

MCW Energy Group Limited

Consolidated Financial Statements

Years ended August 31, 2016 and 2015

(Expressed in US dollars)

MCW Energy Group Limited

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of MCW Energy Group Limited

We have audited the accompanying consolidated financial statements of MCW Energy Group Limited, which comprise the consolidated statements of financial position as at August 31, 2016 and 2015, and the consolidated statements of (income) loss and comprehensive (income) loss, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

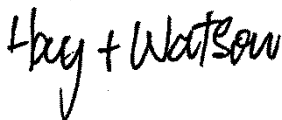
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of MCW Energy Group Limited as at August 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

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



MCW ENERGY GROUP LIMITED
Consolidated Statements of Financial Position
August 31, 2016 and 2015
Expressed in US dollars

	Notes	2016	2015
ASSETS			
Current assets			
Cash	5	\$ 6,129	\$ 861,639
Trade and other receivables	6	215,113	91,352
Crushed ore inventory	7	-	186,080
Current portion of advance royalty payments	8(a)	540,000	191,432
Prepaid expenses		141,829	152,706
		<u>903,071</u>	<u>1,483,209</u>
Advance royalty payments	8(a)	94,167	689,818
Mineral lease	9	12,143,738	11,091,388
Property, plant and equipment	10	15,852,484	16,444,561
Intangible assets	11	<u>2,242,455</u>	<u>735,488</u>
		\$ 31,235,915	\$ 30,444,464
LIABILITIES			
Current liabilities			
Accounts payable	12	\$ 1,454,583	\$ 1,211,239
Accrued expenses	12	2,329,151	1,182,742
Unearned revenue		133,550	-
Current portion of long-term debt	13	3,958,522	3,252,389
Current portion of convertible debentures	14	3,704,000	4,273,815
Payable to director		10,068	-
		<u>11,589,874</u>	<u>9,920,185</u>
Unearned advance royalties received	8(b)	170,000	170,000
Long-term debt	13	8,855,326	13,516,630
Convertible debentures	14	555,876	204,000
Reclamation and restoration provisions	15	<u>561,000</u>	<u>550,000</u>
		<u>21,732,076</u>	<u>24,360,815</u>
SHAREHOLDERS' EQUITY			
Share capital	16	39,416,380	25,524,787
Shares to be issued		100,000	-
Share option reserve	17	7,355,559	7,063,773
Share warrant reserve	18	512,934	337,283
Deficit		<u>(38,916,724)</u>	<u>(26,842,194)</u>
		8,468,149	6,083,649
Non-controlling interest		<u>1,035,690</u>	<u>-</u>
		<u>9,503,839</u>	<u>6,083,649</u>
		\$ 31,235,915	\$ 30,444,464

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

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

MCW ENERGY GROUP LIMITED

Consolidated Statements of Loss (Income) and Comprehensive Loss (Income)

Years ended August 31, 2016 and 2015

Expressed in US dollars

	Notes	2016	2015
Continuing Operations			
Oil Sands Operations, Financing and Other Expenses			
Revenues		\$ 204,735	\$ -
Cost of Goods Sold		1,399,239	-
Gross Loss		1,194,504	-
Operating Expenses			
Amortization		1,212,674	14,430
General and administrative		580,454	153,290
Interest expense		1,501,460	294,607
Loss (Gain) on settlement of liabilities		1,502,628	(47,884)
Other income		(3,065)	-
Professional fees		1,789,381	1,178,422
Salaries and wages		865,211	800,943
Share-based compensation	17(a)	3,013,965	-
Share-based payments		-	138,852
Travel and promotion		434,614	749,105
		10,897,322	3,281,765
Loss Before Income Taxes		12,091,826	3,281,765
Provision for income taxes		-	-
Loss From Continuing Operations		12,091,826	3,281,765
Discontinued Operations	4	-	(3,750,969)
Net Loss (Income) and Comprehensive Loss (Income)		\$ 12,091,826	\$ (469,204)
Net Loss and Comprehensive Loss from Continuing Operations Attributable to:			
Shareholders of the company		\$ 12,074,530	\$ 3,281,765
Non-controlling interest		17,296	-
		\$ 12,091,826	\$ 3,281,765
Net Loss (Income) and Comprehensive Loss (Income) Attributable to:			
Shareholders of the company		\$ 12,074,530	\$ (469,204)
Non-controlling interest		17,296	-
		\$ 12,091,826	\$ (469,204)
Weighted Average Number of Shares Outstanding	19	85,054,153	51,837,040
Basic and Diluted Loss Per Share From Continuing Operations		\$ 0.14	\$ 0.06
Basic and Diluted Loss (Income) Per Share From Discontinued Operations		\$ -	\$ (0.07)
Basic and Diluted Loss (Income) Per Share		\$ 0.14	\$ (0.01)

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

MCW ENERGY GROUP LIMITED

Consolidated Statements of Changes in Shareholders' Equity

Years ended August 31, 2016 and 2015

Expressed in US dollars

	Notes	Number of Shares Outstanding	Share Capital	Share to be issued	Option Reserve	Warrant Reserve	Deficit	Shareholder Equity	Non-Controlling Interest	Total Equity
Balance at August 31, 2014		46,448,614	\$15,993,551	\$ -	\$ 7,063,773	\$ 157,733	\$(27,311,398)	\$ (4,096,341)	\$ -	\$ (4,096,341)
Settlement of loan	4(c)	9,200,000	5,685,057	-	-	-	-	5,685,057	-	5,685,057
Conversion of debentures	14(a)(c)	3,303,621	2,897,326	-	-	22,674	-	2,920,000	-	2,920,000
Settlement of liabilities		1,338,953	730,001	-	-	-	-	730,001	-	730,001
Private placement of shares		106,847	80,000	-	-	-	-	80,000	-	80,000
Shares issued for services		224,903	138,852	-	-	-	-	138,852	-	138,852
Warrants issued	18	-	-	-	-	156,876	-	156,876	-	156,876
Net income		-	-	-	-	-	469,204	469,204	-	469,204
Balance at August 31, 2015		60,622,938	25,524,787	-	7,063,773	337,283	(26,842,194)	6,083,649	-	6,083,649
Settlement of loans		60,452,042	7,695,179	100,000	-	56,660	-	7,851,839	-	7,851,839
Conversion of debentures	14(c)	379,899	253,402	-	-	46,598	-	300,000	-	300,000
Settlement of liabilities		9,380,005	1,319,290	-	-	34,847	-	1,354,137	-	1,354,137
Private placement of shares	16	5,432,686	526,643	-	-	-	-	526,643	-	526,643
Share based compensation	17(a)	5,729,142	2,722,179	-	291,786	-	-	3,013,965	-	3,013,965
Acquisition of Accord GR Energy, Inc.	1	59,698,300	1,374,900	-	-	37,546	-	1,412,446	1,052,986	2,465,432
Net loss		-	-	-	-	-	(12,074,530)	(12,074,530)	(17,296)	(12,091,826)
Balance at August 31, 2016		201,695,012	\$39,416,380	\$ 100,000	\$ 7,355,559	\$ 512,934	\$(38,916,724)	\$ 8,468,149	\$ 1,035,690	\$ 9,503,839

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

MCW ENERGY GROUP LIMITED

Consolidated Statements of Cash Flows

Years ended August 31, 2016 and 2015

Expressed in US dollars

	2016	2015
Cash flow used for (from) operating activities:		
Net loss	\$ (12,091,826)	\$ (3,281,765)
Adjustments for non-cash, investing and financing items		
Amortization	1,212,674	14,430
Loss on conversion of debt	1,743,477	-
Gain on settlement of liabilities	(240,849)	(47,884)
Shares issued for services	-	138,852
Share-based compensation	3,013,965	-
Other	710,688	303,964
Changes in operating assets and liabilities:		
Accounts payable	1,792,345	1,023,079
Accounts receivable	(40,721)	(41,833)
Accrued expenses	1,092,660	(1,552,399)
Prepaid expenses	15,723	(152,576)
Unearned revenue	133,550	-
Net cash used for operating activities of continuing operations	(2,658,314)	(3,596,132)
Net cash from operating activities of discontinued operations	-	570,048
Cash flows used for investing activities:		
Purchase and construction of property and equipment	(432,596)	(3,947,201)
Advance royalty payments - net	(180,000)	(328,912)
Net cash used for investing activities of continuing operations	(612,596)	(4,276,113)
Net cash used for investing activities of discontinued operations	-	(193,075)
Cash flows from (used for) financing activities:		
Receipts (Payments to) from director	10,068	(14,848)
Private placements	526,644	80,000
Payment of long-term debt	(3,655,277)	(230,000)
Proceeds from long-term debt	4,993,965	3,845,765
Payment of convertible debt	(500,000)	-
Proceeds from convertible debt	1,040,000	4,500,000
Net cash from financing activities of continuing operations	2,415,400	8,180,917
Net cash (used for) financing activities of discontinued operations	-	(762,654)
Decrease in cash	(855,510)	(77,009)
Cash, beginning of the year	861,639	938,648
Cash, end of the year	\$ 6,129	\$ 861,639
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 309,612	\$ 592,719

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

MCW ENERGY GROUP LIMITED

Notes to the Consolidated Financial Statements

August 31, 2016 and 2015

Expressed in US dollars

1. NATURE OF OPERATIONS

MCW Energy Group Limited (the “Company”) is an Ontario corporation with one active business segment located in the USA. It operates through its indirectly wholly owned subsidiary company, MCW Oil Sands Recovery, LLC (“MCWO”), which is engaged in mining and oil extraction from tar sands, and its 57.3% owned subsidiary company Accord GR Energy, Inc. (“Accord”), which is engaged in using a specialized technology to extract oil from oil wells which have been depleted using conventional extraction methods.

The Company’s registered office is located at Suite 4400, 181 Bay Street, Toronto, Ontario, M5J 2T3, Canada and its principal operating office is located at 4370 Tujunga Avenue, Suite 320, Studio City, California 91604, USA.

MCWO is engaged in a tar sands mining and oil processing operation, using a closed-loop solvent based extraction system that recovers bitumen from surface mining, and has recently completed the construction of the first phase of an oil processing plant in the Asphalt Ridge area of Uintah, Utah. The Company is currently completing an expansion of the oil processing facility which will increase the production capacity to 500 barrels per day.

The Company’s interest in MCWO increased from 51% to 100% on September 30, 2014, when Amerisands, LLC (“Amerisands”) returned its 49% interest in MCWO to the Company, as consideration for the Company assuming all current and future liabilities arising from MCWO’s operations.

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

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

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

MCW ENERGY GROUP LIMITED

Notes to the Consolidated Financial Statements

August 31, 2016 and 2015

Expressed in US dollars

1. NATURE OF OPERATIONS (continued)

The Company has incurred losses for several years and, at August 31, 2016, has an accumulated deficit of \$38,916,724 (August 31, 2015 - \$26,842,194) and a working capital deficiency of \$10,686,803 (August 31, 2015 - \$8,436,976). These consolidated financial statements have been prepared on the basis that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. The ability of the Company to continue as a going concern is dependent on obtaining additional financing, which it is currently in the process of obtaining. There is a risk that the additional financing will not be available on a timely basis or on terms acceptable to the Company. These consolidated financial statements do not reflect the adjustments or reclassifications that would be necessary if the Company were unable to continue operations in the normal course of business.

2. BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 1 *Presentation of Financial Statements*, using accounting policies which are consistent with the International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”). The consolidated financial statements were authorized for issue by the Board of Directors on December 29, 2016.

(b) Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis except for certain financial assets and financial liabilities which are measured at fair value.

The Company’s reporting currency and the functional currency of all of its operations is the U.S. dollar, as it is the principal currency of the primary economic environment in which the Company operates.

(c) Significant accounting judgments and estimates

The preparation of the consolidated financial statements in accordance with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The significant accounting judgments and estimates included in these consolidated financial statements are:

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

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

MCW ENERGY GROUP LIMITED

Notes to the Consolidated Financial Statements

August 31, 2016 and 2015

Expressed in US dollars

2. BASIS OF PREPARATION (continued)

(c) Significant accounting judgments and estimates (continued)

Review of carrying value of assets and impairment charges

When determining possible impairment of the carrying values of assets, management of the Company reviews the recoverable amount (the higher of the fair value less costs to sell or the value in use) of non-financial assets and objective evidence indicating impairment in the case of financial assets. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period. Changes in these assumptions may alter the results of the impairment evaluation, the impairment charges recognized in profit or loss and the resulting carrying amounts of assets.

Fair value of share purchase options and warrants

Share purchase options and warrants granted by the Company are valued at the fair value of the goods or services received unless the fair value cannot be reliably measured. Share purchase options and warrants granted to employees and others providing similar services are valued using the Black-Scholes option pricing model. Estimates and assumptions for inputs to the model, including the expected volatility of the Company's shares and the expected life of options granted, are subject to significant uncertainties and judgment.

Provisions

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

Income taxes and recoverability of deferred tax assets

Actual amounts of income tax expense are not final until tax returns are filed and accepted by taxation authorities. Therefore, profit or loss in future reporting periods may be affected by the difference between the income tax expense estimates and the final tax assessments.

Judgment is required in determining whether deferred tax assets are recognized on the consolidated statement of financial position. Deferred tax assets, including those arising from unutilized tax losses, require management of the Company to assess the likelihood that the Company will generate sufficient taxable profit in future periods in order to utilize recognized deferred tax assets. Estimates of future taxable profit are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable profit differ from estimates, the ability of the Company to realize the deferred tax assets recorded on the consolidated statement of financial position could be impacted. The Company has not recognized any deferred tax assets as at August 31, 2016 and 2015.

MCW ENERGY GROUP LIMITED

Notes to the Consolidated Financial Statements

August 31, 2016 and 2015

Expressed in US dollars

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

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

<u>Entity</u>	<u>% of Ownership</u>	<u>Jurisdiction</u>
MCW Energy Group Limited	Parent	Canada
MCW Energy CA Inc.	100%	USA
MCW OSR Inc.	100%	USA
MCW Oil Sands, Inc.	100%	USA
MCW Fuels Transportation, Inc.	100%	USA
MCW Oil Sands Recovery, LLC	100% ⁽¹⁾	USA
TMC Capital, LLC	100% ⁽²⁾	USA
Accord GR Energy, Inc.	57.3% ⁽³⁾	USA
MCW Fuels, Inc. (to May 13, 2015)	100% ⁽⁴⁾	USA

(1) The Company previously held a 51% interest (see Note 1). The previous 49% non-controlling interest in MCW Oil Sands Recovery, LLC represented the interest of other shareholders in the net identifiable assets of that company and was identified separately from the Company’s equity.

(2) Effective June 1, 2015, the Company acquired a 100% interest in TMC Capital LLC.

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

(4) On May 13, 2015, the Company sold its 100% interest in MCWF to the Chair of the Board of Directors of the Company (see Note 1).

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

(b) Business combinations

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

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

MCW ENERGY GROUP LIMITED

Notes to the Consolidated Financial Statements

August 31, 2016 and 2015

Expressed in US dollars

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Income and expense recognition

Revenue recognition

Revenue from the sale of fuel and related goods was recognized when the sales price is fixed or determinable and collectability is reasonably assured. Title passed to the customer on the delivery of fuel to the customer directly from the Company, the supplier or a third-party subcontractor. The gross sale of the fuel was recorded as the Company had latitude in establishing the sales price, had discretion in the supplier selection, maintained credit risk and was the primary obligor in the sales arrangement.

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

The Company sells hydrocarbon products (bitumen or crude oil) produced by its oil extraction facility at prevailing market prices. The Company also expects to enter into short term supply agreements with customers. Revenues are recognized when the hydrocarbon products are delivered, which occurs when the customer has taken title and has assumed the risks and rewards of ownership, when prices are fixed or determinable and when collectability is reasonably assured.

Vendor and customer rebates and branding allowances

From time to time, the Company received vendor rebates and provided customer rebates. Generally, volume rebates were received from vendors under structured programs based on the level of fuel purchased or sold as specified in the applicable vendor agreements. These volume rebates were recognized as a reduction of cost of goods sold in the period earned when realization was probable and estimable and when certain other conditions were met. Rebates provided to customers were recognized as a reduction of revenue in the period earned in accordance with applicable customer agreements. The rebate terms of the customer agreements were generally similar to those of the vendor agreements.

Some of these vendor rebates and promotional allowance arrangements required that the Company make assumptions and judgments regarding, for example, the likelihood of attaining specified levels of purchases or selling specified volume of products. The Company routinely reviewed the significant relevant factors and made adjustments when the facts and circumstances dictated that an adjustment was warranted.

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

(d) Inventories

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

MCW ENERGY GROUP LIMITED

Notes to the Consolidated Financial Statements

August 31, 2016 and 2015

Expressed in US dollars

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Property, plant and equipment

Property, plant and equipment are recorded at cost and amortized over their useful lives. Maintenance and repairs are expensed as incurred. Major renewals, betterments and start-up costs are capitalized. When items of property, plant or equipment are sold, impaired, or retired, the related costs and accumulated amortization are removed and any gain or loss is included in net income. Amortization is determined on a straight-line method with the following expected useful lives:

Machinery and equipment	5-7 years
Furniture and fixtures	7 years
Leasehold improvements	Lease term
Oil extraction facility	15 years
Gas station assets	10-25 years

(f) Oil and gas properties

Oil and gas property interests

Assets owned are recorded at cost less accumulated depreciations and accumulated impairment losses. The Company initially capitalizes the costs of acquiring these properties, directly and indirectly, and thereafter expenses exploration activities, pending the evaluation of commercially recoverable reserves. The results of exploratory programs can take considerable time to analyze and the determination that commercial reserves have been discovered requires both judgment and industry experience. All development costs are capitalized after it has been determined that a property has recoverable reserves. On the commencement of commercial production, net capitalized costs are charged to operations on a unit-of-production basis, by property, using estimated proven and probable recoverable reserves as the depletion base.

Oil and gas reserves

Oil and gas reserves are evaluated by independent qualified reserves evaluators. The estimation of reserves is a subjective process. Estimates are based on projected future rates of production, estimated commodity prices, engineering data and the timing of future expenditures, all of which are subject to uncertainty and interpretation. Reserves estimates can be revised either upwards or downwards based on updated information such as future drilling, testing and production levels. Reserves estimates, although not reported as part of the Company's consolidated financial statements, can have a significant effect on net earnings as a result of their impact on depreciation and depletion rates, asset impairment and goodwill impairment.

(g) Intangible assets

Intangible assets are recorded at cost less accumulated depreciation and accumulated impairment losses. Amortization of intangible assets is recorded on a straight-line basis over a life determined by the maximum length of the benefits expected from acquired intellectual property, technology and technology licenses. Intangible assets with indefinite useful lives are not amortized and are tested for impairment at least annually. The following useful lives have been established for intangible assets included in these consolidated financial statements as at August 31, 2016:

Oil Extraction Technologies	15 years
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MCW ENERGY GROUP LIMITED

Notes to the Consolidated Financial Statements

August 31, 2016 and 2015

Expressed in US dollars

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Impairment of assets

At the end of each reporting period, the Company's property and equipment and intangible assets are reviewed for indications that the carrying amount may not be recoverable. If any such indication is present, the recoverable amount of the asset is estimated in order to determine whether impairments exist. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount of an asset is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which estimates of future cash flows have not been adjusted. The cash flows used in the impairment assessment require management to make assumptions and estimates about recoverable resources, production quantities, future commodity prices, operating costs and future development costs. Changes in any of the assumptions, such as a downward revision in reserves, a decrease in future commodity prices or an increase in operating costs, could result in an impairment of an asset's carrying value.

If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount is reduced to the recoverable amount. Impairment is recognized immediately in the consolidated statement of (income) loss and comprehensive (income) loss. Where an impairment subsequently reverses, the carrying amount is increased to the revised estimate of the recoverable amount but only to the carrying value that would have been recorded if no impairment had previously been recognized. A reversal is recognized as a reduction in the impairment charge for the period.

(i) Financial instruments

Financial instruments consist of financial assets and financial liabilities and are initially recognized at fair value, net of transaction costs if applicable. Measurement in subsequent periods depends on whether the financial instrument is classified as held-to-maturity, loans and receivables, fair value through profit or loss ("FVTPL"), available-for-sale, or other financial liabilities.

Held to maturity investments and loans and receivables are measured at amortized cost, with amortization of premiums or discounts, losses and impairment included in current period interest income or expense. Financial assets and liabilities are classified as FVTPL when the financial instrument is held for trading or are designated as FVTPL. Financial instruments at FVTPL are measured at fair market value with all gains and losses included in operations in the period in which they arise. Available-for-sale financial assets are measured at fair market value with revaluation gains and losses included in other comprehensive income until the asset is removed from the balance sheet, and losses due to impairment are included in operations. All other financial assets and liabilities, except for cash and cash equivalents, are carried at amortized cost.

The Company's financial instruments are:

- Cash, classified as FVTPL and measured at fair value
- Trade and other receivables, classified as loans and receivables and measured at amortized cost
- Accounts payable, accrued expenses, payable to director, convertible debentures and long-term debt, classified as other financial liabilities and measured at amortized cost

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

MCW ENERGY GROUP LIMITED

Notes to the Consolidated Financial Statements

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Financial instruments (continued)

In accordance with industry practice, the Company includes amounts in current assets and current liabilities for current maturities receivable or payable under contracts which may extend beyond one year.

The Company classifies and discloses fair value measurements based on a three-level hierarchy:

- Level 1 – inputs are unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 – inputs for the asset or liability that are not based on observable market data.

(j) Provisions

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the consolidated statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount receivable can be measured reliably. Over time, the discounted provision is increased for the change in present value based on the discount rates that reflect current market assessments and the risks specific to the liability. The periodic unwinding of the discount is recognized in the consolidated statement of loss (income) as part of interest expense.

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

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

MCW ENERGY GROUP LIMITED

Notes to the Consolidated Financial Statements

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Income taxes

Provisions for income taxes consist of current and deferred tax expense and are recorded in operations.

Current tax expense is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the end of the period, adjusted for amendments to tax payable for previous years.

Deferred tax assets and liabilities are computed using the asset and liability method on temporary differences between the carrying amounts of assets and liabilities on the consolidated statement of financial position and their corresponding tax values, using the enacted or substantially enacted, income tax rates at each consolidated statement of financial position date. Deferred tax assets also result from unused losses and other deductions carried forward. The valuation of deferred tax assets is reviewed on a regular basis and adjusted to the extent that it is not probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized by use of a valuation allowance to reflect the estimated realizable amount.

(l) Comprehensive income or loss

Other comprehensive income or loss is the change in net assets arising from transactions and other events and circumstances from non-owner sources. Comprehensive income comprises net income or loss and other comprehensive income or loss. Financial assets that are classified as available-for-sale will have revaluation gains and losses included in other comprehensive income or loss until the asset is removed from the consolidated statement of financial position. At present, the Company has no other comprehensive income or loss.

(m) Earnings per share

Basic earnings per share is computed by dividing net income or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period.

Diluted earnings per share is determined by adjusting net income or loss attributable to common shareholders of the Company and the weighted average number of common shares outstanding by the effects of potentially dilutive instruments, if such conversion would decrease earnings per share.

(n) Share-based payments

The Company may grant share purchase options to directors, officers, employees and others providing similar services. The fair value of these share purchase options is measured at grant date using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. Share-based compensation expense is recognized over the period during which the options vest, with a corresponding increase in equity.

The Company may also grant equity instruments to consultants and other parties in exchange for goods and services. Such instruments are measured at the fair value of the goods and services received on the date they are received and are recorded as share-based payment expense with a corresponding increase in equity. If the fair value of the goods and services received are not reliably determinable, their fair value is measured by reference to the fair value of the equity instruments granted.

MCW ENERGY GROUP LIMITED

Notes to the Consolidated Financial Statements

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Reclamation and restoration obligations

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

(p) Comparative amounts

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

(q) New accounting standards and interpretations

The following is a summary of new standards, amendments and interpretations that are effective for annual periods beginning on or after January 1, 2015:

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

The amendments to IFRS 7 outline the disclosures required when initially applying IFRS 9. The application of the amendments to IFRS 7 did not have any material impact on the presented consolidated financial statements.

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

(i) *IFRS 2, Share-Based Payment ("IFRS 2") - amendments*

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

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

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

(iii) *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.

MCW ENERGY GROUP LIMITED

Notes to the Consolidated Financial Statements

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) New accounting standards and interpretations (continued)

(iv) *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.

(v) *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.

(vi) *IFRS 16, Leases (“IFRS 16”)*

IFRS 16 specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16’s approach to lessor accounting substantially unchanged from its predecessor *IAS 17 Leases*. IFRS 16 replaces *IAS 17 Leases*, *IFRIC 4 Determining Whether an Arrangement Contains a Lease*, *SIC-15 Operating Leases – Incentives*, and *SIC-27 Evaluating the Substance of Transactions 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.

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

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

(viii) *IAS 7, Statement of Cash Flows (“IAS 7”) - amendments*

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

(ix) *IAS 12, Income Taxes (“IAS 12”) - amendments*

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

(x) *IAS 16, Property, Plant and Equipment (“IAS 16”)*

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.

MCW ENERGY GROUP LIMITED

Notes to the Consolidated Financial Statements

August 31, 2016 and 2015

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) New accounting standards and interpretations (continued)

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

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

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

4. DISCONTINUED OPERATIONS

(a) Branded Reseller Distribution Agreements and associated liabilities

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

The operations associated with the Branded Reseller Distribution Agreements and associated liabilities have been reclassified as discontinued operations in the consolidated statements of loss (income) and comprehensive loss (income). In addition, the comparative consolidated statements of loss (income) and comprehensive loss (income) and cash flows have been reclassified to disclose the discontinued operations separately from continuing operations.

The effect of the disposal of the Branded Reseller Distribution Agreements and associated liabilities is:

Consideration received (Note 1)	\$	6,087,198
Net assets and liabilities sold:		
Branded Reseller Distribution Agreements (Note 11)		4,440,478
Deferred volume purchase incentives		(1,038,883)
Branding advances		(1,696,489)
		<u>1,705,106</u>
Gain on sale of assets		4,382,092
Income tax expense, net		-
Gain on sale of assets	\$	<u>4,382,092</u>

(b) Gas station

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

MCW ENERGY GROUP LIMITED

Notes to the Consolidated Financial Statements

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4. DISCONTINUED OPERATIONS (continued)

(c) MCW Fuels, Inc.

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

The operations associated with MCWF have been reclassified as discontinued operations in the consolidated statements of loss (income) and comprehensive loss (income). In addition, the comparative consolidated statements of loss (income) and comprehensive loss (income) and cash flows have been reclassified to disclose the discontinued operations separately from continuing operations. The effect of the disposal of MCWF is:

Consideration received (Note 1)	\$	Nil
Net assets and liabilities sold:		
Trade and other receivables		1,697,418
Investment in MCW Energy Group Limited		5,685,056
Prepaid expenses		1,000
Gas station asset and goodwill (Note 4(b))		2,134,800
Bank indebtedness		(1,049)
Accounts payable and accrued expenses		(2,233,001)
Long-term debt		(9,455,482)
		<u>(2,171,258)</u>
Gain on sale of subsidiary		2,171,258
Income tax expense, net		-
Net gain on sale of subsidiary	\$	<u>2,171,258</u>

(d) Results of discontinued operations

The results of the Company's fuel distribution operating segment have been presented as income from discontinued operations for the year ended August 31, 2015. The components of the results of the discontinued operations for the year ended August 31, 2015 are as follows:

	August 31,
	2015
Revenues	\$ 116,697,604
Expenses	<u>119,499,985</u>
Loss From Operations	2,802,381
Provision for income taxes	-
Loss Before the Following	2,802,381
Gain on sale of assets	(4,382,092)
Gain on sale of subsidiary	(2,171,258)
Provision for income taxes on gain on sale of assets and subsidiary	-
(Income) Loss from Discontinued Operations	<u>\$ (3,750,969)</u>

MCW ENERGY GROUP LIMITED

Notes to the Consolidated Financial Statements

August 31, 2016 and 2015

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5. CASH

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

6. TRADE AND OTHER RECEIVABLES

The Company's trade and other receivables consist of:

	<u>August 31,</u> <u>2016</u>	<u>August 31,</u> <u>2015</u>
Goods and services tax receivable	\$ 123,085	\$ 90,997
Other receivables	92,028	355
	<u>\$ 215,113</u>	<u>\$ 91,352</u>

Information about the Company's exposure to credit risks for trade and other receivables is included in Note 25(a)(i).

7. CRUSHED ORE INVENTORY

On May 23, 2012, the Company entered into a five-year agreement with TME Asphalt Ridge, LLC ("TME") for the purchase of crushed ore as feedstock for the Company's oil extraction facility. The agreement requires the Company to purchase 100,000 tons of crushed ore for \$16.00 per ton during the first calendar year and a minimum of 100,000 tons per year at a rate of approximately 8,333 tons per month for \$20.60 per ton, subject to certain price adjustment provisions, after the first year.

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

During the year ended August 31, 2016, crushed ore with a cost of \$186,080 (year ended August 31, 2015 – \$13,920) was used in the production of hydrocarbon products at the plant.

MCW ENERGY GROUP LIMITED

Notes to the Consolidated Financial Statements

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8. ADVANCED ROYALTY PAYMENTS

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

During the year ended August 31, 2015, the Company acquired TMC Capital, LLC, which has a mining and mineral lease with Asphalt Ridge, Inc. (Notes 1 and 9(b)). The mining and mineral lease with Asphalt Ridge, Inc. required the Company to make minimum advance royalty payments, which have been subsequently amended. The advance royalty payments made can be used to offset future production royalties, for a maximum of two years following the year the advance royalty payment was made.

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

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

During the year ended August 31, 2016, \$3,479 of advanced royalties were offset against production royalties and \$423,604 of advanced royalty payments that have not yet been offset against production royalties expired (2015 - \$nil and \$nil). These amounts have been recognized in cost of goods sold on the consolidated statement of loss (income) and comprehensive loss (income).

As at August 31, 2016, the Company had paid advance royalties of \$634,167 (2015 - \$881,250) to the lease holder. As at August 31, 2016, the Company expects to expense a minimum of \$540,000 of these advance royalties either against production royalties or due to the expiry of the royalties within a one year period.

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

During the year ended August 31, 2015, the Company entered into a sublease agreement with Blackrock Petroleum, Inc. ("Blackrock"), pursuant to which it received \$170,000 of unearned advance royalties. The sublease was for a portion of the mining and mineral lease with Asphalt Ridge, Inc. (Note 9(b)). Blackrock is a company associated with Accord and the sublease was effectively terminated in the acquisition by the Company of Accord on July 4, 2016 (Note 1).

MCW ENERGY GROUP LIMITED

Notes to the Consolidated Financial Statements

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9. MINERAL LEASES

	TMC Mineral Lease	Accord Oil & Gas Lease	Total
Cost			
August 31, 2014	\$ -	\$ -	\$ -
Additions	11,091,388	-	11,091,388
August 31, 2015	11,091,388	-	11,091,388
Additions	-	1,052,350	1,052,350
August 31, 2016	\$ 11,091,388	\$ 1,052,350	\$ 12,143,738
Accumulated Amortization			
August 31, 2014, 2015 and 2016	\$ -	\$ -	\$ -
Carrying Amounts			
August 31, 2014	\$ -	\$ -	\$ -
August 31, 2015	\$ 11,091,388	\$ -	\$ 11,091,388
August 31, 2016	\$ 11,091,388	\$ 1,052,350	\$ 12,143,738

(a) MCW mineral lease

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

The MCW Mineral Lease requires annual maintenance fees of approximately \$14,000 and is subject to a production royalty payable to the lessor of 8% of the market price of future products produced from the MCW Mineral Lease. This royalty may be increased to 12.5% after a minimum of 10 years of production.

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

(b) TMC mineral lease

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

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

MCW ENERGY GROUP LIMITED

Notes to the Consolidated Financial Statements

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9. MINERAL LEASES (continued)

(b) TMC mineral lease (continued)

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

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

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

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

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

Advance royalties required are:

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

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

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

(c) Oil and gas leases

On July 4, 2016, the Company acquired 57.3% of the common shares of Accord (Note 1). Accord holds three oil and gas leases in Edwards County, Texas and certain oil extraction technologies (Note 11(a)). The oil and gas leases are subject to an overriding royalty interest of 5%, which will be reduced to 1% after the Company has incurred and paid \$1,000,000 in royalties to the underlying royalty holder. No royalties are payable until defined revenue thresholds have been achieved from existing and new oil wells developed on the leases.

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10. PROPERTY, PLANT AND EQUIPMENT

	Oil Extraction Plant	Other Property and Equipment	Buildings and Improvements	Land	Total
Cost					
August 31, 2014	\$ 11,436,401	\$ 325,207	\$ 540,000	\$ 1,200,000	\$ 13,501,608
Additions	4,685,961	336,629	-	-	5,022,590
Disposals (Note 4(c))	-	(325,207)	(540,000)	(1,200,000)	(2,065,207)
August 31, 2015	16,122,362	336,629	-	-	16,458,991
Additions	555,655	16,225	-	-	571,880
August 31, 2016	\$ 16,678,017	\$ 352,854	\$ -	\$ -	\$ 17,030,871
Accumulated Amortization					
August 31, 2014	\$ -	\$ 325,207	\$ 35,100	\$ -	\$ 360,307
Additions	-	14,430	17,550	-	31,980
Disposals (Note 4(c))	-	(325,207)	(52,650)	-	(377,857)
August 31, 2015	-	14,430	-	-	14,430
Additions	1,082,273	81,684	-	-	1,163,957
August 31, 2016	\$ 1,082,273	\$ 96,114	\$ -	\$ -	\$ 1,178,387
Carrying Amount					
August 31, 2014	\$ 11,436,401	\$ -	\$ 504,900	\$ 1,200,000	\$ 13,141,301
August 31, 2015	\$ 16,122,362	\$ 322,199	\$ -	\$ -	\$ 16,444,561
August 31, 2016	\$ 15,595,744	\$ 256,740	\$ -	\$ -	\$ 15,852,484

(a) Oil Extraction Plant

In June 2011, the Company commenced the development of an oil extraction facility on its mineral lease in Uintah, Utah and entered into construction and equipment fabrication contracts for this purpose. On September 1, 2015, the Company started production of hydrocarbon products for resale to third parties.

The Company is amortizing the cost of construction over 15 years from the commencement of production. The cost of construction includes capitalized borrowing costs for the year ended August 31, 2016 of \$137,500 (2015 - \$722,751) and total capitalized borrowing costs as at August 31, 2016 of \$2,112,080 (August 31, 2015 - \$1,974,580).

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

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11. INTANGIBLE ASSETS

	Oil Extraction Technologies	Goodwill	Branded Reseller Distribution Agreements	Total
Cost				
August 31, 2014	\$ 735,488	\$ 960,000	\$ 5,509,383	\$ 7,204,871
Additions	-	-	192,660	192,660
Impairment charges	-	(512,550)	(123,970)	(636,520)
Dispositions (Note 4(a)(b))	-	(447,450)	(5,578,073)	(6,025,523)
August 31, 2015	735,488	-	-	735,488
Additions	1,556,000	-	-	1,556,000
Impairment charges	-	-	-	-
August 31, 2016	\$ 2,291,488	\$ -	\$ -	\$ 2,291,488
Accumulated Amortization				
August 31, 2014	\$ -	\$ -	\$ 1,164,215	\$ 1,164,215
Additions	-	-	-	-
Impairment charges	-	-	(27,038)	(27,038)
Dispositions (Note 4(a))	-	-	(1,137,177)	(1,137,177)
August 31, 2015	-	-	-	-
Additions	49,033	-	-	49,033
August 31, 2016	\$ 49,033	\$ -	\$ -	\$ 49,033
Carrying Amounts				
August 31, 2014	\$ 735,488	\$ 960,000	\$ 4,345,168	\$ 6,040,656
August 31, 2015	\$ 735,488	\$ -	\$ -	\$ 735,488
August 31, 2016	\$ 2,242,455	\$ -	\$ -	\$ 2,242,455

(a) Oil extraction technologies

During the year ended August 31, 2012, the Company acquired a closed-loop solvent based oil extraction technology which facilitates the extraction of oil from a wide range of bituminous sands and other hydrocarbon sediments. The Company has filed patents on this technology in the USA and Canada and has employed it in its Oil Extraction Plant. The Company commenced production from its Oil Extraction Plant on September 1, 2015 and is amortizing the cost of the technology over fifteen years, the expected life of the Oil Extraction Plant.

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

MCW ENERGY GROUP LIMITED

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11. INTANGIBLE ASSETS (continued)

(b) Goodwill

The Company acquired goodwill during the year ended August 31, 2013 on the acquisition of a gas station from executive directors.

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

(c) Branded reseller distribution agreements

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

The Company had entered into agreements with various retailers whereby it received exclusive fuel distribution rights to and minimum fuel purchase commitments from these retailers. The acquisition costs of these agreements, including funds provided to retailers to operate under certain brand names, were capitalized and were amortized over the contractual life of the agreements on a straight-line basis.

During the year ended August 31, 2015, the Company recorded impairment charges of \$96,932 in the consolidated statement of loss (income) to recognize early termination of certain branded reseller distribution agreements and to reduce their carrying values to the expected recoverable amounts.

12. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable as at August 31, 2016 and 2015 consist primarily of amounts outstanding for construction and expansion of the Oil Extraction Plant and other operating expenses that are due on demand.

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

Information about the Company's exposure to liquidity risk is included in Note 25(c).

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13. LONG-TERM DEBT

<u>Lender</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Principal due at August 31, 2016</u>	<u>Principal due August 31, 2015</u>
B&N Bank	March 18, 2016	12.51%	\$ -	\$ 3,000,000
Director	March 18, 2017	5.00%	3,000,000	-
Private lender	May 1, 2017	15.00%	126,800	200,000
Private lender	January 31, 2017	15.00%	802,747	709,413
Private lenders	January 19, 2017 - August 6, 2018	10.00%	176,466	80,000
Private lenders	September 10, 2017	6.00%	750,000	-
Private lenders	November 30, 2017 - August 29, 2018	5.00%	57,237	-
Private lender	August 6, 2018	10.00%	-	2,288,250
Equipment loans	April 17, 2020 - April 20, 2020	4.30% - 4.90%	215,392	265,856
Promissory notes	May 31, 2020	5.00%	7,500,000	10,000,000
Director	August 17, 2019	5.00%	140,000	225,500
Total loans			12,768,642	16,769,019
Accrued interest			45,206	-
Total			\$ 12,813,848	\$ 16,769,019

The maturity of long-term debt is as follows:

	<u>August 31, 2016</u>	<u>August 31, 2015</u>
Principal classified as repayable within one year	\$ 3,958,522	\$ 3,252,389
Principal classified as repayable later than one year	8,855,326	13,516,630
	\$ 12,813,848	\$ 16,769,019

(a) B&N Bank credit facility

On September 18, 2013, the Company obtained a credit line from B&N Bank of up to \$3,000,000. Draws on the credit line were originally due on September 18, 2015, subsequently extended to March 18, 2016 on September 18, 2015, and accrue interest at 12.51% per annum, payable quarterly. Certain shareholders of the Company have deposited 5,945,482 of the Company's shares in escrow, as required by the terms of the credit facility. The number of shares in escrow is to be increased by 14.33% of any additionally issued shares during the term of the credit line. As at August 31, 2015, \$3,000,000 had been drawn on this credit line by the Company.

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

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13. LONG TERM DEBT (continued)

(b) Private lenders

- (i) On December 16, 2013, the Company obtained an on demand loan from private investors for a total of \$430,000, bearing interest at 15% per annum. The loan is personally guaranteed by the Chair of the Board of Directors. The loan was amended on November 1, 2016 to extend the maturity date to May 1, 2017. During the year ended August 31, 2016, \$73,200 of principal was repaid (2015 - \$230,000).
- (ii) On October 10, 2014, the Company issued two secured debentures for an aggregate principal amount of CAD \$1,100,000 to two private lenders. The debentures bear interest at a rate of 12% per annum, maturing on October 15, 2017 and are secured by all of the assets of the Company. In addition, the Company issued common share purchase warrants to acquire an aggregate of 500,000 common shares of the Company at an exercise price of CAD \$1.00 per share until October 10, 2017 (Note 18) to the two secured debenture holders. On September 22, 2016, the two secured debentures were amended to extend the maturity date to January 31, 2017, to allow for the conversion of the secured debentures into common shares of the company at a rate of CAD \$0.15 per common share and to increase the interest rate, starting June 1, 2016, to 15% per annum. On June 1, 2016, the common share purchase warrants initially issued as part of the secured debentures were cancelled.
- (iii) The Company received advances from various private lenders during the year ended August 31, 2016 and 2015 in the form of unsecured promissory notes. These promissory notes mature between January 19, 2017 and August 6, 2018 and bear interest at 10% per annum.
- (iv) During the year ended August 31, 2016, the Company obtained a loan from Atlands Overseas Corp. for \$750,000, bearing interest at a rate of 6% per annum and maturing on September 10, 2017.
- (v) The Company received advances from various private lenders during the year ended August 31, 2016 and 2015 in the form of unsecured promissory notes. These promissory notes mature between November 30, 2017 and August 29, 2018 and bear interest at 5% per annum.
- (vi) The Company received advances from various private lenders during the year ended August 31, 2016 and 2015 in the form of unsecured promissory notes. On January 20, 2016, the Company issued an aggregate of 26,473,642 common shares in satisfaction of \$2,447,478 of indebtedness. On July 25, 2016, the Company issued an aggregate of 2,589,477 common shares in satisfaction of \$266,146 indebtedness.
- (vii) During the year ended August 31, 2016, the Company issued an unsecured promissory note of \$140,000 to a private company controlled by the Chair of the Board of Directors of the Company (Note 20).

(c) Equipment loans

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

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13. LONG TERM DEBT (continued)

(d) Promissory notes

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

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

14. CONVERTIBLE DEBENTURES

<u>Lender</u>	<u>Maturity Date</u>	<u>Interest Rate</u>		<u>Balance due at August 31, 2016</u>	<u>Balance due August 31, 2015</u>
Director	June 25, 2017	10.00%	\$	204,000	\$ 204,000
Atlands Overseas Corp.	February 9, 2017	10.00%		3,500,000	3,500,000
Alpha Capital Anstalt	October 8, 2017	5.00%		555,876	773,815
			\$	<u>4,259,876</u>	<u>\$ 4,477,815</u>

The maturity of the convertible debt is as follows:

		<u>August 31, 2016</u>	<u>August 31, 2015</u>
Principal classified as repayable within one year	\$	3,704,000	\$ 4,273,815
Principal classified as repayable later than one year		555,876	204,000
	\$	<u>4,259,876</u>	<u>\$ 4,477,815</u>

(a) Director

On June 25, 2014, the Company issued a convertible debenture for up to a maximum aggregate principal amount of \$2,000,000 to the Chair of the Board of Directors, which bears interest at a rate of 10% per annum and matures on June 25, 2017. On September 22, 2014, \$1,796,000 of the principal was converted into 1,925,492 common shares of the Company. The balance of \$204,000 is convertible at a deemed price of CAD \$1.00 per share at any time at the option of the holder and is secured by all of the assets of the Company.

(b) Atlands Overseas Corp.

On February 9, 2015, the Company received a loan for an aggregate principal amount of \$2,000,000, which was increased to \$3,500,000 on July 21, 2015. The loan bore interest at a rate of 6% per annum and matured on February 9, 2016. On February 1, 2016, the loan was modified to extend the maturity date to February 9, 2017 and increase the rate of interest to 10% per annum between February 10, 2016 and February 9, 2017. The loan is guaranteed by the Chair of the Board of Directors. In addition, the lender also has the option, subject to director, shareholder and regulatory approvals, to convert the loan into a 49.9% ownership interest in MCWO.

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14. CONVERTIBLE DEBENTURES (continued)

(c) Alpha Capital Anstalt

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

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

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

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

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

On April 8, 2016, the Company issued an additional convertible secured note for \$600,000 to Alpha Capital Anstalt. The convertible secured note bears interest at a rate of 5% per annum and matures on October 8, 2017. The convertible secured note is convertible into units, consisting of one common share of the Company and one common share purchase warrant of the Company, at a conversion price of \$0.11564 per unit. Each warrant would entitle the holder to acquire one additional common share at an exercise price of CAD \$0.1575 per share until April 8, 2021. The convertible secured note is secured by all of the assets of the Company.

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

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15. RECLAMATION AND RESTORATION PROVISIONS

	Oil Extraction Plant	Site Restoration	Total
Balance, beginning of year	\$ 350,000	\$ 200,000	\$ 550,000
Accretion	7,000	4,000	11,000
Balance, end of year	\$ 357,000	\$ 204,000	\$ 561,000
Non-current	\$ 357,000	\$ 204,000	\$ 561,000
Current	-	-	-
	\$ 357,000	\$ 204,000	\$ 561,000

(a) Oil Extraction Plant

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

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

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

(b) Site restoration

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

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

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

16. COMMON SHARES

Authorized unlimited common shares without par value
Issued and Outstanding 201,695,012 common shares as at August 31, 2016.

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

Between March 7, 2016 and June 24, 2016, the Company issued 4,498,953 common shares at issue prices between \$0.09 and \$0.11 (CAD \$0.11 and \$0.14) for net proceeds of \$423,923.

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17. SHARE PURCHASE OPTIONS

(a) Stock option plan

The Company has a stock option plan which allows the Board of Directors of the Company to grant options to acquire common shares of the Company to directors, officers, key employees and consultants. The option price, term and vesting are determined at the discretion of the Board of Directors, subject to certain restrictions as required by the policies of the Toronto Stock Exchange. The stock option plan is a 20% fixed number plan with a maximum of 10,004,746 common shares reserved for issuance.

During the year ended August 31, 2015, the Company did not grant any options. During the year ended August 31, 2016, the Company granted 1,500,000 options to an officer and a director of the Company. The weighted average fair value of the options granted was estimated at \$0.22 per option at the grant date using the Black-Scholes option pricing model.

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

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

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

During the year ended August 31, 2016, share-based compensation expense of \$3,013,965 was recorded, of which \$291,786 relates to the vesting of options granted during the year ended August 31, 2016.

(b) Share purchase options

Share purchase option transactions under the stock option plan were:

	2016		2015	
	Number of Options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of period	2,800,000	\$ 0.60	2,883,426	\$ 0.61
Options granted	1,500,000	0.18	-	-
Options cancelled	(500,000)	0.16	-	-
Options expired	-	-	(83,426)	1.04
Balance, end of period	3,800,000	\$ 0.49	2,800,000	\$ 0.60

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17. SHARE PURCHASE OPTIONS (continued)

(b) Share purchase options (continued)

Share purchase options outstanding and exercisable as at August 31, 2016 are:

Expiry Date	Exercise Price	Options Outstanding	Options Exercisable
November 11, 2017	CAD \$1.10	900,000	900,000
December 31, 2018	USD \$0.16	1,500,000	1,500,000
August 15, 2019	CAD \$1.10	400,000	400,000
February 1, 2026	CAD \$0.195	1,000,000	666,664
		3,800,000	3,466,664
Weighted average remaining contractual life		4.0 years	3.5 years

18. SHARE PURCHASE WARRANTS

Share purchase warrants outstanding as at August 31, 2016 are:

Expiry Date	Exercise Price	Warrants Outstanding
November 5, 2019	CAD \$0.945	759,798
April 12, 2019	CAD \$0.17	500,000
August 19, 2019	CAD \$0.25	2,000,000
		3,259,798
Weighted average remaining contractual life		3.0 years
Weighted average exercise price		CAD \$0.40

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

On October 10, 2014, the Company issued an aggregate of 500,000 share purchase warrants in connection with the issuance of two secured debentures (Note 13(b)(ii)). The fair value of the warrants granted was estimated at \$0.31 per warrant at the grant date using the Black-Scholes option pricing model. The weighted average assumptions used for the Black-Scholes option pricing model were a share price of CAD \$0.83, exercise price of CAD \$1.00, expected share price volatility of 71%, risk-free interest rate of 1.2% and expected term of 3 years. The expected volatility was calculated based on the Company's historical volatility.

Between April 30, 2015 and October 9, 2015, the Company issued 126,633, 253,266, 189,950 and 189,949 share purchase warrants in connection with the conversion of \$100,000, \$200,000, \$150,000 and \$150,000, respectively, of the convertible secured notes (Note 14(c)) into units composed of one common share of the Company and one share purchase warrant of the Company. The fair value of the warrants granted was estimated, using the residual method, at \$0.02, \$0.08, \$0.15 and \$0.09 per warrant, respectively.

On May 9, 2016, the Company issued 500,000 share purchase warrants to settle an outstanding liability of \$75,000. The fair value of the warrants granted was estimated at \$0.07 per warrant at the grant date using the Black-Scholes option pricing model. The weighted average assumptions used for the Black-Scholes option pricing model were a share price of CAD \$0.14, exercise price of CAD \$0.165, expected share price volatility of 114%, risk-free interest rate of 0.68% and expected term of 3 years. The expected volatility was calculated based on the Company's historical volatility.

On June 1, 2016, 500,000 share purchase warrants issued to debt holder were cancelled (Note 13(b)(ii)).

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18. SHARE PURCHASE WARRANTS (continued)

On August 19, 2016, the Company issued 2,000,000 share purchase warrants in connection with the acquisition of 57.3% of the common shares of Accord GR Energy, Inc. (Note 1). The fair value of the warrants granted was estimated at \$0.09 per warrant at the grant date using the Black-Scholes option pricing model. The weighted average assumptions used for the Black-Scholes option pricing model were a share price of CAD \$0.19, exercise price of CAD \$0.322, expected share price volatility of 116%, risk-free interest rate of 0.68% and expected term of 3 years. The expected volatility was calculated based on the Company's historical volatility.

19. DILUTED LOSS PER SHARE

The Company's potentially dilutive instruments are convertible debentures and share purchase options and warrants. Conversion of these instruments would have been anti-dilutive for the periods presented and consequently, no adjustment was made to basic loss per share to determine diluted loss per share. These instruments could potentially dilute earnings per share in future periods.

20. RELATED PARTY TRANSACTIONS

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

(a) Fuel sales to related parties

During the year ended August 31, 2015, approximately 1.5% of the Company's sales were to retail operations controlled by the Chair of the Board of Directors of the Company.

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

(b) Transactions with executive officers and directors

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

During the year ended August 31, 2016, the Company earned \$nil (2015 - \$99,698) in rental income from a company controlled by the Chair of the Board of Directors of the Company.

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

On November 24, 2015, the Company entered into an agreement with its Chief Financial Officer to issue 112,378 common shares in satisfaction of indebtedness of \$35,000 owing for unpaid fees. During the year ended August 31, 2015, the Company issued 100,000 common shares to its Chief Financial Officer pursuant to the terms of his consulting agreement.

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20. RELATED PARTY TRANSACTIONS (continued)

(c) Key management personnel and director compensation

The remuneration of the Company's directors and other members of key management, who have the authority and responsibility for planning, directing, and controlling the activities of the Company, consist of the following amounts:

	<u>2016</u>	<u>2015</u>
Salaries, fees and other benefits	\$ 505,040	\$ 927,730
Share-based compensation	3,013,965	143,518
	<u>\$ 3,519,005</u>	<u>\$ 1,071,248</u>

At August 31, 2016, \$674,610 is due to members of key management for unpaid salaries and expenses (August 31, 2015 - \$449,570).

During the year ended August 31, 2016, the Company issued nil common shares to current and previous directors for settlement of outstanding fees owing to them (2015 - 497,135).

(d) Due to and from director

On April 9, 2014 and June 25, 2014, the Company issued convertible debentures to the Chair of the Board of Directors of the Company (Note 14(a)). On September 22, 2014, a portion of the principal of the convertible debentures was converted into common shares of the Company (Note 14(a)).

During the year ended August 31, 2016, the Company received advances of \$265,500 (2015 - \$225,500) from various private companies controlled by the Chair of the Board of Directors of the Company (Note 13(b)(vii)). On January 20, 2016 and July 25, 2016, the Company entered into an agreement to settle a portion of the principal and accrued and unpaid interest of these advances by issuing 2,554,814 and 1,127,443 common shares of the Company, respectively, to the lenders. As at August 31, 2016, the principal outstanding on the promissory notes for these advances was \$140,000 (2015 - \$225,500).

On March 18, 2016, the Company issued a promissory note of \$3,000,000 to the Chair of the Board of Directors of the Company (Note 13(a)). This promissory note bears interest at 5% per annum and matures in 12 months from the date of the advance.

As at August 31 2016, the Company owed the Chair of the Board of Directors \$204,000 (2015 - \$204,000) in a convertible debenture which bears interest at a rate of 10% per annum and matures on June 25, 2017 and \$10,068 (2015 - \$nil) in current loans which bear interest at a rate of 10% per annum.

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21. COMMITMENTS

Oil extraction technology

The Company has reserved 500,000 common shares for issuance to the inventor of a key component of the Company's oil extraction technology (now the Chief Technology Officer of the Company) following the successful testing and operation of the extraction facility. A royalty of 2% of gross revenue will also be payable from production of each extraction facility constructed, beginning with the successful operation of a second facility. As at August 31, 2016, the first extraction facility has been completed, with additional work being done on expanding the production capacity of this facility to 500 barrels per day (Note 10(a)).

22. INCOME TAXES

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

	<u>2016</u>	<u>2015</u>
Property, plant and equipment and intangible assets	\$ (431,536)	\$ (3,354)
Long-term debt	(9,520)	(32,789)
Convertible debentures	(11,693)	(9,884)
Non-capital tax loss carry-forwards	7,717,360	5,326,908
Other tax-related balances and credits	79,093	143,515
Valuation allowance	(7,343,704)	(5,424,396)
Net deferred tax assets (liabilities)	\$ -	\$ -

A reconciliation of the provision for income taxes is:

	<u>2016</u>	<u>2015</u>
Net loss (income) before income taxes	\$ 12,091,826	\$ (469,204)
Combined federal and provincial statutory income tax rate	26.5%	26.5%
Tax using the Company's domestic tax rate	3,204,334	(124,339)
Effect of tax rates in foreign jurisdictions	678,179	(358,571)
Net effect of (non-deductible) deductible items	(1,458,049)	463,907
Change in valuation allowance	1,905,574	(13,451)
Current year deductible amounts	913,834	708,107
Change in unrecognized deferred tax assets and liabilities	(1,905,574)	13,451
Effect of current period losses not recognized	(3,338,298)	(689,104)
Provision for income taxes	\$ -	\$ -

As at August 31, 2016, the Company has, on a consolidated basis, non-capital losses of approximately \$24 million for income tax purposes which may be used to reduce taxable income of future years. If unused, these losses will expire between 2028 and 2036.

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23. SEGMENT INFORMATION

The Company operated in two reportable segments within the USA during the year ended August 31, 2016, oil extraction and processing operations and mining operations (Note 1), which were the Company's strategic business units.

The Company operated in three reportable segments within the USA during the year ended August 31, 2015, fuel distribution, oil extraction and processing operations and mining operations (Note 1), which were the Company's strategic business units.

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

The presentation of the consolidated statements of loss (income) and comprehensive loss (income) provides information about the oil extraction and processing segment. There were no operations in the mining operations segment during the years ended August 31, 2016 and 2015. Other information about reportable segments is:

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

(in '000s of dollars)	August 31, 2015			
	Oil	Mining	Fuel	Consolidated
	Extraction	Operations	Distribution	
Additions to non-current assets	\$ 5,023	\$ 11,781	\$ 193	\$ 16,997
Reportable segment assets	18,471	11,974	-	30,445
Reportable segment liabilities	\$ 14,191	\$ 10,170	\$ -	\$ 24,361

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23. SEGMENT INFORMATION (continued)

(in '000s of dollars)	August 31, 2016		
	Oil Extraction	Mining Operations	Consolidated
External Revenue	205	-	205
Cost of Goods Sold	1,399	-	1,399
Gross Loss	1,195	-	1,195
Loss From Continuing Operations	11,746	346	12,092
Amortization	1,213	-	1,213
General and administrative	576	4	580
Interest expense	1,031	470	1,501
Loss (Gain) on settlement of liabilities	1,638	(135)	1,503
Professional fees	1,783	6	1,789
Salaries and wages	865	-	865
Share based compensation	3,014	-	3,014
Travel and promotion	435	-	435

(in '000s of dollars)	August 31, 2015		
	Oil Extraction	Mining Operations	Consolidated
Loss From Continuing Operations	3,147	135	3,282
Amortization	14	-	14
General and administrative	153	-	153
Interest expense	160	135	295
Loss (Gain) on settlement of liabilities	(48)	-	(48)
Professional fees	1,178	-	1,178
Salaries and wages	801	-	801
Share based payments	139	-	139
Travel and promotion	749	-	749

(in '000s of dollars)	September 1, 2014 to May 13, 2015	
	(Discontinued Note 4(c)) Fuel Distribution	
Fuel purchases		114,382
Fuel delivery		1,720
Amortization		18
Customer station maintenance		464
Impairment		610
Allowance for doubtful accounts receivable		892
Interest expense		379
Other income		(537)

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24. 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.

25. MANAGEMENT OF FINANCIAL RISKS

The risks to which the Company's financial instruments are exposed to are:

(a) Credit risk

(i) Trade and other receivables

Credit risk is the risk of unexpected loss if a customer or third party to a financial instrument fails to meet contractual obligations. The Company is exposed to credit risk through its cash held at financial institutions and trade receivables from customers.

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

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

Accounts receivable, collections and payments from customers are monitored and the Company maintains an allowance for estimated credit losses based upon historical experience with customers, current market and industry conditions and specific customer collection issues.

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

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25. MANAGEMENT OF FINANCIAL RISKS (continued)

(b) Interest rate risk

Interest rate risk is the risk that changes in interest rates will affect the fair value or future cash flows of the Company's financial instruments. The Company is exposed to interest rate risk as a result of holding fixed rate investments of varying maturities as well as through certain floating rate instruments. The Company considers its exposure to interest rate risk to be minimal.

(c) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities as they become due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses.

The following are the remaining contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted, and include estimated interest payments. The Company has included both the interest and principal cash flows in the analysis as it believes this best represents the Company's liquidity risk.

At August 31, 2016

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

At August 31, 2015

(in '000s of dollars)	Carrying amount	Contractual cash flows			
		Total	1 year or less	2 - 5 years	More than 5 years
Accounts payable	\$ 1,211	\$ 1,211	\$ 1,211	\$ -	\$ -
Accrued liabilities	1,183	1,183	1,183	-	-
Convertible debenture	4,478	4,805	4,542	263	-
Long-term debt	16,769	20,741	4,103	16,638	-
Financial guarantees	-	91	91	-	-
	\$ 23,641	\$ 28,031	\$ 11,130	\$ 16,901	\$ -

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26. EVENTS AFTER THE REPORTING DATE

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

(a) Settlement of long term debt

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

(b) Settlement of indebtedness to service providers

On October 21, 2016, the Company entered into agreements with certain service providers pursuant to which the Company issued an aggregate of 740,914 common shares, on regulatory approval, in satisfaction of indebtedness of \$157,205 for unpaid fees.

(c) Joint arrangements

On November 11, 2016, the Company entered into a joint venture agreement with two arm's length parties to deliver an internet based job placement and career services to the energy sector. The Company will issue 2,500,000 common shares, on regulatory approval, as consideration for a 25% equity interest in the joint venture entity to be formed.

(d) Private placements

On November 15, 2016, the Company completed a private placement of 374,748 common shares to two arm's length parties for total proceeds of \$65,000

(e) Other

On November 1, 2016, the Company granted an arm's length party a non-exclusive license for the use, sale, fabrication and installation of its oil extraction technology for 15 years with an option to extend the non-exclusive license in tranches of one or five years. Royalties due under the non-exclude license to the Company will range from 5% to 7%, based on gross profits.

On October 24, 2016, the Company retained investor relation services from an arm's length party. The Company has agreed to pay services fee of \$10,000 per month for a period of 12 month.