



PETROTEQ
ENERGY INC.



MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE AND NINE MONTHS
ENDED

MAY 31, 2018 AND 2017

1) Introduction

The following management's discussion and analysis ("MD&A") of the financial position and results of operations of Petroteq Energy Inc ("PQE", or the "Company") for the three and nine months ended May 31, 2018 and 2017, was prepared in accordance with the requirements of National Instrument 51-102 – Continuous Disclosure Obligations by management of the Company on July 30, 2018 and should be read in conjunction with the condensed consolidated interim financial statements for the three and nine months ended May 31, 2018 and 2017 and the audited consolidated financial statements and notes thereto for the years ended August 31, 2017 and 2016. References to "PQE" and the "Company" herein refer to the Company and its subsidiaries taken as a whole.

The condensed consolidated interim financial statements for the three and nine months ended May 31, 2018 and 2017 and any comparative information presented therein, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC") as of July 30, 2018.

All dollar figures in this management discussion and analysis are presented in United States dollars unless otherwise indicated.

As of the date hereof the Company has one wholly-owned subsidiary, Petroteq Energy CA, Inc. ("PQECA"), a California corporation, which has two wholly-owned active subsidiary companies, Petroteq Oil Sands Recovery, LLC ("POSRR") and TMC Capital, LLC ("TMC").

On July 4, 2016, the Company acquired a 57.3% interest in a Houston-based, exploration and production (E&P) company, Accord GR Energy, Inc. ("Accord") in consideration for the issuance of 59,698,300 common shares (1,989,943 post consolidated shares) of the Company and the issuance of common share purchase warrants to purchase 2,000,000 common shares (66,667 post consolidated shares) of the Company at \$0.25 per share (\$7.50 per post consolidated share) for a period of three years. Due to additional cash injections and share subscriptions in Accord by unrelated shareholders during the last year, the Company's ownership of Accord decreased to 44.7% and has therefore deconsolidated the results of Accord from the financial statements and accounts for the investment in Accord using the equity basis of accounting.

On May 5, 2017, the Company held a shareholders' meeting and obtained approval to change the name of the Company to "Petroteq Energy Inc" and to consolidate its share on a 30 for 1 basis, reducing the number of its outstanding shares.

The Company is now primarily focused on developing its oil sands extraction business and related mining interests.

The Audit Committee of the directors of the Company has reviewed the MD&A and other publicly reported financial information for usefulness, reliability and accuracy.

Additional information related to the Company may be found on the Company's website at www.petroteq.energy and on SEDAR at www.sedar.com.

Cautionary Note Regarding Forward-Looking Information

This MD&A contains certain forward-looking information and forward-looking statements, as defined in applicable securities laws (collectively referred to herein as “forward-looking statements”). These statements relate to future events or the Company’s future performance. All statements other than statements of historical fact are forward-looking statements. Often, but not always, forward-looking statements can be identified by the use of words such as “plans”, “expects”, “is expected”, “budget”, “scheduled”, “estimates”, “continues”, “forecasts”, “projects”, “predicts”, “intends”, “anticipates” or “believes”, or variations of, or the negatives of, such words and phrases, or state that certain actions, events or results “may”, “could”, “would”, “should”, “might” or “will” be taken, occur or be achieved.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those anticipated in such forward-looking statements. The forward-looking statements in this MD&A speak only as of the date of this MD&A or as of the date specified in such statement. Specifically, this MD&A includes, but is not limited to, forward-looking statements regarding: the validation of and commercial viability of PQE’s Extraction Technology (defined below); the ability of the Extraction Technology to commence commercial production; the environmental friendliness of the Extraction Technology; the bbl/d capacity of the Extraction Technology; the schedule for certain events to occur and production to commence; capital efficacy and economics of the Extraction Technology; completion of certain acquisitions; potential of PQE’s properties to contain reserves; PQE’s ability to meet its working capital needs; the plans, costs, timing and capital for future exploration and development of PQE’s property interests, including the costs and potential impact of complying with existing and proposed laws and regulations; management’s outlook regarding future trends; sensitivity analysis on financial instruments, which may vary from amounts disclosed; prices and price volatility for oil and gas; and general business and economic conditions.

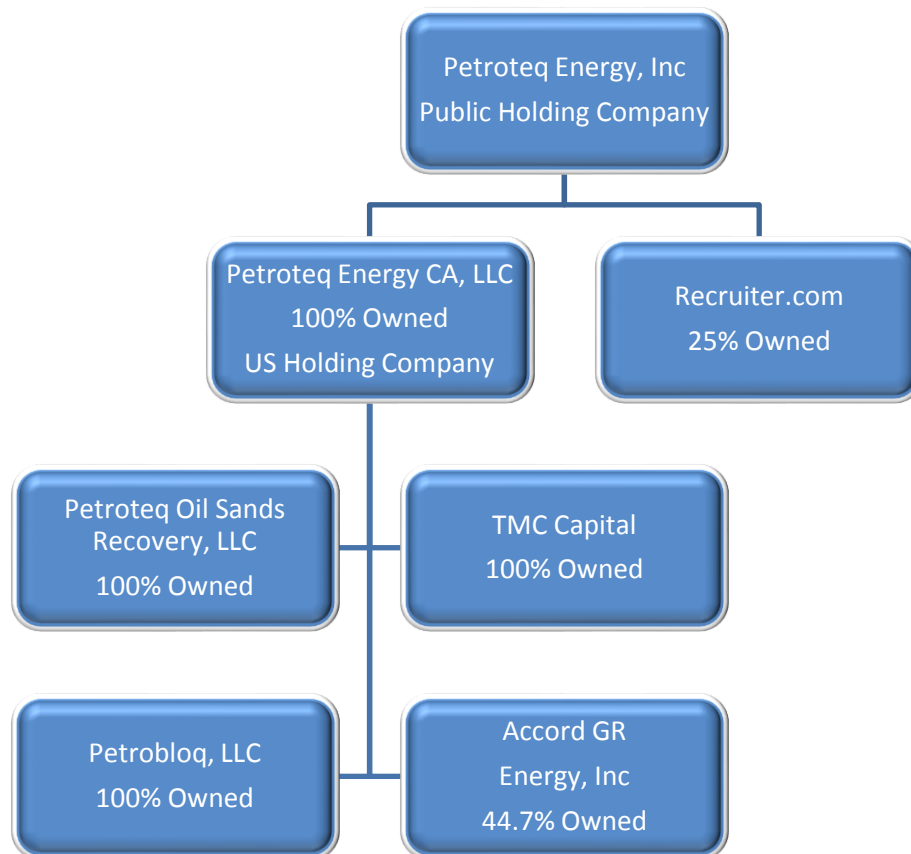
Inherent in forward-looking statements are risks, uncertainties and other factors beyond the Company’s ability to predict or control. These risks, uncertainties and other factors include, but are not limited to, oil and gas reserves, price volatility, changes in debt and equity markets, timing and availability of external financing on acceptable terms, the uncertainties involved in interpreting geological data and confirming title to properties, the possibility that future exploration results or the validation of technology will not be consistent with the Company’s expectations, increases in costs, environmental compliance and changes in environmental and other local legislation and regulation, interest rate and exchange rate fluctuations, changes in economic and political conditions and other risks involved in the oil and gas industry, as well as those risk factors listed in the “Risk Factors” section below. Readers are cautioned that the foregoing list of factors is not exhaustive of the factors that may affect the forward-looking statements. Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements contained in this MD&A. Such statements are based on a number of assumptions that may prove to be incorrect, including, but not limited to, assumptions about the following: the availability of financing for PQE’s exploration and development activities; operating and exploration costs; PQE’s ability to retain and attract skilled staff; timing of the receipt of regulatory and governmental approvals for exploration and production projects and other operations; market competition; and general business and economic conditions.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the Company’s actual results, performance or achievements to be materially different from any of its future results, performance or achievements expressed or implied by forward-looking statements. All forward-looking statements herein are qualified by this cautionary statement. Accordingly, readers should not place undue reliance on forward-looking statements. The Company undertakes no obligation to update publicly or otherwise revise any forward-looking statements, whether as a result of new information or future events or otherwise, except as may be required by law. If the Company does update one or more forward-looking statements, no inference should be drawn that it will make additional updates with respect to those or other forward-looking statements, unless required by law.

2) Company Overview

The common shares of PQE are listed on the TMX Venture Exchange (the "TSXV") under the trading symbol "PQE" and on the OTCQX under the trading symbol "PQEFF".

As a result of a prior corporate reorganization, a disposal of the Company's entire interest in MCW Fuels and a partial acquisition of Accord, as of the date hereof the Company has one wholly-owned subsidiary, PQECA, which has two wholly-owned active subsidiary companies, POSR and TMC, and one equity accounted investment, Accord, as reflected in the organizational chart below:



PQE, through its wholly owned subsidiaries POSR and TMC, is in the business of oil sands mining and processing, through a plant using proprietary extraction technology to recover oil from surface mined bitumen deposits which has been completed on its property in Asphalt Ridge, Utah. POSR is based in Uintah, Utah. The plant has been relocated to the TMC mining site to improve logistical and production efficiencies of the Oil Sands recovery process and the expansion project to increase production to approximately 1,000 barrels per day has been substantially completed.

Our newly formed indirect subsidiary, Petrobloq, LLC, is developing a blockchain-powered supply chain management platform for the oil and gas industry. We also own a 25% interest in Rcruiter.com, a recruitment venture that provides a website focused on careers in the oil and gas industry.

PQE also owns the intellectual property rights to a patent-pending process (the "Extraction Technology") of extracting oil from oil sands utilizing a closed-loop solvent based extraction system, as more completely described below.

3) Business Activity

Oil Sands Mining

PQE, through its wholly owned subsidiaries PQE Oil and TMC, is in the business of oil sands mining and processing. Historically, all of PQE's oil sands mining has occurred on a leased property in Asphalt Ridge, Utah where it mines surfaced bitumen deposits. Once mined, the bitumen deposits are processed at a production facility owned by PQE using PQE's proprietary extraction technology. The Company has substantially completed the relocation of the plant and the expansion project and is expected to commence commercial production during the 4th fiscal quarter of 2018.

Oil Sands Exploration and Production Plant

In June 2011, PQE commenced the development of an oil sands extraction facility on the Lease at Maeser, Utah and entered into construction and equipment fabrication contracts for this purpose. By January 2014 the initial facility was fully permitted and construction was completed by October 1, 2014. This was a pilot plant with the production capacity of up to 250 barrels per day. The Extraction Technology has been tested at full capacity. During 2015, the plant produced 10,000 barrels of oil from the local oil sands ore in the Asphalt Ridge including PQE's own Temple Mountain oil sands deposit. Most of the produced oil was sold to oil and gas distributors, or refineries. The initial processing plant was flexible in that it had the ability to produce both high quality heavy crude oil as well as the lighter oil if needed.

In 2016 when oil prices fell to very low levels, PQE determined that the transportation costs of hauling the ore from the mining site to the production facility was having a detrimental effect on the economics of the extraction operation and temporarily suspended operations. In 2017, the plant was disassembled and moved from the Maeser, Utah to the Temple Mountain mining site and is currently being rebuilt at that location. During the current reassembly of the facility, additional equipment is being installed to increase the capacity of the plant from 250 barrels per day to 1,000 barrels per day. PQE anticipates that the new production plant will restart operations and produce heavy crude oil from the Temple Mountain oil sands deposits during the end of March 2018. Management's current estimate of the total cost of the facility, including the expansion of the production capacity of the facility, exclusive of capitalized borrowing costs and lease costs, is between \$18 million and \$19 million.

PQE also owns the intellectual property rights to a patent-pending process (the "Extraction Technology") of extracting oil from oil sands utilizing a closed-loop solvent based extraction system, as more completely described below.

Reserves

PQE acquired a large oil sands lease in the Temple Mountain area in Asphalt Ridge, Utah to support and maintain its growing production capabilities. PQE's mineral leases has a large contingent oil sands resource base of approximately 94 million barrels of oil equivalent. These deposits are located at the surface, or enough close to the surface to be economically processed. Full mining permits have been granted to PQE from the State of Utah Division of Oil, Gas, and Mining for the mining and development of this resource. Mining operations, including the initial development of an open pit and overburden removed has already been performed. In addition to the mining permits, all environmental, construction, utility and other local permits necessary for the construction of the plant and the processing of the oil sands have been granted to PQE.

On June 1, 2015, the Company acquired 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. 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. 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 barrels 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 barrels per day plant fails to produce a minimum of 80% of its rated capacity for at least 180 calendar days during the lease year commencing July 1, 2020 plus any extension periods.
- (iv) The lessee may surrender the lease with 30 days written notice.
- (v) Breach of material terms of the lease, the lessor will inform the lessee in writing and the lessee will have 30 days to cure financial breaches and 150 days to cure any other non-monetary breach.

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

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.

Technology Development

PQE continues to develop its operations by processing purchased native oil sands ore, as well as native oil sands ore produced through the mining operations of its subsidiary (TMC) on a lease in Asphalt Ridge, Utah, using its a patented closed loop, continuous flow, anticipated scalable and environmentally safe Extraction Technology. The process allows the extraction of hydrocarbons from a wide range of both "water- wet" and/or "oil-wet" oil sands deposits and other hydrocarbon sediment types. PQE's oil extraction process takes place in a completely closed loop system that continuously re-circulates and recycles the solvent after it has completely separated the asphaltene and heavy oils from the oil sands. The closed loop system is capable of recovering over 99% of the all hydrocarbons from the oil sands, making this technology very environmentally friendly. The only two end products of the process are high quality heavy oil and clean sands.

The Extraction Technology utilizes no water in the process, is anticipated to produce no greenhouse gases, requires no high temperature and/or pressure for the extraction process, and expects to extract up to 99% of all hydrocarbon content and recycle up to 99% of the solvents. The proprietary solvent composition consists of hydrophobic, hydrophilic and polycyclic hydrocarbons. It is expected to dissolve up to 99% of heavy bitumen/asphalt and other lighter hydrocarbons from the oil sands, and prevent their precipitation during the extraction process. Solvents used in this composition form an azeotropic mixture which has a low boiling point of 70 – 75 C degrees and it is expected to allow recycling over 99% of the solvent. These features, in the event they produce as anticipated by the Company, make it possible to perform hydrocarbon extraction from oil sands at mild temperatures of 50 – 60 degrees C, with no vacuum or/and pressure applied that would lead to high energy and economic efficiency of the extraction of oil from the overall oil sands extraction process.

Another key element of the PQE extraction process is applying its own extractor, based on a proprietary/patent-pending "liquid fluidized bed" solvent extraction system for bitumen/oil from oil sands extraction. A "liquid fluidized bed" style reactor is anticipated to provide continuous mixing of the (liquid) solvent and the solid ore particles. It is intended to allow a continuous flow process with optimal material/mass/energy balances. PQE's solvent based technology uses only a fraction of the energy needed to produce a barrel of oil from the water based technologies used in Canada. PQE's process also employs multiple energy saving technologies to reduce energy consumption even further. This has resulted in a high level of energy efficiency during the oil extraction process. PQE's patented design also includes exceptionally efficient heat exchange and distillation/rectification systems. This energy efficiency makes extraction facilities economical to operate.

PQE has been granted patents for elements of the Extraction Technology with both the USPTO in the United States and CIPO in Canada, as well as China and Russia, and intends to file patent applications worldwide with respect to the same elements in the future. PQE has been granted technology patents in the United States, Canada, and Russia.

On March 27, 2013, PQE entered into an intellectual property license agreement with a private arm's length Canadian company, TS Energy Ltd., which has agreed to act as the sole and exclusive licensee of the Extraction Technology within Canada and the Republic of Trinidad and Tobago.

4) Outlook

Oil Sands

PQE's technology has been tested at full capacity as of August 31, 2015 and an independent production evaluation was completed, shortly thereafter. PQE initially hired and trained its own personnel to operate the plant but has since laid off all employees due to the price volatility in the international markets reducing viable production at limited volumes. The Company is able to produce oil/hydrocarbon products which can be sold locally in Asphalt Ridge to the oil and gas distributors or refineries.

The Company has obtained the last full production permit (Ground Water Permit) in order to commence continuous plant operations.

The plant has been relocated to the TMC mining site to improve logistical and production efficiencies of the Oil Sands recovery process. The Company has substantially completed its expansion project to increase capacity to at least 1,000 barrels per day.

In order to fund the relocation of the plant and the expansion of the production capacity, the Company entered into a memorandum of understanding (the "Memorandum") with Deloro Energy, LLC ("Deloro") on September 11, 2017. Under the Memorandum, Deloro will provide financing of up to \$10,000,000 to the Company, to be used primarily for the expansion of the production capacity of the Company's oil extraction plant to 1,000 barrels per day. On the completion of the plant expansion, Deloro will be entitled to receive a 49% equity interest in each of POSR and TMC. The agreement remains subject to various approvals, including regulatory approval.

On the signing of the Agreement on September 11, 2017, Deloro paid a non-refundable deposit of \$50,000 to PQE CA, and credited towards the first tranche. On October 20, 2017, a further \$1,205,000 was received by PQE CA for the planned expansion of the of the oil extraction plant processing capacity. At the time the oil extraction plant achieves commercial production of at least 1,000 barrels per day, Deloro will receive a 25% economic royalty interest from PQE Oil and TMC. A further \$1,295,982 was received during the three months ended February 2018 and a further \$1,100,000 during the three months ended May 31, 2018.

Deloro was to advance a second tranche of \$3,500,000 which was to take place prior to February 28, 2018 for a further economic royalty interest of 10% (a total of 35%) from PQE Oil and TMC, commencing and calculated from when the oil extraction plant achieves commercial production of at least 1,000 barrels per day.

Deloro was to advance a third and final tranche of \$3,950,000 on or before June 1, 2018 which will entitle Deloro to receive an additional economic royalty interest of 14% (a total of 49%) from PQE Oil and TMC, commencing and calculated from when the oil extraction plant achieves commercial production of at least 1,000 barrels per day.

If Deloro fails to make any of the advances under the Agreement, PQE CA will have the option to repurchase the royalty interests owned by Deloro within twelve months from the date of the failure to make the advance. If Deloro fails to make all the advances by June 1, 2018, the advances made to date will convert to a loan payable, with interest at 5% per annum, by June 1, 2019.

Deloro failed to make advances as per the agreed upon schedule and during May 2018, the agreement with Deloro was terminated and the outstanding principal debt of \$3,600,000, less the non-refundable deposit of \$50,982 was converted into units at a conversion price of \$0.60 per share. Each unit consisting of one common share and one three year common share purchase warrant exercisable at \$0.91 per share.

5) Summary of Quarterly Results

The following selected financial information, for the quarters as shown in the table, was prepared in accordance with IFRS:

Three months ended	May 31, 2018 (\$)	February 28, 2018 (\$)	November 30, 2017 (\$)	August 31, 2017 (\$)
Total revenues	Nil	Nil	Nil	Nil
Loss from operations	3,178,839	3,732,532	3,645,712	3,101,430
Basic and diluted loss per share*	0.05	0.03	0.07	0.12

* Adjusted for the 30 for 1 share consolidation which took place on May 5, 2017.

The net loss for the three months ended May 31, 2018, includes marketing and public relations activity of approximately \$1,560,000 and professional fees of \$890,000 primarily advisory fees on developing the business strategy, salaries and wages has also increased significantly to \$252,000 as the company completed its expansion project and employed skilled people to assist with the project.

The net loss for the three months ended February 28, 2018, has no significant and abnormal expenditures, general and administrative expenses have increased as the Company prepares for the completion of the expansion project, in addition marketing expenditure has increased as the Company to increase awareness of the impending completion of the expansion project.

The net loss for the three months ended November 30, 2017 includes stock based compensation of \$2,505,647 related to the grant of 1,425,000 stock options to certain directors of the Company. In addition to this the Company incurred an increase in public relations expenditure of \$202,844 to renew interest in its oil sands recovery business.

The net loss for the three months ended August 31, 2017 includes a loss on conversion of equity of \$1,459,172 related primarily to an agreement entered into whereby debt due to the Chair of the Board totaling \$3,000,000, including interest thereon, was converted to equity at a loss of \$1,545,821.

Three months ended	May 31, 2017 (\$)	February 28, 2017 (\$)	November 30, 2016 (\$)	August 31, 2016 (\$)
Total revenues	Nil	Nil	Nil	Nil
Loss from operations	3,581,788	514,637	741,788	1,745,747
Basic and diluted loss per share*	0.46	0.08	0.11	0.47

* Adjusted for the 30 for 1 share consolidation which took place on May 5, 2017.

The net loss for the three months ended May 31, 2017 includes a loss on conversion of equity of \$2,253,385 related primarily to agreements entered into whereby debt totaling \$12,189,956 was converted into 31,083,281 common shares on May 19, 2017. These shares were issued subsequent to the quarter end.

The net loss for the three months ended February 28, 2017 includes a gain on settlement of liabilities of \$875,369 related primarily to the issuance of shares on the conversion of \$2,300,000 of debt to a third party, offset by the reversal of a gain previously recognized of \$499,894 which gain has been deferred until such time as regulatory approval has been obtained.

The net loss for the three months ended November 30, 2016 includes a gain on settlement of liabilities of \$470,601 related primarily to the issuance of shares on the conversion of loans due to the Chair of the Board of Directors.

The net loss of \$1,745,747 for the three months ended August 31, 2016 includes a reduction in interest expense of \$175,000 for interest capitalized on the expansion of the oil extraction plant and the write-off of all remaining ore inventory which was utilized during the testing of the oil extraction facility.

The net loss for the three months ended May 31, 2016, includes a gain on settlement of liabilities of \$256,949 related primarily to the issuance of shares on the conversion of debt into equity and depreciation and amortization expense of \$324,031 primarily due to depreciation on the capitalized oil extraction facility costs which commenced limited commercial production on September 1, 2015.

The following tables compares expenditures for the three and nine months ended May 31, 2018 and 2017 which are discussed under Section 6 below.

	Three months ended May 31, 2018	Three months ended May 31, 2017	Change (\$)	Change %
Cost of Goods Sold	46,712	111,250	(64,538)	-58.0%
General and administrative	117,297	123,615	(6,318)	-5.1%
Travel and promotion	1,743,444	101,868	1,641,576	1611.5%
Professional fees	889,862	91,501	798,361	872.5%
Salaries and wages	252,555	152,000	100,555	66.2%
Share-based compensation	17,834	-	17,834	100.0%
Gain on settlement of liabilities	(216,297)	2,253,385	(2,469,682)	-109.6%
Interest expense	81,656	500,555	(418,899)	-83.7%
Depreciation and amortization	296,758	298,171	(1,413)	-0.5%
Other income	(50,982)	-	(50,982)	100.0%
Gain on deconsolidation of subsidiary	-	(48,506)	48,506	-100.0%

	Nine months ended May 31, 2018	Nine months ended May 31, 2017	Change (\$)	Change %
Cost of Goods Sold	234,120	315,184	(81,064)	-25.7%
General and administrative	411,917	330,684	81,233	24.6%
Travel and promotion	2,086,914	420,304	1,666,610	396.5%
Professional fees	1,715,757	475,345	1,240,412	260.9%
Salaries and wages	638,645	451,000	187,645	41.6%
Share-based compensation	2,523,481	15,992	2,507,489	15679.6%
Gain on settlement of liabilities	(216,297)	907,415	(1,123,712)	-123.8%
Interest expense	323,254	1,079,606	(756,352)	-70.1%
Depreciation and amortization	890,273	893,187	(2,914)	-0.3%
Other income	(50,982)	-	(50,982)	100.0%
Gain on deconsolidation of subsidiary	-	(48,506)	48,506	-100.0%

The Company incurred capital expenditures of \$3,024,500 and \$500,000 for the nine months ended May 31, 2018 and 2017, respectively. The capital expenditures during the current year were incurred on the production facility post relocation to the TMC mineral site. These capital expenditures increased production capacity to

approximately 1,000 barrels per day.

In terms of the mineral lease agreement entered into with Asphalt Ridge, the Company spent \$468,796 and \$261,000 on advance royalty payments for the nine months ended May 31, 2018 and 2017, respectively.

6) Comparison of results for the three months ended May 31, 2018 and 2017

Net Revenue, Cost of Sales and Gross Loss

Due to the volatility in oil markets and the limited production capacity at the plant, no production took place during the nine months ended May 31, 2017, resulting in no revenue generation. During the nine months ended May 31, 2018, the Company has relocated its production plant to the Asphalt Ridge mineral site and has expanded production capacity to approximately 1,000 barrels per day, management expects to generate some revenues from the plant in the 4th quarter of the current fiscal year or early in the next fiscal year. The cost of sales during fiscal 2018 consists primarily of advance royalty payments which expire at the end of the calendar year two years after the payment has been made. These expired royalties have been expensed.

Operating Expenses

Operating expenses were \$3,132,127 and \$3,472,536 for the three months ended May 31, 2018 and 2017, respectively. The increase in operating expenses is primarily due to:

An increase in travel and promotion expenditure of \$1,641,576 or 1,611.5% as the Company completed its expansion product and embarked on a public relations and investor relations exercise to communicate progress to the market.

Professional fees increased by \$798,361 or 872.5%, primarily due to advisory services offered to the Company in formulating the business operations and strategy.

Salaries and wages have increased by \$100,555 or 66.2% as the Company have recruited a number of employees related to the expansion of the facility.

Gain on settlement of liabilities was \$(216,297) and 2,253,385 for the three months ended May 31, 2018 and 2017, respectively. The gain on settlement in the prior year arose on certain debt conversions settled at a discount to the carrying value of the debt. The current year gain was as a result of settling liabilities at a discount by the issue of shares.

Interest expense decreased by 83.7% due to the conversion of a significant amount of debt into equity during the prior year to improve the equity position of the Company and allow future funding to expand the production facility.

Depreciation is in line with prior year, the current expenditure on plant is still regarded as capital work in progress, has not been brought into use yet and is therefore not depreciated as yet.

Comparison of results for the nine months ended May 31, 2018 and 2017

Net Revenue, Cost of Sales and Gross Loss

Due to the volatility in oil markets and the limited production capacity at the plant, no production took place during the nine months ended May 31, 2017, resulting in no revenue generation. During the nine months ended May 31, 2018, the Company has relocated its production plant to the Asphalt Ridge mineral site and has expanded production capacity to approximately 1,000 barrels per day, management expects to generate some revenues from the plant in the 4th quarter of the current fiscal year or early in the next fiscal year. The cost of sales during fiscal 2018 consists primarily of advance royalty payments which expire at the end of the calendar year two years after the payment has been made. These expired royalties have been expensed.

Operating Expenses

Operating expenses were \$8,322,962 and \$4,525,028 for the nine months ended May 31, 2018 and 2017, respectively. The increase in operating expenses is primarily due to:

An increase in general and administrative expenditure of 24.6% as the Company prepares itself to go into production. The expansion project is substantially complete and production is expected to resume shortly.

Travel and promotional expenses increased by \$1,666,610 or 396.5%. The Company has substantially completed its expansion product and embarked on a public relations and investor relations exercise to communicate progress to the market.

Professional fees increased by \$1,240,412 or 260.9%, primarily due to advisory services offered to the Company during the most recent fiscal quarter, in formulating the business operations and strategy.

Salaries and wages has increased by 41.6% as the Company have recruited a number of employees related to the expansion facility during the last six months of the current year.

Share based compensation of \$2,505,647 and \$15,992 for the nine months ended May 31, 2018 and 2017, respectively, an increase of \$2,489,655. The increase is primarily due to the grant of 1,425,000 stock options to certain directors on November 30, 2017. The prior year stock based compensation consists of the amortization of stock options granted to an officer in 2016, in accordance with the vesting terms of the options.

Gain on settlement of liabilities of \$216,297 and \$(907,415) for the nine months ended May 31, 2018 and 2017, respectively. The gain on settlement in the current year represents the settlement of third party liabilities by the issue of common shares at favourable settlement rates to the Company. In the prior year, certain liabilities were settled by the issuance of shares at prices higher than the corresponding debt.

Interest expense decreased by 70.1% due to the conversion of a significant amount of debt into equity during the prior year to improve the equity position of the Company and allow future funding to expand the production facility.

Depreciation is in line with prior year, the current expenditure on plant is still regarded as capital work in progress, has not been brought into use yet and is therefore not depreciated as yet.

7) Liquidity and Capital Resources

As at May 31, 2018, the Company had liquidity of approximately \$245,242, which is composed entirely of cash. The Company also had a working capital deficiency of approximately \$4,800,914, due to short term loans and accrued interest thereon which remains outstanding as of May 31, 2018. Approximately \$2,500,000 of this debt was converted to equity subsequent to May 31, 2018. These loan funds were primarily used to relocate the plant to the TMC mineral lease site and to expand the production capacity of the plant to 1,000 barrels per day.

The Company continues to issue shares and borrow funds to fund the ongoing plant expansion and operations. Subsequent to May 31, 2018, in terms of various subscription agreements entered into with third parties, the Company raised additional proceeds of \$232,000. Proceeds from these subscriptions were used for general working capital purposes and in relocation of the plant to the TMC mineral lease site.

As more particularly described in Section 4, on September 11, 2017 the Company executed a memorandum of understanding with Deloro Energy LLC. Under the terms of the Memorandum, Deloro will loan the Company \$10,000,000 USD in tranches which may, under the terms and conditions of the Memorandum, be converted into an equity interest of up to 49% of POSR and 49% of TMC, subject to regulatory and other approvals. As of May 31, 2018, Deloro had advanced the Company \$3,650,982, of which \$3,600,000 was converted to equity as fully described above, and the remaining \$50,982 represented a non-refundable deposit.

On November 2, 2017, the Company entered into a loan agreement with the Chair of the Board to receive funding up to a maximum of \$2,000,000.

On December 1, 2017 the Company announced it has successfully purchased oil extraction equipment valued approximately at \$3,000,000 for a discounted price of \$838,000.

On July 26, 2018, the Company announced the issuance of an aggregate of 2,765,115 common shares, and 1,232,150 common share purchase warrants, to 15 arm's length parties, for gross proceeds of an aggregate US\$1,832,600. Each warrant entitles the holder to acquire one common share of the Company at an exercise price of US\$1.50 per common share for 24 months from the date of issuance. The net proceeds will be used by the Company for use on its extraction technology in Asphalt Ridge, Utah, and for working capital.

The Company continues to work on several other financing options to secure additional financing on reasonable terms. However, should the Company not be able to secure such funding its liquidity may not be sufficient to fund its operations, debt obligations and the capital needed to complete development of its Extraction Technology.

The Company has not paid any dividends on its common shares. The Company has no present intention of paying dividends on its common shares as it anticipates that all available funds will be reinvested to finance the growth of its business.

In addition to commitments otherwise reported in this MD&A, the Company's contractual obligations as at May 31, 2018, include:

Contractual Obligations	Total (\$ millions)	Up to 1 Year (\$ millions)	2 – 5 Years (\$ millions)	After 5 Years (\$ millions)
Convertible Debentures ^[1]	2,48	2,48	-	-
Long-Term Debt ^[2]	1,82	0.50	1,32	-
Total Contractual Obligations	4,30	2,98	1,32	-

1. Amount includes estimated interest payments. The recorded amount as at May 31, 2018 was approximately \$2,48 million.
2. Amount includes estimated interest payments. The recorded amount as at May 31, 2018 was approximately \$1,5 million.

8) Off-Balance Sheet Arrangements

To the best of management's knowledge, there are no off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of the Company.

9) Related Party Transactions

During the nine months ended May 31, 2018, the Company had the following related party transactions not otherwise disclosed in this MD&A:

During April 2018, the Chair of the Board converted \$774,387 of long term debt into 60 month convertible debentures, earning interest at 10% per annum and convertible into units at a conversion price of \$1.09 per unit, each unit consisting of one share of common stock and a share purchase warrant convertible into one share of common stock at a conversion price of \$1.30 per share. The warrants expire the earlier of 24 months from issue date or the date of maturity of the convertible debenture.

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:

	Nine months ended	
	May 31, 2018	May 31, 2017
Salaries, fees and other benefits	\$ 484,800	\$ 306,000
Share based compensation	2,505,647	15,992
	<u>\$ 2,990,447</u>	<u>\$ 321,992</u>

At May 31, 2018, \$1,398,392 is due to members of key management and directors for unpaid salaries, expenses and directors' fees (August 31, 2017 – \$1,137,392).

Due to Director

During the nine months ended May 31, 2018 and the year ended August 31, 2017 and 2016, the Company received additional advances of \$1,145,440 and \$421,250 from various private companies controlled by the Chair of the Board of Directors of the Company.

As of May 31, 2018, and August 31, 2017, the Company owed the Chair of the Board the aggregate sum of \$1,632,080 and \$242,250, respectively.

10) Outstanding Share Data

As at the date hereof, the Company had the following common shares, share purchase options, warrants and convertible securities outstanding:

Total common shares outstanding	78,878,969
Total common share purchase options	9,858,333
Total common share purchase warrants and broker warrants	7,842,324
Total other securities reserved for issuance*	-
Fully diluted shares outstanding	96,579,626

Share Purchase Options

The Company has a 20% fixed number share option plan, most recently approved by the shareholders on March

6, 2015. Pursuant to this plan, the Company may grant up to 1,513,574 share purchase options to directors, officers, employees, and consultants. The number of options available for issuance was recently increased to accommodate a recent issue of options to certain members of management, consultants and advisors. Such options are non-transferable, will have a maximum term of ten years and terminate 12 months (or other such shorter time as determined by the directors) following cessation of the optionee's position with the Company, subject to the expiry date of such option. As at the date hereof, an aggregate of 9,858,333 share purchase options (including 50,000 warrants treated as incentive stock options by the TSXV) were outstanding:

Option Expiry Date	Option Exercise Price (CDN\$)	Number of Options Outstanding
December 31, 2018	4.80	50,000
February 1, 2026	5.85	33,333
November 30, 2027	2.27	1,425,000
June 5, 2028	1.00	8,350,000
Total		9,858,333

Share Purchase Warrants

As at the date hereof, an aggregate of 7,842,324 share purchase warrants were outstanding, as follows:

Warrant Expiry Date	Warrant Exercise Price (\$)	Number of Warrants Outstanding
November 5, 2019	\$28.35	25,327
April 12, 2019	\$5.10	16,667
August 19, 2019	\$7.50	66,666
MARCH 9, 2020	\$1.50	114,678
April 8, 2021	\$4.73	57,756
May 22, 2021	\$0.91	6,000,000
June 14, 2020	\$1.50	329,080
July 26, 2020	\$1.50	1,232,150
Total		7,842,324

Other Securities Reserved for Issuance

The Company entered into an agreement with two debenture holders whereby it has agreed to convert a total of CDN\$628,585 into shares of common stock at conversion prices to be determined in the future. As of the date hereof CDN\$365,00 had been converted into shares of common stock, the balance of \$CDN263,585 remains to be converted. Should these loans convert at the closing stock price on of CDN\$1.12 per share, an additional 235,344 shares would be issued.

11) Financial Instruments and Risk Management

As at May 31, 2018, the Company's financial instruments are comprised of cash, trade and other receivables, accounts payable and accrued expenses, the fair values of which approximate their carrying values due to their short-term maturity, and convertible debentures and long-term debt, which are carried at amortized cost. The Company classifies its cash as fair value through profit or loss. The Company's financial instruments are exposed to a variety of related risks. The Company's risk exposures and the impact on the Company's financial instruments are described under "Risks and Uncertainties" below.

12) 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.

13) Significant Accounting Policies and Critical Accounting Estimates

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

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.

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

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

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

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

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:

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.

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.

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.

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 condensed consolidated financial statements.

14) Litigation and Contingencies

From time to time, the Company is the subject of litigation arising out of the Company's normal course of operations. While the Company assesses the merits of each lawsuit and defends itself accordingly, the Company may be required to incur significant expenses or devote significant resources to defend itself against such litigation. Accruals are made in instances where it is probable that liabilities may be incurred and where such liabilities can be reasonably estimated. Although it is possible that liabilities may be incurred in instances for which no accruals have been made, management has no reason to believe that the ultimate outcome of these matters would have a significant impact on the Company's consolidated financial position.

15) Risks and Uncertainties

Due to the nature of the Company's business and present stage of development, the Company is subject to significant risks. Risk factors relating to the Company include, but are not limited to, risks relating to reliance on major customers and key personnel, reliance on banking facilities and dependence on sustainability of customer orders, the risk that the Company's business plan may fail, risks relating to operations, risks related with compliance with environmental protection regulations, risks related to uninsurable or uninsured risks, risks related to the start-up of the Company's technology business and risks related to conflicts of interest of directors and officers.

Operating Hazards and Risk

The Company's current business involves risks, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. Operations in which the Company has a direct or indirect interest will be subject to hazards and risks normally incidental to its operations, any of which could result in work stoppages, damage to or destruction of property, loss of life and environmental damage.

Environmental Risks and Other Regulatory Requirements

The Company's current and future operations are and may be governed by laws and regulations governing its industry. Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment or remedial actions. The Company currently operates its business in a regulated industry. There can be no assurances that the Company may not be negatively affected by changes in the Canadian, American or other legislation, or by any decisions or orders of any governmental or administrative body or applicable regulatory authority.

Technology

The intellectual property and proprietary systems developed by PQE, including in particular, the Extraction Technology, have not previously been used in a commercial project. As such, the project carries with it a greater degree of technological risk than similar projects that employ commercially proven technologies despite the steps taken to reduce the risk of using these new processes through the utilization of an experienced and qualified process development and engineering team to anticipate and mitigate the majority of the process and mechanical challenges. Since a major portion of the processes used in the modular extraction unit are based on commercially unproven technologies and the detailed design is still being finalized, the Extraction Technology may not perform as anticipated by PQE or at all and the cost estimate may be subject to more variation than would be expected for commercially proven technology. If major process design changes are needed, the current cost contingency may not be adequate.

Intellectual Property

The success and ability of the Company to successfully complete development of the subject property of the Lease and to be economically viable will depend to a significant extent on the intellectual property and proprietary technology of PQE. The ability of the Company to prevent others from copying such proprietary technologies will be critical to sustaining the project's commercial advantage. PQE currently relies on intellectual property rights and other contractual or proprietary rights, including (without limitation) copyright, trade-mark laws, trade secrets, confidentiality procedures, contractual provisions, licenses and patents, to protect its proprietary technology. However, some of PQE's intellectual property is currently under patent pending applications. PQE intends to continue to seek patent protection for the Extraction Technology.

Without patent and other similar protection, other companies could offer substantially identical products for sale without incurring the sizeable development costs that PQE has incurred. The Company's ability to recover these expenditures and realize profits upon the development of its technologies could be diminished. The process of obtaining patents can be time consuming and expensive, with no certainty of success. Even if the Company spends the necessary time and money, a patent may not be issued, or it may insufficiently protect the technology it was intended to protect. If PQE's pending patent applications are not approved for any reason, the degree of future protection for its proprietary technology will remain uncertain.

The Company may have to engage in litigation in order to protect its patents or other intellectual property rights, or to determine the validity or scope of the proprietary rights of others. This type of litigation can be time consuming and expensive, regardless of whether or not the Company is successful. The process of seeking patent protection can itself be long and expensive, and there can be no assurance that any pending or future patent applications of the Company or PQE will actually result in issued patents, or that, even if patents are issued, they will be of sufficient scope or strength to provide meaningful protection or any commercial advantage to the Company. Furthermore, others may develop technologies that are similar or superior to the technology of PQE or design around the patents owned by PQE.

Despite the efforts of the Company, the intellectual property rights, particularly existing or future patents, of PQE may be invalidated, circumvented, challenged, infringed or required to be licensed to others. It cannot be assured that any steps the Company may take to protect its intellectual property rights and other rights to such proprietary technologies that are central to the Company's operations will prevent misappropriation or infringement of the right to use or license others to use the Extraction Technology and/or PQE Process and accordingly may conduct an oil sands extraction operation similar to that of the Company.

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 May 31, 2018 and August 31, 2017, 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.

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.

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 Company believes that it would be able to obtain adequate liquidity to fund its oil sands operations, If the Company is unable to obtain further funding in order to complete the oil sands plant and for sufficient operating working capital, it could have a material adverse effect on the Company's business, financial condition and results of operations.

Foreign Currency Exchange Risk

PQE generally incurs expenses denominated in U.S. dollars which is the functional currency of the Company and is therefore not subject to significant foreign exchange risk.

Liquidity Concerns and Future Financing Requirements

The Company will require additional financing in order to fund its plan of operations. The Company's ability to arrange such financing in the future will depend in part upon prevailing capital market conditions, as well as the Company's resulting business success. There can be no assurance that the Company will be successful in its efforts to arrange additional financing on terms satisfactory to the same. If additional financing is raised by the issuance of common shares from treasury, control of the Company may change and existing shareholders may suffer additional dilution. If adequate funds are not available, or are not available on acceptable terms, the Company may not be able to take advantage of other opportunities, curtail business operations or cancel planned projects, or otherwise remain in business. Events in the equity market may impact the Company's ability to raise additional capital in the future.

Volatility of Share Price

Factors such as announcements of quarterly variations in operating results, as well as market conditions in the Company's industry, may have a significant impact on the market price of the Company's shares. Global stock markets and exchanges in particular have, from time to time, experienced extreme price and volume fluctuations, which have often been unrelated to the operations of particular companies. Share prices for many companies in many industries have experienced wide fluctuations that have been often unrelated to the operations of the companies themselves. In addition, there can be no assurance that an active trading or liquid market will develop or be sustained for the Company on the TSXV.

Volatility of Oil Prices

Oil prices have fluctuated widely during recent years and are subject to fluctuations in response to relatively minor changes in supply, demand, market uncertainty and other factors that are beyond the Company's control. These factors include, but are not limited to, worldwide political instability, foreign supply of oil and natural gas, the level of consumer product demand, government regulations and taxes, the price and availability of alternative fuels and the overall economic environment. Any decline in oil or natural gas prices could have a material adverse effect on the Company's operations, financial condition and the level of expenditures for the development of its resources. No assurance can be given that oil and natural gas prices will be at levels which will generate profits for the Company. The economics of developing some of the Company's properties may change as a result of lower oil prices. The Company might also elect not to develop or delay development of certain properties at lower oil prices. All of these factors could result in a material decrease in the Company's development activities.

Dependence on, and Protection of, Key Personnel

The Company is dependent upon the continued support and involvement of its directors, officers and key technical personnel to develop its business and operations. If the Company were to lose any of their services, the Company's ability to implement its business plans could be severely curtailed or delayed.

Conflicts of Interest and Time

Certain of our current directors and officers are, and may continue to be, involved in other industries through their direct and indirect participation in corporations, partnerships or joint ventures which may be potential competitors of the Company. Situations may arise in connection with potential acquisitions or opportunities where the other interests of these directors and officers may conflict with our interests. Directors and officers with conflicts of interest will be subject to and follow the procedures set out in applicable corporate and securities legislation, regulation, rules and policies. Certain directors and officers of the Company will only devote a portion of their time to the business and affairs of the Company and some of them are or will be engaged in other projects or businesses.

Nature of Oil Sands Exploration and Development

Oil sands exploration and development are very competitive and involve many risks that even a combination of experience, knowledge and careful evaluation may not be able to overcome. As with any petroleum property, there can be no assurance that the Extraction Technology will perform as anticipated by PQE or at all, or that commercial deposits of bitumen will be produced from PQE's permit lands in the State of Utah. Furthermore, the marketability of any resource will be affected by numerous factors beyond the Company's control. These factors include, but are not limited to, market fluctuations of prices, proximity and capacity of pipelines and processing equipment, equipment and labor availability and government regulations (including, without limitation, regulations relating to prices, taxes, royalties, land tenure, allowable production, importing and exporting of oil and gas and environmental protection). The extent of these factors cannot be accurately predicted, but the combination of these factors may result in the Company not receiving an adequate return on invested capital.

Operation Risk

Operation risk is a function of the Company's ability to manage operating costs. Operating costs could be impacted by inflationary pressures on labor, volatile pricing for natural gas used as an energy source in transportation of fuel and in oil sands processes, and planned and unplanned maintenance.

Bitumen Supply Risk

Supply risk is a function of the unavailability of third party bitumen, poor ore grade quality or density, unplanned mine equipment and extraction plant maintenance, storage costs and in situ reservoir and equipment performance could impact production targets.

Reserves and Resources

The Company has not yet established any reserves. There are numerous uncertainties inherent in estimating quantities of bitumen resources and reserves, including many factors beyond our control, and no assurance can be given that the recovery of bitumen will be realized. In general, estimates of resources and reserves are based upon a number of factors and assumptions made as of the date on which the resources and reserve estimates were determined, such as geological and engineering estimates which have inherent uncertainties, the assumed effects of regulation by governmental agencies and estimates of future commodity prices and operating costs, all of which may vary considerably from estimated results. All such estimates are, to some degree, uncertain and classifications of resources and reserves are only attempts to define the degree of uncertainty involved. For these reasons, estimates of reserves and resources, the classification of such resources and reserves based on risk of recovery, prepared by different engineers or by the same engineers at different times, may vary substantially. Investors are cautioned not to assume that all or any part of a resource is economically or legally extractable.

Climate Change Legislation

Environmental legislation regulating carbon fuel standards in jurisdictions that import crude and synthetic crude oil in the United States could result in increased costs and/or reduced revenue. For example, both California and the United States federal governments have passed legislation which, in some circumstances, considers the lifecycle greenhouse gas emissions of purchased fuel and which may negatively affect the Company's business, or require the purchase of emissions credits, which may not be economically feasible.