

## FORM 7

### **MONTHLY PROGRESS REPORT**

Name of Listed Issuer: **Kontrol Energy Corp. (the “Issuer”)**

Trading Symbol: **KNR**

Number of Outstanding Listed Securities: **29,287,823 common shares and 4,885,087 common shares reserved for issuance**

Date: **September 6, 2019**

This Monthly Progress Report must be posted before the opening of trading on the fifth trading day of each month. This report is not intended to replace the Issuer’s obligation to separately report material information forthwith upon the information becoming known to management or to post the forms required by Exchange Policies. If material information became known and was reported during the preceding month to which this report relates, this report should refer to the material information, the news release date and the posting date on the Exchange website.

This report is intended to keep investors and the market informed of the Issuer’s ongoing business and management activities that occurred during the preceding month. Do not discuss goals or future plans unless they have crystallized to the point that they are "material information" as defined in the Policies. The discussion in this report must be factual, balanced and non-promotional.

#### **General Instructions**

- (a) Prepare this Monthly Progress Report using the format set out below. The sequence of questions must not be altered, nor should questions be omitted or left unanswered. The answers to the items must be in narrative form. State when the answer to any item is negative or not applicable to the Issuer. The title to each item must precede the answer.
- (b) The term “Issuer” includes the Issuer and any of its subsidiaries.
- (c) Terms used and not defined in this form are defined or interpreted in Policy 1 – Interpretation and General Provisions.

#### **Report on Business**

1. Provide a general overview and discussion of the development of the Issuer’s business and operations over the previous month. Where the Issuer was inactive disclose this fact.

## **Kontrol Energy Provides Acquisition Update, Enters into Indicative Term Sheet with Institutional Lender and Updates Convertible Debenture Terms**

On August 9, 2019 Kontrol Energy Corp. (“Kontrol” or the “Company”) provided an update on the timing of its recently announced acquisition (the “Acquisition”) and convertible debenture financing.

On March 14th, 2019 the Company announced that it had entered into a Letter of Intent (the "LOI") to acquire an established and leading provider of electrical retrofit services (the "Target"). The anticipated closing of the Acquisition is on or about the end of August 2019. Closing of the Acquisition is subject to finalizing the SPA and the satisfaction of customary conditions, including the approval of the CSE.

### **Loan Facility**

The Company has agreed to indicative terms with an Institutional Lender (the “Lender”) to provide acquisition funding for the Acquisition in the form of a secured loan. The indicative terms are non-binding and subject to due diligence and the execution of definitive loan documentation. The indicative loan terms include an approximate interest rate of 3-month Banker’s Acceptance plus 8% with a 3-year term with interest only payments for the first 18 months. In addition, on the closing date of the secured loan transaction, the Lender will be granted warrants equal to 3.20% of the outstanding issued shares of the Company, such warrants to have an exercise price of \$1.05 per common share and a term of six years.

“We believe the arrangement we have reached with the Lender will provide Kontrol with a less dilutive financing solution to close our next acquisition and allows us to keep our total basic common shares outstanding to less than 30 Million,” says Paul Ghezzi, CEO of Kontrol.

### **Convertible Debenture**

As part of the indicative terms with the Lender, Kontrol has agreed to limit its previously announced convertible debenture offering to a maximum of \$2.0 Million. The terms of the convertible debenture have been updated to include a cash commission of 7% (previously 6.5%), a conversion price of 80 cents (previously \$1.05), a broker warrant exercise price of 80 cents (previously 90 cents) and an accelerated conversion price of \$1.25 (previously \$1.40). The other terms of the convertible debentures remain the same.

Closing of the convertible debenture offering is subject to the satisfaction of customary conditions, including the approval of the CSE.

## **Kontrol Energy Announces Q2 2019 Financial Results**

On August 29, 2019 the Company announced its financial results for the second quarter ended June 30, 2019.

A complete set of Financial Statements and Management's Discussion & Analysis were filed on SEDAR ([www.sedar.com](http://www.sedar.com)) on August 29th.

### **Highlights**

- Revenue for the three months ended June 30, 2019 was \$3.9 million, up 93% over the comparative quarter in the prior year
- Revenue for the six months ended June 30, 2019 was \$7.6 million, up 80% over the comparative period in the prior year
- Adjusted EBITDA for Q2 2019 and Year to Date was \$233,031 and \$500,828 respectively
- Kontrol Energy and Toyota Tsusho Canada Inc. commenced initial deployment of IoT enabled energy monitoring and analysis; 4 Smart Factory sites assessed, and 2 pilots completed
- Convertible debenture offering announced for gross proceeds of up to \$2 million
- Indicative term sheet signed to refinance current debt relating to a 2018 acquisition
- As at June 30, 2019 \$3.1 million of debentures were exchanged for a new offering with a maturity date of October 31, 2020
- Completed purchase of patents, intellectual property and computer equipment from DIMAX Controls Canada Inc. and rebranded as SmartSite®
- Signed a Letter of Intent to acquire 100% of the shares of an electrical efficiency company; subject to due diligence the Company is targeting a Q3 2019 closing

### **Management Commentary and Q2 2019 Financial Highlights**

“The Company experienced a strong second quarter and first half of 2019 with revenue and Adjusted EBITDA significantly higher over the same periods in the prior year”, said Paul Ghezzi, CEO of Kontrol Energy. Our strong performance reflects new business activities coming online from the completed 2018 acquisitions and organic growth from our technology platform.”

Revenue increased by 93% and 80% for Q2 2019 and Year to Date respectively over the comparative periods in the prior year. Gross profit for the three months ended June 30, 2019 was \$1.9 million an increase of \$331,021 over the comparative quarter in the prior year. For the six months ended June 30, 2019, gross profit increased by \$908,847 to \$3.8 million compared to \$2.8 million in the same period of 2018. Gross margin for the six months ended June 30, 2019 was 49% compared to 67% for the same period in the prior year. The gross margin is in line with management's expectations and reflects the adjusted mix of revenue and cost of sales under a growing organization with changing product and service offerings.

Adjusted EBITDA for the three months ended June 30, 2019 was \$233,031 compared to \$66,551 for the second quarter in the prior year. For the six months ended June 30, 2019, Adjusted EBITDA improved significantly to \$500,828 compared to negative \$(376,568) in the same period of 2018.

The impact of accretive acquisition and overall scaling of operations has resulted in lower operating expenses as a percentage of revenue. Total operating expenses (excluding share-based compensation) for the six months ended June 30, 2019 was \$3.9 million or 51% of revenue and that compares to a ratio of 82% in the same period of 2018. This improvement demonstrates the favourable impact on earnings as Corporate overhead expenses are spread over a much larger and growing revenue base.

Cash flows used in operating activities improved by \$917,638 and reflects enhanced operational performance and working capital management. Cash flows used in operations was \$156,247 for the six months ended June 30, 2019 and for the six months ended June 30, 2018, cash flows used in operating activities was \$1,073,875.

| Financial Results                              | Three months ended |                 | Six months ended |                    |
|--|--------------------|-----------------|------------------|--------------------|
|  | June 30, 2019      | June 30, 2018   | June 30, 2019    | June 30, 2018      |
| Revenue  | \$3,912,186        | \$2,027,363     | \$7,590,546      | \$4,223,927        |
| Gross profit                                   | \$1,895,500        | \$1,564,479     | \$3,755,761      | \$2,846,914        |
| Net loss                                       | \$(595,281)        | \$(329,995)     | \$(1,276,478)    | \$(1,330,930)      |
| Basic and Diluted EPS                          | \$(0.02)           | \$(0.01)        | \$(0.04)         | \$(0.05)           |
| <b>Add for adjusted EBITDA reconciliation:</b> |                    |                 |                  |                    |
| Amortization and depreciation                  | \$410,073          | \$237,589       | \$869,498        | \$504,277          |
| Finance expense                                | \$277,309          | \$120,620       | \$506,820        | \$241,348          |
| Share based compensation                       | \$135,710          | \$18,945        | \$389,890        | \$189,345          |
| Acquisition related expenses                   | \$5,220            | \$19,392        | \$11,098         | \$19,392           |
| <b>Adjusted EBITDA*</b>                        | <b>\$233,031</b>   | <b>\$66,551</b> | <b>\$500,828</b> | <b>\$(376,568)</b> |

**\* Adjusted EBITDA is a non-IRFS financial measure. The Company defines Adjusted EBITDA as net income or loss before interest, income taxes, amortization and depreciation, share based compensation, and acquisition related expenses.**

### **8% Unsecured Convertible Debenture First Tranche Closing**

In the month of August 2019, the Company completed its first tranche of its previously announced non-brokered private placement (the “Offering”) of up to \$2,000,000 principal amount 8% unsecured convertible debentures of the Company maturing on August 31, 2024 (each, a “Debenture”). Gross proceeds from the month were \$548,000. The Convertible Debentures may be converted in full or in part, at the holders’ option into Common Shares, at any time prior to the Maturity Date, at a conversion price (subject to adjustment from time to time) of \$0.80 (the “Conversion Price”). Holders converting their Convertible Debentures will receive a cash payment equal to accrued and unpaid interest thereon for the period from and including the date of the latest interest payment date to, and including, the date of conversion. Fractional Common Shares will not be issued on any conversion and in lieu thereof the Company will make a cash payment equal in value to such fractional Common Shares.

The Company intends to allocate up to \$5,245,000 of the Units for issuance to holders of the outstanding 8% unsecured debentures of the Company maturing on October 31, 2019 (the “2019 Debentures”) who wish to exchange their 2019 Debentures for Units in the Offering. The balance of the Units not issued to holders of 2019 Debentures in exchange for their return for cancellation of their 2019 Debentures will be offered to purchasers for cash. The Company will use net proceeds from the Offering to finance new acquisitions and for general working capital purposes. The holders of the 2019 Debentures are under no obligation to exchange the 2019 Debentures for Units. The 2020 Debentures will bear interest at a rate of 8% per annum, payable monthly in arrears and will mature on October 31, 2020. The 2020 Debentures are non-convertible and non-redeemable and will rank *pari passu* with the 2019 Debentures and all other unsecured indebtedness of the Company. The 2020 Debentures partially comprising the Units are not listed on any stock exchange or market.

The Convertible Debentures will be subject to a resale restriction of four months and one day from their date of issuance.

The Company shall pay a cash commission (the “Commission”) to finders and brokers equal to 7.0% of the gross proceeds from the sale of the Convertible Debentures attributable to such finders or brokers.

In addition, the Company agrees to grant to finders and brokers common share purchase warrants (the “Compensation Warrants”) equal to the quotient obtained by dividing 6.0% of the gross proceeds attributable to such finders or brokers by \$0.80. Each Compensation Warrant shall be exercisable to purchase one Common Share of the Company at a price of \$0.80 for a period of 24 months from the Closing Date. Each Broker’s Warrant will be exercisable to purchase one additional common share of the Company (the “Broker’s Warrant Shares”) at a price per share determined by the Company, and/or to the provisions of the Canadian Securities Exchange Policy 6 – Distributions, for a period of 30 months from the closing date.

2. Provide a general overview and discussion of the activities of management.

**The Company has the following directors and officers:**

**Paul Ghezzi – CEO and Director**  
**Claudio Del Vasto – CFO and Director**  
**Kristian Lavereau – COO and Director**  
**Andrew Bowerbank – Director**

3. Describe and provide details of any new products or services developed or offered. For resource companies, provide details of new drilling, exploration or production programs and acquisitions of any new properties and attach any mineral or oil and gas or other reports required under Ontario securities law.

**Kontrol Energy creates solutions and Internet of Things (IoT) enabled technologies leader in energy efficiency through IOT, Cloud, Blockchain and SaaS technology, designed to lower the energy consumption of buildings and optimize energy management while providing a corresponding reduction in Green House Gas (GHG) emissions.**

**Through a disciplined mergers and acquisitions strategy, combined with organic growth, Kontrol Energy Corp. intends to provide market-based energy solutions to our customers designed to reduce their overall cost of energy and their GHG emissions.**

**Kontrol’s service offerings include deep energy retrofits, implementation of distributed generation systems, energy analytics and carbon reduction.**

4. Describe and provide details of any products or services that were discontinued. For resource companies, provide details of any drilling, exploration or production programs that have been amended or abandoned.

**None.**

5. Describe any new business relationships entered into between the Issuer, the Issuer’s affiliates or third parties including contracts to supply products or services,

joint venture agreements and licensing agreements etc. State whether the relationship is with a Related Person of the Issuer and provide details of the relationship.

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 (8% Convertible Debenture), and the Corporation The Company shall pay a cash commission (the "Commission") to finders and brokers equal to 7.0% of the gross proceeds from the sale of the Convertible Debentures attributable to such finders or brokers.

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

6. Describe the expiry or termination of any contracts or agreements between the Issuer, the Issuer's affiliates or third parties or cancellation of any financing arrangements that have been previously announced.

**None.**

7. Describe any acquisitions by the Issuer or dispositions of the Issuer's assets that occurred during the preceding month. Provide details of the nature of the assets acquired or disposed of and provide details of the consideration paid or payable together with a schedule of payments if applicable, and of any valuation. State how the consideration was determined and whether the acquisition was from or the disposition was to a Related Person of the Issuer and provide details of the relationship.

**None.**

8. Describe the acquisition of new customers or loss of customers.

The Issuer Company continues to carry on business in the energy efficiency sector with a growing new customer base that is mainly comprised of commercial energy consumers.

9. Describe any new developments or effects on intangible products such as brand names, circulation lists, copyrights, franchises, licenses, patents, software, subscription lists and trade-marks.

**None.**

10. Report on any employee hirings, terminations or lay-offs with details of anticipated length of lay-offs.

**None.**

11. Report on any labour disputes and resolutions of those disputes if applicable.

**None.**

12. Describe and provide details of legal proceedings to which the Issuer became a party, including the name of the court or agency, the date instituted, the principal parties to the proceedings, the nature of the claim, the amount claimed, if any, if the proceedings are being contested, and the present status of the proceedings.

**None.**

13. Provide details of any indebtedness incurred or repaid by the Issuer together with the terms of such indebtedness.

**8% Unsecured Debenture balance as at August 31, 2019 is \$2,121,000. The debenture will bear interest at a rate of 8% per annum, payable monthly in arrears and will mature on October 31, 2019. Please refer to the Private Placement and Exchange of Debentures announcement dated March 13, 2019 for more information.**

**2020 8% Unsecured Debenture balance as at August 31, 2019 is \$4,067,000. The debenture will bear interest at a rate of 8% per annum, payable monthly in arrears and will mature on October 31, 2020. Please refer to the Private Placement and Exchange of Debentures announcement dated March 13, 2019 for more information.**

**7% Unsecured Debenture balance as at August 31, 2019 is \$921,750. This balance represents 75% of aggregate proceeds raised as per private placement terms and conditions. The debenture will bear interest at a rate of 7% per annum, payable monthly in arrears and will mature on April 25, 2021.**

**8% Unsecured Convertible Debenture balance as at August 31, 2019 is \$548,000**  
**The debenture will bear interest at a rate of 8% per annum, payable semi-annually**  
**and will mature on August 31, 2024.**

14. Provide details of any securities issued and options or warrants granted.

| <b>Security</b>                       | <b>Number Issued</b> | <b>Details of Issuance</b>   | <b>Use of Proceeds<sup>(1)</sup></b>  |
|---------------------------------------|----------------------|--|---|
| Convertible Debenture August 26, 2019 | 548 Units            | Non-brokered private placement of units (the "Units"). Each Unit comprised of a \$1,000 8% unsecured convertible debenture of the Corporation maturing on August 31, 2024 (each, a "Convertible Debenture")  | \$548,000<br><br>Proceeds will be used to fund the acquisition of operating businesses, and technologies in the energy efficiency sector; and working capital |
| Broker Warrants August 26, 2019       | 37,350               | The issuance of share purchase warrants of the Company (the Broker Warrants") to the Broker equal to 6% of the aggregate principal amount of the Offering divided by \$0.80 in broker warrants (the "Broker's Warrants") from the sale of the Units. Each Broker's Warrant will be exercisable to purchase one additional common share of the Company (the "Broker's Warrant Shares") at a price of \$0.80 per share, for a period of 24 months from the closing date. | Value of \$29,880<br><br>Working capital  |

*(1) State aggregate proceeds and intended allocation of proceeds.*

15. Provide details of any loans to or by Related Persons.

**None.**

16. Provide details of any changes in directors, officers or committee members.

**On September 2, 2019 Geoff Lafleur, Director to Kontrol Energy Corp. announced his resignation. Geoff LaFleur had served on the Kontrol board since 2017. The Corporation is currently interviewing a number of potential board candidates and will seek to add two independent board members with specific industry experience aligned with the Corporation's strategic growth plan.**

17. Discuss any trends which are likely to impact the Issuer including trends in the Issuer's market(s) or political/regulatory trends.

**Cost of electricity has risen substantially across North America over the last decade. In addition, following the COP21 Paris Accord numerous states in the US and Provinces in Canada have either imposed a carbon tax policy or are in the late stages of creating such policies. Kontrol Energy Corp. intends to provide market based energy solutions to our customers designed to reduce their overall cost of energy while providing a corresponding reduction in Greenhouse Gas (GHG) emissions.**

### **Certificate of Compliance**

The undersigned hereby certifies that:

1. The undersigned is a director and/or senior officer of the Issuer and has been duly authorized by a resolution of the board of directors of the Issuer to sign this Certificate of Compliance.
2. As of the date hereof there were is no material information concerning the Issuer which has not been publicly disclosed.
3. The undersigned hereby certifies to the Exchange that the Issuer is in compliance with the requirements of applicable securities legislation (as such term is defined in National Instrument 14-101) and all Exchange Requirements (as defined in CNSX Policy 1).
4. All of the information in this Form 7 Monthly Progress Report is true.

Dated September 6, 2019

Claudio Del Vasto  
Name of Director or Senior  
Officer



\_\_\_\_\_  
Signature

Chief Financial Officer  
Official Capacity

|   |  |   |
|---|--|---|
| <b>Issuer Details</b><br>Name of Issuer<br>Kontrol Energy Corp.                               | For Month<br>End<br>August 2019  | Date of Report<br>YY/MM/DD<br>19/09/06        |
| Issuer Address<br>180 Jardin Drive, Unit#9, Vaughan, ON L4K 1X8                               |  |   |
| City/Province/Postal Code<br>Vaughan, Ontario   | Issuer Fax No.<br>( )  | Issuer Telephone No.<br>(905) 766.0400        |
| Contact Name<br>Claudio Del Vasto   | Contact<br>Position<br>CFO   | Contact Telephone No.<br>(905) 766.0400 x1002 |
| Contact Email Address<br><a href="mailto:admin@kontrolenergy.com">admin@kontrolenergy.com</a> | Web Site Address<br><a href="http://www.kontrolenergy.com">www.kontrolenergy.com</a> |   |