

MCW Energy Group Limited

Condensed Consolidated Interim Financial Statements

For the three and six months ended February 28, 2014 and 2013

(Expressed in US dollars)

(Unaudited)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of interim financial statements they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor. The Company's independent auditor has not performed a review of these condensed consolidated interim financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

MCW Energy Group Limited

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MCW ENERGY GROUP LIMITED

Condensed Consolidated Interim Statements of Financial Position

As at February 28, 2014 and August 31, 2013

Expressed in US dollars

| | | February 28, 2014 (unaudited) | August 31, 2013 (audited) |
|--|----|-------------------------------------|---------------------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash | 6 | \$ 64,768 | \$ 1,756,404 |
| Trade and other receivables | 7 | 7,872,981 | 7,804,118 |
| Crushed ore inventory | 8 | 300,000 | 200,000 |
| Prepaid expenses | | 155,580 | 77,822 |
| | | 8,393,329 | 9,838,344 |
| Deposit | 9 | 1,133,750 | 600,000 |
| Mineral lease | 10 | 1,976,569 | 1,976,569 |
| Property, plant and equipment | 11 | 10,312,613 | 8,291,999 |
| Intangible assets | 12 | 6,707,551 | 5,994,135 |
| | | \$ 28,523,812 | \$ 26,701,047 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Bank overdraft | | \$ 185,187 | \$ - |
| Accounts payable | 13 | 11,560,032 | 12,347,878 |
| Accrued expenses | 13 | 2,844,140 | 3,157,124 |
| Current portion of long-term debt | 15 | 4,473,181 | 4,608,422 |
| | | 19,062,540 | 20,113,424 |
| Deferred volume purchase incentives | 14 | 1,125,645 | 895,199 |
| Long-term debt | 15 | 8,471,308 | 4,438,111 |
| | | 28,659,493 | 25,446,734 |
| SHAREHOLDERS' EQUITY | | | |
| Share capital | 16 | 12,022,702 | 10,435,614 |
| Subscription receipts | | 699,746 | - |
| Share option reserve | 17 | 7,164,744 | 7,837,617 |
| Share warrant reserve | 18 | 157,733 | 157,733 |
| Deficit | | (21,561,610) | (18,641,340) |
| | | (1,516,685) | (210,376) |
| Non-Controlling Interest | | 1,381,004 | 1,464,689 |
| | | (135,681) | 1,254,313 |
| | | \$ 28,523,812 | \$ 26,701,047 |

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

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss

For the three and six months ended February 28, 2014 and 2013

Expressed in US dollars

(unaudited)

| | Notes | Three months ended | | Six months ended | |
|--|-------|---------------------|---------------------|---------------------|---------------------|
| | | February 28 2014 | February 28 2013 | February 28 2014 | February 28 2013 |
| Fuel Operations | | | | | |
| Revenues | | \$ 98,686,579 | \$ 97,010,815 | \$ 201,852,134 | \$ 209,195,036 |
| Fuel Purchases | | 96,883,829 | 95,188,697 | 198,063,685 | 204,972,527 |
| Profit on Fuel Purchases | | 1,802,750 | 1,822,118 | 3,788,449 | 4,222,509 |
| Fuel Delivery | | 1,324,030 | 727,398 | 2,456,328 | 1,690,322 |
| Gross Profit | | 478,720 | 1,094,720 | 1,332,121 | 2,532,187 |
| Operating Expenses | | | | | |
| Amortization | | 214,454 | 104,171 | 418,662 | 140,381 |
| Branding services | | 98,097 | 214,469 | 258,260 | 214,469 |
| Consulting | | 10,949 | 20,699 | 42,324 | 30,991 |
| General and administrative | | 132,660 | 125,142 | 212,496 | 318,199 |
| Insurance | | 180,139 | 161,801 | 364,708 | 364,340 |
| Professional fees | | 26,140 | 69,705 | 62,654 | 152,955 |
| Rent | | 12,509 | 21,960 | 25,714 | 51,267 |
| Salaries and wages | | 411,559 | 357,603 | 809,362 | 787,341 |
| Travel and promotion | | 49,020 | 46,575 | 72,514 | 97,291 |
| | | 1,135,527 | 1,122,125 | 2,266,694 | 2,157,234 |
| Operating loss (income) before the following | | 656,807 | 27,405 | 934,573 | (374,953) |
| Allowance for doubtful accounts receivable | | - | 20,529 | - | 20,529 |
| Interest expense | | 142,959 | 18,667 | 191,400 | 30,107 |
| Other (income) expense | | (75,472) | 11,537 | (176,841) | - |
| Loss (income) before Income Taxes | | 724,294 | 78,138 | 949,132 | (324,317) |
| Provision for income taxes | | - | - | - | - |
| Loss (income) from Fuel Operations | | 724,294 | 78,138 | 949,132 | (324,317) |
| Oil Sands Operations, Financing and Other | | | | | |
| Interest expense | | 4,306 | - | 23,636 | 22,000 |
| General and administrative | | 38,446 | 91,497 | 124,031 | 212,411 |
| Professional fees | | 164,427 | 26,942 | 293,485 | 351,227 |
| Reverse acquisition listing costs | 3 | - | - | - | 2,480,506 |
| Salaries and wages | | 239,881 | 116,225 | 474,258 | 208,132 |
| Share-based compensation | 17(a) | 123,186 | 916,868 | 504,462 | 3,817,663 |
| Shares issued for services | | - | 396,655 | 150,000 | 519,003 |
| Travel and promotion | | 291,552 | 153,842 | 484,951 | 234,343 |
| Loss from Oil Sands Operations, Financing and Other | | 861,798 | 1,702,029 | 2,054,823 | 7,845,285 |
| Net Loss and Comprehensive Loss | | \$ 1,586,092 | \$ 1,780,167 | \$ 3,003,955 | \$ 7,520,968 |
| Net Loss and Comprehensive Loss attributable to: | | | | | |
| Shareholders of the Company | | \$ 1,555,810 | \$ 1,749,233 | \$ 2,920,270 | \$ 7,416,377 |
| Non-Controlling Interest | | 30,282 | 30,934 | 83,685 | 104,591 |
| | | \$ 1,586,092 | \$ 1,780,167 | \$ 3,003,955 | \$ 7,520,968 |
| Weighted Average Number of Shares Outstanding | | 42,123,593 | 35,497,778 | 41,919,174 | 34,293,618 |
| Basic and Diluted Loss per Share | | \$ 0.04 | \$ 0.05 | \$ 0.07 | \$ 0.22 |

The accompanying notes are an integral part of these financial statements

MCW ENERGY GROUP LIMITED

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity

For the three and six months ended February 28, 2014 and 2013

Expressed in US dollars

(unaudited)

| | Notes | Number of Shares Outstanding | Share Capital | Share Subscriptions | Option Reserve | Warrant Reserve | Convertible Bond Reserve | Deficit (Note 2) | Shareholder Equity | Non-Controlling Interest | Total Equity |
|---|-------|---------------------------------|------------------|------------------------|-------------------|--------------------|-----------------------------|---------------------|-----------------------|-----------------------------|-----------------|
| Balance at August 31, 2012 | 2 | 127,929,643 | \$ 1,863,978 | \$ 1,296,781 | \$3,204,907 | \$ - | \$ 431,557 | \$ (7,506,620) | \$ (709,397) | \$ 1,600,509 | \$ 891,112 |
| Share consolidation | | (95,947,232) | - | - | - | - | - | - | - | - | - |
| Private placement of shares | 3 | 770,000 | 1,401,400 | (1,296,781) | - | - | - | - | 104,619 | - | 104,619 |
| Reverse acquisition of AXEA Capital Corp. | 3 | 1,322,476 | 2,457,645 | - | 83,408 | - | - | - | 2,541,053 | - | 2,541,053 |
| Share issue costs | 3 | - | (477,936) | - | - | - | - | - | (477,936) | - | (477,936) |
| Fair value allocated to warrants | 3 | - | (126,728) | - | - | 126,728 | - | - | - | - | - |
| Fair value allocated to broker warrants | 3 | - | (31,005) | - | - | 31,005 | - | - | - | - | - |
| Settlement of loan | 15(c) | 940,963 | 781,000 | - | - | - | - | - | 781,000 | - | 781,000 |
| Compensation for debt guarantees | 20(b) | 481,928 | 400,000 | - | - | - | - | - | 400,000 | - | 400,000 |
| Share-based compensation | 17(a) | - | - | - | 3,817,662 | - | - | - | 3,817,662 | - | 3,817,662 |
| Net loss | | - | - | - | - | - | - | (7,416,377) | (7,416,377) | (104,591) | (7,520,968) |
| Balance at February 28, 2013 | | 35,497,778 | \$ 6,268,354 | \$ - | \$7,105,977 | \$157,733 | \$ 431,557 | \$ (14,922,997) | \$ (959,376) | \$ 1,495,918 | \$ 536,542 |
| Balance at August 31, 2013 | | 41,496,575 | \$10,435,614 | \$ - | \$7,837,617 | \$157,733 | \$ - | \$ (18,641,340) | \$ (210,376) | \$ 1,464,689 | \$1,254,313 |
| Private placement of shares | | 144,281 | 119,754 | - | - | - | - | - | 119,754 | - | 119,754 |
| Share subscriptions | | - | - | 699,746 | - | - | - | - | 699,746 | - | 699,746 |
| Exercise of options | | 500,000 | 1,257,334 | - | (1,177,334) | - | - | - | 80,000 | - | 80,000 |
| Settlement of liability | | 54,553 | 60,000 | - | - | - | - | - | 60,000 | - | 60,000 |
| Shares issued to consultants | | 100,000 | 150,000 | - | - | - | - | - | 150,000 | - | 150,000 |
| Share-based compensation | 17(a) | - | - | - | 504,461 | - | - | - | 504,461 | - | 504,461 |
| Net loss | | - | - | - | - | - | - | (2,920,270) | (2,920,270) | (83,685) | (3,003,955) |
| Balance at February 28, 2014 | | 42,295,409 | \$12,022,702 | \$ 699,746 | \$7,164,744 | \$157,733 | \$ - | \$ (21,561,610) | \$ (1,516,685) | \$ 1,381,004 | \$ (135,681) |

The accompanying notes are an integral part of these financial statements

MCW ENERGY GROUP LIMITED**Condensed Consolidated Interim Statements of Cash Flows**

For the six months ended February 28, 2014 and 2013

Expressed in US dollars

(unaudited)

| | Six months ended | |
|---|----------------------|----------------------|
| | February 28, 2014 | February 28, 2013 |
| Cash flow from (used for) operating activities: | | |
| Net loss | \$ (3,003,955) | \$ (7,520,968) |
| Adjustments for non-cash investing and financing items | | |
| Amortization | 401,468 | 140,381 |
| Impairment of intangible assets | 160,637 | - |
| Shares issued as part of reverse acquisition | - | 2,480,506 |
| Shares issued for services | 150,000 | 519,003 |
| Share-based compensation | 504,461 | 3,817,663 |
| Changes in operating assets and liabilities: | | |
| Accounts payable | (727,846) | 988,261 |
| Accounts receivable | (68,863) | (1,055,928) |
| Accrued expenses | (368,332) | (152,930) |
| Deferred volume purchase incentives | 230,446 | 137,701 |
| Crushed ore inventory | (100,000) | - |
| Prepaid expenses and deposits | (77,758) | 11,056 |
| Net cash from operating activities | (2,899,742) | (635,255) |
| Cash flows used for investing activities: | | |
| Purchase and construction of property and equipment | (2,029,663) | (1,350,139) |
| Advance to TMC Capital LLC | (533,750) | - |
| Acquisition of intangible assets | (338,078) | (188,470) |
| Net cash used for investing activities | (2,901,491) | (1,538,609) |
| Cash flows from (used for) financing activities: | | |
| Receipts from executive officers | 55,348 | 159,492 |
| Private placements | 119,754 | - |
| Cash received for shares to be issued | 699,746 | - |
| Option exercises | 80,000 | - |
| Share issue costs | - | (368,459) |
| Payments on long-term debt | (450,438) | (743,327) |
| Proceeds from issuance of long term debt | 3,420,000 | 1,481,000 |
| Net cash from financing activities | 3,924,410 | 528,706 |
| Increase (decrease) in cash | (1,876,823) | (1,645,158) |
| Cash, beginning of the period | 1,756,404 | 2,636,126 |
| Cash, end of the period | \$ (120,419) | \$ 990,968 |
| Cash composed of | | |
| Cash | \$ 64,768 | \$ 990,968 |
| Bank overdraft | (185,187) | - |
| | \$ (120,419) | \$ 990,968 |
| Supplemental disclosure of cash flow information | | |
| Cash paid for interest | \$ 321,981 | \$ 105,528 |

The accompanying notes are an integral part of these financial statements

MCW ENERGY GROUP LIMITED

Notes to the Condensed Consolidated Interim Financial Statements

February 28, 2014

Expressed in US dollars (unaudited)

1. NATURE OF OPERATIONS

MCW Energy Group Limited (the "Company") is an Ontario corporation with a wholly owned subsidiary, MCW Fuels, Inc. ("MCWF"), which has two active business segments located in the USA: fuel distribution and oil extraction from tar sands, and other inactive subsidiary companies.

The Company's registered office is at Suite 4400, 181 Bay Street, Toronto, Ontario, M5J 2T3, 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 Corp ("AXEA"), a British Columbia corporation, following which the shares were listed for trading on the TSX Venture Exchange (the "Exchange"). As the shareholders of the Company owned the majority of the shares of AXEA at the conclusion of the transaction it is accounted for as a "reverse acquisition", pursuant to which the Company was considered to be the continuing corporation for accounting purposes (Note 3).

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 of its delivery trucks.

MCW Oil Sands Recovery, LLC ("MCWO"), a 51% owned subsidiary of MCWF, is engaged in 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 in the process of constructing an oil processing plant in the Asphalt Ridge area of Uintah, Utah.

The Company has incurred net losses for the past three years and has an accumulated deficit of \$21,561,610 as at February 28, 2014 (August 31, 2013 - \$18,641,340). As at February 28, 2014, the Company has a working capital deficiency of \$11,368,957 (August 31, 2013 - \$10,275,080). These condensed consolidated interim 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 condensed consolidated interim financial statements do not reflect the adjustments or reclassifications that would be necessary if the Company were unable to continue operations in the normal course of business.

2. RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS

Subsequent to the issue of the Company's condensed consolidated interim financial statements for the three months ended November 30, 2012 and 2011, the Company determined that certain borrowing costs on its loans qualify for recognition as costs of constructing the Company's extraction facility (Note 11) in accordance with IAS 23 *Borrowing Costs*. In accordance with IAS 8 *Accounting policies, changes in accounting estimates and errors*, the Company has restated the comparative amounts presented in these condensed consolidated interim financial statements.

Effect on consolidated statements of financial position

| | Previously Reported Amount | Adjustment | Restated Amount |
|------------------------------|-------------------------------|------------|--------------------|
| <i>As at August 31, 2012</i> | | | |
| Deficit | 7,951,978 | (445,358) | 7,506,620 |

MCW ENERGY GROUP LIMITED

Notes to the Condensed Consolidated Interim Financial Statements

February 28, 2014

Expressed in US dollars (unaudited)

3. REVERSE ACQUISITION

On October 15, 2012, MCW Energy Group Limited (“MCW NB”), a corporation incorporated in the Province of New Brunswick, completed a reverse acquisition (“RTO”) of AXEA Capital Corp. (“AXEA”), a capital pool company listed on the NEX trading board of the TSX Venture Exchange (the “Exchange”), complete details of which are found in the Filing Statement dated October 5, 2012 and filed under the Company’s profile on SEDAR, and summarized as follows:

- i. MCW NB 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 MCW NB consisting of one common share and one half of one common share purchase warrant. Each full warrant exercisable for one common share at a price of Cdn \$0.75 for a period of 24 months after the completion of the RTO. The net proceeds from the private placement were Cdn \$1,180,000 including cash payments of Cdn \$220,000 for share issue costs and the issuance of 224,000 share purchase warrants to the broker;
- ii. MCW NB amalgamated with 665615 NB Ltd, a wholly owned subsidiary of AXEA incorporated in the Province of New Brunswick. The resulting entity (“Amalco”)retained the name of MCW NB;
- iii. the outstanding shares of AXEA were consolidated on a six to one basis;
- iv. each four outstanding common shares of MCW NB 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 MCW NB;
- v. at the completion of the amalgamation, 66,666 common shares were reserved for the future exercise of options and 2,441,000 for the future exercise of warrants; and
- vi. AXEA changed its name to “MCW Enterprises Ltd.”

As a result of the RTO, the shareholders of MCW NB became the owners of a majority of the issued and outstanding common shares of the Company, and certain directors of AXEA became directors of the Company. Accordingly, this acquisition is accounted for as a recapitalization of the consolidated entity. The consolidated financial statements are deemed to be a continuation of MCW NB, the legal subsidiary, and consequently, the comparative figures presented are those of MCW NB.

Following the completion of the RTO, 34,074,887 MCW shares were outstanding and 5,057,666 were reserved for issuance. The common shares of the Company commenced trading on the Exchange as a Tier 2 Issuer under the ticker symbol “MCW” on October 22, 2012.

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

The estimated consideration paid and the estimated fair values of the net assets of AXEA acquired by the Company on the reverse acquisition were:

| | |
|----------------------------|--------------------|
| Cash | \$4,858 |
| Other assets | 101,310 |
| Accounts payable | (45,622) |
| Transaction costs expensed | 2,480,506 |
| | <u>\$2,541,052</u> |

MCW ENERGY GROUP LIMITED

Notes to the Condensed Consolidated Interim Financial Statements

February 28, 2014

Expressed in US dollars (unaudited)

3. REVERSE ACQUISITION (continued)

The name of AXEA was changed to “MCW Enterprises Ltd.” on the completion of the RTO. On December 12, 2012, MCW Enterprises Ltd. continued into Ontario and completed an amalgamation with the Company, its now wholly-owned legal subsidiary company, with the amalgamated corporation being named “MCW Energy Group Limited”.

4. BASIS OF PREPARATION

(a) Statement of compliance

The condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34 *Interim Financial Reporting*. They do not include all of the information required for full annual financial statements in compliance with IAS 1 *Presentation of Financial Statements*. The accounting policies used in these condensed consolidated interim financial statements are in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and the interpretations of the IFRS Interpretations Committee (“IFRIC”) as at April 28, 2014, the date the condensed consolidated interim financial statements were authorized for issue by the Board of Directors. Except as noted below, they follow the same accounting policies and methods of application as the most recent annual audited consolidated financial statements for the year ended August 31, 2013 and should be read in conjunction with those audited consolidated financial statements.

(b) Basis of measurement

The condensed consolidated interim financial statements have been prepared on a historical cost basis except for certain financial assets and financial liabilities which are measured at fair value.

The Company’s reporting currency and the functional currency of all of its operations is the U.S. dollar, as it is the principal currency of the primary economic environment in which the Company operates.

(c) Significant accounting judgments and estimates

The preparation of the consolidated financial statements in accordance 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. The significant accounting judgments and estimates included in these consolidated financial statements are:

Useful lives and depreciation rates for intangible assets and property, plant and equipment

Depreciation expense is recorded on the basis of the estimated useful lives of intangible assets and property, plant and equipment. Changes in the useful life of assets from the initial estimate could impact the carrying value of intangible assets and property, plant and equipment and an adjustment would be recognized in profit or loss.

MCW ENERGY GROUP LIMITED

Notes to the Condensed Consolidated Interim Financial Statements

February 28, 2014

Expressed in US dollars (unaudited)

4. BASIS OF PREPARATION (continued)

(c) Significant accounting judgments and estimates (continued)

Review of carrying value of assets and impairment charges

When determining possible impairment of the carrying values of assets, management of the Company reviews the recoverable amount (the higher of the fair value less costs to sell or the value in use) of non-financial assets and objective evidence indicating impairment in the case of financial assets. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period. Changes in these assumptions may alter the results of the impairment evaluation, the impairment charges recognized in profit or loss and the resulting carrying amounts of assets.

Fair value of share purchase options

Share purchase options granted by the Company to employees and others providing similar services are valued using the Black-Scholes option pricing model. Estimates and assumptions for inputs to the model, including the expected volatility of the Company's shares and the expected life of options granted, are subject to significant uncertainties and judgment.

Income taxes and recoverability of deferred tax assets

Actual amounts of income tax expense are not final until tax returns are filed and accepted by taxation authorities. Therefore, profit or loss in future reporting periods may be affected by the difference between the income tax expense estimates and the final tax assessments.

Judgment is required in determining whether deferred tax assets are recognized on the consolidated statement of financial position. Deferred tax assets, including those arising from unutilized tax losses, require management of the Company to assess the likelihood that the Company will generate sufficient taxable profit in future periods in order to utilize recognized deferred tax assets. Estimates of future taxable profit are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable profit differ from estimates, the ability of the Company to realize the deferred tax assets recorded on the statement of financial position could be impacted. The Company has not recognized deferred tax assets as at November 30, 2013 and August 31, 2013.

5. 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 OSR Inc. | 100% | USA |
| MCW CA Sub Inc. | 100% | USA |
| MCW Oil Sands, Inc. | 100% | USA |
| MCW Fuels Transportation, Inc. | 100% | USA |
| MCW Oil Sands Recovery, LLC | 51% | USA |

MCW ENERGY GROUP LIMITED

Notes to the Condensed Consolidated Interim Financial Statements

February 28, 2014

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5. SIGNIFICANT ACCOUNTING POLICIES (continued)

All intercompany transactions, balances, income and expenses are eliminated in full on consolidation.

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 and is identified separately from the Company's equity.

(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.

The Company expects to sell crude oil on completion of the oil extraction facility 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. Rebates provided 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 significant relevant factors and makes adjustments when the facts and circumstances dictate that an adjustment is warranted.

MCW ENERGY GROUP LIMITED

Notes to the Condensed Consolidated Interim Financial Statements

February 28, 2014

Expressed in US dollars (unaudited)

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Income and expense recognition (continued)

The Company also receives volume purchase incentive payments from certain suppliers. These incentive payments are deferred and recognized as a reduction to cost of goods sold over the term of the agreement. As the volume purchase requirements are generally constant over the terms of these agreements, the incentives are amortized on a straight-line basis over the agreement term

(d) Property, plant and equipment

Property, plant 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, plant or equipment are sold, impaired, or retired, the related costs and accumulated amortization are removed and any gain or loss is included in net 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 |
| Gas station assets | 10-15 years |

(e) Oil and gas properties

Oil and gas property interests

The Company accounts for its activities related to oil and gas properties by initially capitalizing the costs of acquiring these properties, directly and indirectly, 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. All development costs are capitalized after it has been determined that a property has recoverable reserves.

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 | 7-10 years |
| Oil Extraction Technology | 15 years |

MCW ENERGY GROUP LIMITED

Notes to the Condensed Consolidated Interim Financial Statements

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5. 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 consolidated 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

MCW ENERGY GROUP LIMITED

Notes to the Condensed Consolidated Interim Financial Statements

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5. 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 consolidated 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.

MCW ENERGY GROUP LIMITED

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5. 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 interim financial statements as of the date of their approval:

(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.

MCW ENERGY GROUP LIMITED

Notes to the Condensed Consolidated Interim Financial Statements

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5. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) New accounting standards and interpretations (continued)

(ii) 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.

6. 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.

7. TRADE AND OTHER RECEIVABLES

The Company's trade and other receivables consist of:

| | <u>February 28, 2014</u> | <u>August 31, 2013</u> |
|---|------------------------------|----------------------------|
| Trade receivables, net of allowance for doubtful accounts | \$ 7,855,856 | \$ 7,707,761 |
| Goods and services tax receivable | 17,125 | 96,357 |
| | <u>\$ 7,872,981</u> | <u>\$ 7,804,118</u> |

8. CRUSHED ORE INVENTORY

On May 23, 2012, the Company entered into a five year agreement with TME Asphalt Ridge, LLC (“TME”) for the purchase of crushed ore as feedstock for the Company's oil extraction facility. The agreement requires the Company to purchase 100,000 tons of crushed ore for \$16.00 per ton during the first year and a minimum of 100,000 tons each year thereafter, at a rate of approximately 8,333 tons per month for \$20.60 per ton, subject to certain price adjustment provisions.

As at February 28, 2014, the Company had purchased 18,750 tons of crushed ore for \$300,000 (August 31, 2013 - 12,500 tons for \$200,000) which remains stockpiled at the TME mine site.

9. DEPOSITS

On July 5, 2013, the Company secured a 12 month exclusive option to purchase certain project assets related to a bituminous sands project located adjacent to the Company's mineral lease (Note 10). The Company agreed to advance \$1,000,000 to TMC Capital LLC (“TMC”) on July 15, 2013 to secure the option, as a loan with a 2 year term and annual interest of 5.25% payable on maturity, while the Company performs due diligence. As at February 28, 2014, \$1,133,750 had been advanced to TMC.

If the Company decides to proceed with the acquisition, certain project assets and related encumbrances will be assigned to the Company in consideration for an additional \$9,000,000 cash payment and 10,000,000 common shares of the Company.

MCW ENERGY GROUP LIMITED

Notes to the Condensed Consolidated Interim Financial Statements

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10. MINERAL LEASE

On December 29, 2010, the Company acquired a mineral lease (the “Mineral Lease”) covering 1,138 acres in Uintah County, Utah, for the extraction of bituminous or asphaltic sands (tar sands). The Mineral Lease is valid until August 11, 2018 with rights for extensions based on reasonable production.

The Mineral Lease requires annual maintenance fees of approximately \$14,000 and is subject to a production royalty payable to the lessor of 8% of the market price of future products produced from the Mineral Lease. This royalty may be increased to 12.5% after a minimum of 10 years of production.

The accumulated costs on the mineral lease are:

| | February 28, 2014 | August 31, 2013 |
|-------------------|----------------------|---------------------|
| Acquisition cost | \$ 1,921,569 | \$ 1,921,569 |
| Maintenance costs | 55,000 | 55,000 |
| | <u>\$ 1,976,569</u> | <u>\$ 1,976,569</u> |

11. PROPERTY, PLANT AND EQUIPMENT

| | Gas Station Assets | Land | Plant under Construction (Note 2) | Other Property and Equipment | Total (Note 2) |
|---------------------------------|-----------------------|---------------------|---|------------------------------------|----------------------|
| Cost | | | | | |
| August 31, 2012 | \$ - | \$ - | \$ 3,472,484 | \$ 316,100 | \$ 3,788,584 |
| Additions | 540,000 | 1,200,000 | 3,072,702 | 9,107 | 4,821,809 |
| August 31, 2013 | 540,000 | 1,200,000 | 6,545,186 | 325,207 | 8,610,393 |
| Additions | | | 2,027,427 | 767 | 2,028,194 |
| February 28, 2014 | <u>\$ 540,000</u> | <u>\$ 1,200,000</u> | <u>\$ 8,572,613</u> | <u>\$ 325,974</u> | <u>\$ 10,638,587</u> |
| Accumulated Amortization | | | | | |
| August 31, 2012 | \$ - | \$ - | \$ - | \$ 287,440 | \$ 287,440 |
| Additions | - | - | - | 30,954 | 30,954 |
| August 31, 2013 | - | - | - | 318,394 | 318,394 |
| Additions | - | - | - | 7,580 | 7,580 |
| February 28, 2014 | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 325,974</u> | <u>\$ 325,974</u> |
| Carrying Amount | | | | | |
| August 31, 2012 | \$ - | \$ - | \$ 3,472,484 | \$ 28,660 | \$ 3,501,144 |
| August 31, 2013 | <u>\$ 540,000</u> | <u>\$ 1,200,000</u> | <u>\$ 6,545,186</u> | <u>\$ 6,813</u> | <u>\$ 8,291,999</u> |
| February 28, 2014 | <u>\$ 540,000</u> | <u>\$ 1,200,000</u> | <u>\$ 8,572,613</u> | <u>\$ -</u> | <u>\$ 10,312,613</u> |

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Notes to the Condensed Consolidated Interim Financial Statements

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11. PROPERTY, PLANT AND EQUIPMENT (continued)

(a) Gas station acquisition

On August 15, 2013, the Company acquired a Valero-branded gas station and mini-mart in Thousand Oaks, California from Dalex Investments, Inc. ("Dalex"), an entity operating gas stations in California and controlled by two of the Company's executive officers, in consideration for the reduction of executive officer loans outstanding. The acquisition was treated as a business combination in accordance with IFRS 3 *Business Combinations*. The acquisition-date fair values of the consideration transferred and the net identifiable assets acquired were:

| | |
|---|-------------------|
| Consideration transferred | |
| Officer loans extinguished | (1,038,522) |
| Balance note issued | (126,797) |
| | <u>1,165,319</u> |
| Net identifiable assets acquired | |
| Building and other assets | 540,000 |
| Land | 1,200,000 |
| Inventory | 122,654 |
| Liabilities assumed | (1,657,335) |
| | <u>205,319</u> |
| Goodwill | <u>\$ 960,000</u> |

Goodwill is composed of the future potential contribution of the gas station to the Company's operating income. Following the acquisition, the Company entered into a business lease, with a 2 year term (renewable for an additional 2 years) and monthly lease payments of \$12,462, with Dalex for the premises and the business operations,.

(b) Plant under construction

In June of 2011 the Company commenced the development of an oil extraction facility on its mineral lease in Uintah, Utah and entered into construction and equipment fabrication contracts for this purpose. The Company intends to amortize the cost of construction over 15 years from commencement of production. Management's current estimation of the remaining cost of construction at February 28, 2014 is approximately \$600,000.

Costs of construction include capitalized borrowing costs for the six months ended February 28, 2014 of \$224,363 (six months ended February 28, 2013 - \$174,221). Total borrowing costs included in the cost of construction as at February 28, 2014 are \$927,074 (August 31, 2013 - \$702,711).

Amerisands, LLC, which has a 49% interest in MCWO, manages the construction and is entitled to receive a project management fee of 5% of the total managed cost of construction on completion of the extraction facility. As at February 28, 2014, \$223,100 has been accrued for project management fees and included in the cost of construction (August 31, 2013 - \$223,100).

MCW ENERGY GROUP LIMITED

Notes to the Condensed Consolidated Interim Financial Statements

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12. INTANGIBLE ASSETS

| | Branded Reseller | | | |
|---------------------------------|--------------------------------|----------------------------------|-----------------|--------------|
| | Distribution Agreements | Oil Extraction Technology | Goodwill | Total |
| Cost | | | | |
| August 31, 2012 | \$ 1,992,301 | \$ 735,488 | \$ - | \$ 2,727,789 |
| Additions | 3,486,750 | - | 960,000 | 4,446,750 |
| Impairment charges | (710,513) | - | - | (710,513) |
| August 31, 2013 | 4,768,538 | 735,488 | 960,000 | 6,464,026 |
| Additions | 1,283,667 | - | - | 1,283,667 |
| Impairment charges | (160,637) | - | - | (160,637) |
| February 28, 2014 | \$ 5,891,568 | \$ 735,488 | \$ 960,000 | \$ 7,587,056 |
| Accumulated Amortization | | | | |
| August 31, 2012 | \$ 351,335 | \$ - | \$ - | \$ 351,335 |
| Additions | 373,747 | - | - | 373,747 |
| Impairment charges | (255,191) | - | - | (255,191) |
| August 31, 2013 | 469,891 | - | - | 469,891 |
| Additions | 409,614 | - | - | 409,614 |
| Impairment charges | - | - | - | - |
| February 28, 2014 | \$ 879,505 | \$ - | \$ - | \$ 879,505 |
| Carrying Amounts | | | | |
| August 31, 2012 | \$ 1,640,966 | \$ 735,488 | \$ - | \$ 2,376,454 |
| August 31, 2013 | \$ 4,298,647 | \$ 735,488 | \$ 960,000 | \$ 5,994,135 |
| February 28, 2014 | \$ 5,012,063 | \$ 735,488 | \$ 960,000 | \$ 6,707,551 |

(a) Branded reseller distribution agreements

The Company has entered into agreements with various retailers whereby it receives exclusive fuel distribution rights to and minimum fuel purchase commitments from these retailers. The acquisition costs of these agreements, including funds provided to retailers to operate under certain brand names, have been capitalized and are amortized over the contractual life of the agreements on a straight-line basis.

On June 14, 2012, the Company entered into an agreement to acquire exclusive branded reseller distribution agreements in several stages from WestCo Petroleum Distributors, Inc. ("WestCo"). As at February 28, 2014, the Company had acquired 15 agreements for consideration of \$3,008,394, of which \$450,000 is payable at as at February 28, 2014.

During the six months ended February 28, 2014, the Company recorded impairment charges of \$160,637 (six months ended February 28, 2013 - \$Nil) to recognize early termination of certain branded reseller distribution agreements and reduce their carrying values to the expected recoverable amounts. These impairment charges have been included in branding services on the consolidated statements of loss and comprehensive loss.

MCW ENERGY GROUP LIMITED

Notes to the Condensed Consolidated Interim Financial Statements

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12. INTANGIBLE ASSETS (continued)

(b) 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 has filed for patents on this technology in the USA and Canada and intends to employ it in its oil extraction facility currently under construction. The Company intends to amortize the cost of the technology over fifteen years from the commencement of production, the expected life of the oil extraction facility.

(c) Goodwill

The Company acquired goodwill during the year ended August 31, 2013 on the acquisition of a gas station from two of its executive directors (Note 11(a)).

13. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable consist primarily of fuel trade purchases with 10 day credit terms.

Accrued expenses consist of amounts outstanding for construction of the extraction facility and other operating expenses and are due on demand.

14. DEFERRED VOLUME PURCHASE INCENTIVES

As at February 28, 2014, the Company received volume purchase incentive payments of \$1,310,000 (August 31, 2013 - \$1,000,000) from one of its fuel suppliers as consideration for commitments to purchase approximately 1.7 million gallons of motor vehicle fuel per month over a ten year period. These payments have been deferred and will be recorded, on the basis of purchases over the term of the fuel purchase commitments, as a reduction to cost of goods sold. During the six months ended February 28, 2014, \$79,553 (six months ended February 28, 2013 - \$Nil) of the total amount was recorded as a reduction in cost of goods sold.

Volume purchase incentives are repayable in the event of failure to meet purchase commitments, in full within the first 3 years and proportionately on the basis of actual fuel purchases each year thereafter.

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15. LONG TERM DEBT

| Lender | Maturity Date | Interest Rate | Principal due at February 28 2014 | Principal due at August 31 2013 |
|------------------------|--|----------------------|-----------------------------------|---------------------------------|
| BBCN Bank | June 2, 2014 | 4.50% ⁽¹⁾ | \$ 1,050,655 | \$ 1,161,312 |
| BBCN Bank | June 17, 2014 | 5.75% ⁽²⁾ | 500,000 | 500,000 |
| BBCN Bank | September 30, 2017 | 7.00% | 217,346 | 253,488 |
| BBCN Bank | June 21, 2018 | 6.50% | 1,191,794 | 1,202,544 |
| BBCN Bank | June 21, 2018 | 5.50% | 424,131 | 435,963 |
| BBCN Bank | July 17, 2020 | 5.25% ⁽²⁾ | 698,042 | 742,565 |
| BBCN Bank | June 1, 2022 | 5.25% ⁽²⁾ | 866,354 | 906,815 |
| BBCN Bank | December 5, 2022 | 5.25% ⁽²⁾ | 908,270 | 948,268 |
| B&N Bank | September 18, 2015 | 12.51% | 3,000,000 | - |
| Branding advances | November 30, 2018 – December 31, 2023 | 10.00% | 1,827,897 | 94,515 |
| Montville Equity Corp. | July 1, 2015 | 5.00% | 2,260,000 | 2,260,000 |
| | | | <u>\$ 12,944,489</u> | <u>\$ 9,046,533</u> |

(1) Variable interest rate based on the lender's prime rate plus 0.75% with a floor rate of 4.50%

(2) Variable interest rate based on the Wall Street Journal prime rate plus 1.00% with floor rates of 5.75% and 5.25%

| | February 28, 2014 | August 31, 2013 |
|---|----------------------|---------------------|
| Principal classified as repayable within one year | \$ 4,473,181 | \$ 4,608,422 |
| Principal classified as repayable later than one year | 8,471,308 | 4,438,111 |
| | <u>\$ 12,944,489</u> | <u>\$ 9,046,533</u> |

(a) BBCN Bank loans

The BBCN Bank Loans are secured by the assets of the Company and are guaranteed by two of the Company's executive officers. As at February 28, 2014 and the date of approval of these financial statements, the Company was not in compliance with financial covenants on certain loans from BBCN Bank, all of which are included in the principal classified as payable within one year. The bank and the company are continuing amicable discussions on the renewal of the loans expiring on June 2, 2014 and June 17, 2014, bank is preforming ongoing due diligence procedures.

The Company also has a standby line of credit ("LOC") with BBCN Bank which allows the Company to borrow up to \$1,200,000. This LOC bears interest at an annual rate of 5.75% and matures on December 1, 2014. As at February 28, 2014, the LOC had not been used.

(b) Montville Equity Corp. loan

On July 1, 2013, the Company issued a \$2,260,000 unsecured promissory note to Montville Equity Corp. The promissory note has a term of 2 years and bears interest at 5% per annum, due and payable at the end of the term together with the principal.

(c) Morison Management S.A. loan

On November 26, 2012, the Company converted total borrowings of \$781,000 from Morison Management S.A. into shares by issuing 940,963 common shares at a deemed issue price of \$0.83 per share.

15. LONG TERM DEBT (continued)

MCW ENERGY GROUP LIMITED

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(d) B&N Bank credit facility

On September 18, 2013, the Company obtained a credit line from B&N Bank of up to \$3,000,000. Draws on the credit line are due on September 18, 2015 and accrue interest at 12.51% per annum, payable quarterly.

Certain shareholders of the Company have deposited 5,945,482 of the Company's shares in escrow, as required by the terms of the credit facility. The number of shares in escrow are to be increased by 14.33% of any additionally issued shares during the term of the credit line.

As at February 28, 2014, \$3,000,000 had been drawn on this credit line by the Company.

(e) Branding advances

Branding advances are promissory notes due to a supplier of the Company for the upgrading and imaging of branded stations. The promissory notes are repayable on a quarterly basis and the Company may receive a rebate, up to a maximum equal to the quarterly payment, from the supplier if it meets certain volume purchase commitments.

As part of the consideration paid for the WestCo stations acquired (Note 12a), the Company assumed \$928,394 of branding advances associated with these stations, of which \$789,316 of remaining principal is due on these branding advances at February 28, 2014 (\$Nil at August 31, 2013).

16. COMMON SHARES

| | |
|------------------------|---|
| Authorized | unlimited common shares without par value |
| Issued and Outstanding | 42,295,409 common shares |

17. SHARE PURCHASE OPTIONS

(a) Stock option plan

The Company has a stock option plan which allows the Board of Directors of the Company to grant options to acquire common shares of the Company to directors, officers, key employees and consultants. Option price, term, and vesting are determined at the discretion of the Board of Directors, subject to certain restrictions as required by the policies of the Exchange. The stock option plan is a 20% fixed number plan with a maximum of 8,399,315 common shares reserved for issuance.

Share-based compensation expense of \$504,462 was recognized for the six months ended February 28, 2014 (six months ended February 28, 2013 - \$3,817,663) of which \$Nil relates to the vesting of options granted during the current period and \$504,462 to the vesting of options granted in prior years.

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17. SHARE PURCHASE OPTIONS (continued)

(b) Share purchase options

Share purchase option transactions under the stock option plan were:

| | Six months ended February 28, 2014 | | Year ended August 31, 2013 | |
|-------------------------------------|---------------------------------------|---------------------------------------|-------------------------------|---------------------------------------|
| | Number of Options | Weighted average exercise price | Number of options | Weighted average exercise price |
| Balance, beginning of period | 5,383,426 | \$ 0.75 | 8,000,000 | \$ 0.04 |
| Options consolidated ⁽¹⁾ | - | - | (6,000,000) | 0.16 |
| Options granted | - | - | 3,482,666 | 1.09 |
| Options exercised ⁽²⁾ | (500,000) | 0.16 | (33,333) | 0.60 |
| Options forfeited | - | - | (32,574) | 0.99 |
| Options expired | - | - | (33,333) | 0.60 |
| Balance, end of period | 4,883,426 | \$ 0.81 | 5,383,426 | \$ 0.75 |

(1) Options outstanding at the RTO (Note 3) were consolidated on a one for four basis

(2) The weighted average share price on the date of exercise was \$1.35 (August 31, 2013 - \$0.70).

Share purchase options outstanding and exercisable as at February 28, 2014 are:

| Expiry Date | Exercise Price | Options Outstanding | Options Exercisable |
|---|----------------|------------------------|------------------------|
| February 19, 2014 | CAD 1.10 | 400,000 | 400,000 |
| September 11, 2014 | CAD 0.84 | 9,142 | 9,142 |
| September 11, 2014 | CAD 1.03 | 34,284 | 34,284 |
| November 11, 2017 | CAD 1.10 | 2,940,000 | 2,940,000 |
| December 31, 2018 | USD 0.16 | 1,500,000 | 1,500,000 |
| | | 4,883,426 | 4,883,426 |
| Weighted average remaining contractual life | | 4.1 years | 4.1 years |

18. SHARE PURCHASE WARRANTS

Share purchase warrants outstanding as at February 28, 2014 are:

| Expiry Date | Exercise Price | Warrants Outstanding |
|------------------|----------------|-------------------------|
| October 19, 2014 | CAD 3.00 | 385,000 |
| October 19, 2014 | CAD 2.00 | 56,000 |
| | | 441,000 |

During the six months ended February 28, 2013, the Company issued 441,000 common share purchase warrants in conjunction with the RTO (Note 3) with a fair value of \$157,733.

19. DILUTED 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.

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20. RELATED PARTY TRANSACTIONS

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

(a) Fuel sales to related parties

During the three and six months ended February 28, 2014, approximately 1.5% and 1.5% (three and six months ended February 28, 2013 – 0.9% and 1.4%) of the Company's sales were to retail operations controlled by executive officers of the Company. Accounts receivable as at February 28, 2014 from these entities is \$974,698 (August 31, 2013 - \$866,709).

(b) Transactions with executive officers

Two executive officers have provided their personal guarantees for the Company's loans from BBCN Bank (Note 15). During the six months ended February 28, 2013, the Company issued 481,928 shares at a deemed issue price of \$0.83 per share to these executive officers as compensation for their loan guarantees.

(c) Key management personnel and director compensation

The remuneration of the Company's directors and other members of key management, who have the authority and responsibility for planning, directing, and controlling the activities of the Company, consist of the following amounts:

| | Three months ended | |
|-----------------------------------|----------------------|----------------------|
| | February 28, 2014 | February 28, 2013 |
| Salaries, fees and other benefits | \$ 289,586 | \$ 177,373 |
| Share-based compensation | 123,186 | 792,967 |
| | <u>\$ 412,772</u> | <u>\$ 970,340</u> |

| | Six months ended | |
|-----------------------------------|----------------------|----------------------|
| | February 28, 2014 | February 28, 2013 |
| Salaries, fees and other benefits | \$ 593,967 | \$ 339,746 |
| Share-based compensation | 504,462 | 2,964,971 |
| | <u>\$ 1,098,429</u> | <u>\$ 3,304,717</u> |

21. COMMITMENTS

(a) Oil extraction technology

The Company has reserved 500,000 common shares for issuance to the inventor of a key component of the Company's oil extraction technology (now the Chief Technology Officer of the Company) following the successful testing and operation of the extraction facility. A royalty of 2% of gross revenue will also be payable from production of each extraction facility beginning with the successful operation of a second facility. As at February 28, 2014, the Company is in the process of constructing the first extraction facility (Note 11).

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21. COMMITMENTS (continued)

(b) Premises lease commitments

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

| | <u>Sublease Income</u> | <u>Minimum Lease Commitments</u> | <u>Net Lease Cost (Income)</u> |
|---------------------------|----------------------------|--------------------------------------|------------------------------------|
| Due within 1 year | \$ (137,891) | \$ 186,056 | \$ 48,165 |
| Due between 2 and 5 years | (444,383) | 501,983 | 57,600 |
| Due later than 5 years | (287,400) | 337,800 | 50,400 |
| | <u>\$ (869,674)</u> | <u>\$ 1,025,839</u> | <u>\$ 156,165</u> |

(c) Truck and trailer lease commitments

The Company has entered into operating leases with 60 month terms for trucks and trailers used for fuel deliveries. On December 6, 2013, the Company entered into an agreement for a third party to assume its fuel delivery services and its truck and trailer leases in two phases. Upon execution of the agreement, the Company will temporarily rent the trucks and trailers, at the current lease costs, to the third party while they obtain the required consent for the assignments from the lessor. On receipt of the consent of the lessor, the execution of all of the documents necessary to complete the assignment of the leases will be completed, which is expected to occur on or before May 31, 2015.

The third party will also pay the Company \$500,000 in quarterly installments of \$25,000 commencing March 31, 2014.

22. 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. The Company's fuel distribution segment derives revenues from the fuel sales to retail customers, whereas the Company's oil extraction segment is in the development stage and is expected to generate revenues once commercial production from the extraction facility commences.

The fuel distribution segment of the Company's operations generates revenues and exhibits seasonal variation common to the industry in Southern California, being generally lower in the fall and winter quarters and higher in the spring and summer quarters. The variation is due to the demand for motor fuel which is generally highest during the summer months.

The presentation of the condensed consolidated interim statements of loss and comprehensive loss provides information about each reportable segment. Other information about reportable segments are:

| (in '000s of dollars) | <u>Six months ended February 28, 2014</u> | | | <u>Six months ended February 28, 2013</u> | | |
|---------------------------------|---|------------------------------|---------------------|---|------------------------------|---------------------|
| | <u>Oil Extraction</u> | <u>Fuel Distribution</u> | <u>Consolidated</u> | <u>Oil Extraction</u> | <u>Fuel Distribution</u> | <u>Consolidated</u> |
| Additions to non-current assets | \$ 2,564 | \$ 337 | \$ 2,901 | \$ 1,350 | \$ 189 | \$ 1,539 |
| Reportable segment assets | 12,067 | 16,457 | 28,524 | 7,167 | 13,310 | 20,477 |
| Reportable segment liabilities | \$ 7,692 | \$ 21,667 | \$ 29,359 | \$ 3,509 | \$ 16,432 | \$ 19,941 |

23. MANAGEMENT OF CAPITAL

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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 budgets are approved by the Board of Directors. There are no external restrictions on the Company's capital.

24. MANAGEMENT OF FINANCIAL RISKS

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

(a) 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 four 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.

As at February 28, 2014, \$412,416 of accounts receivable were past due but not impaired (August 31, 2013 - \$202,562).

(b) 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 February 28, 2014, a 1% increase in interest rates would increase the Company's interest expense by approximately \$10,000 (August 31, 2013 - \$12,000).

24. MANAGEMENT OF FINANCIAL RISKS (continued)

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(c) 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.

The following are the remaining contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted, and include estimated interest payments. The Company has included both the interest and principal cash flows in the analysis as it believes this best represents the Company's liquidity risk.

As at February 28, 2014

| (in '000s of dollars) | Carrying amount | Contractual cash flows | | | |
|-----------------------|-----------------|------------------------|----------------|-------------|-------------------|
| | | Total | 1 year or less | 1 - 5 years | More than 5 years |
| Accounts payable | \$ 11,560 | \$ 11,560 | \$ 11,560 | \$ - | \$ - |
| Accrued liabilities | 2,844 | 2,844 | 2,844 | - | - |
| Long-term debt | 12,944 | 13,993 | 5,473 | 8,071 | 449 |
| | \$ 27,348 | \$ 28,397 | \$ 19,877 | \$ 8,071 | \$ 449 |

As at August 31, 2013

| (in '000s of dollars) | Carrying amount | Contractual cash flows | | | |
|-----------------------|-----------------|------------------------|----------------|-------------|-------------------|
| | | Total | 1 year or less | 1 - 5 years | More than 5 years |
| Accounts payable | \$ 12,348 | \$ 12,348 | \$ 12,348 | | |
| Accrued liabilities | 3,157 | 3,157 | 3,157 | | |
| Long-term debt | 9,047 | 10,795 | 5,475 | 4,853 | 467 |
| | \$ 24,552 | \$ 26,300 | \$ 20,980 | \$ 4,853 | \$ 467 |

The interest payments on variable interest rate loans in the table above reflect the interest rate at the reporting date and these amounts may change as market interest rates change.

25. EVENTS AFTER THE REPORTING PERIOD

On April 9, 2014, the Company issued \$824,000 of convertible debt to an officer and director of the Company. The convertible debt matures on March 7, 2017 and bears interest at a rate of 10% per annum, payable on maturity. The convertible debt may be converted into common shares of the Company at a conversion price of \$0.90 per share, at the option of the holder, at any time before maturity. The convertible debt is secured by all of the assets of the Company and its wholly owned subsidiary, MCW Fuels Inc.

The Company is in the process of listing on OTCQX. It is scheduled to be completed in late 2014.