (b)). The loan bears interest at the simple rate of 6% per annum. If the transaction contemplated under the Agreement (Note 10 (b)) closes as agreed to by the parties, then the loan shall mature and be payable on such date as the directors of KCO and 3TL may then agree. If the transaction is terminated, then 3TL shall pay back the loan with interest to KCO within 30 days of termination. As at May 31, 2014, the Company has recorded interest receivable and interest income on this loan of $444.

4. Share capital

a) Authorized share capital

The authorized share capital of the Company is an unlimited number of common shares without par value. As at May 31, 2014, 8,000,000 common shares were issued and outstanding, of which 4,000,000 common shares are held in escrow pursuant to Exchange Form 2F CPC Escrow Agreement for Tier 2 issuers.

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 trade on the TSX-V.

4. Share capital *(continued)*

c) Initial public offering *(continued)*

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 IPO;

(ii) 400,000 Agent's Warrants equal to 10% of the number of common shares issued in the IPO, with an exercise price of $0.10 per share, expiring on October 26, 2014, and valued at $18,928 (Note 6); 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.

5. 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. After the completion of the Company's Qualifying Transaction the maximum number of shares reserved under the Plan shall be up to a maximum of 10% of the issued and outstanding shares of the Company at any time any options are granted, 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, 2014, the Company recorded share-based compensation of $nil (2013 - $35,383) relating to the stock options. The options vested on the date of the IPO. No options were exercised during the years ended May 31, 2014 and 2013.

6. 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, of which $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 years ended May 31, 2014 and 2013.

7. 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:

	2014 $	2013 $
Canadian statutory income tax rate	26%	25%
Income tax recovery at statutory rate	67,343	35,864
Tax effect of:		
Non-deductible expenses	(739)	(21,354)
Change due to difference in tax rates	275	1,278
Change in deferred tax assets not recognized	(66,879)	(15,788)
Income tax provision	-	-

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

	2014 $	2013 $
Deferred income tax assets		
Non-capital losses carried forward	101,665	28,327
Financing costs	(12,311)	(5,795)
Deferred tax assets not recognized	(89,354)	(22,532)
Net deferred income tax asset	-	-

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

7. Income taxes *(continued)*

As of May 31, 2014, 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
2034	281,013
	391,020

8. Financial instruments and risk management

Fair value

Assets and liabilities measured at fair value on a recurring basis were presented on the Company's statement of financial position as at May 31, 2014 as follows:

	Fair Value Measurements Using			
	Quoted prices in active markets for identical instruments (Level 1) $	Significant other observable inputs (Level 2) $	Significant unobservable inputs (Level 3) $	Balance, May 31, 2014 $
Cash	133,961	–	–	133,961
Loan receivable	–	25,444	–	25,444

The fair values of the Company's financial instruments, which include cash, amounts receivable, loan receivable, and accounts payable and accrued liabilities approximates their carrying values due to the relatively short-term maturity of these instruments.

There were no transfers between Level 1 and Level 2 during the year ended May 31, 2014.

Credit risk

The Company's significant financial assets include cash, amounts receivable, and loan receivable. The Company mitigates credit risk on cash by placing it at a high credit-worthy financial institution. The Company's amounts receivable relates to a refund of fees from Canaccord Genuity Corp., which had been received subsequent to the year ended May 31, 2014. The Company's loan receivable relates to a proposed qualifying transaction (Note 10 (b)). The loan is not secured and repayment with interest is required within 30 days if the proposed qualifying transaction is terminated. The carrying amount of the loan represents the maximum exposure to credit risk.

8. Financial instruments and risk management *(continued)*

Market risk

The Company is not subject to significant interest rate risk. Interest rate on the Company's cash balance held at the bank is nominal. The Company's loan receivable carries a fixed rate of interest and is not affected by fluctuations in the market interest rate.

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 and debt. If the Company does not complete a Qualifying Transaction before October 26, 2014, the TSX-V may suspend or delist the Company's shares from trading, which will negatively impact the Company's ability to raise funds through equity financing.

9. 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.

10. Proposed qualifying transaction

a) Grey Hawk Exploration Inc.

On May 17, 2013, the Company entered into a letter of intent and on September 4, 2013, the Company entered into a Share Exchange Agreement with Grey Hawk Exploration Inc. ("Grey Hawk") to acquire all of the issued common shares of Grey Hawk. Grey Hawk is 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.

On February 7, 2014, the Company and Grey Hawk mutually agreed to terminate the Share Exchange Agreement.

10. Proposed qualifying transaction *(continued)*

b) 3 Tier Logic Inc.

On March 10, 2014 (as amended on March 31, April 29, May 15, and June 19, 2014), KCO entered into a Share Exchange Agreement (the "Agreement') with 3 Tier Logic Inc. ("3TL"), a privately held company operating in the technology sector, whereby KCO has agreed, subject to certain conditions, to acquire all of the issued and outstanding securities of 3TL from all of its shareholders in exchange for 36,000,000 common shares of KCO (the "Acquisition"). It is intended that this transaction will constitute the Company's QT. Upon completion of this transaction, 3TL will be a wholly-owned subsidiary of KCO. For accounting purposes this transaction will be treated as a reverse takeover with 3TL identified as the accounting acquirer.

As a part of the transaction, KCO is required to raise:

(i) not less than $500,000, and up to $1,000,000, with the approval of 3TL, by way of bridge loan under certain terms and conditions ($1,015,000 convertible debenture financing was completed by 3TL on March 10, 2014; thus this condition has been met); and

(ii) concurrent with the closing of the QT, not less than $2,000,000, and up to $5,000,000, with the approval of 3TL, by way of a common share offering.

Concurrent with closing of the QT, KCO is expected to close a minimum financing of 10,000,000 common shares at $0.25 per share for gross proceeds of $2,500,000, less 8% Agent's cash commission of $200,000, $70,000 in Agent's work fee, $35,000 of estimated Agent's legal expenses, and estimated $20,000 in issuer's legal expenses for net proceeds of $2,175,000. The Agent will also be granted non-transferable Agent's Warrants equal to 8% of the shares sold under the financing. The Agent's Warrants will be exercisable at $0.25 per KCO common share for a period of 24 months following the closing of the QT.

On April 30, 2014, KCO signed a loan agreement with 3TL to advance to 3TL $225,000. The loan is secured by a general security agreement over all present and future assets of 3TL. The secured loan bears interest at a rate of 12% per annum, compounded annually. The secured loan is due and payable on the earlier of (a) the receipt of final approval from the Exchange of the proposed Qualifying Transaction between 3TL and KCO or (b) November 30, 2014. The proceeds of the secured loan will be used to fund the operating expenses of 3TL. No funds were advanced by KCO to 3TL pursuant to the secured loan agreement as of May 31, 2014. Subsequent to May 31, 2014, KCO advanced to 3TL an aggregate of $153,998.21 pursuant to the secured loan agreement.

Upon completion of the QT, KCO intends to adopt a new stock option plan for the benefits of its directors, officers, employees and consultants. The size of the stock option will be 10% of the then issued and outstanding shares of KCO (of which 700,000 have been issued to date under the existing stock option plan). The new options will be granted from time to time at the discretion of the board of directors. Upon completion of the RTO, KCO intends to grant 5,380,000 new stock options exercisable at $0.25 per share with the expiry date of 5 years from the grant date.

10. Proposed qualifying transaction *(continued)*

b) 3 Tier Logic Inc. (continued)

The proposed transaction is subject to a number of conditions, including completion of satisfactory due diligence and regulatory and board approvals. Until these and other conditions are satisfied, the likelihood of closing the transaction is uncertain. Management fully intends to complete the proposed transaction.

All costs related to the terminated Gray Hawk acquisition and the proposed qualifying transaction with 3TL, including due diligence, are expensed when incurred as project investigation costs. Current period project investigation costs consist of:

		Year ended May 31, 2014		Year ended May 31, 2013
Travel and promotion	$	28,790	$	4,409
Canaccord advisory fees		34,149		–
Legal		130,873		–
Accounting		21,525		–
Total	$	215,337	$	4,409

As at May 31, 2014, the Company has recorded deferred financing costs of $11,702 relating to fees paid to TSX-V for private placement filings.

11. Subsequent event

a) On July 10, 2014, KCO completed a private placement of 5,000,000 common shares at $0.10 per share for gross proceeds of $500,000. Proceeds from this private placement will be used to finance the expenses of KCO's proposed Qualifying Transaction with 3 Tier Logic Inc. and for general working capital requirements. All securities issued in connection with the Private Placement will be subject to a four month hold period and certain resale restrictions.

In connection with this financing, KCO has paid a finder's fee in the amount of $44,500 and issued 445,000 finder's warrants. The finder's warrants entitle the holder to purchase up to 445,000 common shares of KCO at an exercise price of $0.10 until July 10, 2016. The finder's warrants are subject to a four month hold period.

b) On August 26, 2014, KCO approved an increase to the principal amount of the secured loan to 3TL, as described in Note 10(b), to $300,000.