

Petroteq Energy Inc.
(Formerly MCW Energy Group Limited)

Consolidated Financial Statements

Years ended August 31, 2017 and 2016

(Expressed in US dollars)

Petroteq Energy Inc.
(formerly MCW Energy Group Limited)

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Petroteq Energy Inc. (formerly MCW Energy Group Limited)

We have audited the accompanying consolidated financial statements of Petroteq Energy Inc. (formerly MCW Energy Group Limited), which comprise the consolidated statements of financial position as at August 31, 2017 and 2016, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

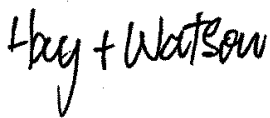
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Petroteq Energy Inc. (formerly MCW Energy Group Limited) as at August 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 to the consolidated financial statements which describes certain material uncertainties regarding the entity's ability to continue as a going concern.



PETROTEQ ENERGY INC.
(formerly MCW ENERGY GROUP LIMITED)

Consolidated Statements of Financial Position

August 31, 2017 and 2016

Expressed in US dollars

	Notes	2017	2016
ASSETS			
Current assets			
Cash	4	\$ 55,420	\$ 6,129
Trade and other receivables	5	306,909	215,113
Current portion of advance royalty payments	7(a)	258,333	540,000
Prepaid expenses		92,819	141,829
		<u>713,481</u>	<u>903,071</u>
Advance royalty payments	7(a)	244,790	94,167
Notes receivable		76,000	-
Mineral lease	8	11,091,388	12,143,738
Investment in joint venture	20	68,331	-
Investment in Accord GR Energy	3(a)	1,141,561	-
Property, plant and equipment	9	14,906,953	15,852,484
Intangible assets	10	707,671	2,242,455
		<u>\$ 28,950,175</u>	<u>\$ 31,235,915</u>
LIABILITIES			
Current liabilities			
Accounts payable	11	\$ 1,121,327	\$ 1,454,583
Accrued expenses	11	1,980,304	2,329,151
Unearned revenue		283,976	133,550
Current portion of long-term debt	12	1,159,104	3,958,522
Current portion of convertible debentures	13	-	3,704,000
Payable to director		419,322	10,068
		<u>4,964,033</u>	<u>11,589,874</u>
Unearned advance royalties received	7(c)	170,000	170,000
Long-term debt	12	717,276	8,855,326
Convertible debentures	13	508,500	555,876
Reclamation and restoration provisions	14	572,220	561,000
		<u>6,932,029</u>	<u>21,732,076</u>
SHAREHOLDERS' EQUITY			
Share capital	15	60,827,494	39,416,380
Shares to be issued		56,800	100,000
Share option reserve	16	7,371,552	7,355,559
Share warrant reserve	17	618,667	512,934
Deficit		(46,856,367)	(38,916,724)
		<u>22,018,146</u>	<u>8,468,149</u>
Non-controlling interest		-	1,035,690
		<u>22,018,146</u>	<u>9,503,839</u>
		<u>\$ 28,950,175</u>	<u>\$ 31,235,915</u>

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

"Travis Schneider"
Travis Schneider, Director

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

PETROTEQ ENERGY INC.
(formerly MCW ENERGY GROUP LIMITED)

Consolidated Statements of Loss and Comprehensive Loss

Years ended August 31, 2017 and 2016

Expressed in US dollars

	Notes	2017	2016
Revenues		\$ -	\$ 204,735
Cost of Goods Sold	7(b)	426,641	1,399,239
Gross Loss		426,641	1,194,504
Operating Expenses			
Amortization		1,165,830	1,212,674
General and administrative		348,487	577,389
Interest expense		1,106,808	1,501,460
Professional fees		617,615	1,789,381
Plant relocation costs		437,800	-
Salaries and wages		702,782	865,211
Share-based compensation	16(a)	15,993	3,013,965
Travel and promotion		553,066	434,614
		4,948,381	9,394,694
Net operating Loss		5,375,022	10,589,198
Loss on settlement of liabilities		2,366,587	1,502,628
Equity income from investment of Accord GR Energy, net of tax		198,034	-
Net Loss and Comprehensive Loss		\$ 7,939,643	\$ 12,091,826
Net Loss and Comprehensive Loss Attributable to:			
Shareholders of the company		\$ 7,939,643	\$ 12,074,530
Non-controlling interest		-	17,296
		\$ 7,939,643	\$ 12,091,826
Weighted Average Number of Shares Outstanding	18	12,096,101	2,835,138
Basic and Diluted Loss Per Share		\$ 0.66	\$ 4.26

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

PETROTEQ ENERGY INC.**(formerly MCW ENERGY GROUP LIMITED)****Consolidated Statements of Changes in Shareholders' Equity**

Years ended August 31, 2017 and 2016

Expressed in US dollars

	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		2,020,765	\$25,524,787	\$ -	\$ 7,063,773	\$ 337,283	\$(26,842,194)	\$ 6,083,649	\$ -	\$ 6,083,649
Settlement of loans		2,015,068	7,695,179	100,000	-	56,660	-	7,851,839	-	7,851,839
Conversion of debentures	13(c)	12,663	253,402	-	-	46,598	-	300,000	-	300,000
Settlement of liabilities		312,667	1,319,290	-	-	34,847	-	1,354,137	-	1,354,137
Private placement of shares	15	181,090	526,643	-	-	-	-	526,643	-	526,643
Share based compensation	16(a)	190,971	2,722,179	-	291,786	-	-	3,013,965	-	3,013,965
Acquisition of Accord GR Energy, Inc.	1, 3(a)	1,989,943	1,374,900	-	-	37,546	-	1,412,446	1,052,986	2,465,432
Net loss		-	-	-	-	-	(12,074,530)	(12,074,530)	(17,296)	(12,091,826)
Balance at August 31, 2016		6,723,167	39,416,380	100,000	7,355,559	512,934	\$(38,916,724)	8,468,149	1,035,690	9,503,839
Settlement of loans		46,144,371	20,235,451	(100,000)	-	-	-	20,135,451	-	20,135,451
Conversion of debentures	13(c)	57,756	94,267	-	-	105,733	-	200,000	-	200,000
Settlement of liabilities		501,363	297,157	-	-	-	-	297,157	-	297,157
Private placement of shares	15	694,042	641,528	56,800	-	-	-	698,328	-	698,328
Share based compensation	16(a)	-	-	-	15,993	-	-	15,993	-	15,993
Shares issued for technology		16,667	74,380	-	-	-	-	74,380	-	74,380
Shares issued for investment in joint venture	20	83,333	68,331	-	-	-	-	68,331	-	68,331
Deconsolidation of subsidiary	1, 3(a)	-	-	-	-	-	-	-	(1,035,690)	(1,035,690)
Net loss		-	-	-	-	-	(7,939,643)	(7,939,643)	-	(7,939,643)
Balance at August 31, 2017		54,220,699	\$60,827,494	\$ 56,800	\$ 7,371,552	\$ 618,667	\$(46,856,367)	\$ 22,018,146	\$ -	\$ 22,018,146

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

PETROTEQ ENERGY INC.
(formerly MCW ENERGY GROUP LIMITED)

Consolidated Statements of Cash Flows
Years ended August 31, 2017 and 2016
Expressed in US dollars

	2017	2016
Cash flow (used for) from operating activities:		
Net loss	\$ (7,939,643)	\$ (12,091,826)
Adjustments for non-cash, investing and financing items		
Amortization	1,165,830	1,212,674
Loss on conversion of debt	2,515,498	1,743,477
Gain on settlement of liabilities	(71,316)	(240,849)
Share-based compensation	15,993	3,013,965
Equity income from investment of Accord GR Energy	198,034	-
Other	1,039,503	710,688
Changes in operating assets and liabilities:		
Accounts payable	251,241	1,792,345
Accounts receivable	(99,808)	(40,721)
Accrued expenses	942,229	1,092,660
Prepaid expenses	44,164	15,723
Unearned revenue	150,426	133,550
Net cash used for operating activities	<u>(1,787,849)</u>	<u>(2,658,314)</u>
Cash flows used for investing activities:		
Purchase and construction of property and equipment	(68,483)	(432,596)
Advance royalty payments - net	(294,790)	(180,000)
Net cash used for investing activities	<u>(363,273)</u>	<u>(612,596)</u>
Cash flows from (used for) financing activities:		
Receipts (payments to) from director	409,254	10,068
Private placements	698,328	526,644
Payment of long-term debt	(26,800)	(3,655,277)
Proceeds from long-term debt	1,119,631	4,993,965
Payment of convertible debt	-	(500,000)
Proceeds from convertible debt	-	1,040,000
Net cash from financing activities	<u>2,200,413</u>	<u>2,415,400</u>
Increase (decrease) in cash	49,291	(855,510)
Cash, beginning of the year	6,129	861,639
Cash, end of the year	<u>\$ 55,420</u>	<u>\$ 6,129</u>
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 33,131	\$ 309,612

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

PETROTEQ ENERGY INC. (FORMERLY MCW ENERGY GROUP LIMITED)

Notes to the Consolidated Financial Statements

August 31, 2017 and 2016

Expressed in US dollars

1. NATURE OF OPERATIONS

Petroteq Energy Inc. (formerly 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, Petroteq Oil Sands Recovery, LLC (“POSR”), which is engaged in mining and oil extraction from tar sands, and its 44.7% owned and equity accounted 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.

POSR 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 relocating the oil processing facility to its mineral lease in Uintah, Utah in order to improve the viability of the plant by eliminating unnecessary transportation costs of raw materials. The Company also intends to expand the existing plant to increase the production capacity to at least 1000 barrels per day.

On July 4, 2016, the Company acquired 57.3% of the issued and outstanding common shares of Accord which, due to additional share subscriptions in Accord by other shareholders since August 31, 2016, was reduced to 44.7% as of August 31, 2017. The investment in Accord has therefore been recorded using the equity method for the year ended August 31, 2017 and was consolidated for the year ended August 31, 2016 (Note 3(a)).

On May 5, 2017 the shareholders of the Company approved the consolidated its shares on a 30 for one basis (Note 15). The number of shares issued and outstanding have been retroactively adjusted for this consolidation in these financial statements.

The Company has incurred losses for several years and, at August 31, 2017, has an accumulated deficit of \$46,856,367 (August 31, 2016 - \$38,916,724) and a working capital deficiency of \$4,250,552 (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 consolidated financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 1 *Presentation of Financial Statements*, using accounting policies which are consistent with the International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”). The consolidated financial statements were authorized for issue by the Board of Directors on December 29, 2017.

PETROTEQ ENERGY INC.
(FORMERLY MCW ENERGY GROUP LIMITED)

Notes to the Consolidated Financial Statements

August 31, 2017 and 2016

Expressed in US dollars

2. BASIS OF PREPARATION (continued)

(b) Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis except for certain financial assets and financial liabilities which are measured at fair value. The Company's reporting currency and the functional currency of all of its operations is the U.S. dollar, as it is the principal currency of the primary economic environment in which the Company operates.

(c) Significant accounting judgments and estimates

The preparation of the consolidated financial statements in accordance with IFRS 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The significant accounting judgments and estimates included in these consolidated financial statements are:

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

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

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.

PETROTEQ ENERGY INC.
(FORMERLY MCW ENERGY GROUP LIMITED)

Notes to the Consolidated Financial Statements

August 31, 2017 and 2016

Expressed in US dollars

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 August 31, 2017 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>
Petroteq Energy Inc. (formerly MCW Energy Group Limited)	Parent	Canada
Petroteq Energy CA, Inc. (formerly MCW Energy CA Inc.)	100%	USA
MCW OSR Inc.	100%	USA
MCW Oil Sands, Inc.	100%	USA
MCW Fuels Transportation, Inc.	100%	USA
Petroteq Oil Sands Recovery, LLC (formerly MCW Oil Sands Recovery, LLC)	100%	USA
TMC Capital, LLC	100%	USA

The Company has accounted for its investment in Accord GR Energy, Inc. (“Accord”) on the equity basis from March 1, 2017. The Company had previously owned a controlling interest in Accord and the results were consolidated in the Company’s financial statements. However, subsequent cash contributions into Accord reduced the Company’s ownership to 44.7% as of March 1, 2017 and the results of Accord were deconsolidated from that date.

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

PETROTEQ ENERGY INC.
(FORMERLY MCW ENERGY GROUP LIMITED)

Notes to the Consolidated Financial Statements

August 31, 2017 and 2016

Expressed in US dollars

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Business combinations

The Company accounts for business combinations using the acquisition method, under which the acquirer measures the cost of the business combination as the total of the fair values, at the date of exchange, of the assets obtained, liabilities incurred and equity instruments issued by the acquirer in exchange for control of the acquiree. Goodwill is measured as the fair value of the consideration transferred, including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount (generally the fair value) of the identifiable assets and liabilities assumed, measured as at the acquisition date.

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

(c) Income recognition

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) Investment in associate

An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investment in associate is carried in the consolidated statement of financial position at cost as adjusted for changes in the Company's share of the net assets of the associate, less any impairment in the value of the investment. Losses of an associate in excess of the Company's interest in that associate are not recognized. Additional losses are provided for, and a liability is recognized, only to the extent that the Company has incurred legal or constructive obligations or made payment on behalf of the associate.

(e) Property, plant and equipment

Property, plant and equipment is 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

PETROTEQ ENERGY INC.
(FORMERLY MCW ENERGY GROUP LIMITED)

Notes to the Consolidated Financial Statements

August 31, 2017 and 2016

Expressed in US dollars

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 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 useful life for the Oil Extraction Technologies has been established as 15 years in these consolidated financial statements as at August 31, 2017:

(h) Impairment of assets

At the end of each reporting period, the Company's property and equipment, oil and gas properties, 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 carrying values.

PETROTEQ ENERGY INC.
(FORMERLY MCW ENERGY GROUP LIMITED)

Notes to the Consolidated Financial Statements

August 31, 2017 and 2016

Expressed in US dollars

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Impairment of assets (continued)

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.

(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 consolidated statement of financial position, 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 and notes receivable, 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, trade and other receivables, notes 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.

PETROTEQ ENERGY INC.
(FORMERLY MCW ENERGY GROUP LIMITED)

Notes to the Consolidated Financial Statements

August 31, 2017 and 2016

Expressed in US dollars

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 consolidated statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount receivable can be measured reliably. 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 consolidated statement of loss (income) 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 consolidated 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 consolidated statement of financial position and their corresponding tax values, using the enacted or substantially enacted, income tax rates at each consolidated 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.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 consolidated 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 compensation 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 consolidated financial statements have been reclassified where necessary to conform to the presentation used in the current year.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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:

(a) *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.

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

The amendments to IAS 1 enhance financial statement disclosures and presentation.

(c) *IAS 16, Property, Plant and Equipment ("IAS 16") – amendment*

The amendment to IAS 16 provides clarification of acceptable methods of depreciation and amortization.

(d) *IAS 38, Intangible Assets ("IAS 38") - amendment*

The amendment to IAS 38 provides clarification of acceptable methods of depreciation and amortization.

The application of the above amendments did not have any material impact on the consolidated financial statements presented.

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

(a) *IFRS 9, Financial Instruments ("IFRS 9")*

IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple classification options in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company is currently evaluating the impact of the adoption of the amendments on its financial statements; however, the impact, if any, is not expected to be significant.

(b) *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.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) New accounting standards and interpretations (continued)

(c) *IFRS 16 Leases (IFRS 16)*

IFRS 16 provides a single lessee accounting 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 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.

(d) *IFRS 2 Share-based Payment ("IFRS 2") – amendments*

The amendments to IFRS 2 provide clarification and guidance on the treatment of vesting and non-vesting conditions related to cash-settled share-based payment transactions, on share-based payment transactions with a net settlement feature for withholding tax obligations, and on accounting for modification of a share-based payment transaction that changes its classification from cash-settled to equity-settled. The amendments to IFRS 2 are effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.

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

4. CASH

The Company considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents.

5. TRADE AND OTHER RECEIVABLES

The Company's trade and other receivables consist of:

	<u>August 31,</u> <u>2017</u>	<u>August 31,</u> <u>2016</u>
Goods and services tax receivable	\$ 181,881	\$ 123,085
Other receivables	125,028	92,028
	<u>\$ 306,909</u>	<u>\$ 215,113</u>

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

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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 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.

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, subsequently amended, which 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.

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

As at August 31, 2017, the Company has paid advance royalties of \$1,356,040 (2016 - \$1,061,250) to the lease holder, of which a total of \$852,917 have been used to pay royalties as they have come due under the terms of the mineral lease agreement. During the year ended August 31, 2017, \$294,790 in advance royalties were paid and \$426,641 have been used to pay royalties which have come due. The royalties expensed have been recognized in cost of goods sold on the consolidated statement of loss and comprehensive loss.

As at August 31, 2017, the Company expects to record minimum royalties paid of \$258,333 from these advance royalties either against production royalties or for the royalties due within a one year period.

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7. ADVANCED ROYALTY PAYMENTS (continued)

(c) 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 control of Accord on July 4, 2016.

8. MINERAL LEASES

	TMC Mineral Lease	Accord Oil & 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	-	237,813	237,813
Deconsolidation of Accord (Note 3(a))	-	(1,290,163)	(1,290,163)
August 31, 2017	<u>\$ 11,091,388</u>	<u>\$ -</u>	<u>\$ 11,091,388</u>
Accumulated Amortization			
August 31, 2015, 2016 and 2017	\$ -	\$ -	\$ -
Carrying Amounts			
August 31, 2015	<u>\$ 11,091,388</u>	<u>\$ -</u>	<u>\$ 11,091,388</u>
August 31, 2016	<u>\$ 11,091,388</u>	<u>\$ 1,052,350</u>	<u>\$ 12,143,738</u>
August 31, 2017	<u>\$ 11,091,388</u>	<u>\$ -</u>	<u>\$ 11,091,388</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. This lease was cancelled by the State of Utah on December 30, 2016.

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8. MINERAL LEASES (continued)

(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”).

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 7(a)). The TMC Mineral Lease was subject to a 10% royalty for the first three 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 three years, increasing to \$2,000,000 for the next three 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 7(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 six 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.

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8. MINERAL LEASES (continued)

(b) TMC mineral lease (continued)

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.

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) and accounted for this investment on a consolidated basis.

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.

The Company's interest in Accord, due to additional cash contributions made to Accord by other shareholders and parties, was reduced to 44.7% as of March 1, 2017 and the assets, liabilities and results of operations of Accord were deconsolidated from that date. The Company has accounted for its investment in Accord using the equity method from March 1, 2017.

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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	290,120	-	290,120
Deconsolidation of Accord (Note 3(a))		(1,887)	(1,887)
Disposals and scrapping	(121,637)	(35,000)	(156,637)
August 31, 2017	<u>\$ 16,846,500</u>	<u>\$ 315,967</u>	<u>\$ 17,162,467</u>
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	1,082,159	46,814	1,128,973
Deconsolidation of Accord (Note 3(a))		(628)	(628)
Disposals and scrapping	(16,218)	(35,000)	(51,218)
August 31, 2017	<u>\$ 2,148,214</u>	<u>\$ 107,300</u>	<u>\$ 2,255,514</u>
Carrying Amount			
August 31, 2015	<u>\$ 16,122,362</u>	<u>\$ 322,199</u>	<u>\$ 16,444,561</u>
August 31, 2016	<u>\$ 15,595,744</u>	<u>\$ 256,740</u>	<u>\$ 15,852,484</u>
August 31, 2017	<u>\$ 14,698,286</u>	<u>\$ 208,667</u>	<u>\$ 14,906,953</u>

(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. During the quarter ended August 31, 2017 the Company began the dismantling and relocating the oil extraction facility to its TMC Mineral Lease facility to improve production and logistical efficiencies whilst continuing its project to increase production capacity to a minimum capacity of 1,000 barrels per day.

The cost of construction includes capitalized borrowing costs for the year ended August 31, 2017 of \$100,000 (2016 - \$137,500) and total capitalized borrowing costs as at August 31, 2017 of \$2,212,080 (2016 - \$2,112,080).

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10. INTANGIBLE ASSETS

	Oil Extraction Technologies
Cost	
August 31, 2015	\$ 735,488
Additions	1,556,000
August 31, 2016	<u>2,291,488</u>
Additions	333,998
Deconsolidation of Accord (Note 3(a))	<u>(1,815,617)</u>
August 31, 2017	<u>\$ 809,869</u>
Accumulated Amortization	
August 31, 2015	\$ -
Additions	49,033
August 31, 2016	<u>49,033</u>
Additions	53,165
August 31, 2017	<u>\$ 102,198</u>
Carrying Amounts	
August 31, 2015	\$ 735,488
August 31, 2016	<u>\$ 2,242,455</u>
August 31, 2017	<u>\$ 707,671</u>

(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 8(c)) and to amortize the cost over fifteen years, the expected life useful life of the oil and gas leases.

The Company's interest in Accord, due to additional cash contributions made to Accord by other shareholders and parties, was reduced to 44.7% as of March 1, 2017 and the assets, liabilities and results of operations of Accord were deconsolidated from that date. The Company has accounted for its investment in Accord GR Energy, Inc. ("Accord") using the equity method from March 1, 2017.

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11. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable as at August 31, 2017 and 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 August 31, 2017 and 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 24(c).

12. LONG-TERM DEBT

Lender	Maturity Date	Interest Rate	Principal due August 31, 2017	Principal due August 31, 2016
Director	March 18, 2017	5.00%	\$ -	\$ 3,000,000
Private lender	May 1, 2017	15.00%	100,000	126,800
Private lenders	July 31, 2017	15.00%	1,001,905	802,747
Private lender	July 28, 2020	10.00%	33,305	176,466
Private lender	September 10, 2017 - May 19, 2020 -	6.00%	-	750,000
Private lender	August 31, 2020 - April 17, 2020 -	5.00%	336,080	57,237
Equipment loans	April 20, 2020	4.30% - 4.90%	160,343	215,392
Promissory notes	May 30, 2020 - August 4, 2020 -	5.00%	-	7,500,000
Director	August 18, 2020	5.00%	242,250	140,000
Total loans			1,873,883	12,768,642
Accrued interest			2,497	45,206
Total			\$ 1,876,380	\$ 12,813,848

The maturity of long -term debt is as follows:

	August 31, 2017	August 31, 2016
Principal classified as repayable within one year	\$ 1,159,104	\$ 3,958,522
Principal classified as repayable later than one year	717,276	8,855,326
	\$ 1,876,380	\$ 12,813,848

(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 August 15, 2017 the promissory note, including accrued interest of \$215,625, was assigned by the Chair of the Board to three related entities and were subsequently converted into 14,391,330 shares of the Company.

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12. 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 November 1, 2016 to extend the maturity date to May 1, 2017, and a further extension of this loan is currently being negotiated. During the current year, interest previously overpaid amounting to \$16,800 was offset against the principal and a further principal payment of \$10,000 was made, resulting in a principal balance outstanding of \$100,000. Principal repaid during the year ended August 31, 2016 amounted to \$73,200.
- (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 16,667 common shares of the Company. On September 22, 2016, the two secured debentures were amended to extend the maturity date to January 31, 2017. The terms of these debentures were renegotiated with the debenture holders to allow for the conversion of the secured debentures into common shares of the Company at a rate of CAD \$4.50 per common share and to increase the interest rate, starting June 1, 2016, to 15% per annum. On January 31, 2017, the two secured debentures were amended to extend the maturity date to July 31, 2017. Additional transaction costs and penalties incurred for the loan modifications amounted to \$223,510. The loans are currently being renegotiated to allow for further extension of the maturity dates.
- (iii) The Company received advances from various private lenders during the year ended August 31, 2017 and 2016 in the form of unsecured promissory notes. These promissory notes mature at various dates, between demand and August 6, 2018, and bear interest at 10% per annum. Various promissory notes, including interest thereon, were converted into common shares on May 19, 2017, under the terms of various Securities Purchase Agreements entered into with the lenders (Note 12(b)(vii)).
- (iv) During the year ended August 31, 2016, the Company obtained a loan from Altlands Overseas Corp. for \$750,000, bearing interest at a rate of 6% per annum and maturing on September 10, 2017. This loan, including all interest thereon was converted into common shares on May 19, 2017 under the terms of a Securities Purchase Agreement entered into with the lender (Note 12(b)(vii)).
- (v) The Company received advances from various private lenders during the year ended August 31, 2017 and 2016 in the form of unsecured promissory notes. These promissory notes mature at various dates, between May 19, 2020 and August 31, 2020 and bear interest at 5% per annum. Various promissory notes, including interest thereon, were converted into common shares on May 19, 2017, under terms of various Securities Purchase Agreements entered into with the lenders (Note 12(b)(vii)).
- (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 882,455 common shares in satisfaction of \$2,447,478 of indebtedness. On July 25, 2016, the Company issued an aggregate of 86,316 common shares in satisfaction of a further \$266,146 of indebtedness.

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12. LONG-TERM DEBT (continued)

(vii) On May 19, 2017, under the terms of Securities Purchase Agreements entered into with various lenders, including the promissory notes in Notes 12(d), the Company issued 31,083,281 common shares at conversion prices ranging from \$0.353 per share to \$0.397 per share in exchange for promissory notes, including interest thereon, amounting to \$12,185,904. These common shares were issued on July 11, 2017.

(c) Equipment loans

The Company entered into two equipment loan agreements with financial institutions to acquire equipment for the oil extraction facility. The loans had a term of 60 months and bore interest at a rate between 4.3% and 4.9% per annum. Principal and interest were paid in monthly installments. These loans were 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 666,667 common shares as repayment of \$2,500,000 of this indebtedness.

The remaining promissory notes were converted into common shares on May 19, 2017 (Note 12(b)(viii)), under the terms of Securities Purchase Agreements entered into with the lenders, at a conversion price of \$0.397 per share.

(e) Director

During the years ended August 31, 2017 and 2016, the Company issued unsecured promissory notes to private companies controlled by the Chair of the Board of Directors of the Company (Note 19).

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13. CONVERTIBLE DEBENTURES

Lender	Maturity Date	Interest Rate	Principal due August 31, 2017	Principal due August 31, 2016
Director	25-Jun-17	10.00%	\$ -	\$ 204,000
Alpha Capital Anstalt	31-Oct-18	5.00%	508,500	555,876
Altlands Overseas Corp.	Current	12.00%	-	3,500,000
			\$ 508,500	\$ 4,259,876

The maturity of convertible debt is as follows:

	August 31, 2017	August 31, 2016
Principal classified as repayable within one year	\$ -	\$ 3,704,000
Principal classified as repayable later than one year	508,500	555,876
	\$ 508,500	\$ 4,259,876

(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 bore interest at a rate of 10% per annum and matured on June 25, 2017. On September 22, 2014, \$1,796,000 of the principal was converted into 64,183 common shares of the Company. The balance of \$204,000 was convertible at a deemed price of CAD \$30.00 per share at any time at the option of the holder and is secured by all of the assets of the Company.

The remaining principal and accrued interest outstanding on this note was converted into common shares on May 19, 2017 at a conversion price of \$0.353 per share (Note 12(b)(vii)).

(b) Altlands 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 has the option, subject to director, shareholder and regulatory approvals, to convert the loan into a 49.9% ownership interest in POSR.

On February 23, 2017, Altlands converted of \$2,300,000 of the principal outstanding on the Altlands debt, into 669,760 common shares at a conversion price of \$3.434 per share.

The remaining principal and accrued interest outstanding on this note was converted into common shares on May 19, 2017 at a conversion price of \$0.397 per share (Note 12 (b)(vii)).

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13. CONVERTIBLE DEBENTURES (continued)

(c) Alpha Capital Anstalt

On December 15, 2015, the Company issued a convertible secured note for \$555,556 to Alpha Capital Anstalt. The convertible secured note bears interest at a rate of 5% per annum, matures on June 15, 2017 and is convertible into units, consisting of one common share of the Company and one common share purchase warrant of the Company.

On April 5, 2016, \$55,556 of the principal of the convertible secured note was settled by the issuance of 22,991 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 \$3.469 per unit. Each warrant would entitle the holder to acquire one additional common share at an exercise price of CAD \$4.725 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 57,756 units.

(d) Alpha Capital Anstalt

On August 31, 2017, the Company issued a new convertible secured note for \$565,000 to Alpha Capital Anstalt. The remaining convertible loan principal at \$400,000 and interest at \$33,473 was settled by the proceeds of the newly issued convertible secured note. The convertible secured note bears interest at a rate of 5% per annum and matures on October 31, 2018. 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 \$0.29 per unit until August 31, 2022. The convertible secured note is secured by all of the assets of the Company.

14. RECLAMATION AND RESTORATION PROVISIONS

	Oil Extraction Facility	Site Restoration	Total
Balance at August 31, 2015	\$ 350,000	\$ 200,000	\$ 550,000
Accretion expense	7,000	4,000	11,000
Balance at August 31, 2016	357,000	204,000	561,000
Accretion expense	7,140	4,080	11,220
Balance at August 31, 2017	<u>\$ 364,140</u>	<u>\$ 208,080</u>	<u>\$ 572,220</u>

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14. RECLAMATION AND RESTORATION PROVISIONS (continued)

(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 August 31, 2017 and 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 August 31, 2017 and 2016 is 2.0%.

15. COMMON SHARES

Authorized	unlimited common shares without par value
Issued and Outstanding	54,220,699 common shares as at August 31, 2017.

On May 19, 2017 the shareholders of the Company approved the consolidated its shares on a 30 for one basis. The number of shares issued and outstanding have been retroactively adjusted for this consolidation in these financial statements.

During the period from October 21, 2016 to November 8, 2016, the Company issued 57,756 common shares on the conversion of \$200,000 of convertible debt to Alpha Capital Anstalt.

On November 17, 2016, the Company issued 21,496 common shares to two private lenders on modification of the debt terms and extension of the repayment date of the debt.

During the period from November 17, 2016 to August 23, 2017, the Company issued 479,867 common shares of common stock to settle outstanding liabilities with third parties amounting to \$311,442.

During the period from November 17, 2016 to August 30, 2017, the Company issued 694,042 common shares for net proceeds of \$641,528.

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15. COMMON SHARES (continued)

On January 17, 2017, the Company issued 16,667 common shares to its Chief Technical Officer and the inventor of a key component of the Company's oil extraction technology.

During the period from February 23, 2017 and August 22, 2017, the Company issued a total of 46,144,371 common shares upon the conversion of several notes and convertible notes totaling \$17,852,548, including interest thereon, and a further \$115,000 of directors' loans (Note 13 (a)).

On June 12, 2017, the Company issued 83,333 common shares as an investment into a joint venture with two unrelated parties (Note 20).

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 1,513,574 common shares reserved for issuance.

During the year ended August 31, 2017, the Company did not grant any options. During the year ended August 31, 2016, the Company granted 33,333 share options to an officer and a director of the Company. The weighted average fair value of the options granted was estimated at \$4.03 per share 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 year ended August 31, 2017 the share-based compensation expense of \$15,993 relates to the vesting of options granted during the year ended August 31, 2016.

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16. SHARE PURCHASE OPTIONS (continued)

(b) Share purchase options

Share purchase option transactions under the stock option plan were:

	Year ended August 31, 2017		Year ended August 31, 2016	
	Number of Options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of period	126,666	\$ 14.70	93,333	\$ 18.00
Options granted	-	-	50,000	5.40
Options cancelled	-	-	(16,667)	4.80
Options expired	(13,333)	\$ 33.00	-	-
Balance, end of period	113,333	\$ 12.57	126,666	\$ 14.70

Share purchase options outstanding and exercisable as at August 31, 2017 are:

Expiry Date	Exercise Price	Options Outstanding	Options Exercisable
November 11, 2017	CAD \$33.00	30,000	30,000
December 31, 2018	USD \$4.80	50,000	50,000
February 1, 2026	CAD \$5.85	33,333	33,333
		113,333	113,333
Weighted average remaining contractual life		3.1 years	3.1 years

17. SHARE PURCHASE WARRANTS

Share purchase warrants outstanding as at August 31, 2017 are:

Expiry Date	Exercise Price	Warrants Outstanding
November 5, 2019	CAD \$28.35	25,327
April 12, 2019	CAD \$5.10	16,667
August 19, 2019	CAD \$7.50	66,666
April 8, 2021	CAD \$4.74	57,756
		166,416
Weighted average remaining contractual life		2.50 years
Weighted average exercise price		CAD \$9.45

Between April 30, 2015 and October 9, 2015, the Company issued 4,221, 8,442, 6,332 and 6,332 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, of \$0.60, \$2.40, \$4.50 and \$2.70 per warrant, respectively.

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17. SHARE PURCHASE WARRANTS (continued)

On May 9, 2016, the Company issued 16,667 share purchase warrants to settle an outstanding liability of \$75,000. The fair value of the warrants granted was estimated at \$2.10 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 \$4.20, exercise price of CAD \$4.95, expected share price volatility of 114%, risk-free interest rate of 0.68% and expected term of three years. The expected volatility was calculated based on the Company's historical volatility.

On June 1, 2016, 16,667 share purchase warrants issued to debt holder were cancelled (Note 12(b)(ii)).

On August 19, 2016, the Company issued 66,666 share purchase warrants in connection with the acquisition of 57.3% of the common shares of Accord (Note 1). The fair value of the warrants granted was estimated at \$2.70 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 \$5.70, exercise price of CAD \$7.50, expected share price volatility of 116%, risk-free interest rate of 0.68% and expected term of three years. The expected volatility was calculated based on the Company's historical volatility.

On October 14, 2016 and October 31, 2016, the Company issued 14,439 and 43,317 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 \$1.83 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 consolidated financial statements are:

(a) 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:

	<u>2017</u>	<u>2016</u>
Salaries, fees and other benefits	\$ 508,000	\$ 505,040
Share based compensation	15,992	3,013,965
	<u>\$ 523,992</u>	<u>\$ 3,519,005</u>

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19. RELATED PARTY TRANSACTIONS (continued)

At August 31, 2017 \$1,137,392 is due to members of key management and directors for unpaid salaries, expenses and directors' fees (August 31, 2016 – 674,610).

The Chair of the Board and the Chief Technology Officer were each granted, respectively, 280,497 and 16,667 common shares.

(b) Due to director

During the years ended August 31, 2017 and 2016, the Company received additional advances of \$421,250 and \$265,000 from various private companies controlled by the Chair of the Board of Directors of the Company (Notes 12(b)(vi) and 12(e)). 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 85,160 and 37,581 common shares of the Company, respectively, to the lenders. On May 18, 2017, the Company entered into an agreement to settle a portion of the principal and accrued interest of these advances by issuing 586,475 common shares of the Company to the lenders.

As of August 31, 2017 and 2016, the Company owed the Chair of the Board the aggregate sum of \$242,250 and \$140,000, respectively. These loans bear interest at 5% per annum and mature at dates ranging from on demand to September 1, 2019.

On May 18, 2017, the Company entered into a Securities Purchase Agreement whereby it agreed to convert an aggregate principal debt of \$264,841, including interest thereon, owing to the Chair of the Board or companies controlled by him into 751,681 of common share at a conversion price of \$0.353 per share.

On May 18, 2017, the Company entered into a Securities Purchase Agreements whereby it agreed to convert an aggregate principal debt of \$115,000, including interest thereon, owing to the Chair of the Board or companies controlled by him into 325,779 common shares at a conversion price of \$0.353 per share.

On August 9, 2017, the promissory note of \$3,000,000, owing to the Chair of the Board, including accrued interest thereon up to August 18, 2017 of \$215,625, was assigned to three different entities and, in terms of debt conversion agreements entered into on August 9, 2017, was subsequently converted into 14,391,330 common shares at a conversion price of \$0.223 per share,

As at August 31, 2017 and 2016, the Company owed the Chair of the Board of Directors principal in the aggregate sum of \$nil and \$204,000 respectively in convertible debentures which bore interest at rates 10% per annum and which was due to mature in June 2017.

As at August 31, 2017 the Company has received loans of \$419,322 from the Chair of the Board of Directors.

20. INVESTMENT IN JOINT VENTURE

On November 11, 2016, the Company and three other parties entered into a joint venture for the operation of a site for careers in the oil and gas industry. The Company has a 25% interest in this joint venture and has made advances of \$68,331 to the joint venture as of August 31, 2017. The joint venture has not commenced operations as of August 31, 2017.

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21. INCOME TAXES

The Company's deferred tax assets (liabilities), resulting from temporary differences that will change taxable incomes of future years, are:

	<u>2017</u>	<u>2016</u>
Property, plant and equipment and intangible assets	\$ (1,258,439)	\$ (431,536)
Long-term debt	-	(9,520)
Convertible debentures	-	(11,693)
Non-capital tax loss carry-forwards	10,419,975	7,717,360
Other tax-related balances and credits	379,036	79,093
Valuation allowance	(9,540,572)	(7,343,704)
Net deferred tax assets (liabilities)	<u>\$ -</u>	<u>\$ -</u>

A reconciliation of the provision for income taxes is:

	<u>2017</u>	<u>2016</u>
Net loss before income taxes	\$ 7,939,643	\$ 12,091,826
Combined federal and provincial statutory income tax rate	26.5%	26.5%
Tax recovery using the Company's domestic tax rate	2,104,005	3,204,334
Effect of tax rates in foreign jurisdictions	416,160	678,179
Net effect of (non-deductible) deductible items	(1,091,260)	(1,458,049)
Current year deductible amounts	1,137,670	913,834
Current period losses not recognized	(2,566,575)	(3,338,298)
Provision for income taxes	<u>\$ -</u>	<u>\$ -</u>

As at August 31, 2017, the Company has, on a consolidated basis, non-capital losses of approximately \$31.5 million for income tax purposes which may be used to reduce taxable income of future years. If unused, these losses will expire between 2028 and 2037.

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22. SEGMENT INFORMATION

The Company operated in two reportable segments within the USA during the year ended August 31, 2017 and 2016, oil extraction and processing operations and mining operations.

Once more favourable market conditions exist, the Company's oil extraction segment will be able to commence commercial production and will generate 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 oil from the 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 years ended August 31, 2017 and 2016. Other information about reportable segments is:

(in '000s of dollars)	August 31, 2017		
	Oil	Mining	Consolidated
	Extraction	Operations	
Additions to non-current assets	\$ (2,402)	\$ 295	\$ (2,107)
Reportable segment assets	28,441	509	28,950
Reportable segment liabilities	\$ 6,763	\$ 169	\$ 6,932

(in '000s of dollars)	August 31, 2016		
	Oil	Mining	Consolidated
	Extraction	Operations	
Additions to non-current assets	\$ 3,180	\$ 180	\$ 3,360
Reportable segment assets	19,498	11,738	31,236
Reportable segment liabilities	\$ (14,043)	\$ (7,689)	\$ (21,732)

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22. SEGMENT INFORMATION (continued)

(in '000s of dollars)	August 31, 2017		
	Oil	Mining	Consolidated
	Extraction	Operations	
External Revenue	-	-	-
Cost of Goods Sold	1	426	427
Gross Loss	1	426	427
Amortization	1,166	-	1,166
Loss on deconsolidation	24	-	24
General and administrative	345	3	348
Interest expense	1,106	-	1,106
Loss on settlement of liabilities	2,367	-	2,367
Professional fees	612	6	618
Relocation costs	438	-	438
Salaries and wages	703	-	703
Share based compensation	16	-	16
Equity income from investment in Accord GR Energy	174	-	174
Travel and promotion	553	-	553
Net Loss	7,505	435	7,940

(in '000s of dollars)	August 31, 2016		
	Oil	Mining	Consolidated
	Extraction	Operations	
External Revenue	205	-	205
Cost of Goods Sold	1,399	-	1,399
Gross Loss	1,195	-	1,195
Amortization	1,213	-	1,213
General and administrative	576	4	580
Interest expense	1,031	470	1,501
Loss (gain) on settlement of liabilities	1,638	(135)	1,503
Professional fees	1,783	6	1,789
Share based compensation	3,014	-	3,014
Travel and promotion	435	-	435
Net Loss	11,746	346	12,092

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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

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, trade receivables from customers and notes receivable.

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 August 31, 2017 and 2016, the Company had no trade receivables. The Company considers its maximum exposure to credit risk to be its trade and other receivables and notes receivable.

(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.

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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 August 31, 2017

(in '000s of dollars)	Carrying amount	Contractual cash flows			
		Total	1 year or less	2 - 5 years	More than 5 years
Accounts payable	\$ 1,121	\$ 1,121	\$ 1,121	\$ -	\$ -
Accrued liabilities	1,980	1,980	1,980	-	-
Convertible debenture	509	600	21	579	-
Long-term debt	1,876	2,072	1,278	794	-
	\$ 5,486	\$ 5,773	\$ 4,400	\$ 1,373	\$ -

At August 31, 2016

(in '000s of dollars)	Carrying amount	Contractual cash flows			
		Total	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	13,797	4,732	9,065	-
	\$ 20,858	\$ 22,463	\$ 12,798	\$ 9,665	\$ -

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25. EVENTS AFTER THE REPORTING DATE

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

(a) Common shares

Under the terms of various subscription agreements entered into with third parties between September 27, 2017 and November 17, 2017, the Company issued a total of 1,681,668 common shares at prices ranging from \$0.26 to \$0.27 per share for gross proceeds of \$445,180, the proceeds of which were used for general working capital purposes and relocation of the plant to the TMC Mineral Lease.

(b) Non-convertible loan

On November 2, 2017, the Company entered into agreement with the Chair of the Board of Directors to receive an interest free unsecured non-convertible loan for up to \$2,000,000, of which \$1,200,000 has been advanced to date, to fund the Company's operations and expansion plans.

(c) Financing

On November 23, 2017, the Company announced the execution of a memorandum of understanding with Deloro Energy LLC ("Deloro"), pursuant to which Deloro may loan the Company \$10,000,000 which will subject to terms and conditions to be negotiated and may be convertible for up to 49% of Petroteq Energy CA.

(d) Stock Options

On December 1, 2017 the Board of Directors approved, subject to regulatory approval, the grant of options to purchase 1,425,000 common shares to directors which have an exercise price of \$2.27 per common share and which expire in ten years from the date of grant.

(e) Other:

On November 6, 2017, the Company entered into a co-development agreement with First Bitcoin Capital Corp. to develop a new supply chain management platform based on advanced block chain technology to be used in the oil and gas industry.