

MCW Energy Group Limited

Condensed Consolidated Interim Financial Statements

For the three months ended November 30, 2016 and 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

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MCW ENERGY GROUP LIMITED
Condensed Consolidated Interim Statements of Financial Position
As at November 30, 2016 and August 31, 2016
Expressed in US dollars

	Notes	November 30, 2016 (Unaudited)	August 31, 2016 (Audited)
ASSETS			
Current assets			
Cash	4	\$ 30,647	\$ 6,129
Trade and other receivables	5	229,613	215,113
Inventory	6	-	-
Current portion of advanced royalty payments	7(a)	540,000	540,000
Prepaid expenses and other current assets		129,444	141,829
		929,704	903,071
Advanced royalty payments	7(a)	72,292	94,167
Mineral lease	8(b)	12,251,000	12,143,738
Property, plant and equipment	9	15,567,844	15,852,484
Intangible assets	10	2,230,197	2,242,455
		\$ 31,051,037	\$ 31,235,915
LIABILITIES			
Current liabilities			
Accounts payable	11	\$ 1,572,047	\$ 1,454,583
Accrued expenses	11	2,606,414	2,329,151
Unearned revenue		187,550	133,550
Payable to director	19(c)	61,152	10,068
Current portion of long-term debt	12	1,287,096	3,958,522
Current portion of convertible debentures	13	4,082,491	3,704,000
		9,796,750	11,589,874
Unearned advance royalties received	7(b)	170,000	170,000
Long-term debt	12	8,793,300	8,855,326
Convertible debentures	13	-	555,876
Reclamation and Restoration provision	14	563,750	561,000
		19,323,800	21,732,076
SHAREHOLDERS' EQUITY			
Share capital	15	39,758,573	39,416,380
Shares to be issued		2,604,153	100,000
Share option reserve	16	7,368,666	7,355,559
Share warrant reserve	17	618,667	512,934
Deficit		(39,640,489)	(38,916,724)
		10,709,570	8,468,149
Non-Controlling Interest		1,017,667	1,035,690
		11,727,237	9,503,839
		\$ 31,051,037	\$ 31,235,915

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

MCW ENERGY GROUP LIMITED

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss

For the three months ended November 30, 2016 and 2015

Expressed in US dollars

(Unaudited)

		Three months ended	
	Notes	November 30, 2016	November 30, 2015
Revenues		\$ -	\$ 153,432
Cost of Goods Sold		98,143	623,610
Gross Loss		<u>(98,143)</u>	<u>(470,178)</u>
Operating Expenses			
General and administrative		72,137	105,031
Travel and promotion		183,536	224,169
Professional fees		76,442	336,897
Salaries and wages		167,000	236,500
Share-based compensation	16(a) 19(b)	13,107	2,722,179
Gain on settlement of liabilities	13(a)	(470,601)	(196)
Interest expense		305,127	436,679
Other income		-	(47)
Depreciation and amortization		296,898	293,999
		<u>643,645</u>	<u>4,355,211</u>
Loss before Income Taxes		741,788	4,825,389
Provision for income taxes		-	-
Loss and Comprehensive loss		<u>741,788</u>	<u>4,825,389</u>
Net Loss and Comprehensive Loss attributable to:			
Shareholders of the Company		\$ 723,765	\$ 4,825,389
Non-Controlling Interest		18,023	-
		<u>\$ 741,788</u>	<u>\$ 4,825,389</u>
Weighted Average Number of Shares Outstanding	18	202,358,960	61,229,265
Basic and Diluted Loss per Share		\$ 0.00	\$ 0.08

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MCW ENERGY GROUP LIMITED

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity

For the three months ended November 30, 2016 and 2015

Expressed in US dollars

(Unaudited)

	Notes	Number of Shares Outstanding	Share Capital	Share to be Issued	Option Reserve	Warrant Reserve	Deficit	Shareholders' Equity	Non-Controlling Interest	Total Equity
Balance at August 31, 2015		60,622,938	\$ 25,524,787	\$ -	\$ 7,063,773	\$ 337,283	\$ (26,842,194)	\$ 6,083,649	-	\$ 6,083,649
Conversion of debentures	13(c)	1,374,200	936,677	-	-	59,334	-	996,011	-	\$ 996,011
Settlement of liabilities		650,555	335,674	-	-	-	-	335,674	-	\$ 335,674
Share-based compensation	19(b)	5,729,142	2,722,179	-	-	-	-	2,722,179	-	2,722,179
Net loss		-	-	-	-	-	(4,825,389)	(4,825,389)	-	\$ (4,825,389)
Balance at November 30, 2015		68,376,835	\$ 29,519,317	\$ -	\$ 7,063,773	\$ 396,617	\$ (26,355,459)	\$ 5,312,124	\$ 5,312,124	\$ 5,312,124
Balance at August 31, 2016		\$ 201,695,012	\$ 39,416,380	\$ 100,000	\$ 7,355,559	\$ 512,934	\$ (38,916,724)	8,468,149	1,035,690.00	\$ 9,503,839
Settlement of loans	13(a)	-	-	2,575,106	-	-	-	2,575,106	-	2,575,106
Conversion of debentures	13(c)	1,732,667	94,267	-	-	105,733	-	200,000	-	200,000
Settlement of liabilities		740,914	170,346	(100,000)	-	-	-	70,346	-	70,346
Share-based compensation	19(b)	-	-	-	13,107	-	-	13,107	-	13,107
Shares subscribed for		374,748	77,580	29,047	-	-	-	106,627	-	106,627
Net loss		-	-	-	-	-	(723,765)	(723,765)	\$ (18,023)	(741,788)
Balance at November 30, 2016		204,543,341	\$ 39,758,573	\$ 2,604,153	\$ 7,368,666	\$ 618,667	\$ (39,640,489)	\$ 10,709,571	1,017,667	11,727,237

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 three months ended November 30, 2016 and 2015
Expressed in US dollars
(Unaudited)

	November 30, 2016	November 30, 2015
Cash flow used for operating activities:		
Net loss	\$ (741,788)	\$ (4,825,389)
Adjustments for non-cash, investing and financing items		
Depreciation and amortization	296,898	293,999
Loss on settlement of liabilities and debt conversions	(470,601)	(196)
Share-based compensation	13,107	2,722,179
Other	138,078	167,771
Changes in operating assets and liabilities:		
Accounts payable	181,144	242,009
Accounts receivable	(14,500)	(28,415)
Accrued expenses	337,422	390,746
Inventory	-	(35,512)
Prepaid expenses and deposits	12,385	(16,637)
Unearned revenues	54,000	-
Net cash used for operating activities of continuing operations	<u>(193,855)</u>	<u>(1,089,445)</u>
Cash flows used for investing activities:		
Purchase and construction of property and equipment	-	(294,160)
Additions to mineral lease	(107,262)	-
Advance royalty payments	(75,000)	(60,000)
Net cash used for investing activities of continuing operations	<u>(182,262)</u>	<u>(354,160)</u>
Cash flows from (used for) financing activities:		
Advances from executive officers	51,084	-
Advances to executive officers	-	(98,948)
Proceeds on private equity placements	84,000	-
Payments of long-term debt	(15,871)	(371,135)
Proceeds from long-term debt	281,422	1,140,000
Net cash from financing activities of continuing operations	<u>400,635</u>	<u>669,917</u>
Decrease in cash	24,518	(773,688)
Cash, beginning of the period	6,129	861,639
Cash, end of the period	<u>\$ 30,647</u>	<u>\$ 87,951</u>
Cash composed of:		
Cash	\$ 30,647	\$ 87,951
Bank overdraft	-	-
	<u>\$ 30,647</u>	<u>\$ 87,951</u>
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 6,491	\$ 116,050

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

MCW ENERGY GROUP LIMITED

Notes to the Condensed Consolidated Interim Financial Statements

November 30, 2016 and 2015

Expressed in US dollars

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 its 57.3% owned subsidiary company Accord GR Energy, Inc. (“Accord”), which is engaged in using a specialized technology to extract oil from oil wells which have been depleted using conventional extraction methods.

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 4370 Tujunga Avenue, Suite 320, Studio City, California 91604, 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 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 is anticipated to increase the production capacity to 500 barrels per day.

On July 4, 2016, the Company acquired 57.3% of the issued and outstanding common shares of Accord in consideration for the issue of 59,698,300 common shares of the Company and the issue of common share purchase warrants for the purchase of 2,000,000 common shares of the Company at \$0.25 per share for three years.

The Company has incurred losses for several years and, at November 30, 2016, has an accumulated deficit of \$39,640,489 (August 31, 2016 - \$38,916,724) and a working capital deficiency of \$8,867,046 (August 31, 2016 - \$10,686,803). These consolidated 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 consolidated 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, 2016 and should be read in conjunction with those audited consolidated financial statements.

MCW ENERGY GROUP LIMITED

Notes to the Condensed Consolidated Interim Financial Statements

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2. BASIS OF PREPARATION (continued)

(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.

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.

MCW ENERGY GROUP LIMITED

Notes to the Condensed Consolidated Interim Financial Statements

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2. BASIS OF PREPARATION (continued)

(c) Significant accounting judgments and estimates (continued)

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 consolidated statement of financial position could be impacted. The Company has not recognized any deferred tax assets as at November 30, 2016 and August 31, 2016.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

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

<u>Entity</u>	<u>% of Ownership</u>	<u>Jurisdiction</u>
MCW Energy Group Limited	Parent	Canada
MCW 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%	USA
Accord GR Energy, Inc.	57.3% ⁽¹⁾	USA

(1) Effective July 4, 2016, the Company acquired a 57.3% interest in Accord GR Energy, Inc.

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.

MCW ENERGY GROUP LIMITED

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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.

MCW ENERGY GROUP LIMITED

Notes to the Condensed Consolidated Interim Financial Statements

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Expressed in US dollars

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 is 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 are 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.

(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.

(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.

MCW ENERGY GROUP LIMITED

Notes to the Condensed Consolidated Interim Financial Statements

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Expressed in US dollars

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Oil and gas properties (continued)

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.

(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 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, 2016:

Oil Extraction Technologies	15 years
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(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 resources, 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 (income) loss and comprehensive (income) 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.

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Notes to the Condensed Consolidated Interim Financial Statements

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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, payable to director, convertible debentures and long-term debt, classified as other financial liabilities and measured at amortized cost

The recorded values of cash, accounts receivable, accounts payable, accrued expenses and due to director 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

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specific to the liability. The periodic unwinding of the discount is recognized in the consolidated statement of loss (income) as part of interest expense.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Provisions (continued)

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 (income).

(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.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

(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 year.

(q) New accounting standards and interpretations

The following is a summary of new standards, amendments and interpretations that are effective for annual periods beginning on or after January 1, 2016:

(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 financial statements when offsetting financial assets and financial liabilities. The application of the amendments to IFRS 7 did not have any material impact on the presented condensed consolidated interim financial statements.

(ii) *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. The application of the amendments to IFRS11 did not have any material impact on the presented condensed consolidated interim financial statements.

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(iii) IAS 1, Presentation of Financial Statements (“IAS 1”) – amendments

The amendments in IAS 1 enhance financial statement disclosures and presentation. The application of the amendments to IAS1 did not have any material impact on the presented condensed consolidated interim financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) New accounting standards and interpretations (continued)

(iv) IAS 16, Property, Plant and Equipment (“IAS 16”)

The amendment to IAS 16 provides clarification of acceptable methods of depreciation and amortization. The application of the amendments to IAS16 did not have any material impact on the presented condensed consolidated interim financial statements.

(v) IAS 38, Intangible Assets (“IAS 38”) - amendments

The amendment to IAS 38 provides clarification of acceptable methods of depreciation and amortization. The application of the amendments to IAS 38 did not have any material impact on the presented condensed consolidated interim financial statements.

The following is a summary of new standards, amendments and interpretations that have been issued but not yet adopted in these consolidated financial statements as of the date of their approval:

(i) IFRS 2, Share-Based Payment (“IFRS 2”) - amendments

The amendments to IFRS 2 provide additional clarification regarding the classification and measurement of share-based payment transactions. These amendments are effective for annual periods beginning on or after January 1, 2018.

(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 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 13 *Customer Loyalty Programmes*. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

(iv) 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, with IFRS 16’s approach to lessor accounting substantially unchanged from its predecessor *IAS 17 Leases*. IFRS 16 replaces *IAS 17 Leases*, *IFRIC 4 Determining Whether an Arrangement Contains a Lease*, *SIC-15 Operating Leases – Incentives*, and *SIC-27 Evaluating the Substance of Transactions*

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Involving the Legal Form of a Lease. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if *IFRS 15 Revenue from Contracts with Customers* is also applied.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) New accounting standards and interpretations (continued)

(v) 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.

(vi) 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.

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

4. 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.

5. TRADE AND OTHER RECEIVABLES

The Company's trade and other receivables consist of:

	<u>November 30, 2016</u>	<u>August 31, 2016</u>
Goods and services tax receivable	\$	\$ 123,085
Other receivables		92,028
	<u>\$</u>	<u>\$ 215,113</u>

Information about the Company's exposure to credit risks for trade and other receivables is included in Note 22(a)(i).

6. 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 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.

On June 1, 2015, the Company acquired a 100% interest in TMC Capital LLC, which holds the rights to mine ore from the Asphalt Ridge deposit and had granted TME a limited right to mine the bituminous sands in the deposit. As the Company obtained the direct right to the Asphalt Ridge deposit and TME was

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having financial difficulty, the Company allowed the contract with TME to lapse.

During the year ended August 31, 2016, crushed ore with a cost of \$186,080 was used in the production of hydrocarbon products at the plant.

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7. 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. (Note 8(b)). The mining and mineral lease with Asphalt Ridge, Inc. required the Company to make minimum advance royalty payments, which have been subsequently amended. The advance royalty payments made 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 were: \$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.

Effective March 12, 2016, a second amendment was made to the mining and mineral lease agreement between the Company and Asphalt Ridge, Inc. The amended advanced royalty payments required are \$60,000 per quarter from October 1, 2015 to February 28, 2018, \$100,000 per quarter from March 1, 2018 to December 31, 2020 and \$150,000 per quarter thereafter.

As at August 31, 2016, the Company had paid advance royalties of \$1,061,250 (2015 - \$881,250) to the lease holder, of which a total of \$427,083. During the three months ended November 30, 2016, an additional \$75,000 of advance royalties were paid and an additional \$96,875 had been expensed as expired. The royalties expensed have been recognized in cost of goods sold on the consolidated statement of loss and comprehensive loss.

As at August 31, 2016, the Company expects to expense a minimum of \$540,000 of these advance royalties either against production royalties or due to the expiry of the royalties within a one year period.

(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 was for a portion of the mining and mineral lease with Asphalt Ridge, Inc. (Note 8(b)). Blackrock is a company associated with Accord and the sublease was effectively terminated in the acquisition by the Company of Accord on July 4, 2016.

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8. MINERAL LEASES

	TMC Mineral Lease	Accord Oil and Gas Lease	Total
Cost			
August 31, 2015	\$ 11,091,388	\$ -	\$11,091,388
Additions	-	1,052,350	1,052,350
August 31, 2016	11,091,388	1,052,350	12,143,738
Additions	-	107,262	107,262
November 30, 2016	<u>\$ 11,091,388</u>	<u>\$ 1,159,612</u>	<u>\$12,251,000</u>
Accumulated Amortization			
August 31, 2015	\$ -	\$ -	\$ -
Additions	-	-	-
August 31, 2016	-	-	-
Additions	-	-	-
November 30, 2016	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Carrying Amount			
August 31, 2015	\$ 11,091,388	\$ -	\$11,091,388
August 31, 2016	<u>\$ 11,091,388</u>	<u>\$ 1,052,350</u>	<u>\$12,143,738</u>
November 30, 2016	<u>\$ 11,091,388</u>	<u>\$ 1,159,612</u>	<u>\$12,251,000</u>

(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"). 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").

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8. MINERAL LEASES (continued)

(b) TMC mineral lease (continued)

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 to defer the requirements for oil extraction until July 1, 2016 and to include the oil extraction from 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.

On March 1, 2016, a second amendment to the TMC Mineral Lease amended the termination clause in the lease to:

- (i) Termination will be automatic if there is a lack of a written financial commitment to fund the proposed 3,000 barrel per day production facility prior to March 1, 2018.
- (ii) Cessation of operations or inadequate production due to increased operating costs or decreased marketability and production is not restored to 80% of capacity within 6 months of such cessation.
- (iii) The proposed 3,000 barrel per day plant fails to produce a minimum of 80% of its rated capacity for at least 180 calendar days during the lease year commencing July 1, 2020 plus any extension periods
- (iv) The lessee may surrender the lease with 30 days written notice.
- (v) Breach of material terms of the lease, the lessor will inform the lessee in writing and the lessee will have 30 days to cure financial breaches and 150 days to cure any other non-monetary breach.

The term of the lease was extended by the termination clause, providing a written commitment is obtained to fund the 3,000 barrel per day proposed plant. The Company is required to produce a minimum average daily quantity of bitumen, crude oil and/or bitumen products, for a minimum of 180 days during each lease year and 600 days in three consecutive lease years, of:

- (i) By July 1, 2016 plus any extension periods, 80% of 100 barrels per day.
- (ii) By July 1, 2018 plus any extension periods, 80% of 1,500 barrels per day.
- (iii) By July 1, 2020, plus any extension periods, 80% of 3,000 barrels per day.

Advance royalties required are:

- (i) From October 1, 2015 to February 28, 2018, minimum payments of \$60,000 per quarter.
- (ii) From March 1, 2018 to December 31, 2020, minimum payments of \$100,000 per quarter.
- (iii) From January 1, 2021, minimum payments of \$150,000 per quarter.
- (iv) Minimum payments commencing on July 1, 2020 will be adjusted for CPI inflation.

Production royalties payable are amended to 7% of the gross sales revenue, subject to certain adjustments up until June 30, 2020. After that date, royalties will be calculated on a sliding scale based on crude oil prices ranging from 7% to 15% of gross sales revenues, subject to certain adjustments.

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8. MINERAL LEASES (continued)

(b) TMC mineral lease (continued)

Minimum expenditures to be incurred on the properties are \$1,000,000 per year up to June 30, 2020 and \$2,000,000 per year after that if a minimum daily production of 3,000 barrels per day during a 180 day period is not achieved.

(c) Oil and gas leases

On July 4, 2016, the Company acquired 57.3% of the common shares of Accord (Note 1). Accord holds three oil and gas leases in Edwards County, Texas and certain oil extraction technologies (Note 10(a)). The oil and gas leases are subject to an overriding royalty interest of 5%, which will be reduced to 1% after the Company has incurred and paid \$1,000,000 in royalties to the underlying royalty holder. No royalties are payable until defined revenue thresholds have been achieved from existing and new oil wells developed on the leases.

9. PROPERTY, PLANT AND EQUIPMENT

	Oil Extraction Plant	Other Property and Equipment	Total
Cost			
August 31, 2015	\$ 16,122,362	\$ 336,629	\$16,458,991
Additions	555,655	16,225	571,880
August 31, 2016	16,678,017	352,854	17,030,871
Additions	-	-	-
November 30, 2016	\$ 16,678,017	\$ 352,854	\$17,030,871
Accumulated Amortization			
August 31, 2015	\$ -	\$ 14,430	\$ 14,430
Additions	1,082,273	81,684	1,163,957
August 31, 2016	1,082,273	96,114	1,178,387
Additions	272,832	11,808	284,640
November 30, 2016	\$ 1,355,105	\$ 107,922	\$ 1,463,027
Carrying Amount			
August 31, 2015	\$ 16,122,362	\$ 322,199	\$16,444,561
August 31, 2016	\$ 15,595,744	\$ 256,740	\$15,852,484
November 30, 2016	\$ 15,322,912	\$ 244,932	\$15,567,844

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9. PROPERTY, PLANT AND EQUIPMENT (continued)

(a) Oil Extraction Plant

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 first phase of the plant was completed and was ready for production of hydrocarbon products for resale to third parties.

The Company is amortizing the cost of construction over 15 years from the completion of the plant. The cost of construction includes capitalized borrowing costs for the year ended August 31, 2016 of \$137,500 and total capitalized borrowing costs as at of November 30, 2016 and August 31, 2016 of \$2,112,080.

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.

10. INTANGIBLE ASSETS

	Oil Extraction Technology
Cost	
August 31, 2015	735,488
Additions	<u>1,556,000</u>
August 31, 2016	2,291,488
Additions	<u>-</u>
November 30, 2016	<u>\$ 2,291,488</u>
Accumulated Amortization	
August 31, 2015	-
Additions	<u>49,033</u>
August 31, 2016	49,033
Additions	<u>12,258</u>
November 30, 2016	<u>\$ 61,291</u>
Carrying Amounts	
August 31, 2015	<u>\$ 735,488</u>
August 31, 2016	<u>\$ 2,242,455</u>
November 30, 2016	<u>\$ 2,230,197</u>

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10. INTANGIBLE ASSETS (continued)

(a) Oil extraction technologies

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 has employed it in its Oil Extraction Plant. The Company commenced 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 Plant.

On July 4, 2016, the Company acquired 57.3% of the total issued and outstanding shares of Accord (Note 1). Accord holds the rights to use proprietary technology which may improve the efficiency of oil extraction from certain oil fields and from depth at the Company's bituminous sands lease. Once the proprietary technology is fully operational the Company intends to utilize the technology to extract oil from its oil and gas leases (Note 9(c)) and to amortize the cost over fifteen years, the expected life useful life of the oil and gas leases.

11. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable as at November 30, 2016 and August 31, 2016 consist primarily of amounts outstanding for construction and expansion of the Oil Extraction Plant and other operating expenses that are due on demand.

Accrued expenses as at November 30, 2016 and August 31, 2016 consist primarily of other operating expenses and interest accruals on long-term debt (Note 12) and convertible debentures (Note 13).

Information about the Company's exposure to liquidity risk is included in Note 22(c).

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12. LONG-TERM DEBT

Lender	Maturity Date	Interest Rate	Principal due November 30, 2016	Principal due August 31, 2016
Director	18 March 2017	5.00%	\$ -	\$ 3,000,000
Private lenders	1 May 2017	15.00%	110,000	126,800
Private lenders	31 January 2017	15.00%	805,141	802,747
Private lenders	Current - August 2018	10.00%	249,147	176,466
Private lenders	10 September 2017	6.00%	803,777	792,527
Private lenders	Current - 28 August 2019	5.00%	248,496	59,916
Equipment loans	April 17, 2020 – April 20, 2020	4.30 - 4.90%	201,835	215,392
Promissory notes	31 May 2020	5.00%	7,500,000	7,500,000
Director	25 July 2017	5.00%	162,000	140,000
Total loans			<u>\$ 10,080,396</u>	<u>\$ 12,813,848</u>

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

	November 30, 2016	August 31, 2016
Principal classified as repayable within one year	\$ 1,287,096	\$ 3,958,522
Principal classified as repayable later than one year	8,793,300	8,855,326
	<u>\$ 10,080,396</u>	<u>\$ 12,813,848</u>

(a) Director

On March 18, 2016, the Company issued a promissory note for \$3,000,000 to the Chair of the Board of Directors of the Company, the proceeds from the issuance of the promissory note were used to settle the total outstanding amount of the B&N Bank credit facility.

On September 18, 2016, the Company entered into agreement with the Chair of the Board of Directors to issue 27,021,050 common shares, on regulatory approval, in satisfaction of indebtedness of \$3,075,000, including all interest thereon.

(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 November 1, 2016 to extend the maturity date to May 1, 2017. During the three months ended November 30, 2016, interest previously overpaid amounting to \$16,800 was offset against the principal (Principal repaid during the year ended August 31, 2016 amounted to \$73,200).

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12. LONG-TERM DEBT

(b) Private lenders (continued)

- (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 17) to the two secured debenture holders. On September 22, 2016, the two secured debentures were amended to extend the maturity date to January 31, 2017, to allow for the conversion of the secured debentures into common shares of the company at a rate of CAD \$0.15 per common share and to increase the interest rate, starting June 1, 2016, to 15% per annum. On June 1, 2016, the common share purchase warrants initially issued as part of the secured debentures were cancelled.
- (iii) The Company received advances from various private lenders during the three months ended November 30, 2016 and the year ended August 31, 2016 in the form of unsecured promissory notes. These promissory notes mature between current (on demand) and August 6, 2018 and bear interest at 10% per annum.
- (iv) During the year ended August 31, 2016, the Company obtained a loan from Atlands Overseas Corp. for \$750,000, bearing interest at a rate of 6% per annum and maturing on September 10, 2017.
- (v) The Company received advances from various private lenders during the three months ended November 30, 2016 and the year ended August 31, 2016 in the form of unsecured promissory notes. These promissory notes mature between current (on demand) and August 29, 2018 and bear interest at 5% per annum.
- (vi) The Company received advances from various private lenders during the year ended August 31, 2016 and 2015 in the form of unsecured promissory notes. On January 20, 2016, the Company issued an aggregate of 26,473,642 common shares in satisfaction of \$2,447,478 of indebtedness. On July 25, 2016, the Company issued an aggregate of 2,589,477 common shares in satisfaction of \$266,146 indebtedness.

(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 by the acquired assets.

(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. These promissory notes are guaranteed by the Chair of the Board of Directors.

During the year ended August 31, 2016, the Company issued 20,000,000 common shares as repayment of \$2,500,000 of this indebtedness.

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12. LONG TERM DEBT (continued)

(e) Director

During the three months ended November 30, 2016 and the year ended August 31, 2016, the Company issued unsecured promissory notes of \$162,000 to a private company controlled by the Chair of the Board of Directors of the Company (Note 19).

13. CONVERTIBLE DEBENTURES

Lender	Maturity Date	Interest Rate	Principal due November 30, 2016	Principal due August 31, 2016
Director	25 June 2017	10.00%	\$ 204,000	\$ 204,000
Alpha Capital Anstalt	8 October 2017	5.00%	378,491	555,876
Atlands Overseas Corp.	9 February 2017	12.00%	3,500,000	3,500,000
Total loans			<u>\$ 4,082,491</u>	<u>\$ 4,259,876</u>

The maturity of the convertible debt is as follows:

	November 30, 2016	August 31, 2016
Principal classified as repayable within one year	\$ 4,082,491	\$ 3,704,000
Principal classified as repayable later than one year	-	555,876
	<u>\$ 4,082,491</u>	<u>\$ 4,259,876</u>

(a) Director

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, which bears interest at a rate of 10% per annum and matures on June 25, 2017. On September 22, 2014, \$1,796,000 of the principal was converted into 1,925,492 common shares of the Company. The balance of \$204,000 is convertible at a deemed price of CAD \$1.00 per share at any time at the option of the holder and is secured by all of the assets of the Company.

(b) Atlands Overseas Corp.

On February 9, 2015, the Company received a loan for an aggregate principal amount of \$2,000,000, which was increased to \$3,500,000 on July 21, 2015. The loan bore interest at a rate of 6% per annum and matured on February 9, 2016. On February 1, 2016, the loan was modified to extend the maturity date to February 9, 2017 and increase the rate of interest to 10% per annum between February 10, 2016 and February 9, 2017. The loan is 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.

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13. CONVERTIBLE DEBENTURES (continued)

(c) 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 15, 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 all of the assets of the Company.

On April 5, 2016, \$55,556 of the principal of the convertible secured note was settled by the issuance of 689,740 common shares of the Company. The remaining \$500,000 of the principal and \$12,577 of accrued interest of the convertible secured note was settled on April 8, 2016 using the proceeds from the issuance of an additional convertible secured note to Alpha Capital Anstalt.

On April 8, 2016, the Company issued an additional convertible secured note for \$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 \$0.11564 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 all of the assets of the Company.

Between October 14, 2016 and October 31, 2016, \$200,000 of the principal of the convertible secured notes was converted into 1,732,667 units.

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14. RECLAMATION AND RESTORATION PROVISIONS

	Oil Extraction Facility	Site Restoration	Total
Balance at August 31, 2015	350,000	200,000	550,000
Provision made during the year	7,000	4,000	11,000
Balance at August 31, 2016	357,000	204,000	561,000
Accretion expense	1,750	1,000	2,750
Balance at November 31, 2016	<u>\$ 358,750</u>	<u>\$ 205,000</u>	<u>\$ 563,750</u>

(a) Oil Extraction Plant

In accordance with the terms of the lease agreement, the Company is required to dismantle its Oil Extraction Plant 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 dismantling 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 November 30, 2016 and August 31, 2016 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 November 30, 2016 and August 31, 2016 is 2.0%.

15. COMMON SHARES

Authorized unlimited common shares without par value
Issued and Outstanding 204,543,341 common shares as at November 30, 2016.

On November 17, 2016, the Company issued 374,748 common shares at an average issue price of \$0.21 per share for net proceeds of \$77,580.

On November 30, 2016, the Company received \$29,047 from a subscriber for 96,028 common shares which have not been issued as yet.

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16. 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.

During the three months ended November 30, 2016, the Company did not grant any options. During the year ended August 31, 2016, the Company granted 1,500,000 options to an officer and a director of the Company. The weighted average fair value of the options granted was estimated at \$0.22 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:

	Year ended August 31, 2016
Share price	\$ 0.34
Exercise price	\$ 0.18
Expected share price volatility ⁽¹⁾	113%
Risk-free interest rate	0.69%
Expected term	7.78

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

During the three months ended November 30, 2016, share-based compensation expense of \$13,107 which relates to the vesting of options granted during the year ended August 31, 2016.

(b) Share purchase options

Share purchase option transactions under the stock option plan were:

	Three months ended November 30, 2016		Year ended August 31, 2016	
	Number of Options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of period	3,800,000	0.49	2,800,000	\$ 0.60
Options granted	-	-	1,500,000	0.18
Options cancelled	-	-	(500,000)	0.16
Options expired	-	-	-	-
Balance, end of period	3,800,000	\$ 0.49	3,800,000	\$ 0.49

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16. SHARE PURCHASE OPTIONS (continued)

(b) Share purchase options (continued)

Share purchase options outstanding and exercisable as at November 30, 2016 are:

Expiry Date	Exercise Price	Options Outstanding	Options Exercisable
November 11, 2017	CAD \$1.10	900,000	900,000
December 31, 2018	USD \$0.16	1,500,000	1,500,000
August 15, 2019	CAD \$1.10	400,000	400,000
February 1, 2026	CAD \$0.195	1,000,000	833,333
		3,800,000	3,633,333
Weighted average remaining contractual life		3.7 years	3.5 years

17. SHARE PURCHASE WARRANTS

Share purchase warrants outstanding as at November 30, 2016 are:

Expiry Date	Exercise Price	Warrants Outstanding
November 5, 2019	CAD \$0.945	759,798
April 12, 2019	CAD \$0.17	500,000
August 19, 2019	CAD \$0.25	2,000,000
April 8, 2021	CAD \$0.158	1,732,667
		4,992,465
Weighted average remaining contractual life		3.2 years
Weighted average exercise price	CAD \$0.45	

Between April 30, 2015 and October 9, 2015, the Company issued 126,633, 253,266, 189,950 and 189,949 share purchase warrants in connection with the conversion of \$100,000, \$200,000, \$150,000 and \$150,000, respectively, of the convertible secured notes (Note 13(c)) into units composed of one common share of the Company and one share purchase warrant of the Company. The fair value of the warrants granted was estimated, using the residual method, at \$0.02, \$0.08, \$0.15 and \$0.09 per warrant, respectively.

On May 9, 2016, the Company issued 500,000 share purchase warrants to settle an outstanding liability of \$75,000. The fair value of the warrants granted was estimated at \$0.07 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 \$0.14, exercise price of CAD \$0.165, expected share price volatility of 114%, risk-free interest rate of 0.68% and expected term of 3 years. The expected volatility was calculated based on the Company's historical volatility.

On June 1, 2016, 500,000 share purchase warrants issued to debt holder were cancelled (Note 12(b)(ii)).

On August 19, 2016, the Company issued 2,000,000 share purchase warrants in connection with the acquisition of 57.3% of the common shares of Accord GR Energy, Inc. (Note 1). The fair value of the warrants granted was estimated at \$0.09 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 \$0.19, exercise price of CAD \$0.322, expected share price volatility of 116%, risk-free interest rate of 0.68% and expected term of 3 years. The expected volatility was calculated based on the Company's historical volatility.

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17. SHARE PURCHASE WARRANTS (continued)

On October 14, 2016 and October 31, 2016, the Company issued 433,167 and 1,299,500 share purchase warrants in connection with the conversion of \$50,000 and \$150,000, respectively, of the convertible secured notes (Note 13(c)) into units composed of one common share of the Company and one share purchase warrant of the Company. The fair value of the warrants granted was estimated, using the relative fair value method, at \$0.06 per warrant.

18. 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.

19. RELATED PARTY TRANSACTIONS

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

(a) Transactions with executive officers and directors

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 12(a) and (d)) and convertible debentures (Note 13(b)) 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.

(b) 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	
	November 30, 2016	November 30, 2015
Salaries, fees and other benefits	\$ 109,040	\$ 196,000
Share based compensation	13,107	-
	<u>\$ 122,147</u>	<u>\$ 196,000</u>

At November 30, 2016, \$766,610 is due to members of key management and directors for unpaid salaries, expenses and directors' fees (August 31, 2016 – 674,610).

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19. RELATED PARTY TRANSACTIONS (continued)

(c) Due to and from director

During the three months ended November 30, 2016 and the year ended August 31, 2016, the Company received additional advances of \$39,500 and \$265,000 from various private companies controlled by the Chair of the Board of Directors of the Company (Note 12(b)(vi) and 12(c)). On January 20, 2016 and July 25, 2016, the Company entered into an agreement to settle a portion of the principal and accrued and unpaid interest of these advances by issuing 2,554,814 and 1,127,443 common shares of the Company, respectively, to the lenders. As at November 31, 2016 and August 31, 2016, the principal outstanding on the promissory notes for these advances was \$179,500 and \$140,000, respectively.

On March 18, 2016, the Company issued a promissory note of \$3,000,000 to the Chair of the Board of Directors of the Company (Note 12(a)). This promissory note bears interest at 5% per annum and matures in 12 months from the date of the advance.

On September 18, 2016, the Company entered into agreement with the Chair of the Board of Directors to issue 27,021,050 common shares, on regulatory approval, in satisfaction of indebtedness of \$3,075,000, including all interest thereon.

As at November 30, 2016 and August 31 2016, the Company owed the Chair of the Board of Directors \$204,000 in a convertible debenture which bears interest at a rate of 10% per annum and matures on June 25, 2017.

20. COMMITMENTS

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 November 30, 2016 and August 31, 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 9(a)).

On January 17, 2017, the Company issued 500,000 Common shares to its Chief Technical Officer and the inventor of a key component of the Company's oil extraction technology.

21. SEGMENT INFORMATION

The Company operated in two reportable segments within the USA during the three months ended November 30, 2016 and 2015, oil extraction and processing operations and mining operations.

The Company's oil extraction segment is able to commence commercial production and will generate revenue from the sale of hydrocarbon products to third parties, once more favourable market conditions exist. The Company's mining operations have not commenced and are expected to generate revenues once the Company begins extracting tar sands.

The presentation of the consolidated 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 months ended November 30, 2016 and 2015. Other information about reportable segments is:

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21. SEGMENT INFORMATION

(in '000s of dollars)	November 30, 2016		
	Oil Extraction	Mining operations	Consolidated
Additions to non-current assets	\$ 107	\$ -	\$ 107
Reportable segment assets	21,453	9,598	31,051
Reportable segment liabilities	\$ 10,966	\$ 8,358	\$ 19,324

(in '000s of dollars)	November 30, 2015		
	Oil Extraction	Mining operations	Consolidated
Additions to non-current assets	\$ 294	\$ 60	\$ 354
Reportable segment assets	17,778	11,907	29,685
Reportable segment liabilities	\$ 13,952	\$ 10,421	\$ 24,373

(in '000s of dollars)	Oil Extraction	Mining operations	Consolidated
	External Revenues	\$ -	\$ -
Cost of Goods Sold	1	97	98
Gross Loss	(1)	(97)	(98)
Operating Expenses			
General and administrative	69	3	72
Travel and promotion	184	-	184
Professional fees	76	-	76
Salaries and wages	167	-	167
Share-based compensation	13	-	13
Gain on settlement of liabilities	(471)	-	(471)
Interest expense	212	93	305
Depreciation and amortization	297	-	297

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21. SEGMENT INFORMATION (continued)

(in '000s of dollars)	November 30, 2015		
	Oil Extraction	Mining operations	Consolidated
External Revenues	\$ 153	\$ -	\$ 153
Cost of Goods Sold	497	127	624
Gross Loss	(344)	(127)	(470)
Operating Expenses			
General and administrative	105	-	105
Travel and promotion	224	-	224
Professional fees	337	-	337
Salaries and wages	237	-	237
Share-based compensation	2,722	-	2,722
Gain on settlement of liabilities	-	-	-
Interest expense	312	125	437
Depreciation and amortization	294	-	294

22. 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.

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22. 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 receivables 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 November 30, 2016 and August 31, 2016, the Company had no trade receivables.

(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.

(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.

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22. MANAGEMENT OF FINANCIAL RISKS (continued)

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 November 30, 2016

(in '000s of dollars)	Carrying amount	Total	Contractual cash flows		
			1 year or less	2 - 5 years	More than 5 years
Accounts payable	\$ 1,572	\$ 1,572	\$ 1,572	\$ -	\$ -
Accrued liabilities	2,606	2,606	2,606	-	-
Convertible debenture	4,082	4,720	4,720	-	-
Long-term debt	10,080	12,284	1,481	10,803	-
	\$ 18,340	\$ 21,182	\$ 10,379	\$ 10,803	\$ -

At August 31, 2016

(in '000s of dollars)	Carrying amount	Total	Contractual cash flows		
			1 year or less	2 - 5 years	More than 5 years
Accounts payable	\$ 1,455	\$ 1,455	\$ 1,455	\$ -	\$ -
Accrued liabilities	2,329	2,329	2,329	-	-
Convertible debenture	4,260	4,882	4,282	600	-
Long-term debt	12,814	13,716	4,697	9,019	-
	\$ 20,858	\$ 22,382	\$ 12,763	\$ 9,619	\$ -

23. EVENTS AFTER THE REPORTING DATE

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

Issuance of common shares

On January 17, 2017, the Company issued 500,000 Common shares to its Chief Technical Officer and the inventor of a key component of the Company's oil extraction technology.