MCW Energy Group Limited

Condensed Consolidated Interim Financial Statements

For the three and six months ended February 29, 2016 and February 28, 2015

(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 Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

MCW Energy Group Limited

Table of Contents

	Page(s)
Condensed Consolidated Interim Statements of Financial Position	1
Condensed Consolidated Interim Statements of Loss and Comprehensive Loss	2
Condensed Consolidated Interim Statements of Shareholders' Equity	3
Condensed Consolidated Interim Statements of Cash Flows	4
Notes to Condensed Consolidated Interim Financial Statements	5-37

MCW ENERGY GROUP LIMITED

Condensed Consolidated Interim Statements of Financial Position

As at February 29, 2016 and August 31, 2015

Expressed in US dollars

	Notes	February 29, 2016 (Unaudited)	August 31, 2015 (Audited)
ASSETS			
Current assets			
Cash	5	$ 8,558	$ 861,639
Trade and other receivables	6	108,655	91,352
Inventory	7	210,980	186,080
Current portion of advanced royalty payments	8(a)	121,706	191,432
Prepaid expenses		134,653	152,706
		584,552	1,483,209
Deposits		87,969	-
Advanced royalty payments	8(a)	646,211	689,818
Mineral lease	9(b)	11,091,388	11,091,388
Property, plant and equipment	10	16,199,386	16,444,561
Intangible assets	11	710,972	735,488
		$ 29,320,478	$ 30,444,464
LIABILITIES			
Current liabilities			
Accounts payable	12	$ 1,431,024	$ 1,211,239
Accrued expenses	12	1,628,815	1,182,742
Due to senior officer	20(d)	123,482	204,000
Current portion of long-term debt	13	959,424	3,252,389
Current portion of convertible debentures	14	3,500,000	4,273,815
		7,642,745	10,124,185
Unearned advance royalties received	8(b)	170,000	170,000
Long-term debt	13	14,320,917	13,516,630
Convertible debentures	14	507,705	-
Reclamation and Restoration provision	15	555,500	550,000
		23,196,867	24,360,815
SHAREHOLDERS' EQUITY			
Share capital	16	34,104,076	25,524,787
Share option reserve	17	7,075,091	7,063,773
Share warrant reserve	18	396,617	337,283
Deficit		(35,452,173)	(26,842,194)
		6,123,611	6,083,649
		$ 29,320,478	$ 30,444,464

Approved by the Board of Directors *"Alexander Blyumkin"* Alexander Blyumkin, Director *"Travis Schneider"* Travis Schneider, Director

The accompanying notes are an integral part of these condensed consolidated interim financial statements

MCW ENERGY GROUP LIMITED

Condensed Consolidated Interim Statements of Loss (Income) and Comprehensive Loss (Income)
For the three months and six months ended February 29, 2016 and February 28, 2015
Expressed in US dollars
(Unaudited)

	Notes	Three months ended February 29, 2016	Three months ended February 28, 2015	Six months ended February 29, 2016	Six months ended February 28, 2015
Continuing Operations					
Oil Sands Operations, Mining, Financing and Other					
Revenues		$ 51,303	$ -	$ 204,735	$ -
Cost of Goods Sold		289,604	-	913,215	-
Gross Loss		(238,301)	-	(708,480)	-
Operating Expenses					
Depreciation and amortization		294,356	-	588,355	-
General and administrative		225,609	18,414	330,639	135,761
Interest expense		435,312	34,490	871,944	223,271
Loss on settlement of liabilities	13(b)(iii)	948,720	-	948,525	9,660
Loss on extinguishment of debt		689,877	-	689,877	-
Professional fees		546,360	286,986	883,257	457,447
Salaries and wages		275,969	155,155	512,469	469,024
Share-based compensation	17(a) 20(b)	11,318	-	2,733,496	-
Travel and promotion		118,767	172,112	342,937	437,749
		3,546,288	667,157	7,901,499	1,732,912
Loss before Income Taxes		3,784,589	667,157	8,609,979	1,732,912
Provision for income taxes		-	-	-	-
Loss from Continuing Operations		3,784,589	667,157	8,609,979	1,732,912
Discontinued Operations	4	-	(2,887,348)	-	(2,556,767)
Loss (Income) from Discontinued Operations		-	(2,887,348)	-	(2,556,767)
Net Loss (Income) and Comprehensive Loss (Income)		$ 3,784,589	$ (2,220,191)	$ 8,609,979	$ (823,855)
Weighted Average Number of Shares Outstanding	19	82,479,285	49,953,636	75,427,760	49,443,493
Basic and Diluted Loss per Share from Continuing Operations		$ 0.05	$ 0.01	$ 0.11	$ 0.04
Basic and Diluted Income per Share from Discontinued Operations		$ -	$ (0.06)	$ -	$ (0.05)
Basic and Diluted Loss (Income) per Share		$ 0.05	$ (0.04)	$ 0.11	$ (0.02)

The accompanying notes are an integral part of these condensed consolidated interim financial statements

MCW ENERGY GROUP LIMITED
Condensed Consolidated Interim Statements of Changes in Shareholders' Equity
For the six months ended February 29, 2016 and February 28, 2015
Expressed in US dollars
(Unaudited)

	Notes	Number of Shares Outstanding	Share Capital	Option Reserve	Warrant Reserve	Deficit	Shareholders' Equity
Balance at August 31, 2014		46,448,614	$ 15,993,551	$ 7,063,773	$ 157,733	$ (27,311,398)	$ (4,096,341)
Conversion of debentures	14(a)	2,923,722	2,620,000	-	-	-	2,620,000
Settlement of liabilities		413,172	377,093	-	-	-	377,093
Private placement of shares		106,847	80,000	-	-	-	80,000
Shares issued for services		131,375	98,229	-	-	-	98,229
Warrants issued	18	-	-	-	156,877	-	156,877
Net loss		-	-	-	-	823,855	823,855
Balance at February 28, 2015		50,023,730	$ 19,168,873	$ 7,063,773	$ 314,610	$ (26,487,543)	$ 59,713
Balance at August 31, 2015		$ 60,622,938	$ 25,524,787	$ 7,063,773	$ 337,283	$ (26,842,194)	$ 6,083,649
Conversion of debentures	14(b)	1,374,200	936,677	-	59,334	-	996,011
Settlement of debt	13(b)(iii)	29,028,456	3,581,549	-	-	-	3,581,549
Settlement of liabilities		2,512,355	549,007	-	-	-	549,007
Share-based compensation	20(b)	5,729,142	2,722,179	11,318	-	-	2,733,497
Shares issued for debt modification		6,022,625	689,877	-	-	-	689,877
Shares subscribed for		933,733	100,000				100,000
Net loss		-	-	-	-	(8,609,979)	(8,609,979)
Balance at February 29, 2016		106,223,449	$ 34,104,076	$ 7,075,091	$ 396,617	$ (35,452,173)	$ 6,123,611

The accompanying notes are an integral part of these condensed consolidated interim financial statements

MCW ENERGY GROUP LIMITED
Condensed Consolidated Interim Statements of Cash Flows
For the six months ended February 29, 2016 and February 28, 2015
Expressed in US dollars
(Unaudited)

	February 29, 2016	February 28, 2015
Cash flow used for operating activities:		
Net loss	$ (8,609,979)	$ (1,732,912)
Adjustments for non-cash, investing and financing items		
Depreciation and amortization	588,355	-
Loss on settlement of liabilities and debt conversions	948,525	9,660
Shares issued for services	-	98,229
Share-based compensation	2,733,496	-
Loss on extinguishment of debt	689,877	-
Other	294,089	(157,871)
Changes in operating assets and liabilities:		
Accounts payable	858,678	15,832
Accounts receivable	(17,303)	-
Accrued expenses	659,811	779,901
Inventory	(24,900)	-
Prepaid expenses and deposits	18,053	-
Net cash used for operating activities of continuing operations	(1,861,298)	(987,161)
Net cash provided by operating activities of discontinued operations	-	825,694
Cash flows used for investing activities:		
Purchase and construction of property and equipment	(318,664)	(3,129,959)
Investment in deposits	(87,969)	-
Advanced royalty payments to TMC	(120,000)	-
Advances to TMC Capital LLC	-	(150,000)
Net cash used for investing activities of continuing operations	(526,633)	(3,279,959)
Net cash used for investing activities of discontinued operations	-	(192,658)
Cash flows from (used for) financing activities:		
Advances to executive officers	(80,518)	(315,130)
Private placements	100,000	80,000
Payments of long-term debt	(542,107)	(457,589)
Proceeds from long-term debt	1,557,475	2,986,590
Proceeds from convertible debt	500,000	1,000,000
Net cash from financing activities of continuing operations	1,534,850	3,293,871
Net cash used for financing activities of discontinued operations	-	(45,646)
Decrease in cash	(853,081)	(385,859)
Cash, beginning of the period	861,639	938,648
Cash, end of the period	$ 8,558	$ 552,789
Cash composed of:		
Cash	$ 8,558	$ 552,789
Bank overdraft	-	-
	$ 8,558	$ 552,789
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 243,271	$ 452,894

The accompanying notes are an integral part of these condensed consolidated interim financial statements

1. NATURE OF OPERATIONS

MCW Energy Group Limited (the "Company") is an Ontario corporation with one active business segment located in the USA. It operates through its indirectly wholly owned subsidiary company, MCW Oil Sands Recovery, LLC ("MCWO"), which is engaged in mining and oil extraction from tar sands, and other inactive subsidiary companies.

The Company's registered office is located at Suite 4400, 181 Bay Street, Toronto, Ontario, M5J 2T3, Canada and its principal operating office is located at Suite 420, 10351 Santa Monica Boulevard, Los Angeles, California 90025, USA.

MCWO 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, and has recently completed the construction of the first phase of an oil processing plant in the Asphalt Ridge area of Uintah, Utah. The Company is currently completing an expansion of the oil processing facility which will increase the production capacity to 500 barrels per day.

On May 13, 2015, the Company sold its indirectly wholly owned subsidiary company, MCW Fuels, Inc. ("MCWF") to the Chair of the Board of Directors of the Company for a nominal amount and the assumption by the buyer of all the outstanding liabilities of MCWF (Note 4(c)). MCWF was engaged in the marketing and sale of unleaded and diesel land fuel products and related services in California. MCWF's business strategy was 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 fuel delivery trucks. As a result of changes in this industry, the Company decided in December 2014 to dispose of substantially all of the assets of the fuel distribution business (Note 4(a)) for $5,000,000 payable at closing and an additional amount on or before April 15, 2015 based on defined gross profits over a specified period. On April 15, 2015, the total proceeds from the sale were determined to be $6,087,198. The initial purchase price of $5,000,000 was directed towards the settlement of the liabilities to two major fuel suppliers. The additional amount due on April 15, 2015 was assigned to the BBCN Bank for payment of certain secured long-term liabilities. Following the sale of substantially all of MCWF's assets, MCWF had limited operations and significantly more outstanding liabilities. The Company decided to sell MCWF to limit its exposure to these outstanding liabilities and to focus its efforts on the operations of MCWO.

Effective June 1, 2015, the Company indirectly acquired a 100% interest in TMC Capital, LLC ("TMC"). TMC owns a bituminous sand mineral lease located adjacent to the Company's mineral lease (Note 9). The Company intends to extract tar sands from the TMC lease for use in its oil extraction facility. The purchase price was the issue of two $5,000,000 unsecured promissory notes (Note 13(d)).

The Company has incurred losses for several years and, at February 29, 2016, has an accumulated deficit of $35,452,173 (August 31, 2015 - $26,842,194) and a working capital deficiency of $7,058,223 (August 31, 2015 - $8,436,976). 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, which it is currently in the process of obtaining. There is a risk that the 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. 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 29, 2016, 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, 2015 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 condensed consolidated interim 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 condensed consolidated interim financial statements and the reported amounts of revenues and expenses during the reporting period. The significant accounting judgments and estimates included in these condensed consolidated interim 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.

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.

2. BASIS OF PREPARATION (continued)

(c) Significant accounting judgments and estimates (continued)

Fair value of share purchase options and warrants

Share purchase options and warrants granted by the Company are valued at the fair value of the goods or services received unless the fair value cannot be reliably measured. Share purchase options and warrants granted 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.

Provisions

Provisions are recorded on the basis of the best estimate of the likelihood, timing, and magnitude of a future outflow of economic resources. Where the effect of the time value of money is material, the present value of the provision is recognized using a discount rate that reflects current market assessments of the time value of money.

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 condensed consolidated interim 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 condensed consolidated interim statement of financial position could be impacted. The Company has not recognized any deferred tax assets as at February 29, 2016 and August 31, 2015.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

The condensed consolidated interim 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:

Entity	% of Ownership	Jurisdiction
MCW Energy Group Limited	Parent	Canada
MCW Energy CA Inc.	100%	USA
MCW OSR Inc.	100%	USA
MCW Oil Sands, Inc.	100%	USA
MCW Fuels Transportation, Inc.	100%	USA
MCW Oil Sands Recovery, LLC	100%	USA
TMC Capital, LLC	100% (1)	USA
MCW Fuels, Inc. (to May 13, 2015)	100% (2)	USA

(1) Effective June 1, 2015, the Company acquired a 100% interest in TMC Capital LLC.
(2) On May 13, 2015, the Company sold its 100% interest in MCWF to the Chair of the Board of Directors of the Company (see Note 1).

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

(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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Income and expense recognition

Revenue recognition

Revenue from the sale of fuel and related goods was recognized when the sales price is fixed or determinable and collectability was reasonably assured. Title passed 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 was recorded as the Company had latitude in establishing the sales price, had discretion in the supplier selection, maintained credit risk and was the primary obligor in the sales arrangement.

Revenue from card processing services was recognized at the time the purchase was made by the customer using the charge card. Revenue from late charges, interest, rental income and customer branding services were recorded on an accrual basis when collection was reasonably assured.

The Company sells hydrocarbon products (bitumen or crude oil) produced by its oil extraction facility at prevailing market prices. The Company also expects to enter into short-term supply agreements with customers. Revenues is recognized when the hydrocarbon 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 received vendor rebates and provided customer rebates. Generally, volume rebates were 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 were recognized as a reduction of cost of goods sold in the period earned when realization was probable and estimable and when certain other conditions were met. Rebates provided to customers were recognized as a reduction of revenue in the period earned in accordance with applicable customer agreements. The rebate terms of the customer agreements were generally similar to those of the vendor agreements.

Some of these vendor rebates and promotional allowance arrangements required 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 reviewed the significant relevant factors and made adjustments when the facts and circumstances dictated that an adjustment was warranted.

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

(d) Inventories

Crushed ore and other inventories are measured at the lower of cost, based on the first-in, first-out principle, and net realizable value, In the case of work in progress inventories, cost includes an appropriate share of production overheads based on normal operating capacity.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) 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, betterments and start-up costs 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	5-7 years
Furniture and fixtures	7 years
Leasehold improvements	Lease term
Oil extraction facility	15 years
Gas station assets	10-25 years

(f) Oil and gas properties

Oil and gas property interests

Assets owned are recorded at cost less accumulated depreciations and accumulated impairment losses. The Company initially capitalizes the costs of acquiring these properties, directly and indirectly, and thereafter expenses 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. On the commencement of commercial production, net capitalized costs are charged to operations on a unit-of-production basis, by property, using estimated proven and probable recoverable reserves as the depletion base.

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 condensed consolidated interim 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.

(g) Intangible assets

Intangible assets are recorded at cost less accumulated depreciation and accumulated impairment losses. 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 condensed consolidated interim financial statements as at November 30, 2015:

Oil Extraction Technology	15 years

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) 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 condensed consolidated interim 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.

(i) 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
- Trade and other receivables, classified as loans and receivables and measured at amortized cost
- Accounts payable, accrued expenses, due to senior officer, convertible debentures and long-term debt, classified as other financial liabilities and measured at amortized cost

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Financial instruments (continued)

The recorded values of cash, accounts receivable, accounts payable, accrued expenses and due to senior officer approximate their fair values based on their short term nature. The recorded values of convertible debentures and long-term debt approximate their fair values when the interest rates of the debt 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.

(j) 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 condensed consolidated interim 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. Over time, the discounted provision is increased for the change in present value based on the discount rates that reflect current market assessments and the risks specific to the liability. The periodic unwinding of the discount is recognized in the condensed consolidated interim statement of loss as part of interest expense.

When the provision liability is initially recognized, the present value of the estimated costs is capitalized by increasing the carrying amount of the related asset to the extent that it was incurred as a result of the development or construction of the asset. Additional provisions which arise due to further development or construction of assets are recognized as additions or charges to the corresponding asset and provisions when they occur.

Changes in the estimated timing of provisions or changes to the estimated future costs are dealt with prospectively by recognizing an adjustment to the provision and a corresponding adjustment to the asset to which it relates. Any reduction in the provision and, therefore, any deduction from the asset to which it relates may not exceed the carrying amount of that asset. If it does, any excess over the carrying value is recognized immediately in the condensed consolidated interim statement of loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) 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 condensed consolidated interim statement of financial position and their corresponding tax values, using the enacted or substantially enacted, income tax rates at each condensed consolidated interim 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.

(l) 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 condensed consolidated interim statement of financial position. At present, the Company has no other comprehensive income or loss.

(m) 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 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.

(n) 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Reclamation and restoration obligations

Liabilities related to environmental protection and reclamation costs are recognized when the obligation is incurred and the fair value of the related costs can be reasonably estimated. This includes future site restoration and other costs as required due to environmental law or contracts. Reclamation and restoration obligations are determined by discounting the expected future cash outflows for reclamation and restoration at a pre-tax rate that reflects current market assessments of the time value of money

(p) Comparative amounts

The comparative amounts presented in these condensed consolidated interim financial statements have been reclassified where necessary to conform to the presentation used in the current period.

(q) 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 condensed consolidated interim financial statements as of the date of their approval:

(i) IFRS 7, Financial Instruments: Disclosures ("IFRS 7") - amendments

The amendments to IFRS 7 provide clarification on when an entity has a continuing involvement in a financial asset. The amendments also provide clarification of disclosure requirements in condensed interim financial statements when offsetting financial assets and financial liabilities. These amendments are effective for annual periods beginning on or after January 1, 2016.

(ii) 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. The effective date for application of IFRS 9 was revised from annual periods beginning on or after January 1, 2015, to annual periods beginning on or after January 1, 2018, with earlier adoption permitted.

(iii) IFRS 11, Joint Arrangements ("IFRS 11") - amendments

The amendments to IFRS 11 provide guidance on the accounting for acquisition of interests in joint operations constituting a business. The amendments require all such transactions to be accounted for using the principles on business combination accounting in IFRS 3, Business Combinations and other IFRS standards except where those principles conflict with IFRS 11. These amendments are effective for annual periods beginning on or after January 1, 2016.

(iv) IFRS 15, Revenue from contracts with customers ("IFRS 15")

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 14 *Customer Loyalty Programmes*. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) New accounting standards and interpretations (continued)

(v) IFRS 16, Leases ("IFRS 16")

IFRS 16 specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance. IFRS 16 is effective for annual period beginning on or after January 1, 2019.

(vi) IAS 1, Presentation of Financial Statements ("IAS 1") - amendments

The amendments in IAS 1 clarify financial statement disclosure and presentation requirements. These amendments are effective for annual periods beginning on or after January 1, 2016.

(vii) IAS 7, Statement of Cash Flows ("IAS 7") - amendments

The amendments in IAS 7 require additional disclosure of changes in liabilities arising from financing activities. These amendments are effective for annual periods beginning on or after January 1, 2017.

(viii) IAS 12, Income Taxes ("IAS 12") - amendments

The amendments in IAS 12 clarify the recognition of deferred tax assets for unrealized losses. These amendments are effective for annual periods beginning on or after January 1, 2017.

(ix) IAS 16, Property, Plant and Equipment ("IAS 16") – amendments

The amendment to IAS 16 provides clarification of acceptable methods of depreciation and amortization. These amendments are effective for annual periods beginning on or after January 1, 2016.

(x) IAS 34, Interim financial reporting ("IAS 34") - amendments

The amendment to IAS 34 provides clarification of disclosures required in interim financial statements. These amendments are effective for annual periods beginning on or after January 1, 2016.

(xi) IAS 38, Intangible Assets ("IAS 38") - amendments

The amendment to IAS 38 provides clarification of acceptable methods of depreciation and amortization. These amendments are effective for annual periods beginning on or after January 1, 2016.

The Company is currently assessing the impact that these new and amended standards will have on the condensed consolidated interim financial statements.

4. DISCONTINUED OPERATIONS

(a) Branded Reseller Distribution Agreements and associated liabilities

On December 17, 2014, the Company completed the sale (Note 1) of its Branded Reseller Distribution Agreements (Note 11(a)) and associated liabilities, which formed the basis of the Company's fuel distribution operating segment and the operations of MCWF. Management decided to sell these assets and liabilities in early September 2014 because of the changes in this industry which resulted in strongly negative trends and following a strategic decision to place a greater focus on the construction of the Company's oil extraction facility in Utah.

The operations associated with the Branded Reseller Distribution Agreements and associated liabilities have been reclassified in the comparative condensed consolidated interim statements of loss and comprehensive loss and cash flows to disclose the discontinued operations separately from continuing operations.

(b) Gas station

On January 26, 2015, the Company entered into an agreement to sell the gas station property and business (Notes 10(a) and 11(c)), which are part of the Company's fuel distribution operating segment. Before the completion of the sale of these assets to an unrelated third party on May 22, 2015, the assets were sold as part of the sale of MCWF to the Chair of the Board of Directors of the Company on May 13, 2015 (Note 1 and 4(c)).

(c) MCW Fuels, Inc.

On May 13, 2015, the Company sold its 100% ownership interest in MCW Fuels, Inc. ("MCWF") to the Chair of the Board of Directors of the Company for a nominal amount and the assumption of all the outstanding liabilities of MCWF (Note 1). Concurrently with the sale of MCWF, the Company settled an amount owing to MCWF for 9,200,000 common shares of the Company at a deemed price of CAD $0.74 per share. Following the sale of substantially all of MCWF's assets, MCWF had limited operations and significantly more outstanding liabilities. The Company decided to sell MCWF to limit its exposure to these outstanding liabilities and to focus its efforts on the operations of MCWO.

The operations associated with MCWF have been reclassified in the comparative condensed consolidated interim statements of loss and comprehensive loss and cash flows to disclose the discontinued operations separately from continuing operations.

4. DISCONTINUED OPERATIONS (continued)

(d) Results of discontinued operations

The results of the Company's fuel distribution operating segment have been presented as loss from discontinued operations for the three and six months ended February 28, 2015. The components of the results of the discontinued operations for the three and six months ended February 28, 2015 are as follows:

	Three months ended Februay 28, 2015	Six months ended February 28, 2015
Revenues	$ 10,340,048	$ 117,467,158
Expenses	11,795,611	119,253,302
Gain on sael of assets	(4,342,911)	(4,342,911)
Loss From Operations	2,887,348	2,556,767
Provision for income taxes	-	-
Operating Loss from Discontinued Operations	2,887,348	2,556,767
Gain on sale of assets		
Gain from Discontinued Operations	2,887,348	2,556,767

5. CASH

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

6. TRADE AND OTHER RECEIVABLES

The Company's trade and other receivables consist of:

	February 29, 2016	August 31, 2015
Goods and services tax receivable	$ 108,655	$ 90,997
Other receivables	-	355
	$ 108,655	$ 91,352

Information about the Company's exposure to credit risks for trade and other receivables is included in Note 24(a)(i).

7. INVENTORY

	February 29, 2016	August 31, 2015
Raw Materials		
Crushed ore inventory	$ 178,517	$ 186,080
Finished Goods		
Bitumen/Condensate blend	4,008	-
Consumables		
Consumables	28,455	-
	$ 210,980	$ 186,080

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 calendar year and a minimum of 100,000 tons per year at a rate of approximately 8,333 tons per month for $20.60 per ton, subject to certain price adjustment provisions, after the first year.

Based on the agreement, the Company had committed to purchasing an additional 397,916 tons of crushed ore for $7,923,312 by February 29, 2016 (August 31, 2015 – 347,917 tons for $6,893,333). As at February 29, 2016, the Company had actually purchased 18,750 tons of crushed ore for $200,000 (August 31, 2015 – 18,750 tons for $200,000).

8. ADVANCED ROYALTY PAYMENTS

(a) Advance royalty payments to Asphalt Ridge, Inc.

During the year ended August 31, 2015, the Company acquired TMC Capital, LLC, which has a mining and mineral lease with Asphalt Ridge, Inc. (Notes 1 and 9(b)). The mining and mineral lease with Asphalt Ridge, Inc. requires the Company to make the following advance royalty payments: $100,000 on the execution of the lease, $68,750 for lease quarters 2 to 4, $125,000 for lease quarters 5 to 24 and $750,000 per year thereafter. The advance royalty payments can be used to offset future production royalties, for a maximum of two years following the year the advance royalty payment was made.

On October 1, 2015, the Company and Asphalt Ridge, Inc. amended the advance royalty payments in the mining and mineral lease agreement. All previous advance royalty payments required under the original agreement were deemed to be paid in full. The amended advance royalty payments required are: $60,000 per quarter from October 1, 2015 to September 30, 2017, $100,000 per quarter from October 1, 2017 to June 30, 2020 and $150,000 per quarter thereafter.

As at August 31, 2015, the Company had paid advance royalties of $881,250 and a further $120,000 was paid during the six months ended February 29, 2016, to the lease holder. As at February 29, 2016, the Company expects to offset $121,706 of these advance royalties against production royalties within one year.

During the six months ended February 29, 2016, $3,479 of advanced royalties were offset against production royalties and $229,854 of advanced royalty payments that have not yet been offset against production royalties expired. These amounts have been recognized in cost of goods sold on the condensed consolidated interim statement of loss and comprehensive loss.

8. ADVANCED ROYALTY PAYMENTS (continued)

(b) Unearned advance royalty payments from Blackrock Petroleum, Inc.

During the year ended August 31, 2015, the Company entered into a sublease agreement with Blackrock Petroleum, Inc. ("Blackrock"), pursuant to which it received $170,000 of unearned advance royalties. The sublease is for a portion of the mining and mineral lease with Asphalt Ridge, Inc. (Note 9(b)). The term of the sublease agreement is until December 31, 2018 and it requires Blackrock to make certain advance royalty payments to the Company.

9. MINERAL LEASES

(a) MCW mineral lease

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

The MCW 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 MCW Mineral Lease. This royalty may be increased to 12.5% after a minimum of 10 years of production.

On the change in the intended use of the MCW mineral lease during the year ended August 31, 2014, the Company reduced the carrying value of the MCW mineral lease to its net recoverable value of $nil.

(b) TMC mineral lease

On June 1, 2015, the Company acquired TMC Capital, LLC ("TMC") (Note 1). TMC holds a mining and mineral lease, subleased from Asphalt Ridge, Inc., on the Asphalt Ridge property located in Uintah County, Utah (the "TMC Mineral Lease").

The primary term of the TMC Mineral Lease is from July 1, 2013 to July 1, 2018. During the primary term, the Company must meet certain requirements for oil production. After July 1, 2018, the TMC Mineral Lease will remain in effect as long as certain requirements for oil production continue to be met by the Company. If the Company fails to meet these requirements, the lease will automatically terminate 90 days after the calendar year in which the requirements are not met. In addition, the Company is required to make certain advance royalty payments to the lessor (Note 8(a)). The TMC Mineral Lease was subject to a 10% royalty for the first 3 years and varying percentages thereafter based on the price of oil. An additional 1.6% royalty is payable to the previous lessees of the TMC Mineral Lease. The TMC Mineral Lease also required the Company to make minimum expenditures on the property of $1,000,000 for the first 3 years, increasing to $2,000,000 for the next 3 years.

On October 1, 2015, the Company amended the TMC Mineral Lease. The requirements for oil extraction were deferred until July 1, 2016 and were expanded to include oil extraction completed on the MCW Mineral Lease as well. The advance royalty payments required under the TMC Mineral Lease were also amended (Note 8(a)). Production royalties were amended to 7% until June 30, 2020 and a varying percentage thereafter, based on the price of oil. Minimum expenditures were amended to $1,000,000 per year until June 30, 2020 and $2,000,000 thereafter if certain operational requirements for oil extraction are not met.

9. MINERAL LEASES (continued)

(c) TMC mineral lease (continued)

The accumulated costs incurred on the TMC Mineral Lease are:

	February 29, 2016	August 31, 2015
Mineral lease acquisition cost	$ 11,091,388	$ 11,091,388
	$ 11,091,388	$ 11,091,388

10. PROPERTY, PLANT AND EQUIPMENT

	Buildings and Improvements	Land	Oil Extraction Plant	Plant under construction	Other Property and Equipment	Total
Cost						
August 31, 2014	$ 540,000	$ 1,200,000	$ -	$11,436,401	$ 325,207	$13,501,608
Additions	-	-	-	4,685,961	336,629	5,022,590
Disposal (Note 4(c))	(540,000)	(1,200,000)	-	-	(325,207)	(2,065,207)
August 31, 2015	-	-	-	16,122,362	336,629	16,458,991
Additions	-	-	-	304,328	14,336	318,664
Transfer of plant under construction	-	-	16,117,722	(16,117,722)	-	-
February 29, 2016	$ -	$ -	$16,117,722	$ 308,968	$ 350,965	$16,777,655
Accumulated Amortization						
August 31, 2014	$ 35,100	$ -	$ -	-	$ 325,207	$ 360,307
Additions	17,550	-	-	-	14,430	31,980
Disposal (Note 4(c))	(52,650)	-	-	-	(325,207)	(377,857)
August 31, 2015	-	-	-	-	14,430	14,430
Additions	-	-	537,371	-	26,468	563,839
Transfer of plant under construction	-	-	-	-	-	-
February 29, 2016	$ -	$ -	$ 537,371	$ -	$ 40,898	$ 578,269
Carrying Amount						
August 31, 2014	$ 504,900	$ 1,200,000	$ -	$11,436,401	$ -	$13,141,301
August 31, 2015	$ -	$ -	$ -	$16,122,362	$ 322,199	$16,444,561
February 29, 2016	$ -	$ -	$15,580,351	$ 308,968	$ 310,067	$16,199,386

(a) Gas station asset

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 one (two at the date of transfer) of the Company’s executive officers, in consideration for the reduction of executive officer loans outstanding. On January 26, 2015, the Company entered into an agreement to sell the gas station property and business to an unrelated third party on May 22, 2015. However, prior to that the assets were sold as part of the sale of MCWF to the Chair of the Board of the Company on May 13, 2015 (Note 1 and 4(c)).

10. PROPERTY, PLANT AND EQUIPMENT (continued)

(b) Oil Extraction Plant and Plant under construction

In June 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. On September 1, 2015, the Company started commercial production of hydrocarbon products for resale to third parties. The Company is amortizing the cost of construction over 15 years from the commencement of production.

Costs of construction included capitalized borrowing costs for the six months ended February 29, 2016 of $nil (six months ended February 28, 2015 - $267,830), as the plant was commissioned on September 1, 2015 and is now fully operational. Total borrowing costs included in the cost of construction as at February 29, 2016 are $1,974,580 (August 31, 2015 - $1,974,580).

In September 2015, the Company started an expansion project on the oil extraction facility to increase production from an estimated 250 barrels per day to 500 barrels per day. These costs are being capitalized and will be amortized over a period of 15 years from the commencement of the increased production capacity.

11. INTANGIBLE ASSETS

	Branded Reseller Distribution Agreement	Oil Extraction Technology	Goodwill	Total
Cost				
August 31, 2014	5,509,383	735,488	960,000	7,204,871
Additions	192,660	-	-	192,660
Impairment charges	(123,970)	-	(512,550)	(636,520)
Disposal (Note 4(a) (c))	(5,578,073)		(447,450)	(6,025,523)
August 31, 2015 and February 29, 2016	$ -	$ 735,488	$ -	$ 735,488
Accumulated Amortization				
August 31, 2014	1,164,215	-	-	1,164,215
Impairment charges	(23,667)	-	-	(23,667)
Disposal (Note 4(a))	(1,140,548)	-	-	(1,140,548)
August 31, 2015	-	-	-	-
Additions	-	24,516	-	24,516
February 29, 2016	$ -	$ 24,516	$ -	$ 24,516
Carrying Amounts				
August 31, 2014	$ 4,345,168	$ 735,488	$ 960,000	$ 6,040,656
August 31, 2015	$ -	$ 735,488	$ -	$ 735,488
February 29, 2016	$ -	$ 710,972	$ -	$ 710,972

11. INTANGIBLE ASSETS (continued)

(a) Branded reseller distribution agreements

In December 2014, the Company sold its Branded Reseller Distribution Agreements and associated liabilities (Note 4(a)).

The Company had entered into agreements with various retailers whereby it received 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, were capitalized and were amortized over the contractual life of the agreements on a straight-line basis.

During the six months ended February 29, 2016, the Company recorded impairment charges of $nil (six months ended February 28, 2015 - $58,167) in the condensed consolidated interim statement of loss to recognize early termination of certain branded reseller distribution agreements and to reduce their carrying values to the expected recoverable amounts.

(b) Oil extraction technology

During the year ended August 31, 2012, the Company acquired a 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 patents on this technology in the USA and Canada and intends to employ it in its oil extraction facility currently under construction. The Company commenced commercial production from its Oil Extraction plant on September 1, 2015 and is amortizing the cost of the technology over fifteen years, 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 executive directors.

On January 26, 2015, the Company entered into an agreement to sell the gas station property and business to an unrelated third party (Note 4(b)). Before, the completion of the expected sale of these assets to the unrelated third party on May 22, 2015, the assets were sold as part of the sale of MCWF to the Chair of the Board of Directors of the Company on May 13, 2015 (Note 4(c)).

12. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable as at February 29, 2016 and August 31, 2015 consist primarily of amounts outstanding for construction of the oil extraction facility and other operating expenses that are due on demand.

Accrued expenses as at February 29, 2016 and August 31, 2015 consist primarily of other operating expenses and interest accruals on long-term debt (Note 13) and convertible debt (Note 14).

Information about the Company’s exposure to liquidity risk is included in Note 24(c).

13. LONG-TERM DEBT

Lender	Maturity Date	Interest Rate	Principal due February 29, 2015	Principal due August 31, 2015
B&N Bank	18 March 2017	12.51%	$ 3,000,000	$ 3,000,000
Private lenders	13 June 2016	15.00%	126,800	200,000
Private lenders	15 October 2017	12.00%	718,717	709,413
Private lenders	6 August 2018	10.00%	416,000	2,593,750
Private lenders	10 September 2016	6.00%	750,000	-
Private lenders	19 January 2017	10.00%	28,975	
Equipment loans	April 17, 2020 – April 20, 2020	4.30% - 4.90%	239,849	265,856
Promissory notes (Note 1)	31 May 2020	5.00%	10,000,000	10,000,000
Total loans			$ 15,280,341	$ 16,769,019

The maturity of the long-term debt is as follows:

	February 29, 2016	August 31, 2015
Principal classified as repayable within one year	$ 959,424	$ 3,252,389
Principal classified as repayable later than one year	14,320,917	13,516,630
	$ 15,280,341	$ 16,769,019

(a) 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 were originally due on September 18, 2015, subsequently extended to March 18, 2017, 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 is to be increased by 14.33% of any additionally issued shares during the term of the credit line. This loan is personally guaranteed by the Chair of the Board of Directors. As at February 29, 2016 and August 31, 2015, $3,000,000 had been drawn on this credit line by the Company.

13. LONG TERM DEBT (continued)

(b) Private lenders

(i) On December 16, 2013, the Company obtained an on demand loan from private investors for a total of $430,000, bearing interest at 15% per annum. The loan is personally guaranteed by the Chair of the Board of Directors. The loan was amended on December 11, 2015 to extend the maturity date to March 15, 2016. During the six months ended February 29, 2016, the Company exercised an automatic option to extend the loan for an additional 90 days by making a payment of $25,000 towards the principal balance of the loan. During the six months ended February 29, 2016, $73,200 of principal was repaid (year ended August 31, 2015 - $230,000).

(ii) On October 10, 2014, the Company issued two secured debentures for an aggregate principal amount of CAD $1,100,000 to two private lenders. The debentures bear interest at a rate of 12% per annum, maturing on October 15, 2017 and are secured by all of the assets of the Company. In addition, the Company issued common share purchase warrants to acquire an aggregate of 500,000 common shares of the Company at an exercise price of CAD $1.00 per share until October 10, 2017 (Note 18) to the two secured debenture holders.

(iii) The Company received advances from various private lenders during the year ended August 31, 2015 in the form of unsecured funds. On August 6, 2015 these funds were converted to promissory notes. The promissory notes bear interest at 10% per annum and are repayable within 36 months, including any accrued interest thereon.

On January 20, 2016, the Company issued an aggregate of 29,028,456 common shares in satisfaction of $2,686,162 of indebtedness (26,473,642 common shares of the Company will be issued in satisfaction of $2,449,751 of indebtedness to one arm's length lender, including 12,968,000 common shares which have been assigned to a creditor of the arm's length lender) and 2,554,814 common shares of the Company will be issued in satisfaction of $236,411 of indebtedness due to two lenders controlled by the Chair of the Board of Directors of the Company (Note 20(b)).

During the six months ended February 29, 2016 further advances, net of repayments, of $335,500 were received from these private lenders.

(iv) The Company received an advance of $750,000 from a private lender on September 10, 2015. This advance is repayable on September 10, 2017, bears interest at the rate of 6% per annum and is unsecured.

(v) The Company received an advance of $28,975 from a private lender on January 19, 2016. This advance is repayable on January 19, 2017, bears interest at the rate of 10% per annum and is unsecured.

(c) Equipment loans

The Company entered into two equipment loan agreements with financial institutions to acquire equipment for the oil extraction facility. The loans have a term of 60 months and bear interest at a rate between 4.3% and 4.9% per annum. Principal and interest are paid in monthly installments. These loans are secured over the assets that were financed.

13. LONG TERM DEBT (continued)

(d) Promissory notes

On June 1, 2015, the Company issued two promissory notes for $5,000,000 each for the acquisition of TMC Capital, LLC ("TMC") (Note 1). These promissory notes have a five-year term, bear interest at a rate of 5% per annum and are unsecured. The Company may make annual principal payments at its option, provided that annual interest payments are made on June 1st of each year. This loan is personally guaranteed by the Chair of the Board of Directors.

14. CONVERTIBLE DEBENTURES

Lender	Maturity Date	Interest Rate	Principal due February 29, 2016	Principal due August 31, 2015
Alpha Capital Anstalt	15 June 2017	5.00%	507,705	773,815
Atlands Overseas Corp.	9 February 2017	12.00%	3,500,000	3,500,000
Total loans			$ 4,007,705	$ 4,273,815

The maturity of the convertible debt is as follows:

	February 29, 2016	August 31, 2015
Principal classified as repayable within one year	$ 3,500,000	$ 4,273,815
Principal classified as repayable later than one year	507,705	-
	$ 4,007,705	$ 4,273,815

(a) Executive officer

On April 29, 2014, the Company issued an $824,000 convertible debenture to the Chair of the Board of Directors of the Company, which bears interest at a rate of 10% per annum and matures on May 7, 2017. The convertible debenture was convertible into 998,230 common shares of the Company at a deemed price of CAD $0.90 per share at any time at the option of the holder and is secured by all of the assets of the Company. The convertible debenture was accounted for on initial recognition as a non-derivative compound financial instrument, with a financial liability component (the loan) and an equity component (the fixed conversion right). The fair value of the equity component was determined to be nominal and therefore, has been assigned no value.

On June 25, 2014, the Company issued a convertible debenture for up to a maximum aggregate principal amount of $2,000,000 to the Chair of the Board of Directors of the Company, which bears interest at a rate of 10% per annum and matures on June 25, 2017. As of August 31, 2015, the Company had formally drawn $1,796,000 which was convertible into 1,925,492 common shares of the Company at a deemed price of CAD $1.00 per share at any time at the option of the holder and was secured by all of the assets of the Company and its wholly owned subsidiary, MCWF.

On September 22, 2014, the principal of the $824,000 convertible debenture and $1,796,000 of the principal of the $2,000,000 convertible debenture was converted into 998,230 and 1,925,492 common shares of the Company, respectively.

14. CONVERTIBLE DEBENTURES (continued)

(b) Alpha Capital Anstalt

On November 5, 2014, the Company entered into a securities purchase agreement in respect of the issuance of convertible secured notes for up to $1,111,112. On November 5, 2014, $555,556 was initially drawn down with another $555,556 drawn down on November 24, 2014. The convertible notes bear interest at a rate of 5% per annum and matures on May 5, 2016 and May 26, 2016, respectively. The convertible notes are convertible into units, consisting of one common share of the Company and one common share purchase warrant of the Company, at a conversion price of $0.789 per unit. Each warrant would entitle the holder to acquire one additional common share at an exercise price of CAD $0.945 per share until November 5, 2019 and November 24, 2019, respectively. The convertible notes are secured by all of the assets of the Company.

On April 30, 2015 and May 19, 2015, $100,000 and $200,000 of the principal of the convertible secured notes was converted into 126,633 and 253,266 units, respectively (Note 18).

Between September 24, 2015 and October 7, 2015, an additional $300,000 of the principal of the convertible secured notes was converted into 379,900 units (Note 18). On October 8, 2015, the remaining $511,112 of the principal and $41,875 of accrued interest of the convertible secured notes was settled by the issuance of 994,301 common shares of the Company.

On December 20, 2015, the Company issued an additional convertible secured note for $555,556 to Alpha Capital Anstalt. The convertible secured note bears interest at a rate of 5% per annum and matures on June 15, 2017. The convertible secured note is convertible into units, consisting of one common share of the Company and one common share purchase warrant of the Company, at a conversion price of $0.34794 per unit. Each warrant would entitle the holder to acquire one additional common share at an exercise price of CAD $0.4935 per share until December 15, 2020. The convertible secured note is secured by the assets of the Company.

(c) Atlands Overseas Corp.

On February 9, 2015, the Company received a loan for an aggregate principal amount of $2,000,000, increased to $3,500,000 on July 29, 2015. On February 22, 2016, the loan was modified and bears interest at a rate of 6% per annum until February 9, 2016 and 10% per annum from February 10, 2016 to February 9, 2017 and extend the maturity date, by one year, to February 9, 2017. The loan is personally guaranteed by the Chair of the Board of Directors. In addition, the lender also has the option, subject to director, shareholder and regulatory approvals, to convert the loan into a 49.9% ownership interest in MCWO.

15. RECLAMATION AND RESTORATION PROVISIONS

	Oil Extraction Facility	Site Restoration	Total
Balance at August 31, 2014	-	-	-
Provision made during the year	350,000	200,000	550,000
Balance at August 31, 2015	350,000	200,000	550,000
Accretion expense	3,500	2,000	5,500
Balance at February 29, 2015	$ 353,500	$ 202,000	$ 555,500

(a) Oil Extraction Facility

In accordance with the terms of the lease agreement, the Company is required to dismantle its oil extraction facility at the end of the lease term, which is expected to be in 25 years. During the year ended August 31, 2015, the Company recorded a provision of $350,000 for the dismantling of the facility.

Because of the long-term nature of the liability, the greatest uncertainties in estimating this provision are the costs that will be incurred and the timing of the dismantling of the oil extraction facility. In particular, the Company has assumed that the oil extraction facility will be dismantled using technology and equipment currently available and that the plant will continue to be economically viable until the end of the lease term.

The discount rate used in the calculation of the provision as at February 29, 2016 and August 31, 2015 is 2.0%.

(b) Site restoration

In accordance with environmental laws in the United States, the Company's environmental permits and the lease agreement, the Company is required to restore contaminated and disturbed land to its original condition before the end of the lease term, which is expected to be in 25 years. During the year ended August 31, 2015, the Company provided $200,000 for this purpose.

The site restoration provision represents rehabilitation and restoration costs related to oil extraction sites. This provision has been created based on the Company's internal estimates. Significant assumptions in estimating the provision include the technology and equipment currently available, future environmental laws and restoration requirements, and future market prices for the necessary restoration works required.

The discount rate used in the calculation of the provision as at February 28, 2016 and August 31, 2015 is 2.0%.

16. COMMON SHARES

Authorized	unlimited common shares without par value
Issued and Outstanding	106,223,449 common shares as at February 29, 2016.

On February 24, 2016, the Company issued 933,733 shares at an issue price of US $0.11 per share (CAD $0.15 per share) to a director of the Company for net proceeds of $100,000.

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. The 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 Toronto Stock Exchange. The stock option plan is a 20% fixed number plan with a maximum of 10,004,746 common shares reserved for issuance.

On February 1, 2016, the Company issued 1,000,000 common share purchase options with an exercise price of CAD $0.195 per share and which expire in ten years. The weighted average fair value of the options granted during the six months ended February 29, 2016 was estimated at $135,812 ($0.136 per option) at the grant date using the Black-Scholes option pricing model.

The weighted average assumptions used for the Black Scholes option pricing model were:

	Six months ended February 29, 2016
Share price	CAD $0.195
Exercise price	CAD $0.195
Expected share price volatility [1]	139.8%
Risk-free interest rate	1.983%
Expected term (in years)	10

(1) Expected volatility has been calculated based on the Company historical volatility.

(b) Share purchase options

Share purchase option transactions under the stock option plan were:

	Six months ended February 29, 2016		**Year ended August 31, 2015**	
	Number of Options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of period	2,800,000	$ 0.600	2,883,426	$ 0.610
Options granted	1,000,000	0.195	-	-
Options exercised	-	-	-	-
Options expired	-	-	(83,426)	1.040
Balance, end of period	3,800,000	$ 0.490	2,800,000	$ 0.600

17. SHARE PURCHASE OPTIONS (continued)

(b) Share purchase options (continued)

Share purchase options outstanding and exercisable as at February 29, 2016 are:

Expiry Date	Exercise Price	Options Outstanding	Options Exercisable
November 11, 2017	CAD $1.100	900,000	900,000
December 31, 2018	USD $0.160	1,500,000	1,500,000
August 15, 2019	CAD $1.100	400,000	400,000
February 1, 2026	CAD $0.195	1,000,000	83,333
		3,800,000	2,833,333
Weighted average remaining contractual life		4.5 years	2.8 years
Weighted average exercise price		$0.490	$0.580

18. SHARE PURCHASE WARRANTS

Share purchase warrants outstanding as at February 29, 2016 are:

Expiry Date	Exercise Price	Warrants Outstanding
October 10, 2017	CAD $1.000	500,000
November 5, 2019	CAD $0.945	759,798
		1,259,798
Weighted average remaining contractual life	CAD $0.970	2.9 years

On October 19, 2014, 441,000 share purchase warrants expired unexercised.

On October 10, 2014 the Company issued an aggregate of 500,000 share purchase warrants in connection with the issuance of two secured debentures (Note 13(b)(ii)). The fair value of the warrants granted was estimated at $0.31 per warrant at the grant date using the Black-Scholes option pricing model.

The weighted average assumptions used for the Black-Scholes option pricing model were a share price of CAD $0.83, exercise price of CAD $1.00, expected share price volatility of 71%, risk-free interest rate of 1.2% and expected term of 3 years. The expected volatility was calculated based on the Company's historical volatility and the volatility of comparable public entities at a similar stage in their life cycle.

On April 30, 2015 and May 19, 2015, the Company issued 126,633 and 253,266 share purchase warrants in connection with the conversion of $100,000 and $200,000, respectively, of the convertible secured notes (Note 14(b)) into units composed of one common share of the Company and one common share purchase warrant of the Company. The fair value of the warrants granted was estimated, using the residual method, at $0.02 and $0.08 per warrant, respectively.

Between September 24, 2015 and October 9, 2015, the Company issued 379,899 share purchase warrants in connection with the conversion of $300,000 of the principal of the convertible secured notes (Note 14(b)) into units composed of one common share of the Company and one common share purchase warrant of the Company. The weighted average fair value of the warrants granted was estimated using the residual method at $0.12 per warrant.

19. DILUTED LOSS PER SHARE

The Company's potentially dilutive instruments are convertible debentures and 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.

20. RELATED PARTY TRANSACTIONS

Related party transactions not otherwise separately disclosed in these condensed consolidated interim financial statements are as follows:

(a) Fuel sales to related parties

During the three and six months ended February 28, 2015 approximately 1.9% and 1.3% of the Company's sales were to retail operations controlled by the Chair of the Board of Directors of the Company.

On May 13, 2015, the Company sold its 100% interest in MCWF (Note 4(c)), which included trade receivables from retail operations controlled by the Chair of the Board of Directors of the Company of $952,368.

(b) Transactions with executive officers and directors

On May 13, 2015, the Company sold its 100% ownership interest in MCWF to the Chair of the Board of Directors of the Company for a nominal amount and the assumption of all the outstanding liabilities of MCWF (Note 4(c)).

During the three months and six months ended February 28, 2015, the Company earned $37,386 and $74,722 in rental income, respectively, from a company controlled by the Chair of the Board of Directors of the Company.

On November 10, 2015, the Company entered into an agreement with the Chair of the Board of Directors to issue 5,729,142 common shares, on regulatory approval, as compensation for him personally guaranteeing an aggregate of $16,500,000 of long-term debt (Note 13 (a) and (d)) and convertible debentures (Note 14(c)) of the Company.

On November 24, 2015, the Company entered into an agreement with its Chief Financial Officer to issue 112,378 common shares in satisfaction of indebtedness of $35,000 owing for unpaid fees. During the six months ended February 28, 2015, the Company issued 70,000 common shares to its Chief Financial Officer pursuant to the terms of his consulting agreement.

On January 20, 2016, the Company issued an aggregate of 2,554,814 common shares of the Company in satisfaction of $236,411 of indebtedness due to two lenders controlled by the Chair of the Board of Directors of the Company (Note 13(b)(iii).

On February 24, 2016, the Company issued 933,733 shares at an issue price of US $0.11 per share (CAD $0.15 per share) to a director of the Company for net proceeds of $100,000 (Note16).

20. RELATED PARTY TRANSACTIONS (continued)

(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 29, 2016	**February 28, 2015**
Salaries, fees and other benefits	$ 104,540	$ 223,677
Share based compensation	11,318	-
	$ 115,858	$ 223,677

	Six Months ended	
	February 29, 2016	**February 28, 2015**
Salaries, fees and other benefits	$ 261,040	$ 676,961
Share based compensation	11,318	-
	$ 272,358	$ 676,961

At February 29, 2016, $346,890 is due to members of key management for unpaid salaries and expenses (August 31, 2015 - $449,570).

During the year ended August 31, 2015, the Company issued 497,135 common shares to current and previous directors for settlement of outstanding fees owing to them.

(d) Due to executive officer

On April 29, 2014, the Company issued an $824,000 convertible debenture to the Chair of the Board of Directors of the Company, which bears interest at a rate of 10% per annum and matures on May 7, 2017. The convertible debenture was convertible into 998,230 common shares of the Company at a deemed price of CAD $0.90 per share at any time at the option of the holder and is secured by all of the assets of the Company. The convertible debenture was accounted for on initial recognition as a non-derivative compound financial instrument, with a financial liability component (the loan) and an equity component (the fixed conversion right). The fair value of the equity component was determined to be nominal and therefore, has been assigned no value.

20. RELATED PARTY TRANSACTIONS (continued)

(d) Due to executive officer (continued)

On June 25, 2014, the Company issued a convertible debenture for up to a maximum aggregate principal amount of $2,000,000 to the Chair of the Board of Directors of the Company, which bears interest at a rate of 10% per annum and matures on June 25, 2017. As of August 31, 2015, the Company had formally drawn $1,796,000 which was convertible into 1,925,492 common shares of the Company at a deemed price of CAD $1.00 per share at any time at the option of the holder and was secured by all of the assets of the Company and its wholly owned subsidiary, MCWF.

On September 22, 2014, the principal outstanding of the convertible debentures of $824,000 and $1,796,000 was converted into 998,230 and 1,925,492 common shares of the Company, respectively.

During the year ended August 31, 2015, the Company received advances of $225,500 from various private companies controlled by the Chair of the Board of directors of the Company. During the six months ended February 29, 2016, the Company received further advances of $25,000 from these companies (Note 13(b)(iii)). On January 20, 2016, the Company entered into an agreement to settle $225,000 of the principal and accrued and unpaid interest thereon by issuing the lenders 2,554,814 common shares of the Company. As at February 29, 2016, the principal outstanding on the promissory notes for these advances was $25,500 (year ended August 31, 2015 - $225,500).

As of February 29, 2016, the Company owed the Chair of the Board of Directors $123,482 (August 31, 2015 – $204,000).

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 constructed, beginning with the successful operation of a second facility. As at February 29, 2016, the first extraction facility has been completed, with additional work being done on expanding the production capacity of this facility to 500 barrels per day (Note 10(b)).

(b) Office lease

The Company's minimum future annual lease payments for its office space as at February 29, 2016 are:

	Office Lease Commitments
Due within one year	$ 79,105
Due between two and five years	101,997
	$ 181,101

22. SEGMENT INFORMATION

The Company operated in two reportable segments within the USA during the three and six months ended February 29, 2016, oil extraction and processing operations and mining operations (Note 1). In the prior period, the Company operated in two reportable segments, oil extraction and processing operations and fuel distribution.

The Company's oil extraction segment has commenced commercial production and is generating revenue from the sale of hydrocarbon products to third parties. The Company's mining operations have not commenced and are expected to generate revenues once the Company begins extracting tar sands.

The Company's previous fuel distribution segment derived revenues from the sale of fuel to retail customers.

The presentation of the condensed consolidated interim statements of loss and comprehensive loss provides information about the oil extraction and processing segment. There were no operations in the mining operations segment during the three and six months ended February 29, 2016 and February 28, 2015.

Other information about reportable segments is:

	February 29,2016		
(in '000s of dollars)	**Oil Extraction**	**Mining operations**	**Consolidated**
Additions to non-current assets	$ 321	$ 208	$ 529
Reportable segment assets	17,460	11,860	29,320
Reportable segment liabilities	$ (12,652)	$ (10,545)	$ (23,197)

	February 28, 2015		
(in '000s of dollars)	**Oil Extraction**	**Fuel Distribution**	**Consolidated**
Additions to non-current assets	$ 3,280	$ -	$ 3,280
Reportable segment assets	18,348	4,818	23,166
Reportable segment liabilities	$ (11,178)	$ (11,928)	$ (23,106)

22. SEGMENT INFORMATION (continued)

Other information about the fuel distribution segment is as follows:

(in '000s of dollars)	**Three months ended February 28, 2015**	**Six months ended February 28, 2015**
	Fuel Distribution	
Revenues	$ 10,340,048	$ 117,467,158
Fuel Purchases	10,034,810	115,156,105
Fuel Delivery	573,522	1,833,467
Amortization	8,775	17,550
Customer station maintenance	153,892	463,833
General and administrative	283,126	666,989
Salaries and wages	218,049	571,754
Impairment charges	-	58,167
Allowance for doubtful accounts	698,746	698,746
Interest expense	77,212	201,094
Other income	(252,521)	(414,403)
Gain on sale of assets	(4,342,911)	(4,342,911)

23. 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 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

(i) Trade and other receivables

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 held at financial institutions and trade receivable from customers.

The Company has cash balances at various 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.

At February 29, 2016 and August 31, 2015, no trade receivables were past due but not impaired as the Company sold its 100% interest in MCWF, which included all of the trade receivables from fuel distribution segment customers, on May 13, 2015 (Note 4(c)), and has made minimal commercial sales from its oil extraction facility (Note 10(b)).

(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. The Company considers its exposure to interest rate risk to be minimal.

24. MANAGEMENT OF FINANCIAL RISKS (continued)

(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.

At February 29, 2016

			Contractual cash flows		
(in '000s of dollars)	**Carrying amount**	**Total**	**1 year or less**	**2 - 5 years**	**More than 5 years**
Accounts payable	$ 1,431	$ 1,431	$ 1,431	$ -	$ -
Accrued liabilities	1,629	1,629	1,629	-	-
Due to senior officer	123	123	123	-	-
Convertible debenture	4,008	4,748	3,884	864	-
Long-term debt	15,280	18,681	1,015	17,655	11
	$ 22,471	$ 26,612	$ 8,082	$ 18,519	$ 11

At August 31, 2015

			Contractual cash flows		
(in '000s of dollars)	**Carrying amount**	**Total**	**1 year or less**	**2 - 5 years**	**More than 5 years**
Accounts payable	$ 1,211	$ 1,211	$ 1,211	$ -	$ -
Accrued liabilities	1,183	1,183	1,183	-	-
Due to senior officer	204	204	204		
Convertible debenture(1)	4,274	4,542	4,542	-	-
Long-term debt(2)	16,769	20,741	4,103	16,638	-
Financial guarantees		91	91		
	$ 23,641	$ 27,972	$ 11,334	$ 16,638	$ -

(1) Excluded from the maturity analysis are convertible debenture that were converted subsequent to year-end.

(2) Excluded from the maturity analysis are long-term notes that were converted to equity subsequent to year-end.

25. EVENTS AFTER THE REPORTING DATE

Events after the reporting date not otherwise separately disclosed in these condensed consolidated interim financial statements are:

(a) Equity financing

i) On March 2, 2016, the Company issued 1,000,000 common shares at an issue price of US $0.11 per share (CAD $0.14 per share) to a private investor for net proceeds of $110,000.

ii) Between March 7, 2016 and April 4, 2016, the Company issued 2,288,668 common shares at an issue price of US $0.09 per share (CAD $0.12 per share) to private investors for net proceeds of $206,000.

(b) Debt conversions

i) On March 23, 2016, the Company entered into a debt conversion agreement with a service provider to settle an outstanding liability of $75,000 by issuing 500,000 common share purchase warrants exercisable at CAD $0.17 per share for a period of three years.

ii) Between March 24, 2016 and March 30, 2016, the Company entered into debt conversion agreements with various service providers to settle outstanding liabilities of $299,298 by the issuing of 2,546,411 common shares.

(c) Debt financing

i) On April 5, 2015, the Company entered into a debt conversion agreement with Alpha Capital Anstalt whereby $55,556 of the convertible secured note of $555,556 was settled by the issuance of 689,740 common shares of the Company and the remaining principal balance of $500,000, together with interest thereon of $12,557 was repaid out of the proceeds of the convertible secured note issued, as described below.

ii) On April 8, 2016, the Company issued a convertible secured note for US$ 600,000 to Alpha Capital Anstalt. The convertible secured note bears interest at a rate of 5% per annum and matures on October 8, 2017. The convertible secured note is convertible into units, consisting of one common share of the Company and one common share purchase warrant of the Company, at a conversion price of CAD $0.15 per unit. Each warrant would entitle the holder to acquire one additional common share at an exercise price of CAD $0.1575 per share until April 8, 2021. The convertible secured note is secured by the assets of the Company.