



MCW ENERGY GROUP LIMITED

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED AUGUST 31, 2015

## 1) Introduction

The following management's discussion and analysis ("**MD&A**") of the financial position and results of operations of MCW Energy Group Limited ("**MCW**", or the "**Company**") was prepared in accordance with the requirements of *National Instrument 51-102 – Continuous Disclosure Obligations* by management of the Company on December 29, 2015 and should be read in conjunction with the audited consolidated financial statements and notes thereto for the years ended August 31, 2015 and 2014. References to "**MCW**" and the "**Company**" herein refer to the Company and its subsidiaries taken as a whole.

The consolidated financial statements for the year ended August 31, 2015 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 December 29, 2015.

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

As a result of a recent corporate reorganization and an agreement to dispose of the Company's interest in MCW Fuels, LLC ("**MCW Fuels**"), which was effective May 13, 2015 and for which regulatory approval was received on June 19, 2015, as of the date hereof the Company has one wholly-owned subsidiary, MCW Energy CA, Inc. ("**MCW Energy CA**"), a California corporation, which has two wholly-owned active subsidiary companies, MCW Oil Sands Recovery, LLC ("**MCW Oil Sands**") and TMC Capital LLC ("**TMC**").

On May 13, 2015, the Company's wholly owned subsidiary, MCW Energy CA, entered into an agreement with the Chair of the Company's Board of Directors, Aleksandr Blyumkin (the "**Buyer**" or "**Mr Blyumkin**"), selling its ownership interest in MCW Fuels LLC ("**MCW Fuels**") for nominal consideration of \$1, the assumption of all liabilities of MCW Fuels and agreeing to repay all outstanding liabilities as of the date of sale. Further to this, the Buyer agreed to indemnify MCW Energy CA and the Company against any past, present and future liabilities which have arisen as a result of Company's prior ownership and operations of MCW Fuels. In conjunction with this agreement, MCW Energy CA and MCW Fuels entered into a Debt Conversion Agreement on May 13, 2015, whereby the indebtedness of MCW Energy CA to MCW Fuels of \$5,685,057 was settled by the issue of 9,200,000 shares of the Company to MCW Fuels at a conversion price of CAD \$ 0.74 per share.

Effective June 1, 2015, MCW CA entered into an agreement to acquire all the members' interests in TMC, after final approval for the transaction was obtained from the TSX Venture Exchange, for a total cost of \$10,000,000. The purchase price was settled by the issue of two five year unsecured promissory notes which bear interest at 5% per annum and mature on May 31, 2020.

The Company is now focused entirely on developing its oil sands extraction business.

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.mcwenergygroup.com](http://www.mcwenergygroup.com) and on SEDAR at [www.sedar.com](http://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 MCW'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 MCW's properties to contain reserves; MCW's ability to meet its working capital needs; the plans, costs, timing and capital for future exploration and development of MCW'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 MCW's exploration and development activities; operating and exploration costs; MCW'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 Company was incorporated as "**AXEA Capital Corp.**", a Capital Pool Company (as such term is defined by the TSX Venture Exchange (the "**TSXV**")), on January 4, 2008 pursuant to the Business Corporations Act (British Columbia). On October 15, 2012, MCW Energy Group Limited ("**MCW NB**"), a corporation incorporated in the Province of New Brunswick, completed a reverse acquisition of ASEA Capital Corp. (the "**RTO**") which constituted the Qualifying Transaction (as such term is defined by the TSXV) of ASEA Capital Corp. Pursuant to a certificate of change of name dated October 15, 2012, the Company changed its name from "**AXEA Capital Corp.**" to "**MCW Enterprises Ltd.**" Pursuant to articles of continuance filed on December 7, 2012, MCW NB changed its jurisdiction of governance by continuing from New Brunswick into Ontario. Pursuant to articles of continuance filed on December 12, 2012, the Company changed its jurisdiction of governance by continuing from British Columbia into Ontario and changed its name to MCW Enterprises Continuance Ltd. Pursuant to a certificate of amalgamation dated December 12, 2012, the Company and MCW NB amalgamated in Ontario and continued under the name "**MCW Energy Group Limited**".

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

As a result of a recent corporate reorganization and disposal of the Company's entire interest in MCW Fuels, as of the date hereof the Company has one wholly-owned subsidiary, MCW Energy CA, which has two wholly-owned active subsidiary companies, MCW Oil Sands and TMC.

On October 15, 2012, MCW NB completed an RTO, complete details of which are found in the Filing Statement of the Company dated October 5, 2012 and filed under the Company's profile on SEDAR, and summarized as follows: (i) MCW NB closed a private placement for 3,080,000 subscription receipts for gross proceeds of CDN\$1,400,000. Each subscription receipt was convertible into units of MCW NB consisting of one common share and one-half of one common share purchase warrant. Each full warrant exercisable for one common share at a price of CDN\$0.75 for a period of 24 months after the completion of the RTO. The net proceeds from the private placement were CDN\$1,180,000 including cash payments of CDN\$220,000 for share issue costs and the issuance of 224,000 share purchase warrants to the broker; (ii) MCW NB amalgamated with 665615 NB Ltd., a wholly owned subsidiary of ASEA Capital Corp. incorporated in the Province of New Brunswick, and retained the name of MCW NB; (iii) the outstanding shares of ASEA Capital Corp. were consolidated on a six to one basis; (iv) each four outstanding common shares of MCW NB were exchanged for one common share of ASEA Capital Corp., resulting in the issue of 32,752,411 common shares, or approximately 96% of the subsequently issued shares, to the shareholders of MCW NB; (v) at the completion of the amalgamation, 66,666 common shares were reserved for the future exercise of options and 2,441,000 for the future exercise of warrants; and (vi) ASEA Capital Corp. changed its name to "**MCW Enterprises Ltd.**". As a result of the RTO, the shareholders of MCW NB became the owners of a majority of the issued and outstanding common shares of the Company, and certain directors of ASEA Capital Corp. became directors of the Company. Accordingly, the RTO is accounted for as a recapitalization of the consolidated entity. Following the completion of the RTO, 34,074,887 common shares of the Company were outstanding and 5,057,666 were reserved for issuance. The common shares of the Company commenced trading on the TSXV as a Tier 2 Issuer under the ticker symbol "**MCW**" on October 22, 2012.

On December 12, 2012, the Company changed its name to "**MCW Enterprises Continuance Ltd.**" and its jurisdiction of governance by continuing from British Columbia into Ontario, MCW NB changed its jurisdiction of governance by continuing from New Brunswick into Ontario, and the Company and MCW NB amalgamated in Ontario and continued under its current name "**MCW Energy Group Limited**".

In May 2014, the Company also listed on the OTCQX under the trading symbol "**MCWEF**".

On June 25, 2014, the Company issued a convertible debenture for up to a maximum aggregate principal amount of \$2,000,000 to Mr Blyumkin, which bears interest at a rate of 10% per annum and matures on June 25, 2017. As at August 31, 2014, the Company had drawn the full \$2,000,000 of the debenture. On September 22, 2015, the Company converted \$1,796,000 of the debenture into 1,925,492 common shares of the Company. The remaining \$204,000 of principal remains outstanding. The interest accrued on the debenture of \$67,938 was used to offset liabilities owing to the Company by Mr Blyumkin.

On April 9, 2014, the Company issued a further convertible debenture of \$824,000 to Mr Blyumkin which bears interest at a rate of 10% per annum and which was to mature on March 7, 2017. On September 22, 2015, the convertible debenture was converted into 998,230 common shares of the company. The interest accrued on the debenture of \$37,475 was partially used to offset liabilities owing to the Company by Mr Blyumkin of \$11,622.

On September 30, 2014, Amerisands returned its 49% ownership interest in MCW Oil Sands to MCW Fuels in consideration of the assumption of all current and future liabilities arising from MCW Oil Sands' operations. As a result of Amerisands' surrender of its interest, MCW Energy CA now owns a 100% interest in MCW Oil Sands.

Also on September 30, 2014, the Company reorganized its subsidiary companies located in the United States of America. The Company incorporated MCW Energy CA, a California corporation, and transferred its 100% interests in MCW Fuels and MCW Oil Sands to MCW Energy CA.

On October 10, 2014, the Company issued two secured debentures for an aggregate principal amount of CDN\$1.1 million to two private lenders. The debentures bear interest at a rate of 12% per annum, will mature on October 15, 2017 and are secured by all of the assets of the Company. In addition, the Company issued to the two secured debenture holders warrants to acquire an aggregate of 500,000 common shares of the Company at an exercise price of CDN\$1.00 per share until October 10, 2017.

On October 21, 2014, the Company completed a non-brokered private placement of 106,847 common shares at a price of CDN\$0.84 per common share for gross proceeds of \$80,000.

On November 5, 2014, the Company entered into a securities purchase agreement in respect of the issuance of convertible secured notes for up to \$1,111,112. On November 5, 2014, \$555,556 was initially drawn down with another \$555,556 drawn down on November 24, 2014. The convertible notes bear interest at a rate of 5% per annum and mature on May 5, 2016 and May 26, 2016, respectively. The convertible notes are convertible into units at a conversion price of \$0.789 per unit, with each such unit consisting of one common share of MCW and one common share purchase warrant of MCW. Each warrant would entitle the holder to acquire one additional common share at an exercise price of CDN\$0.945 per share until November 5, 2019. The convertible notes are secured by all of the assets of the Company. On April 29, 2015 and May 13, 2015, a total of \$300,000 of the convertible notes were converted into units of the Company, composed of one common share and one common share purchase warrant. Between September 24, 2015 and October 7, 2015, an additional \$300,000 of the principal of the convertible secured notes was converted into 379,900 units. On October 8, 2015, the remaining \$511,112 of the principal and \$41,875 of accrued interest of the convertible secured notes was settled by the issuance of 994,301 common shares of the Company.

Until December 17, 2014, when the fuel distribution business was sold, MCW Fuels was engaged in the marketing and sale of unleaded and diesel land fuel products and related services to approximately 160 gas stations in California (see 4.2 Fuel Distribution Business).

On January 26, 2015, the Company entered into an agreement to sell the gas station property and business, which was part of the Company's fuel distribution operating segment. On May 13, 2015 and before the completion of the expected sale of these assets on May 22, 2015, these assets were sold as part of the sale of MCWF to Mr Blyumkin.

On February 9, 2015, the Company received a loan for an aggregate principal amount of \$2,000,000, increased to \$3,500,000 on July 29, 2015. The loan bears interest at a rate of 6% per annum and matures on February 9, 2016. In addition, the lender also has the option, subject to director, shareholder and regulatory approvals, to convert the loan into a 49.9% ownership interest in MCWO.

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

On June 19, 2015, and effective May 13, 2015, the Company sold its 100% ownership interest in MCW Fuels to Mr Blyumkin, for a nominal amount of \$1 and the promise of the buyer to repay all outstanding liabilities of MCW Fuels and to indemnify the Company against any past, present and future liabilities of MCW Fuels. The Company also entered into a Debt Conversion Agreement with MCW Fuels, in conjunction with the disposal of MCW Fuels, and the loan outstanding to MCW Fuels of approximately \$5,685,057 was converted into 9,200,000 common shares at a conversion price of CAD \$0.74 per share.

The Company received advances from various private lenders during the year ended August 31, 2015 in the form of unsecured funds. These funds were converted to promissory notes with effect from August 6, 2015. The promissory notes bear interest at 10% per annum and are repayable within 36 months, including any accrued interest thereon. On October 26, 2015, certain private lenders converted debt and accrued interest of \$2,627,459 into 5,667,828 common shares of the Company in full settlement of the debt and accrued interest outstanding on that date.

During the year ended August 31, 2015, the Company entered into agreements with service providers pursuant to which the Company issued 1,338,953 common shares in satisfaction of indebtedness of \$730,001 owing to those service providers.

On September 9, 2015, the Company received an additional unsecured loan for an aggregate principal amount of \$750,000 from Atlands Overseas Corp. The loan bears interest at a rate of 6% per annum and matures on September 10, 2017.

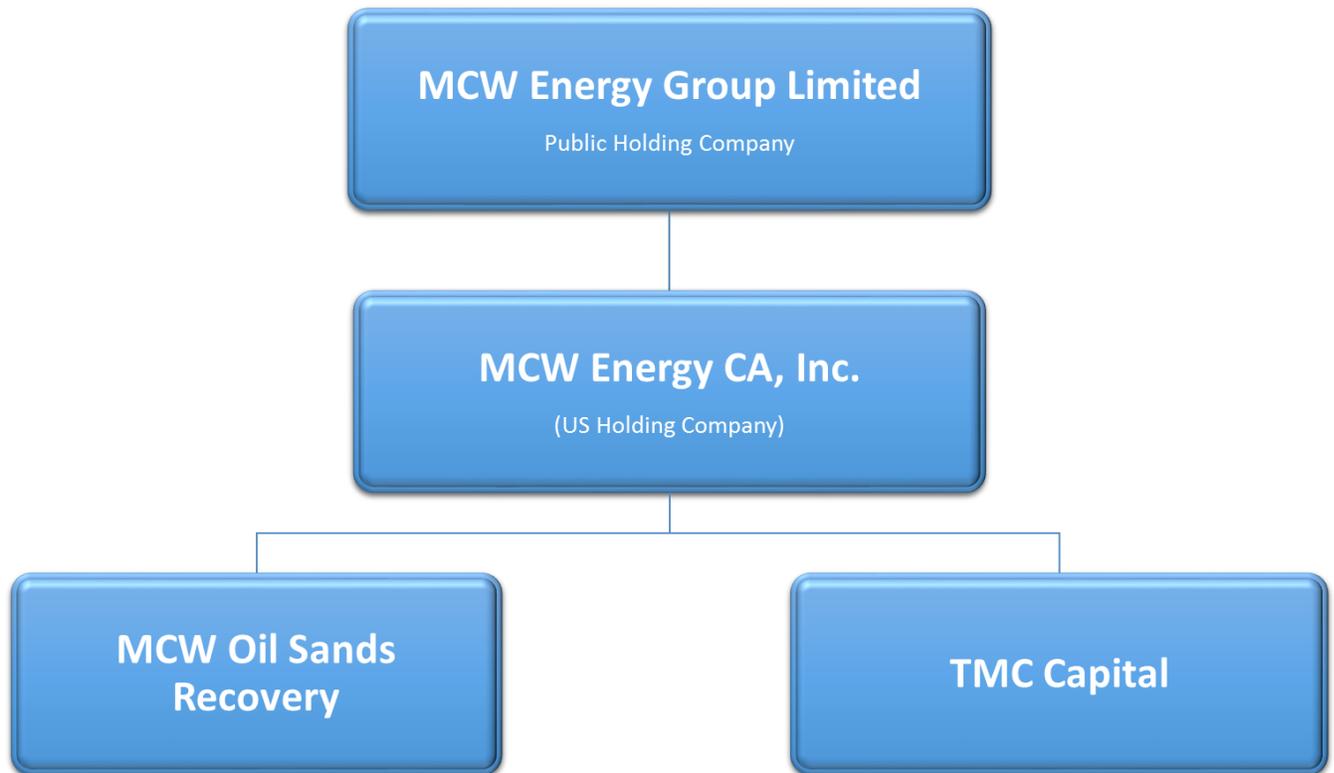
Between September 16, 2015 and October 26, 2015, the Company entered into agreements with certain service providers pursuant to which the Company issued an aggregate of 537,577 common shares in satisfaction of indebtedness of \$443,893 owing to the service providers.

On November 24, 2015, the Company entered into an agreement with its Chief Financial Officer pursuant to which the Company issued 100,000 common shares in satisfaction of indebtedness of \$35,000 owing for unpaid fees.

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

### 3) Description of Business and Organizational Structure

As of the date hereof, the Company wholly owns one holding company, MCW Energy CA, which owns two active subsidiary companies, MCW Oil Sands and TMC Capital (acquired on June 1, 2015) as reflected in the organizational chart below:



MCW, through its wholly owned subsidiaries MCW Oil Sands 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 is in the process of being completed on its property in Asphalt Ridge, Utah. MCW Oil Sands is based in Uintah, Utah.

MCW 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.

## **5) Business Activity**

### **a) Oil Sands Exploration and Development**

Subject to the Extraction Technology performing as anticipated by the Company and being proven commercially viable, MCW is completing its first extraction facility on the lease it owns in Asphalt Ridge, Utah.

On December 29, 2010, MCW Fuels entered into an operating agreement, as the managing entity of operations of MCW Oil Sands, pursuant to which the Company contributed cash of \$2,000,000 to MCW Oil Sands and Amerisands irrevocably assigned a lease for the extraction of bituminous or asphaltic sands (oil sands) to MCW. The term of the lease is for 10 years, expiring on August 11, 2018, with rights for extensions conditional on production. The lease is subject to an annual maintenance fee of approximately \$14,000 and a production royalty payable to the lessor of 8% of the market price of products produced from the Lease. This royalty may be increased to 12.5% after a minimum of 10 years of production. Both parties have complied with the initial terms of the agreement. On September 30, 2014 Amerisands relinquished any ownership interest in the lease and MCW Oil Sands, which is now a single member LLC wholly owned by MCW Energy CA.

In June 2011, the Company commenced the development of an oil sands extraction facility on the Lease and entered into construction and equipment fabrication contracts for this purpose. The initial facility is fully permitted and was expected to be completed in March 2013 but has encountered delays due to the need for additional financing. The Company now plans to complete the facility in 2015-2016 (previously reported 2014-2015), providing the Company can raise the additional capital needed to complete construction and fund ongoing operations. In the event of successful production, the Company intends to amortize the cost of construction over 15 years from commencement of production. Management's current estimate of the total projected cost of the facility, exclusive of capitalized borrowing costs and lease costs, is approximately between \$18 million and \$19 million (increased from approximately \$9.5 million) of which approximately \$14.1 million was spent as at August 31, 2015. The operating agreement with Amerisands has been terminated and all construction is managed by MCW Oil Sands.

### **b) Technology Development**

MCW's intention is 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 recently acquired subsidiary (TMC) on a lease in Asphalt Ridge, Utah, using its patent-pending closed loop, continuous flow, anticipated scalable and environmentally safe Extraction Technology. MCW anticipates that the process will allow the extraction of hydrocarbons from a wide range of both "water-wet" and/or "oil-wet" oil sands deposits and other hydrocarbon sediment types.

The Extraction Technology utilizes no water in the process, is anticipated to produce no greenhouse gas, 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 MCW 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.

MCW has filed patent applications 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.

On March 27, 2013, MCW 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.

As of August 31, 2015, MCW has returned all rented utility systems and replaced them with its own purchased systems to increase the efficiency of the oil sands extraction facility. The water cooling system has been replaced with air cooling system for greater efficiency and economic benefits as well. The weatherization of the plant has been completed. Heat trace lines have been installed. Insulation of the pipe lines and important vessels has been performed. In April 2015, MCW purchased its own excavator and ally bucket to grind and load native oil sands ore into the feeding conveyor where the ore processing begins.

#### **c) Fuel Distribution Business**

MCW Fuels was engaged in the purchase and sale of unleaded and diesel land fuel products in California since 1938, until the sale of that business on December 17, 2014. As a result of changes in this industry, the Company disposed of substantially all of the assets of the fuel distribution business for \$5,000,000 payable at closing and an additional amount on or before April 15, 2015 based on defined gross profits over a specified period. On April 15, 2015, the total proceeds from the sale were determined to be \$6,087,198. The initial purchase price of \$5,000,000 was directed towards the settlement of the liabilities to two major fuel suppliers. The additional amount due on April 15, 2015 was assigned to the BBCN Bank for payment of certain secured long-term loans. Excluded from the sale were certain assets and liabilities of MCW Fuels, such as a gas station and associated goodwill, all accounts and notes receivable, prepaid expenses and deposits, all accounts payable, all interest in any real property leased or owned and all intellectual property rights related to the name "**MCW**".

On January 26, 2015, the Company entered into an agreement to sell a gas station property and business, which were part of the Company's fuel distribution operating segment. The sale was completed on May 22, 2015. As disclosed above, the Company disposed of MCW Fuels on May 13, 2015 to Mr Blyumkin for gross proceeds of \$1, the assumption of all liabilities of MCW Fuels and agreeing to repay the outstanding liabilities. Further to this, the Mr Blyumkin agreed to indemnify MCW Energy CA and the Company against any past, present and future liabilities which have arisen as a result of Company's prior ownership and operations of MCW Fuels.

## 6) Outlook

### a) Oil Sands

MCW's technology has been tested at full capacity as of August 31, 2015. An independent production evaluation has been completed. In the last several months, MCW has hired and trained its own personnel to operate the plant. It is expected that the oil produced can be sold locally in Asphalt Ridge to the oil and gas distributors or refineries.

The Company is in the process of obtaining the last full production permit (Ground Water Permit) in order to commence continuous plant operations.

## 7) Selected Annual Financial Information

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

| <b>Year ended</b>   | <b>August 31, 2015<br/>(\$)</b> | <b>August 31, 2014<br/>(\$)</b> | <b>August 31, 2013<br/>(\$)</b> |
|---|---------------------------------|---------------------------------|---------------------------------|
| Net revenue from discontinued operations                    | 116,697,604                     | 451,837,071                     | 431,932,384                     |
| (Income) loss from discontinued operations                  | (3,750,969)                     | 3,657,286                       | 22,863                          |
| Loss from continuing operations                             | 3,281,765                       | 6,477,461                       | 11,247,677                      |
| Net (income) loss   | (469,204)                       | 10,134,747                      | 11,270,540                      |
| Basic and diluted loss per share from continuing operations | 0.06                            | 0.15                            | 0.30                            |
| Basic and diluted (income) loss per share                   | (0.01)                          | 0.20                            | 0.30                            |
| Total Assets  | 30,444,464                      | 30,793,432                      | 26,701,047                      |
| Total Non-Current Financial Liabilities                     | 14,440,630                      | 9,891,313                       | 5,333,310                       |
| Cash Dividends Declared Per-Share for Each Class of Share   | Nil                             | Nil                             | Nil                             |

The Company consolidated its operations by disposing of its fuel distribution business during the year ended August 31, 2015 and now concentrates solely on its oil extraction business.

The loss from operations for the year ended August 31, 2014 included an impairment charge of \$1,976,569 on the change in use of the company's mineral lease and share based compensation of \$697,824. No share based compensation was incurred during the year ended August 31, 2015.

The net income for the year ended August 31, 2015 includes gains on the disposal of fuel assets of \$4,382,092 and the gain on the disposal of the fuel subsidiary of \$2,171,258, offset by the operating loss incurred by the fuel subsidiary until its disposal on May 13, 2015.

Total assets have decreased slightly over the prior year. However the components of these assets have changed significantly due to the disposal of the fuels business. The most significant changes are the reduction in trade receivables of \$8,890,089. No significant revenue has been generated from the oil sands facility to date. The acquisition of TMC, resulting in an increase of \$11,091,388 to total assets for the valuation of the mineral lease in that entity. Property, plant and equipment increased by \$3,303,260 due to additional expenditures on the oil extraction facility under construction offset by the net amount on the disposal of the fuels business related plant and equipment of \$1,687,350. Intangible assets decreased due to the impairment and sale of intangible assets relating to the fuel distribution business of \$5,305,168.

Non-current financial liabilities increased by \$4,549,317 resulting from new loans advanced of \$18,473,836, including \$10,000,000 of promissory notes issued on the acquisition of TMC, CDN \$1,100,000 received from private lenders, \$1,111,112 received from Alpha Capital Anstalt, \$2,593,750 received from private lenders, \$3,500,000 received from Atlands Overseas Corp., and \$282,384 received from financial institutions for the purchase of equipment. This was partially offset by the repayment of financial liabilities of \$230,000, the conversion of financial liabilities into equity of \$2,920,000, and the disposal of liabilities relating to the fuels business of \$12,190,854.

## **8) Results of Operations from Continuing Operations.**

The Company completed the sale of its Branded Reseller Distribution Agreements and associated liabilities, which formed the basis of the Company's fuel distribution operating segment, on December 17, 2014. On May 13, 2015, the Company completed the sale of its interest in MCW Fuels to Mr Blyumkin. In accordance with the disclosure requirements of IFRS the comparative amounts on the consolidated statements of (income) loss and comprehensive (income) loss and cash flows have been reclassified to disclose the discontinued operations separately from continuing operations

A discussion of the Company's continuing operations for the most recently completed financial year is as follows:

### ***Net Revenue, Cost of Sales and Gross Profit***

No revenue, cost of sales or gross profit was generated by the Company from continuing operations during the years ended August 31, 2015 and 2014 as the company was still in the development and testing phase of its oil sands extraction facility and no production of commercial hydrocarbon products was completed during the fiscal year. All costs incurred, net of incidental revenues received, during the start-up and testing phase of the oil extraction facility have been capitalized as part of the cost of the plant.

### ***Operating Expenses***

MCW's operating loss (net of amortization and interest) was \$2,972,728 for the fiscal year ended August 31, 2015 compared to \$6,403,730 for the fiscal year ended August 31, 2014. This decrease of \$3,431,002 was primarily due to:

- 1) The loss from operations for the year ended August 31, 2014 included a one-time impairment charge of \$1,976,569 incurred on the write down on the change of use of the Company's original mineral lease in Utah;
- 2) No share based compensation was incurred during the year ended August 31, 2015 compared to \$697,824 incurred during the year ended August 31, 2014;
- 3) No recurrence of a loss similar to the one-time loss of \$566,322 on the settlement of long-term liabilities on the issuance of common shares during the year ended August 31, 2014;
- 4) A decrease in general and administrative expenses, salaries and wages and travel and promotion costs of \$246,510, \$325,331 and \$11,213, respectively. These reductions are part of the company's cost control measures; and
- 5) An increase in professional fees of \$555,939 arising from an increase in work done to identify and evaluate potential investors and financing arrangements for completion of the oil sands extraction facility.

### ***Interest Expense***

The Company incurred increased interest expense of \$294,607 for the fiscal year ended August 31, 2015 as compared to \$73,731 for 2014. This is due to loans being advanced to the company to fund the completion of the plant and for general working capital purposes.

## **9) Comparison of Results of Discontinued Operations for the periods ended August 31, 2015 and 2014**

### ***Fuel Operations***

The Company completed the sale of its Branded Reseller Distribution Agreements and associated liabilities, which formed the basis of the Company's fuel distribution operating segment, on December 17, 2014. On May 13, 2015, the Company disposed of 100% interest in MCW Fuels to Mr Blyumkin. In accordance with the disclosure requirements of IFRS the comparative amounts on the condensed consolidated interim statements of (income) loss and comprehensive (income) loss and cash flows have been reclassified to disclose the discontinued operations separately from continuing operations

### ***Net Revenue and Gross Profit***

The overall decreases in fuel sales and gross profits are primarily the result of the sale of the fuel distribution segment on December 17, 2014.

### ***Operating Expenses***

MCW's operating expenses for its fuel sales division (net of amortization and impairment) decreased during the year ended August 31, 2015 as compared to the year ended August 31, 2014, primarily due to the disposal of the fuels division on December 17, 2014.

### ***Allowance for Doubtful Accounts***

The Company incurred bad debt expenses of \$892,080 during the period ended August 31, 2015 as compared to \$182,742 for the year ended August 31, 2014. This increase was primarily due to the greater difficulty experienced by the Company than originally anticipated in collecting trade receivables from customers following the sale of its fuel distribution business and the termination of ongoing fuel sales to those customers.

### ***Other Income, Gain on Sale of Assets and Gain on Sale of Subsidiary***

Increases in other income during the year ended August 31, 2015 as compared to the year ended August 31, 2014, 2014 are primarily due to the settlement of fuel trade payables to fuel suppliers on terms favorable to the Company.

During the year ended August 31, 2015, the Company recorded a gain on the sale of the primary assets and, subsequently, the business of the fuel distribution business. This gain is related to the sale of the Company's Branded Reseller Distribution Agreements and associated liabilities, which made up the fuel operations business, on December 17, 2014.

The Company also recorded a gain on the sale of its 100% ownership interest in MCW Fuels on May 13, 2015, resulting from the transfer of all net liabilities of the business to the purchaser.

### ***Income or Loss from Fuel Operations***

The Company recorded income of approximately \$3.8 million from fuel operations for the year ended August 31, 2015 as compared to a loss of approximately \$3.7 million for the year ended August 31, 2014. This significant increase in income is primarily due to the gain on sale of the Branded Reseller Distribution Agreements and associated liabilities, the gain on sale of the Company's 100% ownership interest in MCW Fuels and the shorter period of operating expenses incurred in the current year due to the disposal of substantially all of the operations on December 17, 2014.

## 10) Summary of Quarterly Results

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

|   | <b>August 31, 2015</b><br><b>(\$)</b> | <b>May 31, 2015</b><br><b>(\$)</b> | <b>February 28, 2015</b><br><b>(\$)</b> | <b>November 30, 2014</b><br><b>(\$)</b> |
|---|---------------------------------------|------------------------------------|---|---|
| <b>3 months ended</b>                                       |                                       |                                    |   |   |
| Net revenue – discontinued operations                       | (769,554)                             | Nil                                | 10,340,048                              | 107,127,110                             |
| Gross profit – discontinued operations                      | 157,241                               | Nil                                | (268,284)                               | 745,870                                 |
| (Income) loss from discontinued operations                  | Nil                                   | (1,194,203)                        | (2,887,348)                             | 330,581                                 |
| Loss from continuing operations                             | 814,630                               | 734,223                            | 667,157                                 | 1,065,755                               |
| Net (Income) loss   | 639,631                               | (459,980)                          | (2,220,191)                             | 1,396,336                               |
| Basic and diluted loss per share from continuing operations | 0.01                                  | 0.01                               | 0.01                                    | 0.02                                    |
| Basic and diluted net (income) loss per share               | 0.01                                  | (0.01)                             | (0.04)                                  | 0.03                                    |

|   | <b>August 31, 2014</b><br><b>(\$)</b> | <b>May 31, 2014</b><br><b>(\$)</b> | <b>February 28, 2014</b><br><b>(\$)</b> | <b>November 30, 2013</b><br><b>(\$)</b> |
|---|---------------------------------------|------------------------------------|---|---|
| <b>3 months ended</b>                                       |                                       |                                    |   |   |
| Net Revenue – discontinued operations                       | 126,436,294                           | 123,548,643                        | 98,686,579                              | 103,165,555                             |
| Gross Profit – discontinued operations                      | 641,898                               | 592,325                            | 478,720                                 | 853,401                                 |
| (Income) loss from discontinued operations                  | 2,177,862                             | 530,292                            | 724,294                                 | 224,838                                 |
| Loss from continuing operations                             | 3,133,617                             | 1,289,021                          | 861,798                                 | 1,193,025                               |
| Net (Income) loss   | 5,311,479                             | 1,819,313                          | 1,586,092                               | 1,417,863                               |
| Basic and diluted loss per share from continuing operations | 0.07                                  | 0.03                               | 0.02                                    | 0.03                                    |
| Basic and diluted net (income) loss per share               | 0.12                                  | 0.04                               | 0.04                                    | 0.03                                    |

Net loss for the quarter ended August 31, 2014 from continuing operations included a one-time impairment charge of \$1,976,569 on a mineral lease which was deemed to have no value as a result of a change in the expected use of the lease (no oil sands will be mined from the leased land).

The income from discontinued operations for the quarter ended February 28, 2015 included a one-time gain on sale of the Branded Reseller Distribution Agreements and associated liabilities of \$4,382,092. The income from discontinued operations for the quarter ended May 31, 2015 included a one-time gain on sale of the Company's 100% ownership interest in MCW Fuels of \$2,171,258.

***Net Revenue and gross profit from continuing operations***

No revenue or gross profit was generated by the Company from continuing operations during the years ended August 31, 2015 and 2014 as the company's oil sands extraction facility was still in the construction and testing phase and there was no production of hydrocarbon products for commercial sale during the fiscal years.

***Operating Expenses***

MCW's operating expenses from its continuing operations (net of amortization and interest) increased during the quarter ended August 31, 2015 as compared to the quarter ended August 31, 2014, primarily due to:

- a) The loss from operations for the quarter ended August 31, 2014 included a one-time impairment charge of \$1,976,569 incurred on the write down on the change of use of the Company's original mineral lease in Utah;
- b) No losses similar to the one-time loss of \$566,322 on the settlement of long-term liabilities on the issuance of common shares during the quarter ended August 31, 2014 recurring;
- c) No share based compensation was incurred during the quarter ended August 31, 2015 compared to \$193,362 incurred during the quarter ended August 31, 2014;
- d) A decrease in general and administrative expenses and salaries and wages of \$182,042 and \$228,700, respectively. These reductions are part of the Company's cost control measures
- e) An increase in professional fees and travel and promotion of \$114,886 and \$81,022 arising from an increase in work done to identify and evaluate potential investors and financing arrangements for completion of the oil sands extraction facility.

***Gain on settlement of liabilities***

The Company realized a gain of \$53,948 during the quarter ended August 31, 2015 on the settlement of outstanding liabilities with various contractors, primarily through the issuance of common shares.

***Interest Expense***

The Company incurred increased interest expense for the quarter ended August 31, 2015 as compared to the previous quarter ended August 31, 2014. The increase was primarily due to the promissory notes issued on the acquisition of TMC.

## **11) Liquidity and Capital Resources**

As at August 31, 2015, the Company had liquidity of approximately \$861,639, which is composed entirely of cash. The Company also had a working capital deficiency of approximately \$8.4 million, due to the continuing expenditures on the construction of the company's oil extraction facility.

On October 10, 2014, the Company issued two secured debentures for an aggregate principal amount of CAD\$1.1 million to two private lenders. The debentures bear interest at a rate of 12% per annum, will mature on October 15, 2017 and are secured by all of the assets of the Company. In addition, the Company issued to the two secured debenture holders warrants to acquire an aggregate of 500,000 common shares of the Company at an exercise price of CAD\$1.00 per share until October 10, 2017.

On October 21, 2014, the Company completed a non-brokered private placement of 106,847 common shares at a price of CDN\$0.84 per common share for gross proceeds of \$80,000.

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

common share at an exercise price of CDN\$0.945 per share until November 5, 2019. The convertible notes are secured by all of the assets of the Company. On April 29, 2015 and May 13, 2015, a total of \$300,000 of the convertible notes were converted into units of the Company, composed of one common share and one common share purchase warrant. Between September 24, 2015 and October 7, 2015, an additional \$300,000 of the principal of the convertible secured notes was converted into 379,900 units. On October 8, 2015, the remaining \$511,112 of the principal and \$41,875 of accrued interest of the convertible secured notes was settled by the issuance of 994,301 common shares of the Company.

On February 9, 2015, the Company received a loan for an aggregate principal amount of \$2,000,000, increased to \$3,500,000 on July 29, 2015. The loan bears interest at a rate of 6% per annum and matures on February 9, 2016. In addition, the lender also has the option, subject to director, shareholder and regulatory approvals, to convert the loan into a 49.9% ownership interest in MCW Oil Sands.

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

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

The Company entered into two equipment loan agreements during the year ended August 31, 2015 with financial institutions to acquire equipment for the oil extraction facility. The loans have a term of 60 months and bear interest at a rate between 4.3% and 4.9% per annum. Principal and interest are paid in monthly installments. These loans are secured over the assets that were financed.

On October 26, 2015, certain private lenders converted debt and accrued interest of \$2,627,459 into \$5,667,828 common shares of the Company in full settlement of the debt and accrued interest outstanding on that date.

On September 9, 2015, the Company entered into a loan agreement with Atlands Overseas Corp. pursuant to which the company received \$750,000 repayable on September 10, 2017 and bearing interest at 6% per annum. The loan is unsecured and is to be used at the discretion of the Company.

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

In 2013, the Company borrowed \$3.0 million from B&N Bank. This credit facility accrues interest at a rate of 10% and bank charge at a rate of 2.51%. The loan matures on March 18, 2016. Payments of interest are due quarterly. This credit facility has been utilized in the construction of the Company's oil sands extraction plant in Asphalt Ridge, Utah.

In 2013 the Company also borrowed \$430,000 from a private lender of which \$200,000 remains outstanding at August 31, 2015. The loan bears interest at a rate of 15% per annum and had an original maturity date of August 15, 2014, subsequently amended to March 15, 2016.

On April 29, 2014, the Company issued a \$824,000 convertible debenture to Mr Blyumkin which bears interest at a rate of 10% per annum and matures on May 7, 2017. The convertible debenture was converted into 998,230 common shares of the Company at a deemed price of CDN\$0.90 per share in September 2014.

On June 25, 2014, the Company issued a convertible debenture for up to a maximum aggregate principal amount of \$2 million to Mr Blyumkin which bears interest at a rate of 10% per annum and matures on June 25, 2017. As of August 31, 2015, the Company has converted 1,796,000 into 1,925,492 common shares of the Company at a deemed price of CDN\$1.00 per share in September 2014.

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 August 31, 2015, include:

| <b>Contractual Obligations</b>       | <b>Total<br/>(\$ millions)</b> | <b>Up to 1 Year<br/>(\$ millions)</b> | <b>2 – 5 Years<br/>(\$ millions)</b> | <b>After 5 Years<br/>(\$ millions)</b> |
|--------------------------------------|--------------------------------|---------------------------------------|--------------------------------------|--|
| Convertible Debenture <sup>[1]</sup> | 4.80                           | 4.54                                  | 0.26                                 | -                                      |
| Long-Term Debt <sup>[2]</sup>        | 20.74                          | 4.10                                  | 16.64                                | -                                      |
| Lease Commitments                    | 0.22                           | 0.08                                  | 0.14                                 | -                                      |
| <b>Total Contractual Obligations</b> | <b>25.76</b>                   | <b>8.72</b>                           | <b>17.04</b>                         | <b>-</b>                               |

[1] Amount includes estimated interest payments. The recorded amount as at August 31, 2015 was approximately \$4.48 million.

[2] Amount includes estimated interest payments. The recorded amount as at August 31, 2015 was approximately \$16.77 million.

## **12) 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.

## **13) Related Party Transactions**

During the year ended August 31, 2015, the Company had the following related party transactions not otherwise disclosed in this MD&A:

### ***Fuel Sales to Related Parties***

During the year ended August 31, 2015, approximately 1.5% (2014 – 1.4%) of the Company's sales were to retail operations controlled by Mr Blyumkin.

On May 13, 2015, the Company sold its 100% interest in MCW Fuels, which included trade receivables from retail operations controlled by My Blyumkin of \$952,368 (August 31, 2014 - \$943,279).

### ***Transactions with Executive Officers and Directors***

On May 13, 2015, the Company sold its 100% ownership interest in MCW Fuels to Mr Blyumkin for a nominal amount and the assumption of all the outstanding liabilities of MCW Fuels.

During the year ended August 31, 2015, the Company earned \$99,698 (2014 - \$149,625) in rental income from a company controlled by My Blyumkin which leased the gas station assets owned by MCW Fuels.

During the year ended August 31, 2015, the Company issued 100,000 common shares to a company controlled by Mark Korb, the Chief Financial Officer of the Company, pursuant to the terms of his consulting agreement.

During the year ended August 31, 2014, companies controlled by Mr Blyumkin provided collateral to secure fuel advances to the Company's fuel suppliers. The Company issued 469,962 common shares to these companies at a deemed price of CAD \$0.96 per share as compensation for providing the collateral security.

***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:

|                                   | <b>Year ended August 31,</b> |                     |
|-----------------------------------|------------------------------|---------------------|
|                                   | <b>2015</b>                  | <b>2014</b>         |
| Salaries, fees and other benefits | \$ 927,730                   | \$ 1,843,287        |
| Share-based compensation          | 143,518                      | 697,825             |
|                                   | <u>\$ 1,071,248</u>          | <u>\$ 2,541,112</u> |

At August 31, 2015, \$449,570 is due to members of key management for unpaid salaries and expenses (August 31, 2014 - \$779,887).

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

On November 27, 2013, the Company entered into an agreement with Dr. Gerald Bailey, the Chief Executive Officer of the Company, pursuant to which the Company issued 54,553 common shares to Dr. Bailey at a deemed price of \$1.16 per share for unpaid management fees from October 1, 2011 to September 30, 2013.

***Due to and from Executive Officers***

The amounts due to and from My Blyumkin are demand loans with interest at 10% per annum. As of August 31, 2015, Mr Blyumkin owed the Company \$Nil (2014 – the Company owed Mr Blyumkin \$14,849).

On April 9, 2014 and June 25, 2014, the Company issued convertible debentures of \$824,000 and \$2,000,000 to My Blyumkin, respectively. On September 22, 2014, the principal of the \$824,000 convertible debenture and \$1,796,000 of the principal of the \$2,000,000 convertible debentures was converted into 998,230 and 1,925,492 common shares of the Company, respectively. As at August 31, 2015, the principal outstanding on the \$2,000,000 convertible debenture was \$204,000 (2014 - \$2,824,000).

During the year ended August 31, 2015, the Company received advances of \$225,500 from various private companies controlled by My Blyumkin. As at August 31, 2015, the principal outstanding on the promissory notes for these advances was \$225,500 (2014 - \$nil).

## 14) 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                          | 62,534,715        |
| Total common share purchase options                      | 2,800,000         |
| Total common share purchase warrants and broker warrants | 1,259,799         |
| Total other securities reserved for issuance             | 15,521,874        |
| <b>Fully diluted shares outstanding</b>                  | <b>82,116,388</b> |

### *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 10,004,746 share purchase options to directors, officers, employees, and consultants. 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 2,800,000 share purchase options (including 1,500,000 warrants treated as incentive stock options by the TSXV) were outstanding:

| Option Expiry Date | Option Exercise Price<br>(CDN\$) | Number of Options Outstanding |
|--------------------|----------------------------------|-------------------------------|
| November 11, 2017  | \$1.10                           | 900,000                       |
| December 31, 2018  | \$0.16                           | 1,500,000                     |
| August 15, 2019    | \$1.10                           | 400,000                       |
| <b>Total</b>       |                                  | <b>2,800,000</b>              |

### *Share Purchase Warrants*

As at the date hereof, an aggregate of 1,259,798 share purchase warrants were outstanding, as follows:

| Warrant Expiry Date    | Warrant Exercise Price<br>(CDN\$) | Number of Warrants Outstanding |
|------------------------|-----------------------------------|--------------------------------|
| October 10, 2017       | \$1.00                            | 500,000                        |
| November 5 to 24, 2019 | \$0.945                           | 759,799                        |
| <b>Total</b>           |                                   | <b>1,259,799</b>               |

### *Other Securities Reserved for Issuance*

The Company has reserved (i) 500,000 common shares for issuance pursuant to a restricted stock agreement dated April 13, 2012, between MCW and Vladimir Podlipskiy, the Chief Technology Officer of MCW, (ii) 268,421 common shares, subject to regulatory approval, for issuance for additional advances of \$204,000 which have been received under the \$2,000,000 convertible debenture, (iii) 112,378 common shares, subject to regulatory approval, for issuance to Mark Korb, the Chief Financial Officer of MCW for settlement of amounts owing to him, (iv) 5,729,142 common shares, subject to regulatory approval, for issuance to Mr Blyumkin for compensation for him personally guaranteeing an aggregate of \$16.5 million of long-term debt and convertible debentures of the Company, (v) 5,674,719 common shares, subject to regulatory approval, for issuance to certain private lenders for settlement of principal and accrued interest on long-term debt owing to them, (vi) 1,596,700 common shares for possible issuance in the event the convertible notes issued on December 20, 2015 are converted into units, (vii) 1,596,700 common shares for possible issuance in the event the warrants (issuable in the event the convertible notes issued on December 20, 2015 are converted into units) are fully exercised, and (viii) 43,814 common shares, subject to regulatory approval, for issuance to a vendor of the Company for settlement of amounts owing to them.

## **15) Financial Instruments and Risk Management**

As at August 31, 2015, 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.

## **16) 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.

## **17) 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, 2014:

### ***(i) IAS 32, Financial Instruments: presentation ("IAS 32") - amendments***

In December 2011, the IASB issued amendments to IAS 32. The amendments clarify that an entity currently has a legally enforceable right to set-off financial assets and liabilities if that right is (1) not contingent on a future event; and (2) enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The application of the amendments to IAS 32 did not have any material impact on the consolidated financial statements presented.

### ***(ii) IAS 36, Impairment of Assets ("IAS 36") - amendments***

The amendments to IAS 36 outline the additional disclosures that will be required with regards to the recoverable amount of impaired assets. The application of the amendments to IAS 36 did not have any material impact on the consolidated financial statements presented.

The following is a summary of new standards, amendments and interpretations that are effective for annual periods beginning on or after July 1, 2014:

### ***(i) IFRS 2, Share-based Payments ("IFRS 2") - amendments***

The amendment to IFRS 2 re-defines the definition of "vesting condition." The application of the amendments to IFRS 2 did not have any material impact on the consolidated financial statements presented.

**(ii) IFRS 3, Business Combinations ("IFRS 3") - amendments**

The amendment to IFRS 3 provides further clarification on the accounting treatment for contingent consideration, and provides a scope exception for joint ventures. The application of the amendments to IFRS 3 did not have any material impact on the consolidated financial statements presented.

**(iii) IFRS 8, Operating Segments ("IFRS 8") - amendments**

The amendments to IFRS 8 provide further clarification on the disclosure required for the aggregation of segments and the reconciliation of segment assets. The application of the amendments to IFRS 8 did not have any material impact on the consolidated financial statements presented.

**(iv) IFRS 13, Fair Value Measurements ("IFRS 13") - amendments**

The amendment to IFRS 13 provides further details on the scope of the portfolio exception. The application of the amendments to IFRS 13 did not have any material impact on the consolidated financial statements presented.

**(v) IAS 16, Property, Plant and Equipment ("IAS 16") - amendments**

The amendment to IAS 16 deals with the proportionate restatement of accumulated depreciation on revaluation. The application of the amendments to IAS 16 did not have any material impact on the consolidated financial statements presented.

**(vi) IAS 24, Related Party Disclosures ("IAS 24") - amendments**

The amendment to IAS 24 deals with the disclosure required for management entities. The application of the amendments to IAS 24 did not have any material impact on the consolidated financial statements presented.

**(vii) IAS 38, Intangible Assets ("IAS 38") - amendments**

The amendment to IAS 38 deals with the proportionate restatement of accumulated depreciation on revaluation. The application of the amendments to IAS 38 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 as of the date of their approval:

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

The amendments to IFRS 7 outline the disclosures required when initially applying IFRS 9. These amendments are effective for annual periods beginning on or after January 1, 2015.

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

IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple classification options in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial impairment methods in IAS 39. The effective date for application of IFRS 9 was revised from annual periods beginning on or after January 1, 2015, to annual periods beginning on or after January 1, 2018, with earlier adoption permitted.

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

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

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

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 14 Customer Loyalty Programmes. IFRS 15 is effective for annual periods beginning on or after January 1, 2017, with early adoption permitted.

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

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

**(vi) IAS 16, Property, Plant and Equipment ("IAS 16") - amendments**

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

**(vii) IAS 38, Intangible Assets ("IAS 38") - amendments**

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

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

## **18) 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.

## **19) 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 MCW, 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, Extraction Technology may not perform as anticipated by MCW 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 MCW. The ability of the Company to prevent others from copying such proprietary technologies will be critical to sustaining the project's commercial advantage. MCW 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 MCW's intellectual property is currently under patent pending applications. MCW 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 MCW 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 MCW'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 MCW will actually result in issued patents, or that, even if patents are issued,

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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 MCW or design around the patents owned by MCW.

Despite the efforts of the Company, the intellectual property rights, particularly existing or future patents, of MCW 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 MCW 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 and cash equivalents held at financial institutions and accounts receivable from customers.

The Company has cash balances at three financial institutions. The Company has not experienced any loss on these accounts, although balances in the accounts may exceed the insurable limits. The Company considers credit risk from cash to be minimal.

Credit extension, monitoring and collection are performed for each of the Company's business segments. The Company performs ongoing credit evaluations of its customers and adjusts credit limits based upon payment history and the customer's current creditworthiness, as determined by a review of the customer's credit information.

Accounts receivable, collections and payments from customers are monitored and the Company maintains an allowance for estimated credit losses based upon historical experience with customers, current market and industry conditions and specific customer collection issues. The Company has also insured qualifying accounts receivable and coverage amounts are revised monthly. However, not all accounts receivables are fully insured.

On May 13, 2015, the Company sold its 100% interest in MCW Fuels which included all of its trade receivables from customers. The Company considers its exposure to credit risk on the remaining accounts receivable to be minimal.

### ***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***

MCW 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 MCW or at all, or that commercial deposits of bitumen will be produced from MCW'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.