

MCW Energy Group Limited

Consolidated Financial Statements

For the years ended August 31, 2012 and 2011

MCW Energy Group Limited

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INDEPENDENT AUDITOR'S REPORT

To the Directors of MCW Energy Group Limited

We have audited the consolidated financial statements of MCW Energy Group Limited, which comprise the consolidated statements of financial position as at August 31, 2012 and 2011 and the consolidated statements of loss and comprehensive loss, shareholders' equity and cash flows for the years ended August 31, 2012 and 2011, 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

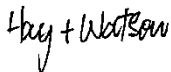
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require 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 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 MCW Energy Group Limited as at August 31, 2012 and 2011 and its financial performance and its cash flows for the years the ended in accordance with International Financial Reporting Standards.



Independent Registered Chartered Accountants
Vancouver, Canada
December 28, 2012

MCW ENERGY GROUP LIMITED
Consolidated Statements of Financial Position
As at August 31, 2012 and 2011
(expressed in U.S. Dollars)

| | 2012 | 2011 |
|--|----------------------|----------------------|
| ASSETS | | |
| Current assets | | |
| Cash (Note 4) | \$ 2,636,126 | \$ 2,208,337 |
| Accounts receivable | 7,628,472 | 8,589,640 |
| Loans receivable (Note 7(b)) | 1,308,392 | 950,054 |
| Prepaid expenses and deposits | 655,226 | 55,087 |
| | <u>12,228,216</u> | <u>11,803,118</u> |
| Mineral Lease (Note 5) | 1,976,569 | 1,976,569 |
| Property and Equipment (Note 6) | 3,055,786 | 2,087,521 |
| Intangible Assets (Note 8) | 2,376,454 | 291,842 |
| | <u>7,408,809</u> | <u>4,355,932</u> |
| | <u>\$ 19,637,025</u> | <u>\$ 16,159,050</u> |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable | \$ 11,384,926 | \$ 8,707,981 |
| Accrued expenses | 1,210,207 | 478,905 |
| Bank line of credit (Note 9) | 499,000 | - |
| Current portion of long-term debt (Note 9) | 754,644 | 335,614 |
| | <u>13,848,777</u> | <u>9,522,500</u> |
| Long-term Debt (Note 9) | 2,328,694 | 1,458,452 |
| Convertible Bond (Note 10) | 3,013,800 | 2,690,058 |
| | <u>5,342,494</u> | <u>4,148,510</u> |
| | <u>19,191,271</u> | <u>13,671,010</u> |
| SHAREHOLDERS' EQUITY | | |
| Share Capital (Note 14) | 1,863,978 | 602,231 |
| Share Subscriptions (Note 14) | 1,296,781 | - |
| Share Option Reserve | 3,204,907 | 1,189,450 |
| Convertible Bond Reserve | 431,557 | 431,557 |
| Deficit | <u>(7,951,978)</u> | <u>(1,544,928)</u> |
| | (1,154,755) | 678,310 |
| Non-Controlling Interest | 1,600,509 | 1,809,730 |
| | <u>445,754</u> | <u>2,488,040</u> |
| | <u>\$ 19,637,025</u> | <u>\$ 16,159,050</u> |

Approved by the Board of Directors "Alexander Blyumkin"
Alexander Blyumkin, Director

"David Sutton"
David Sutton, Director

The accompanying notes are an integral part of these financial statements

MCW ENERGY GROUP LIMITED

Consolidated Statements of Loss and Comprehensive Loss

For the Years Ended August 31, 2012, 2011 and 2010

(expressed in U.S. Dollars)

| | 2012 | 2011 | 2010 |
|--|----------------|----------------|----------------|
| Fuel Operations | | | |
| Net Revenue | \$ 363,325,177 | \$ 241,540,372 | \$ 188,713,583 |
| Cost of Goods Sold | 356,645,701 | 237,110,837 | 185,646,490 |
| Gross Profit | 6,679,476 | 4,429,535 | 3,067,093 |
| Operating Expenses | | | |
| Amortization | 107,379 | 67,205 | 86,718 |
| Consulting | 54,396 | 62,313 | 87,083 |
| General and administrative | 506,687 | 328,251 | 303,511 |
| Insurance | 439,967 | 360,130 | 207,671 |
| Professional fees | 213,986 | 107,967 | 426,634 |
| Rent | 100,353 | 211,075 | 203,508 |
| Salaries and wages | 2,135,849 | 1,528,424 | 948,687 |
| Travel and promotion | 99,196 | 137,033 | 131,830 |
| Truck operation and maintenance | 1,627,573 | 802,861 | 245,701 |
| | 5,285,386 | 3,605,259 | 2,641,343 |
| Operating income before the following | 1,394,090 | 824,276 | 425,750 |
| Doubtful accounts receivable | (2,279,516) | 295,000 | (1,287,723) |
| Interest expense | (43,082) | (120,612) | (186,627) |
| Other income (expense) | (262,925) | 472,099 | 573,906 |
| (Loss) Income before Income Taxes | (1,191,433) | 1,470,763 | (474,694) |
| Income Taxes | - | (108,031) | - |
| (Loss) Income from Fuel Operations | (1,191,433) | 1,362,732 | (474,694) |
| Oil Sands Operations | | | |
| General and administrative | (124,056) | (64,599) | - |
| Professional fees | (181,593) | (141,659) | - |
| Salaries and wages | (121,332) | (21,984) | - |
| (Loss) from Oil Sands Operations | (426,981) | (228,242) | - |
| Financing and other | | | |
| Convertible debt accretion and interest | (323,742) | (121,615) | - |
| Finance costs | (400,000) | - | - |
| General and administrative | (130,417) | (26,218) | - |
| Professional fees | (606,557) | (370,269) | - |
| Salaries and wages | (305,320) | - | - |
| Share-based compensation | (2,015,457) | (1,189,450) | - |
| Shares issued for services | (742,745) | (127,050) | - |
| Travel | (473,619) | - | - |
| (Loss) from Financing | (4,997,857) | (1,834,602) | - |
| Net (Loss) and Comprehensive (Loss) | \$ (6,616,271) | \$ (700,112) | \$ (474,694) |
| Net (Loss) and Comprehensive (Loss) attributable to: | | | |
| Shareholders of the Company | \$ (6,407,050) | \$ (588,273) | \$ (474,694) |
| Non-Controlling Interest | (209,221) | (111,839) | - |
| | \$ (6,616,271) | \$ (700,112) | \$ (474,694) |
| Weighted Average Number of Shares Outstanding | 125,711,960 | 125,047,795 | 125,000,000 |
| Basic and Diluted Loss per Share | \$ (0.053) | \$ (0.006) | \$ (0.004) |

The accompanying notes are an integral part of these financial statements

MCW ENERGY GROUP LIMITED

Consolidated Statements of Changes in Shareholders' Equity

For the Years Ended August 31, 2012, 2011 and 2010

(expressed in U.S. Dollars)

| | Number of Shares Outstanding | Share Capital | Share Subscriptions | Option Reserve | Convertible Bond Reserve | Deficit | Shareholder Equity | Non-Controlling Interest | Total Equity |
|--|---------------------------------|--------------------|------------------------|--------------------|-----------------------------|----------------------|-----------------------|-----------------------------|-------------------|
| Balance at August 31, 2009 | 125,000,000 | \$ 475,181 | \$ - | \$ - | \$ - | \$ 607,793 | \$ 1,082,974 | \$ - | \$1,082,974 |
| Net (loss) | - | - | - | - | - | (474,694) | (474,694) | - | (474,694) |
| Balance at August 31, 2010 | 125,000,000 | 475,181 | - | - | - | 133,095 | 608,276 | - | 608,276 |
| Common shares issued for services (Note 14) | 165,000 | 127,050 | - | - | - | - | 127,050 | - | 127,050 |
| Share based compensation (Note 15) | - | - | - | 1,189,450 | - | - | 1,189,450 | - | 1,189,450 |
| Equity component of convertible bond (Note 10) | - | - | - | - | 431,557 | - | 431,557 | - | 431,557 |
| Non-controlling interest | - | - | - | - | - | - | - | 1,921,569 | 1,921,569 |
| Net (loss) | - | - | - | - | - | (588,273) | (588,273) | (111,839) | (700,112) |
| Dividends paid (Note 7) | - | - | - | - | - | (1,089,751) | (1,089,751) | - | (1,089,751) |
| Balance at August 31, 2011 | 125,165,000 | 602,231 | - | 1,189,450 | 431,557 | (1,544,928) | 678,310 | 1,809,730 | 2,488,040 |
| Common shares issued for services (Note 14) | 2,764,643 | 1,261,747 | - | - | - | - | 1,261,747 | - | 1,261,747 |
| Share subscriptions received (Note 14) | - | - | 1,296,781 | - | - | - | 1,296,781 | - | 1,296,781 |
| Share based compensation (Note 15) | - | - | - | 2,015,457 | - | - | 2,015,457 | - | 2,015,457 |
| Net (loss) | - | - | - | - | - | (6,407,050) | (6,407,050) | (209,221) | (6,616,271) |
| Balance at August 31, 2012 | 127,929,643 | \$1,863,978 | \$ 1,296,781 | \$3,204,907 | \$ 431,557 | \$(7,951,978) | \$(1,154,755) | \$ 1,600,509 | \$ 445,754 |

The accompanying notes are an integral part of these financial statements

MCW ENERGY GROUP LIMITED
Consolidated Statements of Cash Flows
For the Years Ended August 31, 2012, 2011 and 2010
(expressed in U.S. Dollars)

| | 2012 | 2011 | 2010 |
|--|---------------------|---------------------|-------------------|
| Cash flow from operating activities: | | | |
| Net (loss) | \$ (6,616,271) | \$ (700,112) | \$ (474,694) |
| Items not affecting cash: | | | |
| Amortization | 107,379 | 67,205 | 86,718 |
| Shares issued for services | 742,745 | 127,050 | - |
| Shares issued as finance cost | 400,000 | - | - |
| Share-based compensation | 2,015,457 | 1,189,450 | - |
| Interest accrued for financing activities | 323,742 | 182,376 | - |
| Other | 36,287 | (8,812) | (8,079) |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable | 961,167 | (1,562,335) | (479,568) |
| Other current assets | - | 94,666 | (121,201) |
| Prepaid expenses and deposits | (81,136) | 32,449 | (3,999) |
| Accounts payable | 2,676,945 | 2,077,229 | 1,179,824 |
| Accrued expenses | 331,302 | 156,940 | (5,723) |
| Net cash from operating activities | <u>897,617</u> | <u>1,656,106</u> | <u>173,278</u> |
| Cash flows from investing activities: | | | |
| Purchases of property and equipment | (1,036,459) | (2,042,448) | (25,930) |
| (Acquisition) disposal of intangible assets | (1,424,596) | (54,814) | 37,317 |
| Net cash (used for) from investing activities | <u>(2,461,055)</u> | <u>(2,097,262)</u> | <u>11,387</u> |
| Cash flows from financing activities: | | | |
| Advances to shareholders | (783,627) | (683,930) | (699,280) |
| Share subscription receipts | 1,296,781 | - | - |
| Payments on long-term debt | (320,927) | (295,512) | (282,369) |
| Proceeds from bank line of credit | 499,000 | - | - |
| Proceeds from long-term debt | 1,300,000 | - | - |
| Proceeds from convertible bond | - | 3,000,000 | - |
| Net cash from (used for) financing activities | <u>1,991,227</u> | <u>2,020,558</u> | <u>(981,649)</u> |
| Increase (decrease) in cash | 427,789 | 1,579,402 | (796,984) |
| Cash, beginning of year | <u>2,208,337</u> | <u>628,935</u> | <u>1,425,922</u> |
| Cash, end of year | <u>\$ 2,636,126</u> | <u>\$ 2,208,337</u> | <u>\$ 628,938</u> |
| Supplemental disclosure of cash flow information: | | | |
| Cash paid for: | | | |
| Interest | \$ 81,045 | \$ 136,805 | \$ 135,457 |
| Taxes | - | 107,231 | 77,380 |

The accompanying notes are an integral part of these financial statements



1. NATURE OF OPERATIONS

MCW Energy Group Limited (“MCWE” or the “Company”) is a Canadian corporation which has a wholly owned subsidiary, MCW Fuels Inc. (formerly McWhirter Distributing, Inc.) which is located in the USA and has two business segments, fuel distribution and tar sands oil extraction. The tar sands oil extraction activities are conducted by MCW Oil Sands Recovery, LLC., a 51% owned subsidiary of MCW Fuels, Inc.

The Company’s registered office is at 334 Main Street, Shediac, New Brunswick, Canada and its principal operating office is located at 344 Mira Loma Avenue, Glendale, California 91204, USA.

In October 2012 the Company was legally acquired by AXEA Capital Corporation (“AXEA”), a company located in Vancouver, B.C., following which the shares were listed for trading on the TSX Venture Exchange (the “TSX-V”). As the shareholders of the Company owned the majority of the shares of AXEA, renamed “MCW Enterprises Ltd.” on the completion of the transaction, it will be accounted for as a “reverse take-over” pursuant to which the Company will be considered to be the continuing corporation for accounting purposes (Note 19(a)).

MCW Fuels, Inc. (“MCWF”) is engaged in the marketing and sale of unleaded and diesel land fuel products and related services in Southern California. The Company’s business strategy is to provide value-added benefits to its customers, including single-supplier convenience, competitive pricing, the availability of trade credit, price risk management, logistical support, fuel quality control and co-branding, as well as skilled and knowledgeable drivers.

MCW Oil Sands Recovery, LLC (“MCWO”) is a tar sands mining and oil processing operation using a closed-loop solvent based extraction system that recovers bitumen from surface mining. The company is based in Uintah, Utah. MCWO holds a working interest in mineral rights within the Asphalt Ridge area, acquired from its 49% shareholder, Amerisands, LLC. MCWO is in the process of developing an oil processing plant on the property in Uintah, Utah.

The Company has incurred net losses for the past three years and has accumulated deficits of \$7,951,978 and \$1,544,928 as at August 31, 2012 and 2011, respectively. As of August 31, 2012, there is a working capital deficiency of \$1,620,561.

These financial statements have been prepared on the basis that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. The ability of the Company to continue as a going concern is dependent on obtaining additional financing. There is a risk that additional financing will not be available on a timely basis or on terms acceptable to the Company. These financial statements do not reflect the adjustments or reclassifications that would be necessary if the Company is unable to continue operations in the normal course of business.

2. BASIS OF PREPARATION

Statement of Compliance

These financial statements are audited and have been prepared in accordance with International Accounting Standard (“IAS”) 1 Presentation of Financial Statements (“IAS 1”), using accounting policies which are consistent with the International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”). The consolidated financial statements were authorized for issue by the Board of Directors on December 28, 2012.



2. BASIS OF PREPARATION (continued)

Basis of Measurement

The consolidated financial statements have been prepared on a historical cost basis except for available-for-sale financial instruments which are measured at fair value. The consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of operations.

Functional and Presentation Currency

The consolidated financial statements are presented in U.S. dollars, which is the functional currency of the Company and its subsidiaries, as it is the currency of the primary economic environment in which the Company and its subsidiaries operate.

Estimates and Judgments

The preparation of the consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could vary from the estimates that were used.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Critical accounting estimates are estimates and assumptions made by management that may result in material adjustments to the carrying amount of assets and liabilities within the next financial year. Critical estimates used in preparation of these consolidated financial statements include, among others, the recoverability of amounts receivable, the carrying values of mineral rights, property and equipment, and intangible assets, the realizable amounts of deferred tax assets and liabilities, the fair value of options issued, and the fair value of the convertible loan obligation.

Critical accounting judgments are accounting policies that have been identified as being complex or involving subjective judgments or assessments. Critical accounting judgments include the expected economic lives of assets and the estimated future operating results and net cash flows from property and equipment and intangible assets.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and the entities controlled by the Company (its “subsidiaries”). Control is achieved where the Company has the power to govern the financial and operating policies of an entity and obtain the economic benefits from its activities. The consolidated entities are:

| <u>Entity</u> | <u>% of Ownership</u> | <u>Jurisdiction</u> |
|-----------------------------|-----------------------|---------------------|
| MCW Energy Group Limited | Parent | Canada |
| MCW Fuels, Inc. | 100% | USA |
| MCW Oil Sands Recovery, LLC | 51% | USA |

The 49% non-controlling interest in MCW Oil Sands Recovery, LLC represents the interest of other shareholders in the net identifiable assets of that company.



3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Business Combinations

The Company accounts for business combinations using the acquisition method, under which the acquirer measures the cost of the business combination as the total of the fair values, at the date of exchange, of the assets obtained, liabilities incurred and equity instruments issued by the acquirer in exchange for control of the acquiree.

Goodwill is measured as the fair value of the consideration transferred, including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount (generally the fair value) of the identifiable assets and liabilities assumed, measured as at the acquisition date.

Transaction costs, other than those associated with issue of debt or equity securities, that the group incurs in connection with a business combination are expensed as incurred.

(c) Income and Expense Recognition

Revenue Recognition

Revenue from the sale of fuel and related goods is recognized when the sales price is fixed or determinable and collectability is reasonably assured. Title passes to the customer on the delivery of fuel to the customer directly from the Company, the supplier or a third-party subcontractor. The gross sale of the fuel is recorded as the Company has latitude in establishing the sales price, has discretion in the supplier selection, maintains credit risk and is the primary obligor in the sales arrangement.

Revenue from card processing services is recognized at the time the purchase is made by the customer using the charge card.

Revenue from late charges, interest, rental income and customer branding services are recorded on an accrual basis when collection is reasonably assured.

MCWO expects to sell crude oil at prevailing market prices. No short term agreements have been established. Revenues will be recognized when the products are delivered, which occurs when the customer has taken title and has assumed the risks and rewards of ownership, when prices are fixed or determinable and when collectability is reasonably assured.

Vendor and Customer Rebates and Branding Allowances

From time to time, the Company receives vendor rebates and provides customer rebates. Generally, volume rebates are received from vendors under structured programs based on the level of fuel purchased or sold as specified in the applicable vendor agreements. These volume rebates are recognized as a reduction of cost of goods sold in the period earned when realization is probable and estimable and when certain other conditions are met. A portion of the rebates received from vendors is passed along to customers. These rebates to customers are recognized as a reduction of revenue in the period earned in accordance with applicable customer agreements. The rebate terms of the customer agreements are generally similar to those of the vendor agreements.

Some of these vendor rebates and promotional allowance arrangements require that the Company make assumptions and judgments regarding, for example, the likelihood of attaining specified levels of purchases or selling specified volume of products. The Company routinely reviews the relevant, significant factors and makes adjustments when the facts and circumstances dictate that an adjustment is warranted.



3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Property and Equipment:

Property and equipment are recorded at cost and amortized over their useful lives. Maintenance and repairs are expensed as incurred. Major renewals and betterments are capitalized. When items of property are sold or retired, the related costs and accumulated amortization are removed from accounts, and any gain or loss is included in income.

Amortization is determined on a straight-line method with the following expected useful lives:

| | |
|-------------------------|------------|
| Machinery and equipment | 5 years |
| Furniture and fixtures | 7 years |
| Leasehold improvements | Lease term |
| Oil extraction facility | 15 years |

(e) Oil and Gas Properties

Oil and Gas Property Interests

MCWO accounts for its activities related to oil and gas properties by initially capitalizing the costs of acquiring these properties and thereafter expensing exploration activities, pending the evaluation of commercially recoverable reserves. The results of exploratory programs can take considerable time to analyze and the determination that commercial reserves have been discovered requires both judgment and industry experience. If it has been determined that a property has recoverable reserves, all development costs are capitalized.

Oil and Gas Reserves

Oil and gas reserves are evaluated by independent qualified reserves evaluators. The estimation of reserves is a subjective process. Estimates are based on projected future rates of production, estimated commodity prices, engineering data and the timing of future expenditures, all of which are subject to uncertainty and interpretation. Reserves estimates can be revised either upwards or downwards based on updated information such as future drilling, testing and production levels. Reserves estimates, although not reported as part of the company's consolidated financial statements, can have a significant effect on net earnings as a result of their impact on depreciation and depletion rates, asset impairment and goodwill impairment.

(f) Intangible Assets

Intangible assets are recorded at cost. Amortization of intangible assets is recorded on a straight-line basis over a life determined by the maximum length of exclusive branded reseller distribution agreements and the benefits expected from acquired intellectual property, technology and technology licenses. Intangible assets with indefinite useful lives are not amortized and are tested for impairment at least annually. The following useful lives have been established for intangible assets included in these financial statements:

| | |
|--|------------|
| Branded Reseller Distribution Agreements | 4-10 years |
| Oil Extraction Technology | 15 years |

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)****(g) Impairment of Assets**

At the end of each reporting period, the Company's property and equipment and intangible assets are reviewed for indications that the carrying amount may not be recoverable. If any such indication is present, the recoverable amount of the asset is estimated in order to determine whether impairments exist. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount of an asset is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which estimates of future cash flows have not been adjusted. The cash flows used in the impairment assessment require management to make assumptions and estimates about recoverable reserves, production quantities, future commodity prices, operating costs and future development costs. Changes in any of the assumptions, such as a downward revision in reserves, a decrease in future commodity prices or an increase in operating costs, could result in an impairment of an asset's carrying value.

If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount is reduced to the recoverable amount. Impairment is recognized immediately in the statement of loss and comprehensive loss. Where an impairment subsequently reverses, the carrying amount is increased to the revised estimate of the recoverable amount but only to the carrying value that would have been recorded if no impairment had previously been recognized. A reversal is recognized as a reduction in the impairment charge for the period.

(h) Financial Instruments

Financial instruments consist of financial assets and financial liabilities and are initially recognized at fair value net of transaction costs, if applicable. Measurement in subsequent periods depends on whether the financial instrument is classified as held-to-maturity, loans and receivables, fair value through profit or loss ("FVTPL"), available-for-sale, or other financial liabilities.

Held to maturity investments and loans and receivables are measured at amortized cost, with amortization of premiums or discounts, losses and impairment included in current period interest income or expense. Financial assets and liabilities are classified as FVTPL when the financial instrument is held for trading or are designated as FVTPL. Financial instruments at FVTPL are measured at fair market value with all gains and losses included in operations in the period in which they arise. Available-for-sale financial assets are measured at fair market value with revaluation gains and losses included in other comprehensive income until the asset is removed from the balance sheet, and losses due to impairment are included in operations. All other financial assets and liabilities, except for cash and cash equivalents, are carried at amortized cost.

The Company's financial instruments are:

- Cash, classified as FVTPL and measured at fair value
- Accounts receivable and loans receivable, classified as loans and receivables and measured at amortized cost
- Accounts payable, accrued expenses and long-term debt, classified as other financial liabilities and measured at amortized cost

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)****(h) Financial Instruments (continued)**

The recorded values of cash, accounts receivable, loans receivable, accounts payable and accrued expenses approximate their fair values based on their short term nature. The recorded values of long term debt approximate their fair values, as interest rates approximate market rates.

In accordance with industry practice, the Company includes amounts in current assets and current liabilities for current maturities receivable or payable under contracts which may extend beyond one year.

The Company classifies and discloses fair value measurements based on a three-level hierarchy:

- Level 1 – inputs are unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 – inputs for the asset or liability that are not based on observable market data.

(i) Provisions

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount receivable can be measured reliably.

(j) Income Taxes

Provisions for income taxes consist of current and deferred tax expense and are recorded in operations.

Current tax expense is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the end of the period, adjusted for amendments to tax payable for previous years.

Deferred tax assets and liabilities are computed using the asset and liability method on temporary differences between the carrying amounts of assets and liabilities on the statement of financial position and their corresponding tax values, using the enacted or substantially enacted, income tax rates at each statement of financial position date. Deferred tax assets also result from unused losses and other deductions carried forward. The valuation of deferred tax assets is reviewed on a regular basis and adjusted to the extent that it is not probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized by use of a valuation allowance to reflect the estimated realizable amount.

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)****(k) Comprehensive Income or Loss**

Other comprehensive income or loss is the change in net assets arising from transactions and other events and circumstances from non-owner sources. Comprehensive income comprises net income or loss and other comprehensive income or loss. Financial assets that are classified as available for sale will have revaluation gains and losses included in other comprehensive income or loss until the asset is removed from the balance sheet. At present, the Company has no other comprehensive income or loss.

(l) Earnings per Share

Basic earnings per share is computed by dividing net income or loss attributable to common shareholders of the Company by the weighted average number of shares of common shares outstanding during the period.

Diluted earnings per share is determined by adjusting net income or loss attributable to common shareholders of the Company and the weighted average number of common shares outstanding by the effects of potentially dilutive instruments, if such conversion would decrease earnings per share.

(m) Share-based Payments

The Company may grant share purchase options to directors, officers, employees and others providing similar services. The fair value of these share purchase options is measured at grant date using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. Share-based compensation expense is recognized over the period during which the options vest, with a corresponding increase in equity.

The Company may also grant equity instruments to consultants and other parties in exchange for goods and services. Such instruments are measured at the fair value of the goods and services received on the date they are received and are recorded as share-based payment expense with a corresponding increase in equity. If the fair value of the goods and services received are not reliably determinable, their fair value is measured by reference to the fair value of the equity instruments granted.

(n) New Accounting Standards and Interpretations

The following is a summary of new standards, amendments and interpretations that have been issued but not yet adopted in these annual financial statements:

(i) IFRS 9, Financial Instruments (“IFRS 9”)

IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple classification options in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2015, with earlier adoption permitted. The Company is currently evaluating the impact of IFRS 9 on its financial instruments; however, the impact, if any, is not expected to be significant.

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)****(n) New Accounting Standards and Interpretations (continued)****(ii) IFRS 7, Financial Instruments: Disclosures (“IFRS 7”) – amendments**

In October 2010, the IASB issued amendments to IFRS in respect to the disclosure relating to transfers of financial assets. The amendments require additional disclosure to assist users of financial statements in evaluating the risk exposures in respect to transfers of financial assets that are not derecognized or for which the entity has a continuing involvement. The amendments became effective for annual periods commencing on or after July 1, 2011. The amendments will not impact these consolidated financial statements.

In December 2011, the IASB issued new disclosure requirements for financial assets and liabilities that (1) are offset in the statement of financial position; or (2) subject to master netting agreements or similar arrangements. These new disclosure requirements are effective for annual periods beginning on or after January 1, 2013 and are to be applied retrospectively. The Company is currently evaluating the impact of these new disclosure requirements on its financial statement; however, the impact, if any, is not expected to be significant.

(iii) IFRS 10, Consolidated Financial Statements (“IFRS 10”)

IFRS 10 replaces the consolidation requirements in IAS 27, Consolidated and Separate Financial Statements, and Standing Interpretations Committee (“SIC”) Interpretation 12, Consolidation - Special Purpose Entities. IFRS 10 introduces a single consolidation model for all entities based on control, irrespective of the nature of the investee, and is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The Company currently does not anticipate the adoption of IFRS 10 to have a significant impact on its consolidated financial statements.

(iv) IFRS 11, Joint Arrangements (“IFRS 11”)

In May 2011, the IASB issued guidance establishing principles for financial reporting by parties to a joint arrangement. IFRS 11 replaces IAS 31, Interests in Joint Ventures. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures based on the rights and obligations of the parties to the joint arrangements. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (“joint operators”) have direct rights to the assets, and obligations for the liabilities, relating to and in accordance with the arrangement.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (“joint venturers”) have rights to the net assets of the arrangement. IFRS 11 requires that a joint operator recognize its portion of assets, liabilities, revenues and expenses of a joint arrangement, while a joint venturer recognizes its investment in a joint arrangement using the equity method. IFRS 11 is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. The Company is reviewing the standard to determine the potential impact, if any, on its consolidated financial statements.

(v) IAS 12, Deferred Tax: Recovery of Underlying Assets (“IAS 12”)

Amendments to IAS 12 are effective for annual periods beginning on or after January 1, 2012. The Company is in the process of evaluating the impact of the new standard on its financial statements.

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)****(n) New Accounting Standards and Interpretations (continued)****(vi) IFRS 12, Disclosure of Interests in Other Entities (“IFRS 12”)**

IFRS 12 requires the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. The disclosure requirements are applicable to all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013 with earlier adoption permitted. The Company is reviewing the standard to determine the potential impact, if any, on its consolidated financial statements.

(vii) IFRS 13, Fair Value Measurement (“IFRS 13”)

In May 2011, the IASB issued guidance establishing a single source for fair value measurement. IFRS 13 defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However, IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value. Rather, the measurement and disclosure requirements of IFRS 13 apply when another standard requires or permits the item to be measured at fair value, with limited exceptions. IFRS 13 is effective for annual periods beginning on or after January 1, 2013 with early application permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

(viii) IAS 27, Separate Financial Statements (“IAS 27”)

IAS 27 was amended as a consequence of the issuance of IFRS 10, 11 and 12. IAS 27 sets the standards for investments in subsidiaries, jointly controlled entities, and associates when an entity elects, or is required, to present separate non-consolidated financial statements. Amendments to IAS 27 are effective for annual periods beginning on or after January 1, 2013 with early application permitted. The Company is in the process of evaluating the impact of the new standard on its financial statements.

(ix) IAS 28, Investments in Associates and Joint Ventures (“IAS 28”)

IAS 28 was amended as a consequence of the issuance of IFRS 10, 11 and 12. IAS 28 provides additional guidance for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. This standard will be applied by the Company when there is joint control or significant influence over an investee. Amendments to IAS 28 are effective for annual periods beginning on or after January 1, 2013 with early application permitted. The Company is in the process of evaluating the impact of the new standard on its financial statements.

(x) IAS 32, Financial Instruments: presentation (“IAS 32”)

In December 2011, the IASB issued amendments to IAS 32. The amendments clarify that an entity currently has a legally enforceable right to set-off financial assets and liabilities if that right is (1) not contingent on a future event; and (2) enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. These amendments are effective for annual periods beginning on or after January 1, 2014 with early application permitted and are to be applied retrospectively. The Company is currently evaluating the impact of the adoption of the amendments on its financial statement; however, the impact, if any, is not expected to be significant.



4. CASH

The Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. The Company also has a trust account, in which funds from the processing of retail operator credit card transactions are deposited and which is used to pay for fuel purchases.

Cash as at August 31, 2012 and 2011 consisted of:

| | <u>2012</u> | <u>2011</u> |
|-----------------|---------------------|---------------------|
| Cash | \$ 1,339,345 | \$ 2,208,337 |
| Restricted cash | 1,296,781 | - |
| | <u>\$ 2,636,126</u> | <u>\$ 2,208,337</u> |

As of August 31, 2012 the Company had received \$1,296,781 for subscription receipts, which was held in trust pending the successful completion of the Company's amalgamation transaction with Axea Capital Corp. and listing on the TSX-V. This transaction was completed on October 5, 2012 (Note 19(a)).

5. MINERAL LEASE

On December 29, 2010, MCWF entered into an operating agreement to be the managing member of MCWO (Note 1). Under the terms of the agreement, the Company contributed cash of \$2,000,000 to MCWO and Amerisands, LLC contributed an irrevocable assignment of a mineral lease, dated August 11, 2008 and covering 1138 acres in Uintah County, Utah, for the extraction of bituminous or asphaltic sands (tar sands). The lease term is for 10 years with rights for extensions based on reasonable production.

The investment in and expenditures on the mineral lease represents a significant portion of the Company's assets. Realization of the Company's investment in these assets is dependent upon obtaining permits, satisfying governmental requirements and possible aboriginal claims, attainment of successful production from the lease or from the proceeds of disposal. The expenditures on the mineral lease are:

| | <u>2012</u> | <u>2011</u> |
|-------------------|---------------------|---------------------|
| Acquisition cost | \$ 1,921,569 | \$ 1,921,569 |
| Maintenance costs | 55,000 | 55,000 |
| | <u>\$ 1,976,569</u> | <u>\$ 1,976,569</u> |



6. PROPERTY AND EQUIPMENT

| | Leaseholds and Equipment | Oil Extracion Facility under Construction | Total |
|---------------------------------|-------------------------------------|--|--------------|
| Cost | | | |
| August 31, 2010 | \$ 318,630 | \$ - | \$ 318,630 |
| Additions | 11,655 | 2,030,793 | 2,042,448 |
| August 31, 2011 | 330,285 | 2,030,793 | 2,361,078 |
| Additions | 22,101 | 996,333 | 1,018,434 |
| Dispositions | (36,286) | - | (36,286) |
| August 31, 2012 | \$ 316,100 | \$ 3,027,126 | \$ 3,343,226 |
| Accumulated Amortization | | | |
| August 31, 2010 | \$ 262,106 | \$ - | \$ 262,106 |
| Additions | 11,451 | - | 11,451 |
| August 31, 2011 | 273,557 | - | 273,557 |
| Additions | 31,907 | - | 31,907 |
| Dispositions | (18,024) | - | (18,024) |
| August 31, 2012 | \$ 287,440 | \$ - | \$ 287,440 |
| Carrying Amounts | | | |
| August 31, 2010 | \$ 56,524 | \$ - | \$ 56,524 |
| August 31, 2011 | \$ 56,728 | \$ 2,030,793 | \$ 2,087,521 |
| August 31, 2012 | \$ 28,660 | \$ 3,027,126 | \$ 3,055,786 |

Leaseholds and Equipment

Leaseholds and equipment consist of improvements to the Company's rented property, computer equipment, software, and office furniture and equipment.

Oil Extraction Facility under Construction

In June 2011, the Company commenced the development of a tar sands extraction facility on its site in Uintah, Utah (Asphalt Ridge) and entered into construction and equipment fabrication contracts for this purpose. The facility is expected to be completed in early 2013 and the Company intends to amortize the cost of construction over 15 years from commencement of production. The anticipated total cost of the facility is \$5,000,000, of which \$2,814,312 was spent as of August 31, 2012. Amerisands, LLC (Note 7(d)) manages the construction and will receive a project management fee of 5% of the total cost of construction on completion.



7. RELATED PARTY TRANSACTIONS

Related party transactions not otherwise separately disclosed in these financial statements are:

- (a) Approximately 2.4% (2011 – 8.2%) of the Company's sales were to retail operations owned by Dalex Holding, Inc., Dalex Investments, Inc., and McWhirter Distributing Co., Inc., which have officers and principal shareholders in common with the Company. Accounts receivable as at August 31, 2012 from these related parties are:

| | <u>2012</u> | <u>2011</u> |
|----------------------------------|-------------------|---------------------|
| Dalex Holding, Inc. | \$ 245,595 | \$ 175,383 |
| Dalex Investments, Inc. | 240,359 | 1,020,225 |
| McWhirter Distributing Co., Inc. | 46,425 | 14,751 |
| | <u>\$ 532,379</u> | <u>\$ 1,210,359</u> |

- (b) The loans receivable from officers and principal shareholders of the Company (Note 19(b)) are demand loans with interest at variable rates. The effective interest rate for the year ended August 31, 2012 was 4% (2011 – 4%) and interest income for the year was \$25,904 (2011 - \$89,239). The continuity schedule of the loans receivable from the officers and principal shareholders is:

| | <u>2012</u> | <u>2011</u> |
|---------------------------------------|---------------------|-------------------|
| Balance, beginning of year | \$ 950,054 | \$ 1,416,635 |
| Disbursements | 757,725 | 683,931 |
| Bonuses | - | (150,000) |
| Dividends | - | (1,089,751) |
| Technology transferred to the Company | (735,488) | - |
| Loans to shareholders | 310,199 | - |
| Interest accrued on loan balances | 25,902 | 89,239 |
| | <u>\$ 1,308,392</u> | <u>\$ 950,054</u> |

During the year ended August 31, 2012, these officers and principal shareholders transferred oil extraction technology acquired from certain third parties to the Company (Note 8). This transaction was measured at the original cost to the officers and principal shareholder of acquiring the technology.

The officers and principal shareholders have also guaranteed loans from BBCN Bank to the Company (Note 9).

- (c) Key management personnel and director compensation is:

| | <u>2012</u> | <u>2011</u> |
|--------------------------|---------------------|---------------------|
| Salaries and benefits | \$ 569,491 | \$ 428,570 |
| Share-based compensation | 1,511,592 | 892,087 |
| | <u>\$ 2,081,083</u> | <u>\$ 1,320,657</u> |

- (d) An officer of the Company is also a member of and holds a 50% ownership interest in Amerisands LLC. The Company made payments of \$576,000 to Amerisands, LLC during the year ended August 31, 2012 for the management and construction of its oil extraction facility (Note 6) (2011 - \$1,230,000).



8. INTANGIBLE ASSETS

| | Branded Reseller | | Total |
|---------------------------------|------------------------------------|--------------------------------------|---------------------|
| | Distribution Agreements | Oil Extraction Technology | |
| Cost | | | |
| August 31, 2010 | \$ 608,055 | \$ - | \$ 608,055 |
| Additions | 54,814 | - | 54,814 |
| August 31, 2011 | 662,869 | - | 662,869 |
| Additions | 1,503,645 | 735,488 | 2,239,133 |
| Dispositions | (174,213) | - | (174,213) |
| August 31, 2012 | <u>\$ 1,992,301</u> | <u>\$ 735,488</u> | <u>\$ 2,727,789</u> |
| Accumulated Amortization | | | |
| August 31, 2010 | \$ 324,085 | \$ - | \$ 324,085 |
| Additions | 46,942 | - | 46,942 |
| August 31, 2011 | 371,027 | - | 371,027 |
| Additions | 80,589 | - | 80,589 |
| Dispositions | (100,281) | - | (100,281) |
| August 31, 2012 | <u>\$ 351,335</u> | <u>\$ -</u> | <u>\$ 351,335</u> |
| Carrying Amounts | | | |
| August 31, 2010 | \$ 283,970 | \$ - | \$ 283,970 |
| August 31, 2011 | \$ 291,842 | \$ - | \$ 291,842 |
| August 31, 2012 | <u>\$ 1,640,966</u> | <u>\$ 735,488</u> | <u>\$ 2,376,454</u> |

Branded Reseller Distribution Agreements

The Company has Branded Reseller Distribution Agreements with various retailers whereby the Company provides funds to these retailers to operate under certain brand names and receives exclusive distribution rights to these retailers. The Company has capitalized these amounts and amortizes them over the life of the branding agreements. In the event that the agreements are terminated within four years of the date of the latest advance, the retailers may be required to reimburse the Company for the unamortized costs of branding those stations.

On June 14, 2012 and August 28, 2012 the Company acquired ten Branded Reseller Distribution Agreements from WestCo Petroleum Distributors, Inc. for \$1,300,000. A further \$700,000 for 6 additional Agreements was due on December 15, 2012 (Note 19 (c)).

Oil Extraction Technology

During the year ended August 31, 2012, the Company acquired closed-loop solvent based oil extraction technology which facilitates the extraction of oil from a wide range of bituminous sands and other hydrocarbon sediments. The Company intends to employ this technology in its oil extraction facility which is currently under construction (Notes 6 and 12) and intends to amortize the costs of the technology over fifteen years from the commencement of production.



9. LONG TERM DEBT

| <u>Lender</u> | <u>Type of debt</u> | <u>Maturity Date</u> | <u>Interest Rate</u> | <u>Principal due at August 31, 2012</u> | <u>Principal due at August 31, 2011</u> |
|-----------------------------------|---------------------|----------------------|----------------------|---|---|
| BBCN Bank | Business Term Loan | November 2, 2013 | 4.50% | \$ 1,484,985 | \$ 1,794,066 |
| BBCN Bank | Business Term Loan | June 1, 2022 | 5.25% | 985,447 | - |
| BBCN Bank | Business Term Loan | September 30, 2017 | 7.00% | 310,199 | - |
| Morison Management S.A. | Promissory Note | May 18, 2014 | 5.00% | 300,000 | - |
| | | | | <u>\$ 3,083,338</u> | <u>\$ 1,794,066</u> |
| Principal due within one year | | | | \$ 754,644 | \$ 335,614 |
| Principal due later than one year | | | | <u>2,328,694</u> | <u>1,458,452</u> |
| | | | | <u>\$ 3,083,338</u> | <u>\$ 1,794,066</u> |

There are various covenants applicable to the Company's Business Term Loans with BBCN Bank. The Company has not been notified by BBCN Bank that it has not met any of the covenants. These loans are secured by all assets of the Company and are guaranteed by two of the Company's principal shareholders.

The Company also has two commercial lines of credit with BBCN bank of \$500,000 each, on which \$499,000 has been drawn at year end. These lines of credit bear interest at an annual rate of 5.75%.

Subsequent to the reporting period, the Company issued shares in settlement of its debt to Morison Management S.A. (Note 19 (d)).

10. CONVERTIBLE BOND

On April 4, 2011, the Company borrowed \$3,000,000 from Lenzarinal Investments Ltd. The loan is convertible to 1,500,000 common shares at the option of the holder. Interest accrues at the rate of seven percent (7%). Payments of interest and principal are deferred until the maturity of the loan on May 12, 2014. In accordance with IFRS 32.28, the convertible debenture has been accounted for as a compound financial instrument, with a long-term liability component (the loan) and an equity component (the conversion right) classified as a reserve within equity.

A reconciliation of the carrying value of the convertible bond to the fair value at issue is:

| | <u>2012</u> | <u>2011</u> |
|--|---------------------|---------------------|
| Fair value of convertible debenture at issue | \$ 3,000,000 | \$ 3,000,000 |
| Amount classified as equity | (431,557) | (431,557) |
| Accrued interest expense | 296,301 | 85,726 |
| Accretion expense | 149,056 | 35,889 |
| Carrying amount of liability | <u>\$ 3,013,800</u> | <u>\$ 2,690,058</u> |



11 DEFERRED INCOME TAX ASSETS AND LIABILITIES

The Company's deferred tax assets and liabilities, resulting from temporary differences that will change taxable incomes of future years, at August 31, 2012 and 2011 are:

| | <u>2012</u> | <u>2011</u> |
|--|--------------------|------------------|
| Property and equipment and intangible assets | \$ 52,156 | \$ 106,072 |
| Convertible debenture | (70,625) | (89,387) |
| Non-capital tax loss carry-forwards | 1,328,036 | 337,110 |
| Valuation allowance | <u>(1,309,567)</u> | <u>(353,794)</u> |
| Net deferred tax assets (liabilities) | <u>\$ -</u> | <u>\$ -</u> |

A reconciliation of the provision for income taxes is:

| | <u>2011</u> | <u>2010</u> |
|--|--------------------|-------------------|
| Loss before income taxes | \$ 6,616,271 | \$ 700,112 |
| Combined effective tax rate | 26.03% | 28.98% |
| Income tax recovery based on combined effective tax rate | <u>1,722,215</u> | <u>288,383</u> |
| Amounts deductible (non-deductible) for tax purposes | 47,660 | 59,643 |
| Permanent differences | (630,720) | (279,287) |
| Unrecognized losses for tax purposes | <u>(1,139,155)</u> | <u>(176,770)</u> |
| Income tax provision | <u>\$ -</u> | <u>\$ 108,031</u> |

As at August 31, 2012, the Company has non-capital losses of approximately \$4,996,000 for income tax purposes which may be used to reduce taxable income of future years. If unused, these non-capital losses will expire between August 31, 2030 and August 31, 2032.

12. COMMITMENTS

Oil Extraction Technology

A key component of the technology for the tar sands extraction facility was transferred to the Company by its inventor (subsequently appointed the Chief Technology Officer of the Company) in exchange for employment with the Company, 500,000 common shares of the Company which will be issued following the successful testing and operation of the first facility, and a royalty on a scale of 2% to 4% of gross revenue from each facility beginning with the successful operation of a second facility.

Supply Agreement

In June 2012, the Company entered into a five year oil sands material supply agreement under which Temple Mountain Energy Inc. will supply the Company with 8,333 tons of oil sands material per month at a cost of \$19.50 per ton (crushed and delivered). The agreement also grants the Company the option of two extraction unit locations on the Temple Mountain lease and the option of purchasing the Temple Mountain lease, which includes a valid large mine permit from the state of Utah.



12. COMMITMENTS (continued)

Rental Commitments

The Company's minimum future annual rental commitments for leased gasoline stations, which are all sublet, and its head office are:

| | Sublease Income | Minimum Rental Commitments | Net Rental Cost (Income) |
|---------------------------|----------------------------|---|---|
| Due within 1 year | \$ (134,400) | \$ 229,419 | \$ 95,019 |
| Due between 2 and 5 years | (465,303) | 669,225 | 203,922 |
| Due later than 5 years | (72,039) | 472,684 | 400,645 |
| | <u>\$ (671,742)</u> | <u>\$ 1,371,328</u> | <u>\$ 699,586</u> |

Truck Leases

The Company has operating leases with 60 month terms for trucks and trailers used for fuel delivery. The minimum future annual lease payments are:

| | |
|---------------------------|---------------------|
| Due within 1 year | \$ 511,228 |
| Due between 2 and 5 years | <u>1,546,626</u> |
| | <u>\$ 2,057,854</u> |

13. LOSS PER SHARE

The Company's potentially dilutive instruments are convertible bonds, and common share purchase options and warrants. Conversion of these instruments would have been anti-dilutive for the periods presented and consequently no adjustment was made to basic loss per share to determine diluted loss per share. These instruments could potentially dilute earnings per share in future periods.

14. COMMON SHARES

| | |
|------------------------|---|
| Authorized | unlimited common shares without par value |
| Issued and Outstanding | 127,929,643 shares |

The Company issued 2,764,643 shares for employment, consulting and service agreements during the year ended August 31, 2012. The value of the services received was measured by reference to the fair value of the shares issued of \$1,261,747, of which \$742,745 (2011 - \$127,050) was recorded as share-based payment for services received during the year ended August 31, 2012 and \$519,002 as prepaid expenses for services expected to be received in future years.

Subsequent to the end of the reporting period, the Company completed an amalgamation with AXEA Capital Corp. on October 5, 2012 pursuant to which:

- (i) the Company closed a private placement for 3,080,000 subscription receipts for gross proceeds of Cdn \$1,400,000 (\$1,296,781, net of cash issue costs, held in trust for the Company prior to August 31, 2012). Each subscription receipt was convertible into units of the Company consisting of one common share and one half of one common share purchase warrant. Each full warrant will be exercisable for one common share at a price of Cdn \$0.75 for a period of 24 months after the completion of the amalgamation. The cash costs of the private placement were Cdn \$112,000 and the issue of 246,000 share purchase warrants to the broker.



14. COMMON SHARES (continued)

- (ii) four outstanding common shares of the Company were exchanged for one common share of AXEA, resulting in the issue of 34,925,411 common shares, or approximately 96% of the subsequently issued shares, to the shareholders of the Company.

In conjunction with the amalgamation, the Company's shares commenced trading on the Venture Exchange of the Toronto Stock Exchange on October 12, 2012.

15. COMMON SHARE PURCHASE OPTIONS AND WARRANTS

On January 27, 2011, the Company granted 8,000,000 common share purchase options exercisable at a price of \$0.04 to certain officers and consultants of the Company. The options were consolidated on a 4:1 basis following the amalgamation with AXEA (Note 19(a)). The resulting 2,000,000 options become exercisable at a price of \$0.16 per common share on December 31, 2013 and expire on December 31, 2018. The grant-date fair value of these options was determined to be \$5,886,676 using the Black-Scholes option pricing model and the following weighted average inputs:

| | |
|---------------------------------|------------|
| Share price | \$0.77 |
| Exercise price | \$0.04 |
| Expected share price volatility | 63% |
| Risk-free interest rate | 1.98% |
| Expected term | 7.93 years |

Share-based compensation expense of \$2,015,457 (2011 - \$1,189,450) was recorded for the year ended August 31, 2012 related to these options. The Company also issued 3,340,000 common share purchase options after the end of the year (Note 19(f)).

The Company issued share purchase warrants in conjunction with the amalgamation with AXEA on October 5, 2012 which entitle the holders to purchase 385,000 common shares for \$3.00 per share prior to October 5, 2014 (Note 19(a)).

16. SEGMENT INFORMATION

The Company operates in two reportable segments within the USA, fuel distribution and oil extraction and processing, which are the Company's strategic business units.

| | Oil | | | Fuel | | |
|--|----------------|-----------------|-----------------|--------------|----------------|----------------|
| | Extraction | Distribution | Consolidated | Extraction | Distribution | Consolidated |
| | 2012 | 2012 | 2012 | 2011 | 2011 | 2011 |
| Selected reportable segment revenues (expenses) | | | | | | |
| External revenues | \$ - | \$ 363,325,000 | \$ 363,325,000 | \$ - | \$ 241,540,000 | \$ 241,540,000 |
| Interest expense | (324,000) | (88,000) | (412,000) | (122,000) | (121,000) | (243,000) |
| Share-based compensation | (2,015,000) | - | (2,015,000) | (1,189,000) | - | (1,189,000) |
| Depreciation and amortization | - | (107,000) | (107,000) | - | (67,000) | (67,000) |
| Reportable segment profit (loss) before income tax expense | \$ (5,425,000) | \$ (1,191,000) | \$ (6,616,000) | \$ (874,000) | \$ 282,000 | \$ (592,000) |
| Additions to non-current assets | \$ 1,704,000 | \$ 1,349,000 | \$ 3,053,000 | \$ 4,007,000 | \$ 66,000 | \$ 4,073,000 |
| Reportable segment assets | 5,739,000 | 13,898,000 | 19,637,000 | 4,560,000 | 11,598,000 | 16,158,000 |
| Reportable segment liabilities | \$ (3,314,000) | \$ (15,877,000) | \$ (19,191,000) | \$ 2,870,000 | \$ 10,801,000 | \$ 13,671,000 |

**17. MANAGEMENT OF 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 level. The Company considers its capital for this purpose to be its shareholders' equity and long-term liabilities.

The Company manages its capital structure and makes adjustments 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 seek additional financing or dispose of assets.

In order to facilitate the management of its capital requirements, the Company monitors its cash flows and credit policies and prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The annual and any updated budgets are approved by the Board of Directors. There are no external restrictions on the Company's capital.

18. MANAGEMENT OF FINANCIAL RISKS

The risks to which the Company's financial instruments are exposed to are:

Credit Risk

Credit risk is the risk of unexpected loss if a customer or third party to a financial instrument fails to meet contractual obligations. The Company is exposed to credit risk through its cash and cash equivalents held at financial institutions and accounts receivable from customers.

The Company has cash balances at three financial institutions. The Company has not experienced any loss on these accounts, although balances in the accounts may exceed the insurable limits. The Company considers credit risk from cash to be minimal.

Credit extension, monitoring and collection are performed for each of the Company's business segments. The Company performs ongoing credit evaluations of its customers and adjusts credit limits based upon payment history and the customer's current creditworthiness, as determined by a review of the customer's credit information.

Accounts receivable, collections and payments from customers are monitored and the Company maintains an allowance for estimated credit losses based upon historical experience with customers, current market and industry conditions and specific customer collection issues. The Company has also insured qualifying accounts receivable and coverage amounts are revised monthly. However, not all accounts receivables are fully insured.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will affect the fair value or future cash flows of the Company's financial instruments. The Company is exposed to interest rate risk as a result of holding fixed rate investments of varying maturities as well as through certain floating rate instruments. As at August 31, 2012, a 1% increase in rates would increase the Company's interest expense by approximately \$30,000 (2011 - \$18,000).

**18. MANAGEMENT OF FINANCIAL RISKS (continued)**Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities as they become due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses.

Accounts payable and accrued expenses are due within the current operating period. Other long-term liabilities are due with varying maturities (Note 9 and 10).

19. EVENTS AFTER THE REPORTING PERIOD

- (a) The Company entered into an amalgamation agreement with AXEA dated October 5, 2012 pursuant to which the shareholders of the Company would acquire control of AXEA, a company listed for trading on the NEX, a separate board of the TSX-V, through a "reverse take over". The Company and AXEA completed the amalgamation on October 15, 2012 pursuant to which:
- (i) the Company closed a private placement for 3,080,000 subscription receipts for gross proceeds of Cdn \$1,400,000. Each subscription receipt was convertible into units of the Company consisting of one common share and one half of one common share purchase warrant. Each full warrant will be exercisable for one common share at a price of Cdn \$0.75 for a period of 24 months after the completion of the amalgamation. The cost of the private placement included Cdn \$112,000 and the issuance of 224,000 share purchase warrants to the broker.
 - (ii) the outstanding shares of AXEA were consolidated on a 6:1 basis.
 - (iii) four outstanding common shares of the Company were exchanged for one common share of AXEA, resulting in the issue of 32,752,411 common shares, or approximately 96% of the subsequently issued shares, to the shareholders of the Company.
 - (iv) at the completion of the amalgamation, 2,066,667 common shares were reserved for the future exercise of options and 406,000 for the future exercise of warrants, of which approximately 96% and 95%, respectively, were held by former holders of the Company's options and warrants.

In accordance with IFRS, the Company is identified as the acquirer at the completion of the amalgamation since the existing shareholders of the Company control AXEA, the legal parent company. In accordance with the requirements of reverse take over accounting, the authorized share capital, which will be presented in the consolidated financial statements prepared after the completion of the amalgamation, is that of AXEA, the legal parent, and the issued share capital will be that of the Company, the legal subsidiary. The comparative figures in those financial statements will be those of the Company as it is considered to be the continuing company.


19. EVENTS AFTER THE REPORTING PERIOD (continued)

The estimated consideration paid of Cdn \$2,487,000 and the estimated fair values of the net assets of AXEA, in Canadian dollars, acquired by the Company on the reverse take over were:

| | |
|----------------------------|--------------------|
| Cash | \$46,464 |
| Other assets | 90,200 |
| Accounts payable | (30,909) |
| Transaction costs expensed | 2,381,245 |
| | <u>\$2,487,000</u> |

The name of AXEA was changed to “MCW Enterprises Ltd.” on the completion of the amalgamation. On December 12, 2012, a meeting of the shareholders of MCW Enterprises Ltd. was held to approve the continuance of that company from British Columbia to Ontario and to adopt new by-laws upon continuance. Once continued into Ontario, MCW Enterprises Ltd. completed another amalgamation with the Company, its now wholly-owned legal subsidiary company, with the amalgamated corporation being named “MCW Energy Group Limited”.

- (b) The principal shareholders and officers who owe the Company an amount of \$998,194 (Note 7(b)) have agreed to cause Dalex Investments Ltd., a company wholly owned by them, to transfer a gas station and its related assets net of liabilities, which have a value in excess of the debt, to the Company to repay this debt. All the consents required from third parties for this transfer have not been received as of the date of these financial statements.
- (c) The Company entered into a binding agreement to acquire fuel reseller distribution agreements from WestCo Petroleum Distributors Inc. for \$2,000,000 and paid cash of \$1,000,000 on June 15, 2012. A further \$300,000 was paid on August 28, 2012, and the Company expects to pay the remainder in cash, for which a bank loan has been arranged, on the completion of the assignment to the Company of the final fuel reseller distribution agreements.
- (d) The Company issued 940,963 common shares as repayment of debt of \$781,000.
- (e) Two significant shareholders and officers of the Company provided their personal guarantees for \$2,000,000 in loans and credit facilities obtained by the Company during the current fiscal year. After the year end, the Company issued 481,928 common shares with a deemed value of \$0.83 per common share to these officers and directors for their guarantees and consequently \$400,000 has been accrued as at August 31, 2012 and recorded as a finance cost. The Company has also agreed to issue a further 240,964 common shares to these officers and directors if and when they guarantee an additional \$1,000,000 loan to the Company.
- (f) On November 12, 2012, the Company issued 3,340,000 common share purchase options to directors, officers and consultants of the Company. The options vest immediately and are exercisable at a price of \$1.10 per common share until November 11, 2017.