UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

August 23, 2021
Date of Report (Date of earliest event reported)

PETROTEQ ENERGY INC.

(Exact name of registrant as specified in its charter)

Ontario, Canada	**000-55991**	**None**
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

15315 W. Magnolia Blvd., Suite 120 **Sherman Oaks, California**	**91403**
(Address of principal executive offices)	(Zip Code)

(800) 979-1897
Registrant's telephone number, including area code

Not applicable
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐	Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
☐	Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
☐	Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
☐	Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol(s)	Name of each exchange on which registered
N/A	N/A	N/A

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (Section 230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (Section 240.12b-2 of this chapter).

Emerging growth company ☒

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

SECTION 8 - OTHER EVENTS
Item 8.01 Other Events.

Petroteq Energy Inc. ("**Petroteq**" or the "**Company**") has now filed with the United States Securities and Exchange Commission and the Canadian Securities Administrators, including the Ontario Securities Commission (the "**OSC**"), its amended and restated financial statements and management's discussion and analysis for the eight quarters from May 31, 2019 to February 28, 2021 (as contained in the Company's amended annual reports on Form 10-K/A for the financial years ended August 31, 2019 and August 31, 2020, and in the Company's amended quarterly reports on Form 10-Q/A for the periods ended May 31, 2019, November 30, 2019, February 29, 2020, May 31, 2020, November 30, 2020 and February 28, 2021), as well as its quarterly report on Form 10-Q for the period ended May 31, 2021.

The previously-undisclosed contingent liability that precipitated the amendment and restatement of the foregoing periodic reports also affected the Company's previously-issued unaudited condensed consolidated financial statements for the three and six months ended February 28, 2019 and 2018 (the "**Q2 2019 Financial Statements**"), contained in the following filings:

(a) Company's registration statement (the "**Registration Statement**") on Form 10 under the Securities Exchange Act of 1934, as amended, filed on May 22, 2019;

(b) Amendment No. 1 to the Registration Statement, filed on June 24, 2019; and

(c) Amendment No. 2 to the Registration Statement, filed on July 5, 2019.

As previously disclosed, Petroteq does not intend to file a post-effective amendment to the Registration Statement, as amended, that includes amended and restated Q2 2019 Financial Statements. However, on August 23, 2021, in response to guidance received from the OSC, the Company filed amended and restated Q2 2019 Financial Statements, and related amended management's discussion and analysis, with the Canadian Securities Administrators, copies of which are included as exhibits to this Current Report on Form 8-K.

SECTION 9 - Financial Statement and Exhibits
Item 9.01 Financial Statements and Exhibits.

99.1	Condensed Consolidated Interim Financial Statements for the three and six months ended February 28, 2019 and 2018, as amended (unaudited)
99.2	Management's Discussion and Analysis (Amended) for the three and six months ended February 28, 2019 and 2018

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

PETROTEQ ENERGY INC.

DATE: August 24, 2021

By: /s/ R.G. Bailey
R. Gerald Bailey
Interim Chief Executive Officer

Petroteq Energy Inc.

Condensed Consolidated Interim Financial Statements

For the three and six months ended February 28, 2019 and 2018

As Amended

(All figures expressed in US dollars unless stated otherwise)

PETROTEQ ENERGY INC.

AMENDMENT EXPLANATORY NOTE

Petroteq Energy Inc. ("**Petroteq**" or the "**Company**") is filing this Amendment to its unaudited condensed consolidated interim financial statements for the three and six months ended February 28, 2019 and 2018 (this "**Amendment**") to amend the Company's condensed consolidated interim financial statements for the three and six months ended February 28, 2019 (the "**Original Filing**"), originally filed by the Company with the Canadian Securities Administrators ("CSA") on the SEDAR filing system on April 29, 2019. This Amendment amends the Company's previously issued unaudited condensed consolidated interim financial statements and related note disclosures as of and for the three and six months ended February 28, 2019 and 2018.

Background of Amendment

On July 16, 2021, the independent members of the Audit Committee (with Mr. Alex Blyumkin abstaining, the "**Audit Committee**") of the Board of Directors of the Company, after discussion with the Company's Chief Financial Officer, concluded that the Company's previously-issued financial statements (the "**Periodic Financial Statements**") contained in the interim financial report and interim MD&A (together, the "amended interim filings") of Petroteq Energy Inc. (the "issuer") for the interim period ended February 28, 2019 should be amended and refiled.

The Board of Directors has concurred with the conclusions of the Audit Committee.

The amendment addresses a secured promissory note which the Company had issued dated December 27, 2018 (the "**Note**") payable to Redline Capital Management S.A. ("**Redline**") in the principal amount of $6,000,000, maturing 24 months following its date of issue, and bearing interest at the rate of 10% per annum based on a 360-day year. The Company's obligations under the Note are purportedly secured by collateral consisting of the Company's right, title and interest in certain federal oil and gas leases (the "**Oil and Gas Leases**") relating to the Company's Asphalt Ridge Project, pursuant to a security agreement between the parties dated December 27, 2018 (the "**Security Agreement**").

The Note had been issued pursuant to the terms of a settlement agreement between the parties dated December 27, 2018 (the "**Settlement Agreement**") which purported to settle certain claims asserted by Redline against the Company. Shortly following the Settlement Agreement, in early 2019, Mr. Blyumkin, who was then the Company's Executive Chairman, had indicated he undertook an internal review of the claims made by Redline and concluded that the Settlement Agreement, the Note and the Security Agreement are void and unenforceable, and that they did not have to be disclosed to the Board of Directors or to the Company's Chief Financial Officer. Mr. Blyumkin has indicated he verbally advised Redline that the Company now considered the Settlement Agreement, and therefore the Note and the Security Agreement, to be void and unenforceable. However, no action was taken to document this position. Since maturity of the Note, on December 27, 2020, Redline has not filed any legal action to enforce payment of the Note.

In response to a request from Staff at the Securities and Exchange Commission ("SEC"), Mr. Blyumkin determined that it was appropriate to raise the Settlement Agreement, the Note and the Security Agreement for consideration by the Company's Chief Financial Officer and the Audit Committee, and, in particular, to review his conclusion that they did not have to be disclosed in the Financial Statements. The Audit Committee has determined that, notwithstanding the results of the internal review of Redline's claims undertaken by Mr. Blyumkin in early 2019, the Settlement Agreement, the Note and the Security Agreement should have been disclosed, and that the obligations referenced in the Note should have been disclosed in the Financial Statements regardless of the Company's position of their validity and enforceability.

Special legal counsel was subsequently engaged by the Company to undertake a review of the Settlement Agreement, the Note and the Security Agreement with the view to determining whether they are enforceable (and, in particular, whether the Security Agreement has properly charged the Company's right, title and interest in the Oil and Gas Leases as personal property, and whether any security interests purportedly granted pursuant to the Security Agreement have been perfected under applicable law), and whether the related liability should be classified as an actual or contingent liability. Based on the advice of such legal counsel, the Company has determined that the liability purportedly represented by the Note should be classified as a contingent liability.

Items Amended

The Notes to the Condensed Consolidated Interim Financial Statements are amended Each of the following items are amended to include additional Legal Matters disclosure in Note 23 - *Commitments* which heading has been amended from *Commitments* to *Commitments and Contingencies;* the Management Discussion and Analysis related to the Unaudited Condensed Consolidated Interim Financial Statements for the three and Six months ended February 28, 2019 and 2018, has been restated by amending Item 15 - *Litigation and Contingencies* to include Legal Matters disclosure and Item 16 - *Risks and Uncertainties* to include additional risks as a result of the additional contingent liability disclosure; and the certifications of the Chief Executive Officer and Chief Financial Officer has been reissued. .

Except for the foregoing amended and/or restated information required to reflect the effects of the restatement of the financial statements as described above, and applicable cross-references within this Amendment, this Amendment does not amend, update, or change any other items or disclosures contained in the Original Filing. This Amendment continues to describe conditions as of the date of the Original Filing, and the disclosures herein have not been updated to reflect events, results or developments that have occurred after the date of the Original Filing, or to modify or update those disclosures affected by subsequent events. Accordingly, forward looking statements included in this Amendment represent management's views as of the date of the Original Filing and should not be assumed to be accurate as of any date thereafter. This Amendment should be read in conjunction with the Original Filing and our filings made with the CSA on the SEDAR filing system subsequent to the Original Filing date.

Petroteq Energy Inc.

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PETROTEQ ENERGY, INC.
Condensed Consolidated Interim Statements of Financial Position
As at February 28, 2019 and August 31, 2018
Expressed in US dollars

	Notes		February 28, 2019 (Unaudited)		August 31, 2018 (Unaudited)
ASSETS					
Current assets					
Cash	4	$	716,451	$	2,640,001
Trade and other receivables	5		169,013		404,013
Current portion of advanced royalty payments	8(a)		388,405		331,200
Ore inventory	7		270,000		122,242
Other inventory			71,390		71,390
Receivable form director			424,179		297,256
Prepaid expenses and other current assets			855,579		331,688
			2,895,017		4,197,790
Advanced royalty payments	8(a)		504,167		467,886
Notes receivable	6		1,641,028		381,550
Mineral lease	9		12,911,143		11,111,143
Investments			68,331		68,331
Investment in Accord GR Energy			881,137		981,137
Property, plant and equipment	10		28,360,212		21,188,895
Intangible assets	11		707,671		707,671
		$	47,968,706	$	39,104,403
LIABILITIES					
Current liabilities					
Accounts payable	12	$	1,815,079	$	1,102,327
Accrued expenses	12		563,566		1,900,081
Unearned revenue			283,976		283,976
Current portion of debt	13		1,142,133		1,027,569
Current portion of convertible debentures	14		5,093,055		258,404
Unearned advance royalties received			8,897,809		4,572,357
	8(b)		170,000		170,000
Debt	13		368,480		598,982
Convertible debentures	14		-		250,000
Reclamation and Restoration provision	15		589,501		583,664
			10,025,790		6,175,003
SHAREHOLDERS' EQUITY					
Share capital	16		88,062,341		77,870,606
Shares to be issued			1,051,950		996,401
Share option reserve	17		13,931,650		12,823,000
Share warrant reserve	18		5,820,603		3,207,915
Deficit			(70,923,628)		(61,968,522)
			37,942,916		32,929,400
		$	47,968,706	$	39,104,403

Approved by the Board of Directors

"Aleksandr Blyumkin"	*"Travis Schneider"*
Alexsandr Blyumkin	Travis Schneider
Director	Director

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

PETROTEQ ENERGY, INC.
Condensed Consolidated Interim Statements of Loss and Comprehensive Loss
For the three and six months ended February 28, 2019 and 2018
Expressed in US dollars
(Unaudited)

	Notes	Three months ended February 28, 2019	Three months ended February 28, 2018	Six months ended February 28, 2019	Six months ended February 28, 2018
Revenues					
Cost of Goods Sold		$ 137,995	76,158	$ 21,248	$ -
Gross Loss		(116,747)	(76,158)	171,745	187,408
Operating Expenses				(150,497)	(187,408)
Depletion, depreciation and amortization		16,343	295,758	32,516	593,516
General and administrative		177,476	221,148	369,682	294,620
Capital raising fee		(1,276,980)	-	-	-
Interest expense		1,325,970	120,114	1,544,649	241,598
Other income		(32,664)	-	(58,923)	-
Legal fees		222,969	6,914	904,334	39,539
Professional fees		832,119	544,695	2,341,272	786,356
Research and development costs		-	-	112,625	-
Salaries and wages		293,091	204,090	529,703	386,090
Share-based compensation	17(a) 20(a)	554,325	-	1,108,650	2,505,647
Travel and promotion		473,953	263,655	1,702,417	343,469
		2,586,602	1,656,374	8,586,925	5,190,835
Net operating loss		2,703,349	1,732,532	8,737,422	5,378,243
(Profit) loss on settlement of liabilities		(90,836)	-	18,137	-
Loss on settlement of convertible debt	14(b)	20,137	-	99,547	-
Equity loss from investment of Accord GR Energy, net of tax		50,000	-	100,000	-
Net loss and Comprehensive loss		2,682,650	1,732,532	8,955,106	5,378,243
Weighted Average Number of Shares Outstanding	19	96,363,698	56,594,629	92,527,789	55,646,485
Basic and Diluted Loss per Share		$ 0.03	$ 0.03	$ 0.10	$ 0.10

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

PETROTEQ ENERGY, INC.
Condensed Consolidated Interim Statements of Changes in Shareholders' Equity
For the six months ended February 28, 2019 and 2018
Expressed in US dollars
(Unaudited)

	Notes	Number of Shares Outstanding*	Share Capital	Shares to be Issued	Option Reserve	Warrant Reserve	Deficit	Shareholders' Equity
Balance at August 31, 2017		54,220,699	$ 60,827,494	$ 56,800	$ 7,371,552	$ 618,667	$ (46,856,367)	$ 22,018,146
Share-based compensation	17(a) 20(a)	-	-	-	2,505,647	-	-	2,505,647
Shares subscribed for	16	2,313,647	1,206,356	(56,800)	-	-	-	1,149,556
Conversion of loans		1,551,723	200,163	-	-	249,837	-	450,000
Net loss		-	-	-	-	-	(5,378,243)	(5,378,243)
Balance at February 28, 2018		58,086,069	$ 62,234,013	$ -	$ 9,877,199	$ 868,504	$ (52,234,610)	$ 20,745,106
Balance at August 31, 2018		85,163,631	$ 77,870,606	$ 996,401	$ 12,823,000	$ 3,207,915	$ (61,968,522)	$ 32,929,400
Share-based compensation	17(a) 20(a)	1,325,000	1,338,178	-	1,108,650	-	-	2,446,828
Shares subscribed for	16	16,864,579	6,364,119	55,549	-	1,671,785	-	8,091,453
Settlement of debt	14(a)(b)	462,011	424,604	-	-	-	-	424,604
Settlement of liabilities		2,369,628	1,443,668	-	-	-	-	1,443,668
Valuation of debt settlement warrants issued		-	-	-	-	383,496	-	383,496
Valuation of convertible debt warrants and beneficial conversion feature	14(c) - (h)	-	621,166	-	-	557,407	-	1,178,573
Net loss		-	-	-	-	-	(8,955,106)	(8,955,106)
Balance at February 28, 2019		106,184,849	$ 88,062,341	$ 1,051,950	$ 13,931,650	$ 5,820,603	$ (70,923,628)	$ 37,942,916

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

PETROTEQ ENERGY, INC.
Condensed Consolidated Interim Statements of Cash Flows
For the six months ended February 28, 2019 and 2018
Expressed in US dollars
(Unaudited)

	Six Months ended February 28, 2019	February 28, 2018
Cash flow used for operating activities:		
Net loss	$ (8,955,106)	$ (5,378,243)
Adjustments for non-cash, investing and financing items		
Depreciation and amortization	32,516	593,515
Amortization of debt discount	802,878	-
Amortization of commitment fee	571,834	-
Loss on conversion of debt	99,548	-
Loss (gain) on settlement of liabilities	18,136	-
Share-based compensation	1,553,344	2,505,647
Equity share of losses in Accord GR Energy	100,000	98,271
Other	54,352	216,454
Changes in operating assets and liabilities:		
Accounts payable	2,138,284	90,454
Accounts receivable	235,000	80,028
Inventory	(147,758)	-
Accrued expenses	(493,972)	128,238
Prepaid expenses and deposits	181,254	(573,219)
Net cash used for operating activities	(3,809,690)	(2,238,855)
Cash flows used for investing activities:		
Purchase and construction of property and equipment	(7,203,834)	(1,873,200)
deposit paid on mineral rights acquired	(1,800,000)	-
Investment in First Bitcoin	-	(100,000)
Investment in notes receivable	(2,492,000)	-
Notes receivable repaid	333,877	-
Advance royalty payments	(200,000)	(358,796)
Net cash used for investing activities	(11,361,957)	(2,331,996)
Cash flows from financing activities:		
Repayment to executive officers	(126,923)	-
Advances from executive officers	-	73,328
Proceeds on private equity placements	8,091,453	1,149,556
Payments of debt	(452,183)	(928,311)
Proceeds from debt	517,000	1,254,906
Proceeds from convertible debt	5,618,750	3,052,046
Repayment of convertible debt	(400,000)	-
Net cash from financing activities	13,248,097	4,601,525
(Decrease) increase in cash	(1,923,550)	30,674
Cash, beginning of the period	2,640,001	55,420
Cash, end of the period	$ 716,451	$ 86,094
Cash composed of:	$ 716,451	$ 86,094
Cash	-	-
Bank overdraft	$ 716,451	$ 86,094
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 53,030	$ 3,274

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

1. NATURE OF OPERATIONS

Petroteq Energy Inc. (the "Company") is an Ontario corporation which conducts oil sands mining and oil extraction operations in the USA. It operates through its indirectly wholly owned subsidiary company, Petroteq Oil Sands Recovery, LLC ("POSR"), which is engaged in mining and oil extraction from tar sands, and its 44.7% owned and equity accounted company Accord GR Energy, Inc. ("Accord"), which is engaged in using a specialized technology to extract oil from oil wells which have been depleted using conventional extraction methods.

The Company's registered office is located at Suite 6000, 1 First Canadian Place, 100 King Street West, Toronto, Ontario, M5X IE2, Canada and its principal operating office is located at 15165 Ventura Blvd, Suite 200, Sherman Oaks, California 91403, USA.

POSR is engaged in a tar sands mining and oil processing operation, using a closed-loop solvent based extraction system that recovers bitumen from surface mining, and has completed the construction of an oil processing plant in the Asphalt Ridge area of Utah.

On July 4, 2016, the Company acquired 57.3% of the issued and outstanding common shares of Accord which, due to additional share subscriptions in Accord by other shareholders since August 31, 2016, was reduced to 44.7% as of August 31, 2017. The investment in Accord has therefore been recorded using the equity method for the three and six months ended February 28, 2019 and 2017, and for the years ended August 31, 2018 and 2017.

On April 6, 2017, the shareholders of the Company approved the consolidated its shares on a 30 for one basis, which was effected on May 5, 2017 (Note 16). The number of shares issued and outstanding have been retroactively adjusted for this consolidation in these financial statements.

In November 2017, the Company formed a wholly owned subsidiary, Petrobloq, LLC, to design and develop a blockchain-powered supply chain management platform for the oil and gas industry.

On June 1, 2018, the Company finalized the acquisition of a 100% interest in two leases for 1,312 acres of land within the Asphalt Ridge, Utah area. The lease contains unproven bitumen deposits which increases our total bitumen deposits available for mining.

On January 18, 2019, the Company paid a cash deposit of $1,800,000 for the acquisition of 50% of the operating rights under U.S. federal oil and gas leases encompassing approximately 8,480 gross acres (4,240 net acres, after royalty) in the State of Utah. The total consideration of $10,800,000 was settled by the $1,800,000 cash above and by the issuance of 15,000,000 shares at a deemed issue price of $0.60 per share.

The Company has incurred losses for several years and, at February 28, 2019, has an accumulated deficit of $70,923,628 (August 31, 2018 - $61,968,522) and working capital (deficiency) of $6,002,792 (August 31, 2018 - $374,567). These condensed consolidated interim 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 additional financing will not be available on a timely basis or on terms acceptable to the Company. These condensed consolidated interim 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 unaudited condensed consolidated interim financial statements have been prepared in accordance with IAS 34 "Interim Financial Reporting" and should be read in conjunction with the Company's annual consolidated financial statements for the years ended August 31, 2018 which were prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

The unaudited condensed consolidated interim financial statements for the three and six months ended February 280, 2019 were approved and authorized for issuance by the Board of Directors on April 29, 2019.

(b) Basis of measurement

The condensed consolidated interim financial statements have been prepared on a historical cost basis except for certain financial assets and financial liabilities which are measured at fair value, as explained in the accounting policies set out in Note 3. The Company's reporting currency and the functional currency of all of its operations is the U.S. dollar, as it is the principal currency of the primary economic environment in which the Company operates.

(c) Significant accounting judgments and estimates

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

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

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

Review of carrying value of assets and impairment charges

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

Provisions

Provisions are recorded based on 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.

Expressed in US dollars

2. BASIS OF PREPARATION (continued)

(c) Significant accounting judgments and estimates (continued)

Income taxes and recoverability of deferred tax assets

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

Judgment is required in determining whether deferred tax assets are recognized on the condensed consolidated interim 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 condensed consolidated interim statement of financial position could be impacted. The Company has not recognized any deferred tax assets as at February 28, 2019 and August 31, 2018.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

The condensed consolidated interim 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:

Entity	% of Ownership	Jurisdiction
Petroteq Energy Inc.	Parent	Canada
Petroteq Energy CA, Inc.	100%	USA
MCW OSR Inc.	100%	USA
MCW Oil Sands, Inc.	100%	USA
Petroteq Oil Sands Recovery, LLC	100%	USA
TMC Capital, LLC	100%	USA
Petrobloq, LLC	100%	USA

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Business combinations

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

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

(c) Income recognition

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

(d) Investment in associate

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

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

(e) Property, plant and equipment

Property, plant and equipment is recorded at cost and amortized over their useful lives or over the expected units of production. 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	Expected total unit of production

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Oil and gas properties

Oil and gas property interests

Assets owned are recorded at cost less accumulated depreciation 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 condensed consolidated interim 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 or on the basis of expected units of production from acquired intellectual property, technology and technology licenses. Intangible assets with indefinite useful lives are not amortized and are tested for impairment at least annually.

The useful life for the Oil Extraction Technologies was established as 15 years in these condensed consolidated interim financial statements as at August 31, 2017. On August 31, 2018, the Company determined that amortizing the Oil Extraction Technologies over units of production was more accurate estimation of the how the benefits are expected to be received by the Company. At that time, it was not determinable as the oil extraction facility was not yet ready for use and no amortization was recorded during the year ended August 31, 2018 as commercial production using the Technologies had not commenced.

(h) Impairment of assets

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Impairment of assets (continued)

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

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 condensed consolidated interim 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 condensed consolidated interim statement of financial position, and losses due to impairment are included in operations. All other financial assets and liabilities, except for cash and cash equivalents, are carried at amortized cost.

The Company's financial instruments are:

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Financial instruments (continued)

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

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

(j) Provisions

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

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

(k) Income taxes

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Income taxes (continued)

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

(l) Comprehensive income or loss

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

(m) Earnings per share

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

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

(n) Share-based payments

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

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

(o) Reclamation and restoration obligations

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Comparative amounts

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

(q) New accounting standards and interpretations

The following is a summary of new standards, amendments and interpretations that are effective for annual periods beginning on or after January 1, 2017:

(a) IAS 7, Statement of Cash Flows ("IAS 7") - amendments

The amendments to IAS 7 require additional disclosure of changes in liabilities arising from financing activities.

(b) IAS 12, Income Taxes ("IAS 12") - amendments

The amendments to IAS 12 clarify the recognition of deferred tax assets for unrealized losses.

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

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

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

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

(b) IFRS 15, Revenue from Contracts with Customers ("IFRS 15")

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

Expressed in US dollars

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) New accounting standards and interpretations (continued)

(c) IFRS 16 Leases (IFRS 16")

IFRS 16 provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor *IAS 17 Leases.* IFRS 16 replaces *IAS 17 Leases*, *IFRIC 4 Determining Whether an Arrangement Contains a Lease*, *SIC -15 Operating Leases - Incentives,* and *SIC - 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.* IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if *IFRS 15 Revenue from Contracts with Customers* is also applied.

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

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

(e) IFRIC 23 - Uncertainty Over Income Tax Treatments ("IFRIC 23")

IFRIC 23 clarifies application of the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. It is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted.

The Company has assessed the impact that these new and amended standards have on the condensed consolidated interim financial statements, and no significant impact was identified.

4. CASH

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

5. TRADE AND OTHER RECEIVABLES

The Company's trade and other receivables consist of:

		February 28, 2019		August 31, 2018
Goods and services tax receivable	$	59,013	$	59,013
Other receivables		110,000		345,000
	$	169,013	$	404,013

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

Expressed in US dollars

6. NOTES RECEIVABLE

The Company's notes receivable consist of:

	Maturity Date	Interest Rate		Principal due February 28, 2019		Principal due August 31, 2018
Private debtor	October 5, 2019	5%	$	-	$	-
Private debtor	March 15, 2020	5%		76,000		76,000
Private debtor	August 20, 2021	5%		362,000		300,000
Private debtor	August 20, 2021	5%		1,195,223		-
Interest accrued				7,805		5,550
			$	1,641,028	$	381,150

7. ORE INVENTORY

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 The mining and crushing of the bituminous sands has been contracted to an independent third party.

During the six months ended February 28, 2019, the cost of mining, hauling and crushing the ore, amounting to $270,000 (August 31, 2018: $122,242), was recorded as the cost of the crushed ore inventory.

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. (the TMC Mineral Lease") (Note 9(b)). The mining and mineral lease with Asphalt Ridge, Inc. required the Company to make minimum advance royalty payments which can be used to offset future production royalties for a maximum of two years following the year the advance royalty payment was made.

On October 1, 2015, the Company and Asphalt Ridge, Inc. amended the advance royalty payments in the TMC Mineral Lease. 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.

On March 12, 2016, a second amendment was made to the TMC Mineral Lease. 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.

Effective February 21, 2018, a third amendment was made to the TMC Mineral Lease. The amended advanced royalty payments required are $100,000 per quarter from July 1, 2018 to June 30, 2020 and $150,000 per quarter thereafter.

Expressed in US dollars

8. ADVANCED ROYALTY PAYMENTS (continued)

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

As at February 28, 2019, the Company has paid advance royalties of $2,090,336 (August 31, 2018 - $1,890,336) to the lease holder, of which a total of $1,197,764 have been used to pay royalties as they have come due under the terms of the TMC Mineral Lease. During the six months ended February 28, 2019, $200,000 in advance royalties were paid and $106,514 has been used to pay royalties which had matured. The royalties expensed have been recognized in cost of goods sold on the condensed consolidated interim statement of loss and comprehensive loss.

As at February 28, 2019, the Company expects to record minimum royalties paid of $388,405 from these advance royalties either against production royalties or for the royalties due 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 control of Accord on July 4, 2016.

9. MINERAL LEASES

	TMC Mineral Lease	POSR Mineral Lease	PQE Mineral lease	Total
Cost				
August 31, 2017	$ 11,091,388	$ -	$ -	$ 11,091,388
Additions	-	19,755	-	19,755
August 31, 2018	11,091,388	19,755	-	11,111,143
Additions	-	-	1,800,000	1,800,000
February 28, 2019	$ 11,091,388	$ 19,755	$ 1,800,000	$ 12,911,143
Accumulated Amortization				
August 31, 2017	$ -	$ -	$ -	$ -
Additions	-	-	-	-
August 31, 2018	-	-	-	-
Additions	-	-	-	-
February 28, 2019	$ -	$ -	$ -	$ -
Carrying Amount				
August 31, 2017	$ 11,091,388	$ -	$ -	$ 11,091,388
August 31, 2018	$ 11,091,388	$ 19,755	$ -	$ 11,111,143
February 28, 2019	$ 11,091,388	$ 19,755	$ 1,800,000	$ 12,911,143

9. MINERAL LEASES (continued)

(a) TMC mineral lease

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

The primary term of the TMC Mineral Lease was from July 1, 2013 to July 1, 2018. During the primary term, the Company was required to meet certain requirements for oil production. After July 1, 2018, the TMC Mineral Lease would remain in effect as long as certain requirements for oil production continue to be met by the Company. If the Company failed to meet these requirements, the Lease would automatically terminate 90 days after the calendar year in which the requirements were not met. In addition, the Company was 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 three years and varying percentages thereafter based on the price of oil. An additional 1.6% royalty is payable to the previous lessees of the TMC Mineral Lease. The TMC Mineral Lease also required the Company to make minimum expenditures on the property of $1,000,000 for the first three years, increasing to $2,000,000 for the next three years.

Amendments were made to certain key terms of the TMC Mineral Lease on October 1, 2015, March 1, 2016, February 1, 2018, and November 21, 2018, which are summarized below.

Among the amendments, certain properties previously excluded were included in the lease agreement. In addition, the termination clause was amended to:

(i) Termination will be automatic if there is a lack of a written financial commitment to fund the proposed 1,000 barrel per day production facility prior to July 1, 2019 and another 1,000 barrel per day production facility prior to July 1, 2020.
(ii) Cessation of operations or inadequate production due to increased operating costs or decreased marketability and production is not restored to 80% of capacity within six months of such cessation.
(iii) The proposed 3,000 barrel per day plant fails to produce a minimum of 80% of its rated capacity for at least 180 calendar days during the lease year commencing July 1, 2021 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, 2019 plus any extension periods, 80% of 1,000 barrels per day.
(ii) By July 1, 2020 plus any extension periods, 80% of 2,000 barrels per day.
(iii) By July 1, 2021, plus any extension periods, 80% of 3,000 barrels per day.

Minimum expenditures to be incurred on the properties are $2,000,000 beginning July 1, 2021 if a minimum daily production of 3,000 barrels per day during a 180 day period is not achieved.

9. MINERAL LEASES (continued)

(a) TMC mineral lease (continued)

Advance royalties required are:

(i) From July 1, 2018 to June 30, 2020, minimum payments of $100,000 per quarter.
(ii) From July 1, 2020, minimum payments of $150,000 per quarter.
(iii) Minimum payments commencing on July 1, 2020 will be adjusted for CPI inflation.

Production royalties payable are amended to 8% 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 8% to 16% of gross sales revenues, subject to certain adjustments.

(b) Petroteq Oil Sands Recovery, LLC mineral lease (the "SITLA Mineral Lease")

On June 1, 2018, the Company acquired mineral rights under two mineral leases entered into between the State of Utah's School and Institutional Trust Land Administration ("SITLA"), as lessor, and POSR, as lessee, covering lands in Asphalt Ridge that largely adjoin the lands held under the TMC Mineral Lease (collectively, the "SITLA Mineral Leases"). The SITLA Mineral Leases are valid until May 30, 2028 and have rights for extensions based on reasonable production. The leases remain in effect beyond the original lease term so long as mining and sale of the tar sands are continued and sufficient to cover operating costs of the Company.

Advanced royalty of $10 per acre are due annually each year the lease remains in effect and can be applied against actual production royalties. The advanced royalty is subject to price adjustment by the lessor after the tenth year of the lease and then at the end of each period of five years thereafter.

Production royalties payable are 8% of the market price of marketable product or products produced from the tar sands and sold under arm's length contract of sale. Production royalties have a minimum of $3 per barrel of produced substance and may be increased by the lessor after the first ten years of production at a maximum rate of 1% per year and up to 12.5%.

(c) Petroteq Energy Inc. mineral lease

On January 29, 2019, the Company entered intro an Assignment and Transfer of indefinite Federal Oil and Gas Leases and a Bill of Sale, whereby the Company acquired an undivided 50% of the rights and interests consisting of operating rights to certain federal oil and gas leases covering lands situated in Wayne and Garfield Counties, Salt Lake Meridian, Utah, for a consideration of $10,800,000 of which $1,800,000 was paid in cash and the remaining $9,000,000 is to be settled in shares subject to the approval of the Toronto Venture Stock Exchange ("TVSX). The transaction was subsequently approved by the TVSX and the $9,000,000 was settled by the issue of 15,000,000 shares of common stock on April 3, 2019.

The rights and interest are limited to the exclusive right to explore, mine and extract, produce, process and market oil and gas and associated hydrocarbon substances at the surface and up to depths down to 1,000 feet below the point of any mining.

Certain of the properties included in the lease have an overriding royalty rate of 6.25% retained by the assignors predecessors-in-interest.

Expressed in US dollars

10. PROPERTY, PLANT AND EQUIPMENT

	Oil Extraction Plant	Other Property and Equipment	Total
Cost			
August 31, 2017	$ 16,846,500	$ 315,967	$ 17,162,467
Additions	6,254,535	78,588	6,333,123
August 31, 2018	23,101,035	394,555	23,495,590
Additions	7,186,543	17,290	7,203,833
February 28, 2019	$ 30,287,578	$ 411,845	$ 30,699,423
Accumulated Amortization			
August 31, 2017	$ 2,148,214	$ 107,300	$ 2,255,514
Additions	-	51,181	51,181
August 31, 2018	2,148,214	158,481	2,306,695
Additions	-	32,516	32,516
February 28, 2019	$ 2,148,214	$ 190,997	$ 2,339,211
Carrying Amount			
August 31, 2017	$ 14,698,286	$ 208,667	$ 14,906,953
August 31, 2018	$ 20,952,821	$ 236,074	$ 21,188,895
February 28, 2019	$ 28,139,364	$ 220,848	$ 28,360,212

(a) Oil Extraction Plant

In June 2011, the Company commenced the development of an oil extraction facility on its mineral lease in Maeser, Utah and entered into construction and equipment fabrication contracts for this purpose. On September 1, 2015, the first phase of the plant was completed and was ready for production of hydrocarbon products for resale to third parties. During the year ended August 31, 2017 the Company began the dismantling and relocating the oil extraction facility to its TMC Mineral Lease facility to improve production and logistical efficiencies whilst continuing its project to increase production capacity to a minimum capacity of 1,000 barrels per day. The plant has been relocated to the TMC mining site and expansion of the plant to production of 1,000 barrels per day has been substantially completed.

The cost of construction includes capitalized borrowing costs for the six months ended February 28, 2019 of $nil (year ended August 31, 2018: $18,666) and total capitalized borrowing costs as at February 28, 2019 of $2,230,746 (August 31, 2018 - $2,230,746).

As a result of the relocation of the plant and the planned expansion of the plant's production capacity to 1,000 barrels per day, and subsequently to an additional 3,000 barrels per day, the Company reevaluated the depreciation policy of the oil extraction plant and the oil extraction technologies (Note 11(a)) and determined that depreciation should be recorded on the basis of the expected production of the completed plant at various capacities. No amortization has been recorded during the three and six months ended February 28, 2019 and the 2018 fiscal year as there has only been test production during that period.

Expressed in US dollars

11. INTANGIBLE ASSETS

		Oil Extraction Technology
Cost		
August 31, 2017	$	809,869
Additions		-
August 31, 2018		809,869
Additions		-
February 28, 2019	$	809,869
Accumulated Amortization		
August 31, 2017	$	102,198
Additions		-
August 31, 2018		102,198
Additions		-
February 28, 2019	$	102,198
Carrying Amounts		
August 31, 2017	$	707,671
August 31, 2018	$	707,671
February 28, 2019	$	707,671

(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 for this technology in the USA and Canada and has employed it in its oil extraction plant. The Company commenced partial production from its oil extraction plant on September 1, 2015 and was amortizing the cost of the technology over fifteen years, the expected life of the oil extraction plant. Since the Company has substantially completed the increase in capacity of the plant to 1,000 barrels during fiscal 2018, and expects to further expand the capacity to an additional 3,000 daily, it determined that a more appropriate basis for the amortization of the technology is the units of production at the plant after commercial production begins again. No amortization of the technology was recorded during the three and six months ended February 28, 2019 and for the 2018 fiscal year.

12. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable as at February 28, 2019 and August 31, 2018 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 February 28, 2019 and August 31, 2018 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 26(c).

Expressed in US dollars

13. DEBT

Lender	Maturity Date	Interest Rate		Principal due February 28, 2019		Principal due August 31, 2018
Private lenders	On demand	-		67,000		-
Private lenders	December 2, 2018	10.00%	$	200,000	$	200,000
Private lenders	May 1, 2019	5.00%		572,657		632,512
Private lenders	September 17, 2019	10.00%		100,000		-
Private lenders	July 28, 2020	10.00%		-		120,900
Private lenders	August 31, 2020	5.00%		70,900		70,900
Equipment loans	April 20, 2020 - November 7, 2021	4.30 - 12.36%		500,056		602,239
Total loans			$	1,510,613	$	1,626,551

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

		February 28, 2019		August 31, 2018
Principal classified as repayable within one year	$	1,142,133	$	1,027,569
Principal classified as repayable later than one year		368,480		598,982
	$	1,510,613	$	1,626,551

(a) Private lenders

(i) The Company received an advance of $67,000 from a Company controlled by the Chairman of the Board. The advance was subsequently converted, on March 29, 2019, into 197,058 shares of common stock at a conversion price of $0.34 per share.

(ii) On July 3, 2018, the Company received a $200,000 advance from a private lender bearing interest at 10% per annum and repayable on September 2, 2018. The loan is guaranteed by the Chairman of the Board. The loan was repaid on September 4, 2018. On October 30, 2018 the Company received a further advance of $350,000 from the same lender, bearing interest at 10% per annum and repayable on December 2, 2018. On January 31, 2019, the Company repaid $150,000 of the principal outstanding.

13. DEBT (continued)

(a) Private lenders (continued)

(iii) On October 10, 2014, the Company issued two secured debentures for an aggregate principal amount of CAD $1,100,000 to two private lenders. The debentures bear interest at a rate of 12% per annum, maturing on October 15, 2017 and are secured by all of the assets of the Company. In addition, the Company issued common share purchase warrants to acquire an aggregate of 16,667 common shares of the Company. On September 22, 2016, the two secured debentures were amended to extend the maturity date to January 31, 2017. The terms of these debentures were renegotiated with the debenture holders to allow for the conversion of the secured debentures into common shares of the Company at a rate of CAD $4.50 per common share and to increase the interest rate, starting June 1, 2016, to 15% per annum. On January 31, 2017, the two secured debentures were amended to extend the maturity date to July 31, 2017. Additional transaction costs and penalties incurred for the loan modifications amounted to $223,510. On February 9, 2018, the two secured debentures were renegotiated with the debenture holders to extend the loan to May 1, 2019. A portion of the debenture amounting to CAD $628,585 was amended to be convertible into common shares of the Company, of which, CAD $365,000 have been converted on May 1, 2018. The remaining convertible portion is interest free and was to be converted from August 1, 2018 to January 1, 2019. The remaining non-convertible portion of the debenture was to be paid off in 12 equal monthly instalments beginning May 1, 2018. On September 11, 2018, the remaining convertible portion of the debenture was converted into common shares of the Company and a portion of the non-convertible portion of the debenture was settled through the issue of 316,223 common shares of the Company.

(iv) On October 4, 2018, the Company received an advance of $100,000 from Bay Private Equity in terms of a debenture line of credit of $9,500,000 made available to the Company. The debenture matures on September 17, 2019 and bears interest at 10% per annum. As compensation for the debenture line of credit the Company issued 950,000 commitment shares to Bay Private Equity and a further 300,000 shares as a finder's fee to a third party.

(v) The Company received advances from a private lenders during the years ended August 31, 2018 and 2017 in the form of unsecured promissory notes. These promissory notes mature on July 28, 2020, and bear interest at 10% per annum. The Company repaid the remaining private lender and advanced the lender a further $1,195,123, refer note 6 above.

(vi) The Company received advances from a private lenders during the year ended August 31, 2018 and 2017 in the form of unsecured promissory notes. This promissory notes matures on August 31, 2020 and bear interest at 5% per annum.

(b) Equipment loans

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

On May 7, 2018, the Company entered into a negotiable promissory note and security agreement with Commercial Credit Group to acquire a crusher from Power Equipment Company for $660,959. An implied interest rate was calculated as 12.36% based timing of the initial repayment of $132,200 and subsequent 42 monthly instalments of $15,571. The promissory note was secured by the equipment financed.

Expressed in US dollars

14. CONVERTIBLE DEBENTURES

Lender	Maturity Date	Interest Rate		Principal due February 28, 2019		Principal due August 31, 2018
Alpha Capital Anstalt	October 31, 2018	5.00%	$	-	$	56,500
Private lenders	January 1, 2019	0.00%		-		201,904
Calvary Fund I LP	September 4, 2019	10.00%		250,000		250,000
Bay Private Equity, Inc.	September 17, 2019	5.00%		2,900,000		-
Calvary Fund I LP	September 4, 2019	10.00%		250,000		-
SBI Investments LLC	September 4, 2019	10.00%		250,000		-
Bay Private Equity, Inc.	October 15, 2019	5.00%		2,400,000		-
GS Capital Partners	May 1, 2019	12.00%		143,750		
				6,193,750		508,404
Unamortized debt discount				(1,100,695)		-
Total loans			$	5,093,055	$	508,404

The maturity date of the convertible debentures are as follows:

		February 28, 2019		August 31, 2017
Principal classified as repayable within one year	$	5,093,055	$	258,404
Principal classified as repayable later than one year		-		250,000
	$	5,093,055	$	508,404

(a) Alpha Capital Anstalt

On August 31, 2017, the Company issued a convertible secured note for $565,000 to Alpha Capital Anstalt. The convertible secured note bears interest at a rate of 5% per annum and matures on October 31, 2018. The convertible secured note is convertible into units, consisting of one common share of the Company and one common share purchase warrant of the Company, at a conversion price of $0.29 per unit until August 31, 2022. Each warrant would entitle the holder to acquire one additional common share at an exercise price of $0.315 per share until August 31, 2022. The convertible secured note is secured by all of the assets of the Company.

From December 19, 2017 to May 22, 2018, a total of $508,500 of the principal of the convertible secured notes was converted into 1,753,447 units. From March 16, 2018 to July 11, 2018, Alpha Capital Anstalt exercised a total of 1,753,447 warrants to purchase 1,753,447 common shares of the Company. On December 3, 2018, the remaining $56,500 and accrued interest thereon of $13,479 was settled by the issue of 145,788 common shares.

(b) Private lenders

According to the terms of an amendment made with two debenture holders and the Company on February 9, 2018, a portion of their debentures was convertible into common shares (Note 13(a)(iii)). On September 11, 2018, the remaining convertible portion of the debenture was converted into common shares of the Company through the issue of 316,223 common shares of the Company

14. CONVERTIBLE DEBENTURES (continued)

(c) Calvary Fund I LP

On September 4, 2018, the Company issued units to Calvary Fund I LP for $250,000, which was originally advanced on August 9, 2018. The units consists of 250 units of $1,000 convertible debenture and 1,149.424 commons share purchase warrants. The convertible debenture bears interest at 10%, matures on September 4, 2018 and is convertible one common share of the Company at a price of $0.87 per common share. The common share purchase warrants entitle the holder to acquire additional common shares of the Company at a price of $0.87 per share and expires on September 4, 2019.

(d) Bay Private Equity, Inc.

On September 17, 2018, the Company issued 3 one year Convertible units of $1,100,000 each to Bay Private Equity, Inc. ("Bay") for net proceeds of $2,979,980 related to this agreement. These units bear interest at 5% per annum and mature one year from the date of issue. Each unit consists of one senior secured convertible debenture of $1,100,000 and 250,000 common share purchase warrants. Each convertible debenture may be converted to common shares of the Company at a conversion price of $1.00 per share. Each common share purchase warrant entitles the holder to purchase an additional common share the Company at a price of $1.10 per share for one year after the issue date. On January 23, 2019, $400,000 of the principal was outstanding was repaid out of the proceeds raised on the Bay Private Equity convertible debenture, discussed below.

(e) Calvary Fund I LP

On October 12, 2018, the Company entered into an agreement with Calvary Fund I LP whereby the Company issued 250 one year units for proceeds of $250,000, each unit consisting of a $1,000 principal convertible unsecured debenture, bearing interest at 10% per annum and convertible into common shares at $0.86 per share, and a warrant exercisable for 1,162 common shares at an exercise price of $0.86 per share.

(f) SBI Investments, LLC

On October 15, 2018, the Company entered into an agreement with SBI Investments LLC whereby the Company issued 250 one year units for proceeds of $250,000, each debenture consisting of a $1,000 principal convertible unsecured debenture, bearing interest at 10% per annum and convertible into common shares at $0.86 per share, and a warrant exercisable for 1,162 shares of common stock at an exercise price of $0.86 per share.

(g) Bay Private Equity, Inc.

On January 16, 2019, the Company issued a convertible debenture of $2,400,000, including an original issue discount of $400,000, to Bay for net proceeds of $2,000,000 related to this agreement. The convertible debenture bears interest at 5% per annum and matures on October 19, 2019. The convertible debenture may be converted to 5,000,000 common shares of the Company at a conversion price of $0.40 per share. $400,000 of the proceeds raised was used to repay a portion of the $3,300,000 convertible debenture issued to Bay Private Equity on September 17, 2019.

Expressed in US dollars

14. CONVERTIBLE DEBENTURES (continued)

(h) GS Capital Partners

During December 2019, the Company issued a convertible debenture of $143,750 including an original issue of $18,750, together with warrants exercisable for 260,416 shares of common stock at an exercise price of US$0.48 per share with a maturity date of April 29, 2019. The debenture has a term of four months and one day and bears interest at a rate of 10% per annum payable at maturity and at the option of the holder the purchase amount of the debenture (excluding the original issue discount of 15%) is convertible into 260,416 common shares of the Company at US$0.48 per share in accordance with the terms and conditions set out in the debenture.

15. RECLAMATION AND RESTORATION PROVISIONS

	Oil Extraction Facility	Site Restoration	Total
Balance at August 31, 2017	$ 364,140	$ 208,080	$ 572,220
Accretion expense	7,283	4,161	11,444
Balance at August 31, 2018	371,423	212,241	583,664
Accretion expense	3,714	2,123	5,837
Balance at February 28, 2019	$ 375,137	$ 214,364	$ 589,501

(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 February 28, 2019 and August 31, 2018 is 2.0%.

(b) Site restoration

In accordance with environmental laws in the United States, the Company's environmental permits and the lease agreements, 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 February 28, 2019 and August 31, 2018 is 2.0%.

Expressed in US dollars

16. COMMON SHARES

Authorized	unlimited common shares without par value
Issued and Outstanding	106,184,849 common shares as at February 28, 2019.

Between September 4, 2018 and February 27, 2019, the Company issued 2,369,628 shares of common stock to several investors in settlement of $1,425,532 of trade debt.

Between September 1, 2018 and January 1, 2019, the Company issued 1,325,000 shares valued at $1,338,178 as compensation for professional services rendered to the Company, including 1,250,000 shares of common stock issued as fees for the Bay Private Equity convertible debt raise, refer note 14(d) above.

On September 6, 2018, the Company issued 1,234,567 units to an investor for net proceeds of $1,000,000. Each unit consists of one share of common stock and three quarters of a share purchase warrant for a total warrant exercisable over 925,925 shares of common stock.

On September 28, 2018, the Company issued 316,223 shares to two private investors in settlement of the remaining portion of their convertible debt of $255,078. Refer note 14(b) above.

On October 11, 2018, the Company issued 81,229 shares of common stock to investors for net proceeds of $79,605. In addition a further 752,040 units were issued to investors for net proceeds of $737,000. Each unit consisting of one share of common stock and a warrant exercisable for a share of common stock at exercise prices ranging from $1.35 to $1.50.

On November 7, 2018, the Company issued 320,408 units to investors for net proceeds of $169,000. Each unit consisting of one share of common stock and a warrant exercisable for a share of common stock at an exercise price ranging from $0.61 to $0.66 per share.

On December 3, 2018, the Company issued 145,788 shares of common stock to a private investors in settlement of the remaining portion of their convertible debt of $56,500 including interest thereon of $13,479. Refer note 14(a) above.

On December 7, 2018, the Company issued a total of 3,868,970 shares of common stock to investors for net proceeds of $2,190,200. Certain of the subscription agreements were unit agreements, whereby warrants exercisable over 3,373,920 shares of common stock were issued to investors at exercise prices ranging from $0.67 to $1.50 per share.

On December 7, 2018, the Company issued 1,190,476 units to an investor for net proceeds of $500,000, each unit consisting of one share of common stock and a warrant exercisable for a share of common stock at an exercise price of $0.525 per share.

On January 10, 2019, the company issued a total of 1,522,080 shares of common stock to investors for net proceeds of $645,100. Certain of the subscription agreements were unit agreements, whereby warrants exercisable over 1,437,557 shares of common stock were issued to investors at an exercise price of $1.50 per share.

On January 11, 2019, the Company issued 307,692 units to an investor for net proceeds of $200,000, each unit consisting of one share of common stock and a warrant exercisable for a share of common stock at an exercise price of $1.50 per share.

On January 25, 2019, the Company issued 147,058 units to an investor for net proceeds of $50,000, each unit consisting of one share of common stock and a warrant exercisable for a share of common stock at an exercise price of $0.37 per share.

Expressed in US dollars

16. COMMON SHARES (continued)

On February 27, 2019, the Company issued a total of 7,242,424 shares of common stock to investors for net proceeds of $2,390,000.

On February 27, 2019, the Company issued 135,135 units to an investor for net proceeds of $50,000, each unit consisting of one share of common stock and a warrant exercisable for a share of common stock at an exercise price of $0.37 per share.

On February 27, 2019, the CEO of the Company subscribed for 62,500 shares of common stock for net proceeds of $25,000.

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 TSX Venture Exchange. The stock option plan is a 20% fixed number plan with a maximum of 17,969,849 common shares reserved for issuance.

During the three and six months ended February 28, 2019, no share options were granted. During the year ended August 31, 2018 the Company granted 9,775,000 share options to directors, officers and consultants of the Company. The weighted average fair value of the options granted was estimated at $0.87 per share at the grant date using the Black-Scholes option pricing model.

On December 31, 2018, options exercisable over 50,000 shares of common stock, at an exercise price of CDN$4.80 expired.

During the six months ended February 28, 2019 the share based compensation expense of $1,108,650 relates to the vesting of options granted during the year ended August 31, 2019. The share based compensation expense for the six months ended February 28, 2018 of $2,505,647 relates to options issued during that period with immediate vesting.

(b) Share purchase options

Share purchase option transactions under the stock option plan were:

Share purchase options outstanding and exercisable as at February 28, 2019 are:

Expiry Date	Exercise Price	Options Outstanding	Options Exercisable
February 1, 2026	CAD $5.85	33,333	33,333
November 30, 2027	CAD $2.27	1,425,000	1,425,000
June 5, 2028	CAD $1.00	8,350,000	3,400,000
		9,808,333	4,858,333
Weighted average remaining contractual life		9.2 years	9.1 years
Weighted average exercise price		CAD $1.20	CAD $1.41

Expressed in US dollars

18. SHARE PURCHASE WARRANTS

Share purchase warrants outstanding as at February 28, 2019 are:

Expiry Date	Exercise Price	Warrants Outstanding
April 12, 2019	USD $4.95	16,667
April 19, 2019	USD $0.48	260,416
August 19, 2019	USD $7.50	66,665
September 4, 2019	USD $0.87	287,356
September 17, 2019	USD $1.10	750,000
October 12, 2019	USD $0.86	290,500
October 15, 2019	USD $ 0.86	290,500
November 5, 2019	CAD $28.35	25,327
January 25, 2020	USD $0.37	147,058
February 27, 2020	USD $0.37	135,135
March 9, 2020	USD $1.50	114,678
June 7, 2020	USD $0.525	1,190,476
June 14, 2020	USD $1.50	329,080
July 26, 2020	USD $1.50	1,637,160
August 28, 2020	USD $0.94	1,311,242
August 28, 2020	USD $1.00	246,913
August 28, 2020	USD $1.50	35,714
September 6, 2020	USD $1.01	925,925
October 11, 2020	USD $ 1.35	510,204
October 11, 2020	USD $1.50	10,204
November 7, 2020	USD $0.61	20,408
November 7, 2020	USD $0.66	300,000
November 8, 2020	USD $1.01	918,355
December 7, 2020	USD $0.67	185,185
December 7, 2020	USD $1.50	3,188,735
January 10, 2021	USD $1.50	1,437,557
January 11, 2021	USD $1.50	307,692
April 8, 2021	CAD $4.73	57,756
May 22, 2021	USD $0.91	6,000,000
		20,996,908
Weighted average remaining contractual life		1.67 years
Weighted average exercise price	CAD $1.13	

From September 6, 2018 to December 28, 2019, the Company issued 1,878,772 warrants to convertible debt note holders in terms of subscription unit agreements entered into with the convertible note holders, refer to Note 14(c) to 14 (h) above. The fair value of the warrants granted was estimated using the relative fair value method at between $0.07 to $0.39 per warrant.

From September 6, 2018 to February 27, 2019, the Company issued 8,358,579 warrants in terms of common share subscription agreements entered into with various investors. The fair value of the warrants granted was estimated using the relative fair value method at between $0.09 and $0.36 per warrant.

On November 8, 2018, the Company issued 918,355 warrants to certain debt holders in settlement of certain debt. The fair value of the warrants granted was estimated using a black Scholes valuation method at $0.42 per warrant.

Expressed in US dollars

18. SHARE PURCHASE WARRANTS (continued)

The warrants issued, during the six months ended February 28, 2019, were valued at $2,612,688 using the relative fair value method. The fair value of warrants were estimated using the Black-Scholes valuation model utilizing the following assumptions:

	Year ended August 31, 2018
Share price	CDN $ 0.45 to CDN $ 1.55
Exercise price	CAD$ 0.49 to 2.00
Expected share price volatility (1)	88% to 137%
Risk-free interest rate	1.74% to 2.34%
Expected term	3 months to 2 years

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 condensed consolidated interim financial statements are:

(a) Key management personnel and director compensation

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

	Three months ended February 28, 2019	**Three months ended February 28, 2018**
Salaries, fees and other benefits	$ 147,544	$ 187,500
Share based compensation	419,943	-
	$ 567,487	$ 187,500

Expressed in US dollars

20. RELATED PARTY TRANSACTIONS (continued)

	Six months ended February 28, 2019	February 28, 2018
Salaries, fees and other benefits	$ 361,506	289,500
Share based compensation	839,886	2,505,647
	$ 1,201,392	$ 2,795,147

At February 28, 2018, $175,457 (August 31, 2018: $1,065,392) was due to members of key management and directors for unpaid salaries, expenses and directors' fees.

During the three and six months ended February 28, 2019 and 2018, no common shares were granted as compensation to key management and directors of the Company.

(b) Due to/from director

During the three and six months ended February 28, 2019 and the year ended August 31, 2018, the Company received additional advances of $67,000 and $nil from various private companies controlled by the Chair of the Board of Directors of the Company.

As of February 28, 2019 and August 31, 2018, the Company owed various private companies controlled by the Chair of the Board the aggregate sum of $67,000 and $nil, respectively.

As at August 31, 2017, the Company had received loans of $419,322 from the Chair of the Board of Directors. These loans were interest free and were repaid prior to August 31, 2018.

On September 4, 2018, the Company entered into a Debt Settlement Agreement whereby it agreed to convert $249,285 of advances made to the Company by the Chair of the Board into 336,871 common shares at a conversion price of $0.74 per share.

(b) Due to/from director (continued)

As at February 28, 2019, the Chair of the Board of Directors owed the Company $424,179.

21. INVESTMENT IN JOINT VENTURE

On November 11, 2016, the Company and three other parties entered into a joint venture for the operation of a website for careers in the oil and gas industry. The Company has a 25% interest in this joint venture and has made advances of $68,331 to the joint venture as of August 31, 2017. The joint venture has not commenced operations as of February 28, 2019.

21. INVESTMENT IN JOINT VENTURE (continued)

In November 2017, the Company entered into an agreement with First Bitcoin Capital Corp. ("FBCC"), a global developer of blockchain-based applications, to design and develop a blockchain-powered supply chain management platform for the oil and gas industry to be marketed to oil and gas producers and operators. On January 8, 2018, the Company paid the first instalment of $100,000 to FBCC and is currently renegotiating the terms of the agreement. The initial $100,000 has been applied to operating costs incurred by Petrobloq, LLC related to an office lease beginning March 1, 2018 and research costs related to payments to the development team consisting of four employees. A further $106,500 was advanced to First Bitcoin Capital during the six months ended February 28, 2019. These funds were used to fund certain operating costs and payments to the development team.

22. SEGMENT INFORMATION

The Company operated in two reportable segments within the USA during the three and six months ended February 28, 2019 and 2018, oil extraction and processing operations and mining operations.

Once the expansion of the plant has reached a stage of completion where it is viable to commence production and the requisite licenses have been obtained, the Company's oil extraction segment will be able to commence commercial production and will generate revenue from the sale of hydrocarbon products to third parties.

The presentation of the condensed consolidated interim statements of loss and comprehensive loss provides information about the oil extraction and processing segment. There were no operations in the mining operations segment during the three and six months ended February 28, 2019 and 2018. Other information about reportable segments are:

	February 28, 2019		
(in '000s of dollars)	**Oil Extraction**	**Mining operations**	**Consolidated**
Additions to non-current assets	$ 7,204	$ 1,800	$ 9,004
Reportable segment assets	37,222	10,747	47,969
Reportable segment liabilities	$ 9,857	$ 169	$ 10,026

	February 28, 2018		
(in '000s of dollars)	**Oil Extraction**	**Mining operations**	**Consolidated**
Additions to non-current assets	$ 1,873	$ -	$ 1,873
Reportable segment assets	21,861	9,082	30,943
Reportable segment liabilities	$ 10,029	$ 169	$ 10,198

22. SEGMENT INFORMATION (continued)

Segment operating results are as follows:

(in '000s of dollars)	February 28, 2019 Oil Extraction	Mining operations	Consolidated
External Revenues	$ 21	$ -	$ 21
Cost of Goods Sold	64	107	171
Gross Loss	(43)	(107)	(150)
Operating Expenses			
General and administrative	357	13	370
Travel and promotion	1,702	-	1,702
Professional fees	2,341	-	2,341
Legal fees	904	-	904
Research and development	113	-	113
Salaries and wages	530	-	530
Share-based compensation	1,109	-	1,109
Loss on settlement of liabilities	18	-	18
Loss on convertible debt	100		100
Interest expense	1,544	-	1,544
Equity loss	100	-	100
Other income	(59)	-	(59)
Depreciation and amortization	33	-	33
Net loss	**$ 8,835**	**$ 120**	**$ 8,955**

22. SEGMENT INFORMATION (continued)

	February 28, 2018		
(in '000s of dollars)	**Oil Extraction**	**Mining operations**	**Consolidated**
External Revenues	$ -	$ -	$ -
Cost of Goods Sold	17	170	187
Gross Loss	(17)	(170)	(187)
Operating Expenses			
General and administrative	285	8	295
Travel and promotion	344	-	344
Professional fees	826	-	826
Salaries and wages	386	-	386
Share-based compensation	2,506	-	2,506
Interest expense	242	-	242
Equity income from investment in Accord Energy	-	-	-
Depreciation and amortization	594	-	594
Net loss	**$ 5,200**	**$ 178**	**$ 5,378**

23. COMMITMENTS AND CONTINGENCIES

The Company has entered into two office lease arrangement which, including the Company's share of operating expenses and property taxes, will require estimated minimum annual payments of:

2019	$ 67,230
2020	124,440
2021	101,220
2022	78,000
2023	$ 65,000

For the six months ended February 2019, the Company made $26,100 (2018 - $nil) in office lease payments.

Legal Matters

On December 27, 2018, the Company executed and delivered: (i) a Settlement Agreement (the "Settlement Agreement") with Redline Capital Management S.A. ("Redline") and Momentum Asset Partners II, LLC; (ii) a secured promissory note payable to Redline in the principal amount of $6,000,000 (the "Note") with a maturity date of 27 December 2020, bearing interest at 10% per annum; and (iii) a Security Agreement (together with the Settlement Agreement and the Note, the "Redline Agreements") among the Company, Redline, and TMC Capital, LLC ("TMC"), an indirect wholly-owned subsidiary of the Company.

After undertaking an in-depth analysis of the Redline Agreements in the context of the underlying transactions and events, special legal counsel to the Company has opined that the Redline Agreements are likely void and unenforceable.

23. COMMITMENTS AND CONTINGENCIES (continued)

Legal Matters (continued)

The Company's special legal counsel regards the possibility of Redline's success in pursuing any claims against the Company or TMC under the Redline Agreements as less than reasonably possible and therefore no provision has been raised against these claims.

The Company is currently evaluating the options and remedies that are available to it to ensure that the Redline Agreements are declared as void or are rescinded and extinguished.

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

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

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

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

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

At February 28, 2019 and August 31, 2018, the Company had no trade receivables. The Company considers it maximum exposure to credit risk to be its trade and other receivables and notes receivable.

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 February 28, 2019

(in '000s of dollars)	Carrying amount		Contractual cash flows		
		Total	1 year or less	2 - 5 years	More than 5 years
Accounts payable	$ 1,815	$ 1,815	$ 1,815	$ -	$ -
Accrued liabilities	564	564	564	-	-
Convertible debenture	5,093	6,516	6,516	-	-
Long-term debt	1,511	1,758	1,318	440	-
	$ 8,983	$ 10,653	$ 10,213	$ 440	$ -

At August 31, 2018

(in '000s of dollars)	Carrying amount		Contractual cash flows		
		Total	1 year or less	2 - 5 years	More than 5 years
Accounts payable	$ 1,102	$ 1,102	$ 1,102	$ -	$ -
Accrued liabilities	1,900	1,900	1,900	-	-
Convertible debenture	508	533	258	275	-
Long-term debt	1,627	1,880	1,159	721	-
	$ 5,137	$ 5,415	$ 4,419	$ 996	$ -

Expressed in US dollars

26. RECONCILIATION OF CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

Liabilities arising from financing activities include corporate loans and loans payable to officers and related companies. A reconciliation of changes in these liabilities is:

For the three months ended		February 28, 2019		February 28, 2018
Balance, beginning of the year	**$**	**2,134,955**	**$**	**2,804,202**
Changes from financing cash flows				
Proceeds from debt		517,000		1,254,906
Proceeds from convertible debt		5,618,750		3,052,046
Proceeds from officer loan		-		-
Repayment of long-term loans		(452,183)		(928,311)
Repayment of convertible loans		(400,000)		
Advances from executive officers		-		73,328
Effect of changes in foreign exchange rate		(6,682)		(12,863)
Other changes				
Debt settled through share issuance		(54,495)		(450,000)
Conversion of convertible debt		(257,082)		-
Debt applied to notes receivable		(120,900)		
Interest accrual		-		738
Interest capitalized				446,355
Value placed on warrants issued		(557,407)		
Value placed on beneficial conversion feature		(621,166)		
Accretion of loan balance		802,878		52,762
Balance, end of the year	**$**	**6,063,668**	**$**	**6,293,163**

27. EVENTS AFTER THE REPORTING DATE

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

(a) Common shares

On March 20, 2019, the Company entered into a subscription agreement with the Chair of the Board whereby 2,222,222 shares of common stock were issued to him for gross proceeds of $1,000,000.

On March 29, 2019, the Company entered into a subscription agreement with an investor whereby 1,481,481 units were issued for gross proceeds of $400,000. Each unit consisting of one share of common stock and one warrant exercisable at $0.465 per share. A further 248,782 shares of common stock were issued to investors in terms of subscription agreements entered into for gross proceeds of $82,000.

On April 1, 2019, the company issued 50,000 shares of common stock to an advisory board member in terms of an agreement entered into with the advisory board member.

27. EVENTS AFTER THE REPORTING DATE (continued)

(a) Common shares (continued)

On April 1, 2019, in terms of the Assignment and Transfer of Indefinite Federal Oil and Gas Leases and a Bill of Sale, whereby the Company acquired an undivided 50% of the rights and interests consisting of operating rights to certain federal oil and gas leases covering lands situated in Wayne and Garfield Counties, Salt Lake Meridian, Utah. The Company issued 15,000,000 shares to settle the outstanding liability on the acquisition after approval of the TVSX was obtained.

(b) Debt settlements

On April 4, 2019 and April 8,2019, the Company entered into debt settlement agreements whereby debt of $150,000 was settled by the issue of 300,000 shares of common stock.

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Amended)

FOR THE THREE AND SIX MONTHS ENDED
FEBRUARY 28, 2019 AND 2018

EXPLANATORY NOTE

Petroteq Energy Inc. ("**Petroteq**" or the "**Company**") is filing this Amendment to its unaudited condensed consolidated interim financial statements for the three and six months ended February 28, 2019 and 2018 (this "**Amendment**") to amend the Company's condensed consolidated interim financial statements for the three and six months ended February 28, 2019 (the "**Original Filing**"), originally filed by the Company with the Canadian Securities Administrators ("CSA") on the SEDAR filing system on April 29, 2019. This Amendment amends the Company's previously issued unaudited condensed consolidated interim financial statements and related note disclosures as of and for the three and six months ended February 28, 2019 and 2018.

Background of Amendment

On July 16, 2021, the independent members of the Audit Committee (with Mr. Alex Blyumkin abstaining, the "**Audit Committee**") of the Board of Directors of the Company, after discussion with the Company's Chief Financial Officer, concluded that the Company's previously-issued financial statements (the "**Periodic Financial Statements**") contained in the interim financial report and interim MD&A (together, the "amended interim filings") of Petroteq Energy Inc. (the "issuer") for the interim period ended February 28, 2019 should be amended and refiled.

The Board of Directors has concurred with the conclusions of the Audit Committee.

The amendment addresses a secured promissory note which the Company had issued ted December 27, 2018 (the "**Note**") payable to Redline Capital Management S.A. ("**Redline**") in the principal amount of $6,000,000, maturing 24 months following its date of issue, and bearing interest at the rate of 10% per annum based on a 360-day year. The Company's obligations under the Note are purportedly secured by collateral consisting of the Company's right, title and interest in certain federal oil and gas leases (the "**Oil and Gas Leases**") relating to the Company's Asphalt Ridge Project, pursuant to a security agreement between the parties dated December 27, 2018 (the "**Security Agreement**").

The Note had been issued pursuant to the terms of a settlement agreement between the parties dated December 27, 2018 (the **Settlement Agreement**") which purported to settle certain claims asserted by Redline against the Company. Shortly following the Settlement Agreement, in early 2019, Mr. Blyumkin, who was then the Company's Executive Chairman, had indicated he undertook an internal review of the claims made by Redline and concluded that the Settlement Agreement, the Note and the Security Agreement are void and unenforceable, and that they did not have to be disclosed to the Board of Directors or to the Company's Chief Financial Officer. Mr. Blyumkin has indicated he verbally advised Redline that the Company now considered the Settlement Agreement, and therefore the Note and the Security Agreement, to be void and unenforceable. However, no action was taken to document this position. Since maturity of the Note, on December 27, 2020, Redline has not filed any legal action to enforce payment of the Note.

In response to a request from Staff at the Securities and Exchange Commission ("SEC"), Mr. Blyumkin determined that it was appropriate to raise the Settlement Agreement, the Note and the Security Agreement for consideration by the Company's Chief Financial Officer and the Audit Committee, and, in particular, to review his conclusion that they did not have to be disclosed in the Financial Statements. The Audit Committee has determined that, notwithstanding the results of the internal review of Redline's claims undertaken by Mr. Blyumkin in early 2019, the Settlement Agreement, the Note and the Security Agreement should have been disclosed, and that the obligations referenced in the Note should have been disclosed in the Financial Statements regardless of the Company's position of their validity and enforceability.

Special legal counsel was subsequently engaged by the Company to undertake a review of the Settlement Agreement, the Note and the Security Agreement with the view to determining whether they are enforceable (and, in particular, whether the Security Agreement has properly charged the Company's right, title and interest in the Oil and Gas Leases as personal property, and whether any security interests purportedly granted pursuant to the Security Agreement have been perfected under applicable law), and whether the related liability should be classified as an actual or contingent liability. Based on the advice of such legal counsel, the Company has determined that the liability purportedly represented by the Note should be classified as a contingent liability.

Items Amended

The Notes to the Condensed Consolidated Interim Financial Statements are amended Each of the following items are amended to include additional Legal Matters disclosure in Note 23 - *Commitments* which heading has been amended from *Commitments* to *Commitments and Contingencies;* the Management Discussion and Analysis related to the Unaudited Condensed Consolidated Interim Financial Statements for the three and Six months ended February 28, 2019 and 2018, has been restated by amending Item 15 - *Litigation and Contingencies* to include Legal Matters disclosure and Item 16 - *Risks and Uncertainties* to include additional risks as a result of the additional contingent liability disclosure; and the certifications of the Chief Executive Officer and Chief Financial Officer has been reissued. .

Except for the foregoing amended and/or restated information required to reflect the effects of the restatement of the financial statements as described above, and applicable cross-references within this Amendment, this Amendment does not amend, update, or change any other items or disclosures contained in the Original Filing. This Amendment continues to describe conditions as of the date of the Original Filing, and the disclosures herein have not been updated to reflect events, results or developments that have occurred after the date of the Original Filing, or to modify or update those disclosures affected by subsequent events. Accordingly, forward looking statements included in this Amendment represent management's views as of the date of the Original Filing and should not be assumed to be accurate as of any date thereafter. This Amendment should be read in conjunction with the Original Filing and our filings made with the CSA on the SEDAR filing system subsequent to the Original Filing date.

1) Introduction

The following management's discussion and analysis ("MD&A") of the financial position and results of operations of Petroteq Energy Inc ("PQE", or the "Company") for the three and six months ended February 28, 2019 and 2018 was prepared in accordance with the requirements of National Instrument 51-102 - Continuous Disclosure Obligations by management of the Company on April 29, 2019 and should be read in conjunction with the condensed consolidated interim financial statements and notes thereto for the three and six months ended February 28, 2019 and 2018;

References to "PQE" and the "Company" herein refer to the Company and its subsidiaries takenas a whole.

The condensed consolidated interim financial statements for the three and six months ended February 28, 2019 and 2018 and any comparative information presented therein, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC") as of April 29, 2019.

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

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

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

On April 6, 2017, the Company held a shareholders' meeting and obtained approval to change the name of the Company to "Petroteq Energy Inc" and to consolidate its share on a 30 for 1 basis, reducing the number of its outstanding shares. The consolidation was completed on May 5, 2017. All share figures and share-based calculations herein have been adjusted to reflect the consolidation.

In November 2017, the Company formed a wholly owned subsidiary, Petrobloq, LLC, to design and develop a blockchain-powered supply chain management platform for the oil and gas industry.

On June 1, 2018 the Company finalized the acquisition at auction of a 100% interest in two leases for 1,312 acres of land within the Asphalt Ridge, Utah area. The Company holds a 100 percent working interest in 2,541.73 acre Oil Sands Leases covering oil sands within the Asphalt Ridge area, Utah, USA. The lease grants an interest to all crude bitumen containing contingent resources of 87.495 MMbbl (C2 best estimate) on the 2,541 acres of leased lands and the Company has identified that the significant portion of the contingent resource has favorable characteristics for surface mining. The leased land contains oil sands deposits which the Company believes will increase the available resource utilized by its oil extraction plant.

On April 3, 2019, the Company closed the acquisition of a 50% operating rights and interests related to oil sands under U.S. Federal oil and gas leases encompassing approximately 8,480 gross acres (4,240 net acres, less royalty) in the State of Utah. The total consideration for the acquisition was $10,800,000 settled as to cash, paid in January 2019 of $1,800,000 and $9,000,000 settled by the issue of 15,000,000 shares of the Company common stock at a deemed value of $0.60 per share.

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

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

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

This MD&A contains forward-looking information and statements. The effective date of this MD&A is April 29, 2019.

Cautionary Note Regarding Forward-Looking Information

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

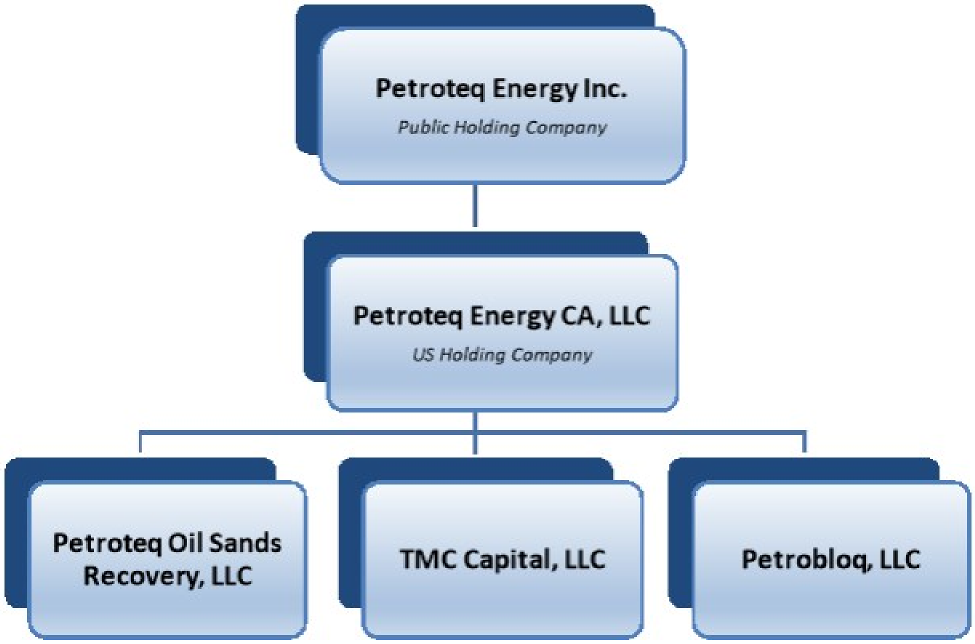
Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those anticipated in such forward-looking statements. The forward- looking statements in this MD&A speak only as of the date of this MD&A or as of the date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

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

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

2) Company Overview

The common shares of PQE are listed on the TSX Venture Exchange (the "TSXV") under the trading symbol "PQE" and on the OTCQX under the trading symbol "PQEFF". As of the date hereof the Company has one wholly-owned subsidiary, Petroteq Energy CA, Inc. ("PQECA"), a California corporation, which has three wholly-owned active subsidiaries, Petroteq Oil Sands Recovery, LLC ("POSR"), TMC Capital, LLC ("TMC") and Petrobloq, LLC "(PBQ"), as shown in the organization chart below. In addition, the Company holds two equity accounted investments; Recruiter.com (25%) held directly and Accord GR Energy, Inc. (44%) held indirectly through PQECA.



PQE, through its wholly owned subsidiaries POSR and TMC, is in the business of oil sands mining and processing with a plant using proprietary extraction technology to recover oil from surface mined bitumen deposits. TMC holds mining leases containing contingent resources of 87.495 MMbbl (C2 best estimate) on the 2,541 acres of leased lands at Asphalt Ridge in Uintah County, Utah. PQE recently closed an acquisition of a 50% operating rights and interests related to oil sands under U.S. Federal oil and gas leases encompassing approximately 8,480 gross acres (4,240 net acres, less royalty) in the State of Utah. POSR owns an oil sands extraction facility (the "Plant") which was relocated during the prior fiscal year to the TMC mining site to improve logistical and production efficiencies of the oil sands recovery process and concurrently to expand capacity to increase production to approximately 4,000 barrels per day. In November 2017, PQECA formed a wholly owned subsidiary, Petrobloq, LLC, to design and develop a blockchain-powered supply chain management platform for the oil and gas industry. PQE also own a 25% interest in Recruiter.com, a recruitment venture that provides a website focused on careers in the oil and gas industry. PQE also owns the intellectual property rights to a patent-pending process (the "Extraction Technology") of extracting oil from oil sands utilizing a closed-loop solvent based extraction system, as more completely described below.

3) Business Activity

Oil Sands Mining

The Company, acting primarily through its U.S. subsidiaries, is engaged in the business of mining, producing and processing oil sands containing bitumen and heavy oil into marketable crude oils and hydrocarbon products. To date, the Company's oil sands mining operations have been conducted on a mineral lease held by TMC Capital, a subsidiary of the Company, covering lands located in or near Asphalt Ridge, Utah (referred to herein as the "TMC Mineral Lease"), where sandstones impregnated with bitumen and heavy oil are mined or produced from structures and formations located at or near the surface. Once mined and extracted from surface or near-surface areas, the oil-bearing deposits are treated and processed at a processing facility that is both owned and operated by the Company and utilizes the Company's proprietary extraction technology (the "Extraction Technology").

Oil Sands Extraction & Processing Facility

In June 2011, the Company commenced the development of an oil sands extraction facility on state lands located near Maeser, Utah for the purpose of testing and evaluating the Extraction Technology. The facility was initially designed as a pilot plant, having a rated processing capacity of 250 barrels/day. By January 2014, the pilot plant was fully permitted and construction was completed by October 2014. The initial operations conducted at the pilot plant involved the testing of the Extraction Technology at full capacity and demonstrated its technical feasibility in extracting raw bitumen and heavy oil from solid and semi-sold oil sands formations and structures. During 2015, the pilot plant produced 10,000 barrels of oil from oil sands mined in the Asphalt Ridge area, including oil sands deposits mined and extracted from the TMC Mineral Lease. Most of the extracted oil was sold to an oil and gas distributor for resale to its refinery customers. The initial pilot plant constructed and operated by the Company had flexible capabilities, having the ability to produce both high quality heavy crude oil as well as lighter oil depending on the requirements of pipelines, distributors and/or refinery customers.

During 2015, when world crude oil prices fell dramatically, the Company determined that the transportation costs of hauling the ore from the mining site at the TMC Mineral Lease to its processing facility near Maeser, Utah was having a detrimental effect on the economics of the extraction operation and in 2016 temporarily suspended operations. In 2017, the plant was disassembled and moved from its location near Maeser, Utah to an area near its primary mine site within the TMC Mineral Lease. As part of the reassembly of the plant, the Company also initiated an expansion project where, through design changes and the acquisition and installation of additional equipment, the plant's processing capacity was increased from 250 barrels/day to 1,000 barrels/day. The new processing plant at Asphalt Ridge restarted operations and the production of heavy crude oil from oil deposits mined and extracted from the TMC Mineral Lease during the end of May 2018; however, the production of heavy crude oil at full capacity from the new processing facility is not anticipated until the last quarter of the 2019 fiscal year. Management's current estimate of the total costs of the new processing facility, including the expansion of production capacity (but excluding capitalized borrowing and lease maintenance costs) is in the range of US $24-27 million. The recent expansion of capacity at the new processing facility represents the initial phase of a larger project where the Company plans, through additional expansions or newly constructed facilities during the next three years, to increase its overall oil sands processing capacity in the Asphalt Ridge area to at least 4,000 barrels/day.

The Company expects to market finished crude oil produced at its processing facility directly to a refinery at a price representing a discount to the West Texas Intermediate Crude (WTI) benchmark price. The purchaser will take delivery of finished crude oil at or near the plant and transport it to a refinery in Nevada. The specifications of the crude oil produced at the plant are effectively tailored to meet customer (pipeline or refinery) specifications.

Mining operations, including the initial development of the mine located within the TMC Mineral Lease and the removal of the overburden soil layer covering the oil sands deposits are currently being conducted in preparation for the start-up of the new processing facility.

The Company's proprietary extraction technology - consisting primarily of a process designed to extract oil from oil sands utilizing a closed-loop solvent based extraction system - is protected by both U.S. and foreign patents that are held by the Company and is more fully described below.

Mineral Leases & Resources

Through its acquisition of TMC on June 1, 2015, the Company indirectly acquired certain mineral rights under a Mining and Mineral Lease Agreement, dated as of July 1, 2013, between Asphalt Ridge, Inc., as lessor, and TMC, as lessee, covering lands consisting of approximately 1,229.82 acres near Temple Mountain area in Asphalt Ridge, Utah (the "TMC Mineral Lease"). More recently, the Company acquired mineral rights under two mineral leases entitled "Utah State Mineral Lease for Bituminous-Asphaltic Sands", each dated and made effective on June 1, 2018, entered into between the State of Utah's School and Institutional Trust Land Administration ("SITLA"), as lessor, and POSR, as lessee, covering lands in Asphalt Ridge that largely adjoin the lands held under the TMC Mineral Lease (collectively, the "SITLA Mineral Leases"). In addition to the acquisition of these recent mineral lease acquisitions, the Company recently closed the acquisition of a 50% interest in operating rights and interests related to oil sands under U.S. Federal oil and gas leases encompassing approximately 8,480 gross acres (4,240 net acres, less royalty) in the State of Utah. At this time, the Company (through its subsidiaries) holds mineral leases encompassing a total of 2,541.76 acres in the Asphalt Ridge areas, consisting of 1229.82 acres currently held under the TMC Mineral Lease, and an additional 833.03 acres and 478.91 acres, respectively, held under the SITLA Mineral Leases and operating interests and rights over a further net 4,240 acres.

The following table sets forth the gross and net developed and undeveloped acreage held under the TMC Mineral Lease.

TMC Mineral Lease

Developed/Undeveloped Acreage (Gross/Net)

Total Acreage	
Gross Acres (Working Interests & Royalty)	1229.82 acres
Net Acres (100% Working Interests, less Royalty)	1111.76 acres
Developed Acreage	
TME AR Mine #1/Permit Boundaries	
Gross Acres (Working Interests & Royalty)	174.00 acres
Net Acres (100% Working Interests, less Royalty)	157.30 acres
Undeveloped Acreage	
Acreage Outside TME AR Mine #1/Permit Boundaries	
Gross Acres (Working Interests & Royalty)	1055.82 acres
Net Acres (100% Working Interests, less Royalty)	954.46 acres

The following table sets forth the total gross and total net undeveloped acreage of the SITLA Leases.

SITLA Leases

Developed/Undeveloped Acreage (Gross/Net)

SITLA Mineral Lease #53806	
Total Gross Acres (Working Interests & Royalty)	833.03 acres
Total Net Acres (100% Working Interests)	766.39 acres[1]
SITLA Mineral Lease #53807	
Total Gross Acres (Working Interests & Royalty)	478.91 acres
Total Net Acres (100% of Working Interests)	440.60 acres[1]
U.S. Federal Oil and Gas leases	
Total Gross Acres (Working interest and Royalty)	8,480 Acres
Total Net Acres (50% of working interest & Royalty)	4,240 Acres
All Acreage is Currently Undeveloped	

The TMC Mineral Lease

Under the TMC Mineral Lease, TMC has the exclusive right to explore for, mine and produce oil and other minerals associated with oil sands, subject to certain depth limits. The TMC Mineral Lease was amended on October 1, 2015 and further amended on March 1, 2016, on February 21, 2018, and most recently on November 21, 2018. The primary term of the TMC Mineral Lease, as amended, commenced July 1, 2013 and continues for six years, plus an extension period (as defined in the lease) of up to one additional year.

During the primary term, if TMC fails to satisfy the requirements of "continuous operations", the TMC Mineral Lease will terminate unless the parties agree in writing to continue the Lease. If TMC, at the end of the primary term, has satisfied the requirements of continuous operations, the TMC Mineral Lease will continue in effect beyond the primary term as long as TMC continues to comply with any applicable requirements of continuous operations. Under the lease, the term "continuous operations" consists of the following two requirements:

(a) *Processing Capacity*. TMC must construct or operate one or more facilities (or any expansion to an existing facility) having the capacity to produce an average daily quantity ("ADQ") of oil other hydrocarbon products from oil sands mined or extracted from the lease that, in the aggregate, will achieve (or exceed) the following:

By 07-01-2019, at 80% of an ADQ of 1,000 barrels/day;

By 07-01-2020, at 80% of an ADQ of 2,000 barrels/day; and

By 07-01-2021 (and for the remaining term of the Lease), at 80% of an ADQ of 3,000 barrels/day.

(b) *Minimum Operations*. From and after July 1, 2019, TMC must achieve oil sands processing operations that equal (or exceed) the applicable ADQ requirements specified above either (i) during at least 180 days in each lease year, or (ii) during at least 600 days in any three consecutive lease years.

The TMC Mineral Lease is subject to termination under the circumstances described below:

(i) Termination will be automatic if there is a lack of a written financial commitment to fund PQE's proposed second 1,000 barrel per day processing facility or expansion of its current facility to an additional 1,000 barrels per day prior to March 1, 2019 or a lack of a written financial commitment to fund a proposed third 1,000 barrels per day processing facility or expansion of its current facility to an additional 1,000 barrels per day prior to March 1, 2020.

(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 three months of any such cessation will cause a termination.

(iii) Cessation of operations for longer than 180 days during any lease year or 600 days in any three consecutive years will cause a termination.

(iv) A failure of the Company's proposed three 1,000 barrels per day plants to produce a minimum of 80% of their rated capacity for at least 180 calendar days during the lease year commencing July 1, 2020 plus any extension periods will cause a termination.

(v) The Company may surrender the lease with 30 days written notice.

(vi) In the event of a breach of the material terms of the lease, the lessor will inform the lessee in writing and the Company will have 30 days to cure financial breaches and 150 days to cure any other non-monetary breach.

(c) *Advance Minimum Royalty*. The Company is required to make certain advance royalty payments to the lessor under the TMC Mineral Lease. Future advance royalties required are (i) from July 1, 2018 to June 30, 2020, minimum payments of $100,000 per quarter, (ii) from July 1, 2020, minimum payments of $150,000 per quarter. Minimum payments commencing on July 1, 2020 will be adjusted for CPI inflation.

(d) *Production Royalty*. Production royalties payable under the TMC Mineral Lease, as amended are eight percent (8%) 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 8% to 16% of gross sales revenues, subject to certain adjustments. The TMC Mineral Lease is also subject to a 1.6% overriding royalty interest granted to the holder of a prior mineral lease in lands covered by the TMC Mineral Lease.

(e) *Minimum Annual Expenditures*. Minimum expenditures that must be made by TMC under the TMC Mineral Lease are $2 million per year commencing July 1, 2020 if a minimum daily production of 3,000 barrels/day during a 180-day period each year is not achieved.

(f) *Permits*. Full mining permits have been granted to the Company from the State of Utah Division of Oil, Gas, and Mining for the mining and development of this resource. Mining operations, including the initial development of an open pit at the property and removal of the overburden soil layer has already been performed. In addition to the mining permits, all environmental, construction, utility and other local permits necessary for the construction of the plant and the processing of the oil sands have been granted to the Company.

The SITLA Mineral Leases

The SITLA Mineral Leases have a primary term of ten (10) years, and will continue in effect thereafter for as long as (a) bituminous sands are produced in paying quantities, or (b) the Company is otherwise engaged in diligent operations, exploration or development activity and certain other conditions are satisfied. Generally, the SITLA Mineral Leases will not continue in effect after the 20th anniversary of their effective dates except by production of leased substances in paying quantities. An annual minimum royalty of $10 an acre must be paid during the first ten years of the SITLA Leases; from and after the 11th year of the leases, the annual minimum royalty may be adjusted by the lessor based on certain "readjustment" provisions in the SITLA Mineral Leases. Annual minimum royalty paid in any lease year may be credited against production royalties accruing in the same year.

The SITLA Mineral Leases provide that the Company must pay (i) an annual rent equal to the greater of $1 an acre or a fixed sum of $500 (without regard to acreage), and (ii) a production royalty of 8% of the market price received by it for products produced from the leases at the point of first sale, less reasonable actual costs of transportation to the point of first sale (with the royalty rate subject to increase on or after the 10th anniversary of the lease, subject to a 12.5% cap during the term thereof, and a proviso that production royalties under the leases shall never be less than $3.00/bbl during the term of the leases). As the sole lessee under the SITLA Mineral Leases, the Company owns 100% of the working interests under the leases, subject to payment of annual rentals, advance annual minimum royalty, and production royalties.

U.S. Federal Oil & Gas Leases

The U.S. Federal Oil & Gas Leases are for an indefinite period of time. The lease attracts an overriding royalty of a gross 12.5% of which our 50% share is 6.25%. The Company owns a 50% share of the operating rights and interest in the U.S. Federal Oil & Gas Lease.

Technology Development

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

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

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

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

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

4) Outlook

Oil Sands

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

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

The plant has subsequently been relocated to the TMC mining site to improve logistical and production efficiencies of the Oil Sands recovery process. The Company has substantially completed its expansion project to increase the production capacity to at least 1,000 barrels per day. The Company has conducted numerous production runs and has commenced a commercial level extraction process at this time with registered sales of heavy oil product. The Company is currently doing its first maintenance turnaround to prepare for 2019 operations and is addressing minor issues that were encountered during fourth quarter 2018 production operations.

In order to fund the relocation of the plant and the expansion of the production capacity, the Company entered into a memorandum of understanding (the "Memorandum") with Deloro Energy, LLC ("Deloro") on September 11, 2017. Under the Memorandum, Deloro was to provide financing of $10,000,000 to the Company in three separate tranches. On the completion of the $10,000,000 advance, the loan would have been automatically converted to a 49% equity interest in each of POSR and TMC.

Deloro failed to make advances as per the agreed upon schedule and on May 2, 2018, PQECA and Deloro agreed to terminate the Memorandum and apply the proceeds received from Deloro, being $3,600,000 to date, towards a subscription for 6,000,000 units of the Company at $0.60 per unit. Each unit consists of one common share and one common share purchase warrant. The common share purchase warrant entitles the holder to purchase one additional common share of the Company at a price of $0.91 per share and expires on May 22, 2021.

Accord Acquisition

The Company acquired a 57.3% interest in Accord on July 4, 2016, which has subsequently been diluted to a 44.7% interest by other third party equity investments made in Accord. Accord is engaged in the recovery of heavy oil, utilizing two technologies licensed to it from certain of its affiliated entities. The licenses allow Accord to utilize the technologies on any oil field it acquires. The first technology, known as SWEPT, is designed to recover hydrocarbons from wells and structures with low pressure or no energy drive mechanism, from residual or partially depleted properties in mature fields, and from structures having complex geophysical matrices or that contain tight oil, in each case by improving rock and fluid properties through the introduction of directed energy waves. The second technology, known as S-BRPT, is designed to recover solid and liquid hydrocarbons through conversion to gaseous forms followed by well-based recovery at greater depths, combining both specially designed on-site well production and recovery methodologies. Accord is currently utilizing these licensed technologies on parts of the 7,000 acres under mineral leases located in southwest Texas that it acquired in 2016, which include 81 shallow oil wells that historically had limited production. To date, Accord has drilled three new wells on these properties and the fields treated with the technology licensed to Accord are expected to increase oil production. Commercial levels of production have not yet been achieved.

Petrobloq, LLC

In November 2017 PQE CA formed a subsidiary company, Petrobloq LLC. Petrobloq has entered into an agreement with First Bitcoin Capital Corp. ("FBCC"), a global developer of blockchain-based applications, to design and develop a blockchain-powered supply chain management platform for the oil and gas industry. The platform is being designed to be a "one-stop shop" that will provide both small and large oil and gas producers and operators with the ability to customize their own distributed ledger modules that will permit each company, in a secure "closed" environment, to document, track, and account for the supply of equipment, materials and services in project, field, and lease development. The agreement with FBCC requires that PQE pay FBCC $500,000 for the services to be provided. An initial $100,000 was paid to FBCC during fiscal 2018 and a further $152,500 has been paid to FBCC to continue its research and development activities.

On August 17, 2018, the Company entered into a development agreement with MetzOhanian, a software engineering firm based in Austin, Texas, to develop blockchain applications for PetroBloq. MetzOhanian specializes in blockchain engineering, supply chain management software development, and digital security consulting. MetzOhanian will be working with Petrobloq to develop blockchain applications aimed at increasing supply chain transparency and efficiency in the oil and gas sector.

The supply chain management platform is currently in the v1 Beta early stage of development and research and development activities are continuing. The current development plans are that the platform will be blockchain agnostic and able to run on any blockchain that is commercially available. The Company's business does not entail, and it is not anticipated that it will entail, the creation, issuance, or use of any digital assets.

In February 2018, Petrobloq leased a 1,800 square foot office in Calabasas, California to serve as its headquarters. The office is staffed with four contract employees serving as Project Manager; Director of Operations, Solutions Architect and Senior Database Developer, respectively.

Recruiter.com

In November 2016, the Company entered into a joint venture with Recruiter.com, Inc. and OilPrice.com and jointly formed a Delaware limited liability company, Recruiter.com Oil and Gas Group LLC ("Recruiter. OGG"), which is owned 25% by us, 25% by Recruiter.com, Inc., 45% by OilPrice.com and 5% by two individuals. Net profits will be split in accordance with ownership interests. In consideration for the 25% equity interest, the Company issued 83,333 shares to Recruiter.com, Inc. Recruiter. OGG is a recruitment venture providing a website based for careers in the oil and gas industry.

5) Summary of Quarterly Result

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

3 months ended	February 28, 2019 ($)	November 30, 2018 ($)	August 31, 2018 ($)	May 31, 2018 ($)
Total revenues	21,248	-	-	-
Net loss	2,682,250	6,272,456	6,555,072	3,178,839
Basic and diluted net loss per share*	0.03	0.07	0.09	0.05

3 months ended	February 28, 2018 ($)	November 30, 2017 ($)	August 31, 2017 ($)	May 31, 2017 ($)
Total revenues	-	-	-	-
Net loss	1,732,532	3,645,712	3,101,430	3,581,788
Basic and diluted net loss per share*	0.03	0.07	0.12	0.46

* Adjusted for 30 for 1 share consolidation on May 5, 2017.

The net loss for the three months ended February 289, 2019 includes:
(i) $72,764 of royalty expense, included in cost of sales due to the expiry of advanced royalties paid to the TMC mineral lease lessor;
(ii) Certain production related expenses related to the oil extraction facility of $65,231, primarily labor and maintenance related expenditure, all other costs are being capitalized until such time as the production plant has entered its production stage and is no longer in test phase;
(iii) The capital raising fee raised in the previous quarter, related to a letter of credit obtained from a financial institution was reclassified as a prepaid expense during the current quarter and is being amortized over the letter of credit term of one year. The amortization of this expense is included in interest expense;
(iv) Interest expense of $1,325,970 includes the amortization of the commitment fee mentioned in (iii) above of $571,835, the amortization of debt discount related to convertible notes of $666,076 and interest expense of $88,059, primarily on convertible notes advanced to the Company during the current year;
(v) Professional fees of 832,119 related to the expansion of the plant and advisory fees;
(vi) Share based compensation of $554,325 related to options issued to our directors in June 2018; and
(vii) Travel and promotional expenses of $473,953 primarily related to travel costs and marketing expenditure.

The net loss for the three months ended November 30, 2018 includes:
(i) $33,750 of cost of sales due to the expiration of advanced royalty payments paid to the mineral lease lessor;
(ii) capital raising fees of $1,276,980 related to the letter of credit facility provided to the Company by Bay Capital Privat Equity;
(iii) legal fees of $681,365 related to the expansion of the plant and the various fund raising initiatives undertaken during the current fiscal period;
(iv) professional fees of $1,509,153 related to the expansion of the plant;
(v) Share based compensation of $554,325 related to options issued to directors and officers in June 2018; and
(vi) Travel and promotional expenses of $1,228,464, primarily related to marketing, public relations and travel costs.

The net loss for the three months ended August 31, 2018, includes:

(i) $38,213 of cost of sales, due to the expiration of advanced royalty payments paid to the lessor;

(ii) $527,872 of travel and promotional, and investor relation expenses due to advisory board fees and marketing activities undertaken to market the company and its production processes and technology;
(iii) $1,867,229 of professional fees predominantly composed of advisory board fees and fees paid to management and financial consultants; and
(iv) $2,832,523 of share based compensation due to the issue of 8,350,000 options to directors, officers and consultants during the quarter.

The net loss for the three months ended May 31, 2018, includes;
(i) marketing and public relations activity of approximately $1,560,000;
(ii) professional fees of $890,000, being primarily composed of advisory fees on developing the business strategy; and
(iii) Salaries and wages also increased significantly to $252,000 as the Company completed its expansion project and employed skilled people to assist with the project.

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

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

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

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

6) Comparison of results of operations for the three months ended February 28, 2019 and 2018

Net Revenue, Cost of Sales and Gross Loss

The Company continues to run test production on its 1,000 barrel per day plant and continuing with its expansion project to increase production capacity by an additional 3,000 barrels per day. Revenue generation during the quarter of $21,248 represents the sale of hydrocarbon products to refineries to determine the commercial quality of our hydrocarbon products. We expect to sell further test product during the third quarter of fiscal 2019 and commence commercial production in the fourth quarter. Prior to August 31, 2018, due to the volatility in oil markets and the limited production capacity at the plant, no production took place during the year ended August 31, 2018, resulting in no revenue generation. During the year ended August 31, 2018, the Company relocated its production plant to the Asphalt Ridge mineral site and has expanded production capacity to approximately 1,000 barrels per day with a further expansion to 3,000 barrels per day underway. Management expects to generate revenue from the plant in fiscal 2019.

The cost of sales during the three months ended February 28, 2019 and 2018 consists of; i) advance royalty payments which expire at the end of the calendar year two years after the payment has been made; and ii) certain production related expenses consisting of labor and maintenance expenditure.

Operating Expenses

Operating expenses of $2,586,602 and $1,656,374 for the three months ended February 28, 2019 and 2018, respectively, an increase of $930,228 or 56.2%. The increase in operating expenses is primarily due to:

a. Depletion, depreciation and amortization of $16,343 and $295,758 for the three months ended February 28, 2019 and 2018, respectively, a decrease of $279,415 or 94.5%. The Company has ceased depletion, depreciation and amortization on production related assets and reserves until such time as the plant recommences operations, which is expected to occur during the fourth quarter of 2019.
b. Capital raising fee of $1,276,980 and $0 for the three months ended February 28, 2019 and 2018, respectively, a decrease of $1,276,980 or 100%. The capital raising fee related to commitment fees paid to secure a letter of credit and funding arrangement with a financial institution which was expensed in the previous quarter. The amount was reclassified in the current quarter as a prepaid expense and is being amortized over the term of the funding arrangement. The amortization expense of $571,835 is included under interest expense;
c. Interest expense of $1,325,970 and $120,114 for the three months ended February 28, 2019 and 2018, respectively, an increase of $1,205,856. The increase is primarily due to the amortization of the commitment fee mentioned in a) above of $571,835, the amortization of debt discount related to convertible notes of $666,076 and a decrease in interest expense of $32,055 during the current fiscal period;
d. Legal fees of $222,969 and $6,914 for the three months ended February 28, 2019 and 2018, respectively, an increase of $216,055. The increase is primarily related to the expansion of the plant and the various fund raising initiatives undertaken by the Company during the current fiscal period;
e. Professional fees of $832,119 and $544,695 for the three months ended February 28, 2019 and 2018, respectively, an increase of $287,424 or 52.8%. The increase in professional fees is primarily due to professional fees paid to various vendors related to the expansion of the plant and management advisory board services;
f. Salaries and wages of $293,091 and $204,090 for the three months ended February 28, 2019 and 2018, respectively, an increase of $89,001 or 43.6%. The increase in salaries and wages expense is primarily due to the increase in headcount as the Company plans for commercial production of hydrocarbon products and increased headcount on administrative functions.
g. Stock based compensation of $554,325 and $0 for the three months ended February 28, 2019 and 2018, respectively, an increase of $554,325. The increase relates to stock options issued to certain members of management and directors during the prior year, which vest over a four year period.
h. Travel and promotion of $473,953 and $263,655 for the three months ended February 28, 2019 and 2018, respectively, an increase of $210,298 or 79.8%. The increase is primarily related to an increase in business activity resulting in increased airfare and hotel costs incurred on site visits and on investor relations activities. In addition there has been an increase in marketing activity related to our unique technology.

Profit on settlement of liabilities

Profit on settlement of liabilities of $90,836 and $0 for the three months ended February 28, 2019 and 2018, respectively, an increase of $90,836. The Company settled liabilities to certain vendors and certain directors fees outstanding by issuing shares of common stock at a slight premium to traded prices on the various settlement dates.

Loss on settlement of convertible debt

Loss on settlement of convertible debt of $20,137 and $0 for the three months ended February 28, 2019 and 2018, an increase of $20,137. The current period loss was realized on the conversion of $56,500 of convertible debt including interest thereon of $13,479 by the issue of 145,788 common shares at a discount to market prices.

Equity loss from investment in Accord GR Energy

Equity loss from investment in Accord Energy GR was $50,000 and $0 for the three months ended February 28, 2019 and 2018, respectively, an increase of $50,000.

7) Comparison of results of operations for the six months ended February 28, 2019 and 2018

Net Revenue, Cost of Sales and Gross Loss

The Company continues to run test production on its 1,000 barrel per day plant and continuing with its expansion project to increase production capacity by an additional 3,000 barrels per day. Revenue generation during the quarter of $21,248 represents the sale of hydrocarbon products to refineries to determine the commercial quality of our hydrocarbon products. We expect to sell further test product during the third quarter of fiscal 2019 and commence commercial production in the fourth quarter. Prior to August 31, 2018, due to the volatility in oil markets and the limited production capacity at the plant, no production took place during the year ended August 31, 2018, resulting in no revenue generation. During the year ended August 31, 2018, the Company relocated its production plant to the Asphalt Ridge mineral site and has expanded production capacity to approximately 1,000 barrels per day with a further expansion to 3,000 barrels per day underway. Management expects to generate revenue from the plant in fiscal 2019.

The cost of sales during the six months ended February 28, 2019 and 2018 consists of; i) advance royalty payments which expire at the end of the calendar year two years after the payment has been made; and ii) certain production related expenses consisting of labor and maintenance expenditure.

Operating Expenses

Operating expenses of $8,586,925 and $5,190,835 for the six months ended February 28, 2019 and 2018, respectively, an increase of $3,396,090 or 65.4%. The increase in operating expenses is primarily due to:

a. Depletion, depreciation and amortization of $32,516 and $593,516 for the six months ended February 28, 2019 and 2018, respectively, a decrease of $561,000 or 94.5%. The Company has ceased depletion, depreciation and amortization on production related assets and reserves until such time as the plant recommences operations, which is expected to occur during the fourth quarter of 2019.
b. Interest expense of $1,544,649 and $241,598 for the six months ended February 28, 2019 and 2018, respectively, an increase of $1,303,051. The increase is primarily due to the amortization of the commitment fee mentioned in a) above of $571,835, the amortization of debt discount related to convertible notes of $802,878 and a decrease in interest expense of $71,662 during the current fiscal period, primarily due to the conversion to capital of several interest bearing debt securities in the prior year;
c. Legal fees of $904,334 and $39,539 for the six months ended February 28, 2019 and 2018, respectively, an increase of $864,795. The increase is primarily related to the expansion of the plant and the various fund raising initiatives undertaken by the Company during the current fiscal period;
d. Professional fees of $2,341,272 and $786,356 for the six months ended February 28, 2019 and 2018, respectively, an increase of $1,554,916 or 197.7%. The increase in professional fees is primarily due to professional fees paid to various vendors related to the expansion of the plant and management advisory board services;
e. Salaries and wages of $529,703 and $386,090 for the six months ended February 28, 2019 and 2018, respectively, an increase of $143,613 or 37.2%. The increase in salaries and wages expense is primarily due to the increase in headcount as the Company plans for commercial production of hydrocarbon products and increased headcount on administrative functions.

f. Stock based compensation of $1,108,650 and $2,505,647 the six months ended February 28, 2019 and 2018, respectively, a decrease of $1,396,997. The decrease related to stock options with immediate vesting issued to certain directors in the prior period. The current period charge represents the charge for stock options with a four year vesting period.
g. Travel and promotion of $1,702,417 and $343,469 for the six months ended February 28, 2019 and 2018, respectively, an increase of $1,355,948 or 395.7%. The increase is primarily related to an increase in business activity resulting in increased airfare and hotel costs incurred on site visits and on investor relations activities. In addition there has been an increase in marketing activity related to our unique technology.

Loss on settlement of liabilities

Loss on settlement of liabilities of $18,137 and $0 for the six months ended February 28, 2019 and 2018, respectively, an increase of $18,137. The loss realized in the first quarter upon the settlement of $545,194 of debt by the issue of 681,151 common shares at a discount to market prices was offset by the Company settling liabilities to certain vendors and certain directors fees outstanding by issuing shares of common stock at a slight premium to traded prices on the various settlement dates.

Loss on settlement of convertible debt

Loss on settlement of convertible debt of $99,547 and $0 for the six months ended February 28, 2019 and 2018, an increase of $20,137. The current period loss was realized on the conversion of $311,578 of convertible debt including interest thereon of $13,479 by the issue of 462,011 common shares at a discount to market prices.

Equity loss from investment in Accord GR Energy

Equity loss from investment in Accord Energy GR was estimated at $100,000 and $0 for the six months ended February 28, 2019 and 2018, respectively, an increase of $100,000.

8) Liquidity and Capital Resources

As at February 28, 2019, the Company had liquidity of approximately $716,451, which is composed entirely of cash. The Company also had a working capital deficiency of approximately $6,002,792, due primarily to accounts payable, short term loans and convertible loans and accrued interest thereon which remains outstanding as of February 282019. The Company raised $8,091,453 in private placements, a further net proceeds of $517,000 from debt and $5,618,750 from convertible debt. These funds were primarily used on the expansion of the oil facility, expenditures related thereto such as professional fees, marketing costs and notes receivable advanced to third parties.

Subsequent to February 28, 2019, in terms of various subscription agreements entered into with third parties, the Company raised an additional $1,482,000 in proceeds from private equity issues.

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

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

In addition to commitments otherwise reported in this MD&A, the Company's contractual obligations as at February 28, 2019, include:

Contractual Obligations	Total ($ millions)	Up to 1 Year ($ millions)	2 - 5 Years ($ millions)	After 5 Years ($ millions)
Convertible Debt[1]	6.52	6,52	-	-
Debt[2]	1.76	1.32	0.44	-
Total Contractual Obligations	8.28	7.84	0.44	-

[1] Amount includes estimated interest payments. The recorded amount as at November 30, 2018 was approximately $3.45 million.

[2] Amount includes estimated interest payments. The recorded amount as at November 30, 2018 was approximately $1.64 million.

9) Off-Balance Sheet Arrangements

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

10) Related Party Transactions

During the six months ended February 28, 2019, the Company had the following related party transactions not otherwise disclosed in this MD&A:

Transactions with executive officers and directors

During the six months ended February 28, 2019 and 2018, the Company received additional advances of $67,000 and $nil from the Chair of the Board of Directors and various private companies controlled by him.

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

On September 4, 2018, the Company entered into a Debt Settlement Agreement whereby it agreed to convert $249,285 of advances made to the Company by the Chair of the Board into 336,871 common shares at a conversion price of $0.74 per share.

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:

	Six months ended February 28, 2019	Six months ended February 28, 2018
Salaries, fees and other benefits	$ 361,506	$ 289,500
Share based compensation	839,886	2,505,647
	$ 1,201,392	$ 2,795,147

At February 28, 2019, $175,457 is due to members of key management and directors for unpaid salaries, expenses and directors' fees (August 31, 2018 - $1,065,392).

Due to and from director

As of February 28, 2019 and August 31, 2018, the Company owed various private companies controlled by the Chair of the Board the aggregate sum of $67,000 and $nil, respectively.

As at February 28, 2019, the Chair of the Board of Directors owed the Company $424,179.

11) Outstanding Share Data

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

Total common shares outstanding	126,487,334
Total common share purchase options	9,808,333
Total common share purchase warrants and broker warrants	22,478,389
Total other securities reserved for issuance	10,068,231
Fully diluted shares outstanding	**168,842,287**

Share Purchase Warrants

As at the date hereof, an aggregate of 20,714,715 share purchase warrants were outstanding, as follows:

Expiry Date	Exercise Price	Warrants Outstanding
April 12, 2019	USD $4.95	16,667
April 19, 2019	USD $0.48	260,416
August 19, 2019	USD $7.50	66,665
September 4, 2019	USD $0.87	287,356
September 17, 2019	USD $1.10	750,000
October 12, 2019	USD $0.86	290,500
October 15, 2019	USD $ 0.86	290,500
November 5, 2019	CAD $28.35	25,327
January 25, 2020	USD $0.37	147,058
February 27, 2020	USD $0.37	135,135
March 9, 2020	USD $1.50	114,678
June 7, 2020	USD $0.525	1,190,476
June 14, 2020	USD $1.50	329,080
July 26, 2020	USD $1.50	1,637,160
August 28, 2020	USD $0.94	1,311,242
August 28, 2020	USD $1.00	246,913
August 28, 2020	USD $1.50	35,714
September 6, 2020	USD $1.01	925,925
October 11, 2020	USD $ 1.35	510,204
October 11, 2020	USD $1.50	10,204
November 7, 2020	USD $0.61	20,408
November 7, 2020	USD $0.66	300,000
November 8, 2020	USD $1.01	918,355
December 7, 2020	USD $0.67	185,185
December 7, 2020	USD $1.50	3,188,735
January 10, 2021	USD $1.50	1,437,557
January 11, 2021	USD $1.50	307,692
March 29, 2021	USD$ 0.465	1,481,481
April 8, 2021	CAD $4.73	57,756
May 22, 2021	USD $0.91	6,000,000
		24,478,389

Share Purchase Options

The Company has a 20% fixed number share option plan, most recently approved by the shareholders on March 6, 2015. Pursuant to this plan, the Company may grant up to 25,297,467 share purchase options to directors, officers, employees, and consultants. Such options are non-transferable, will have a maximum term of ten years and terminate 12 months (or other such shorter time as determined by the directors) following cessation of the optionee's position with the Company, subject to the expiry date of such option. As at the date hereof, an aggregate of 9,808,333 share purchase options:

Expiry Date		Exercise Price	Options Outstanding	Options Exercisable
February 1, 2026	CAD$	5.85	33,333	33,333
November 30,2027	CAD$	2.27	1,425,000	1,425,000
June 5, 2028	CAD$	1.00	8,350,000	3,400,000
			9,808,333	4,858,333

Other Securities Reserved for Issuance

The Company has reserved 10,068,231 common shares for possible issuance in the event the convertible debentures issued between September 4, 2018 and January 29, 2019 are converted into shares of common stock at conversion prices ranging from $0.40 to $1.00 per share.

12) Financial Instruments and Risk Management

As at February 28, 2019, the Company's financial instruments are comprised of cash, trade and other receivables, accounts payable and accrued expenses, the fair values of which approximate their carrying values due to their short-term maturity, and convertible debentures and long-term debt, which are carried at amortized cost. The Company classifies its cash as fair value through profit or loss. The Company's financial instruments are exposed to a variety of related risks. The Company's risk exposures and the impact on the Company's financial instruments are described under "Risks and Uncertainties" below.

13) 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.

14) Significant Accounting Policies and Critical Accounting Estimates

The following is a summary of new standards, amendments and interpretations that are effective for annual periods beginning on or after January 1, 2017:

a) *IAS 7, Statement of Cash Flows ("IAS 7") - amendments*
The amendments to IAS 7 require additional disclosure of changes in liabilities arising from financing activities.
b) *IAS 12, Income Taxes ("IAS 12") - amendments*
The amendments to IAS 12 clarify the recognition of deferred tax assets for unrealized losses.

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

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

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

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

b) *IFRS 15, Revenue from Contracts with Customers ("IFRS 15")*

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

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

IFRS 16 provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor IAS 17 Leases. IFRS 16 replaces IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC -15 Operating Leases - Incentives, and SIC - 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if IFRS 15 Revenue from Contracts with Customers is also applied.

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

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

e) *IFRIC 23 - Uncertainty Over Income Tax Treatments ("IFRIC 23")*

IFRIC 23 clarifies application of the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. It is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted.

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

15) Litigation and Contingencies

Legal Matters

On December 27, 2018, the Company executed and delivered: (i) a Settlement Agreement (the "Settlement Agreement") with Redline Capital Management S.A. ("Redline") and Momentum Asset Partners II, LLC; (ii) a secured promissory note payable to Redline in the principal amount of $6,000,000 (the "Note") with a maturity date of 27 December 2020, bearing interest at 10% per annum; and (iii) a Security Agreement (together with the Settlement Agreement and the Note, the "Redline Agreements") among the Company, Redline, and TMC Capital, LLC ("TMC"), an indirect wholly-owned subsidiary of the Company.

After undertaking an in-depth analysis of the Redline Agreements in the context of the underlying transactions and events, special legal counsel to the Company has opined that the Redline Agreements are likely void and unenforceable.

The Company's special legal counsel regards the possibility of Redline's success in pursuing any claims against the Company or TMC under the Redline Agreements as less than reasonably possible and therefore no provision has been raised against these claims.

The Company is currently evaluating the options and remedies that are available to it to ensure that the Redline Agreements are declared as void or are rescinded and extinguished.

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

16) Risks and Uncertainties

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

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

Environmental Risks and Other Regulatory Requirements

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

Technology

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

Intellectual Property

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

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

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

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

Credit Risk

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

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

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

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

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

Interest Rate Risk

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

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities as they become due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses. The Company believes that it would be able to obtain adequate liquidity to fund its oil sands operations, If the Company is unable to obtain further funding in order to complete the oil sands plant and for sufficient operating working capital, it could have a material adverse effect on the Company's business, financial condition and results of operations.

Foreign Currency Exchange Risk

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

Liquidity Concerns and Future Financing Requirements

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

Volatility of Share Price

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

Volatility of Oil Prices

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

Dependence on, and Protection of, Key Personnel

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

Conflicts of Interest and Time

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

Nature of Oil Sands Exploration and Development

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

Operation Risk

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

Bitumen Supply Risk

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

Reserves and Resources

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

Climate Change Legislation

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

Litigation matters risks and financial statement amendment Risks

As discussed in the Explanatory Note, we have concluded that certain of our previously issued financial statements should be amended. We have amended our previously issued unaudited condensed consolidated financial statements and related note disclosures as of and for the three and six months ended February 28, 2019 and 2018, and included them in this Amendments of the date of this Amendment. The restatement process is time consuming and expensive and, along with the failure to file our quarterly report on Form 10-Q for the period ended May 31, 2021 on the SEDAR filing system in a timely manner, could expose us to additional risks that could have a negative effect on our Company. In particular, we incurred substantial unanticipated expenses and costs, including audit, legal and other professional fees, in connection with the restatement of our previously issued financial statements. Our management's attention was also diverted from some aspects of the operation of our business in connection with the restatement.

There can be no assurance that litigation against the Company and/or its management or Board of Directors might not be threatened or brought in connection with matters related to our amendments. As a result of the circumstances giving rise to the amendments, we have become subject to certain additional risks and uncertainties, including unanticipated costs for accounting and legal fees in connection with or related to the amendments, potential stockholder litigation, government investigations, and potential claims by Redline Capital Management S.A. as described under Item 15 - *Litigation and Contingencies* and elsewhere in this Amendment. Any such proceeding could result in substantial defense costs regardless of the outcome of the litigation or investigation. If we do not prevail in any such litigation, we could be required to pay substantial damages or settlement costs. In addition, the restatements and related matters could impair our reputation and could cause our counterparties to lose confidence in us. Each of these occurrences could have an adverse effect on our business, results of operations, financial condition and stock price.