

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10

GENERAL FORM FOR REGISTRATION OF SECURITIES
Pursuant to Section 12(b) or (g) of the Securities Exchange Act of 1934

PETROTEQ ENERGY, INC.

(Exact name of registrant as specified in its charter)

Ontario (State or other jurisdiction of incorporation or organization)	None (I.R.S. Employer Identification No.)
15165 Ventura Blvd., #200 Sherman Oaks, California (Address of principal executive offices)	91403 (Zip Code)

Registrant's telephone number, including area code: **(866) 571-9613**

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Securities to be registered pursuant to Section 12(b) of the Act: **None**

Title of each class to be so registered **Name of each exchange on which each class is to be registered**

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

Common Shares, without par value

(Title of class)

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" "smaller reporting company" and an "emerging growth company" as defined in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input checked="" type="checkbox"/>

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

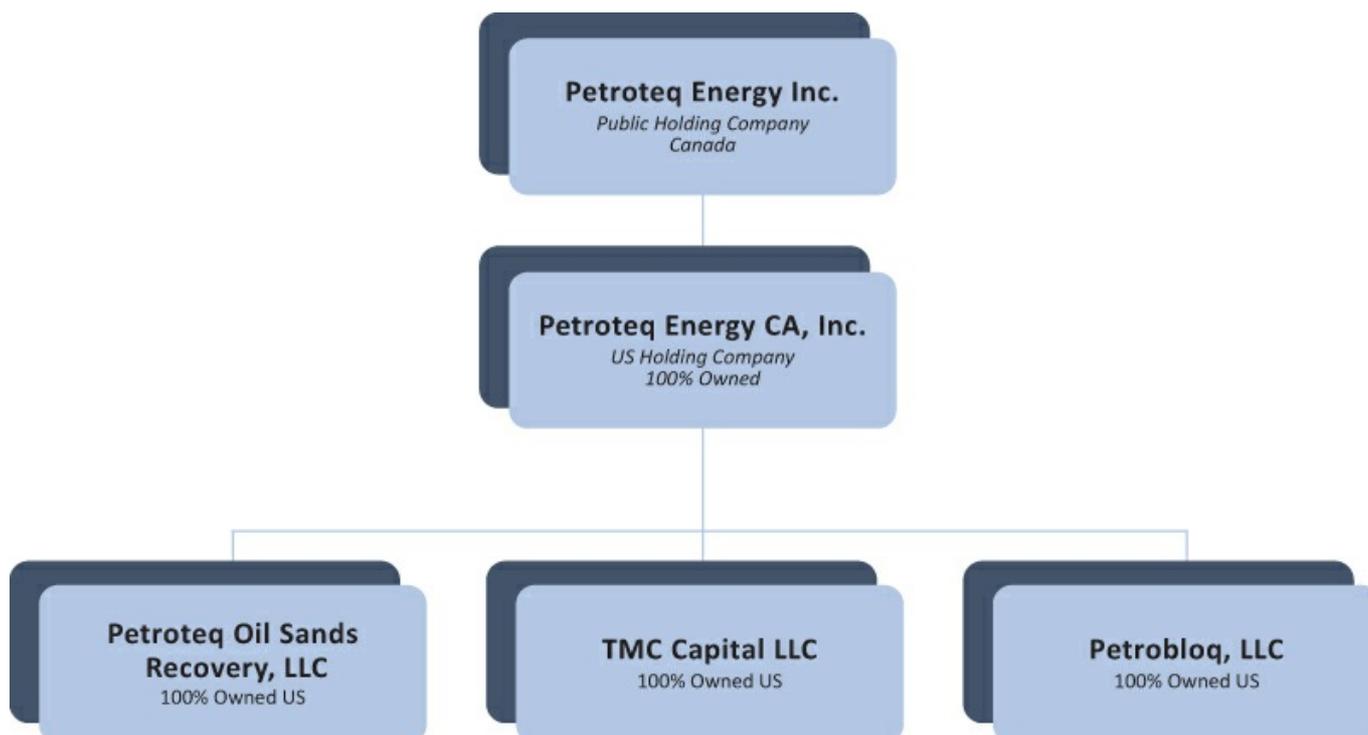
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ITEM 1. BUSINESS.

BUSINESS OVERVIEW

We are a Canadian-registered holding company that is engaged in various aspects of the oil and gas industry. Our primary focus is on the development and implementation of our proprietary oil sands mining and processing technology to recover oil from surface mined bitumen deposits. Our wholly owned subsidiary, Petroteq Energy CA, Inc., a California corporation (PQE), conducts our oil sands extraction business through its two wholly owned active subsidiary companies, Petroteq Oil Sands Recovery, LLC, a Utah limited liability company (“PQE Oil”), and TMC Capital, LLC, a Utah limited liability company (“TMC”). Our newly formed indirect subsidiary, Petrobloq, LLC, a California limited liability company (“Petrobloq”), also wholly owned by PQE, is developing a blockchain-powered supply chain management platform for the oil and gas industry. In addition, we own a 44.7% interest in Accord GR Energy, Inc., a Delaware corporation (“Accord”), which uses two oil enhanced recovery technologies that it licenses from one of its affiliated entities to conduct its exploration work. We also own a 25% interest in Recruiter.com Oil and Gas Group LLC, a Delaware limited liability company (“Recruiter. OGG”), a recruitment venture that provides a website focused on careers in the oil and gas industry.



OIL SANDS MINING

PQE, through its wholly owned subsidiaries PQE Oil and TMC, is in the business of oil sands mining and processing. Historically, all of PQE’s oil sands mining has occurred on a leased property in Asphalt Ridge, Utah where it mines surfaced bitumen deposits. Once mined, the bitumen deposits are processed at a facility owned by PQE using PQE’s proprietary extraction technology. In 2016, PQE Oil’s mining operations were temporarily suspended due to the relocation of its plant to the location of the TMC mineral lease described below where the mining activities occur to improve logistical and processing efficiencies and increase production capacity. PQE recommenced its oil sands mining activities at the end of May 2018 and production at full capacity is expected in the last quarter of fiscal 2019.

Oil Sands Exploration and Processing Plant

In June 2011, PQE commenced the development of an oil sands extraction facility at Maeser, Utah and entered into construction and equipment fabrication contracts for the purpose of applying its proprietary extraction technology (the “Extraction Technology”) described below to the oil extracted from the bitumen mined on the leased property described below. By January 2014 the initial facility was fully permitted and construction was completed by October 1, 2014. This was a pilot plant with the production capacity of up to 250 barrels per day. The Extraction Technology has been tested at full capacity. During 2015, the plant produced 10,000 barrels of oil from the local oil sands ore in Asphalt Ridge including PQE’s own Temple Mountain oil sands deposit. Most of the produced oil was sold to an oil and gas distributor for resale to their refinery customers. The initial processing plant was flexible in that it had the ability to produce both high quality heavy crude oil as well as the lighter oil if needed.

In 2015, with the sharp decline in oil prices, PQE determined that the transportation costs of hauling the ore from the mining site to the processing facility 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 the Maeser, Utah mining site to the Temple Mountain mining site and has been rebuilt at that location. During the reassembly of the facility, additional equipment has been installed to increase the capacity of the plant from 250 barrels per day to 1,000 barrels per day. In May 2018, the mining operations at the Temple Mountain oil sands deposits recommenced and the new processing plant commenced a test production phase of heavy crude oil from the Temple Mountain oil sands deposits, production at full capacity is not anticipated until the last quarter of fiscal 2019. Management's current estimate of the total cost of the facility, including the expansion of the production capacity of the facility in order to meet the existing requirements of the TMC Mineral Lease, exclusive of capitalized borrowing costs and lease costs, is between \$28 million and \$30 million.

Resources and Mining Operations

Through its acquisition of TMC on June 1, 2015, PQE 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, PQE Oil 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 PQE Oil, as lessee, covering lands in Asphalt Ridge that largely adjoin the lands held under the TMC Mineral Lease (collectively, the "SITLA Mineral Leases"). At this time, PQE (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.

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 TMC Mineral Lease and the lands covered thereby are in the Asphalt Ridge area of northeastern Utah. Asphalt Ridge is located along the northern edge of the Uintah Basin and contains a number of oil sands deposits located on the margins of the basin. Most of the oil-impregnated reservoirs or deposits in the Asphalt Ridge area are found in the Rimrock Sandstone (Mesaverde Group Formations) and in the (Tertiary) Duchense River Formation. Substantial bitumen deposits in the Rimrock and Duchense River Formations extend from the northwest in a southeasterly direction through a substantial part (almost all) of the lands included in the TMC Mineral Lease, particularly the acreage located in T5S-R21E (Section 25) and T5S-R22E (Section 31) where the TME AR Mine #1 is located. Bitumen-saturated pay thicknesses existing within the lands covered by the TMC Mineral Lease generally range from 50-200 feet, with some areas of the deposits approaching 300 feet in pay thickness. PQE expects that oil sands (bitumen) deposits may be mined economically at depths up to 250-300 feet below the surface.

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 less royalty)	766.39 acres
SITLA Mineral Lease #53807	
Total Gross Acres (Working Interests & Royalty)	478.91 acres
Total Net Acres (100% of Working Interests less royalty)	440.60 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 (the "Primary Term") of the TMC Mineral Lease, as amended, commenced July 1, 2013 and continues for six years, plus an extension period. The term "extension period" is defined as a period of time measured from March 1, 2018 to the earlier of (i) March 1, 2019, or (ii) the date on which TMC delivers to the lessor a written

financial commitment for the construction of PQE's second proposed facility (or an expansion to the existing processing facility located on the Lease).

During the Primary Term, if TMC fails to satisfy the requirements of “continuous operations”, the TMC Primary 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:

- 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.
- 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 also 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 barrels per day processing facility or expansion of its current facility to an additional 1,000 barrels per day prior to July 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 July 1, 2020. We further expect the cost of constructing each of these two proposed facilities or expansion of our current facility will range between \$10 million and \$12 million, which we intend to fund from revenue derived from operations, which to date have been minimal and/ or third party funding sources for which we have no commitment to date. See Risk Factors- “Our operations are dependent upon us maintaining our mineral lease for the Asphalt Ridge Property”).
- (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 PQE’s proposed expansion or alternatively, 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, 2021 plus any extension periods will cause a termination.
- (v) PQE 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 PQE will have 30 days to cure financial breaches and 150 days to cure any other non-monetary breach.

In addition, PQE is required to make certain advance royalty payments to the lessor as described below. 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.
- (iii) Minimum payments commencing on July 1, 2020 will be adjusted for CPI inflation.

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.

We are currently in full compliance with the terms of the TMC Mineral Lease. As of November 30, 2018, we have paid advance royalties of \$1,990,336 (August 31, 2018 - \$1,890,336) to the lessor, of which a total of \$1,125,000 have been used to pay royalties as they have come due under the terms of the TMC Mineral Lease. During the three months ended November 30, 2018 and the year ended August 31, 2018, \$100,000 and \$534,296 in advance royalties were paid and \$33,750 and \$272,333, respectively, have been used to pay royalties which have come due. The royalties expensed have been recognized in cost of goods sold on the consolidated statement of loss and comprehensive loss.

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

During the three months ended November 30, 2018 and the fiscal years ended August 31, 2018, August 31, 2017 and 2016 we did not have any sales from production related to the TMC Mineral Lease as we temporarily suspended operations while we relocated our oil sands extraction facility and commenced an expansion of the production facility. Our average sales from production and average costs of production related to the TMC Mineral Lease during the fiscal year ended August 31, 2015 were as follows:

i) Average sales price for fiscal year 2015

Month	Average Sales Price	Net Barrels¹
August	\$ 30.39	1,277.00
September	\$ 32.97	1,926.53
October	\$ 33.79	1,866.99
November	\$ 30.42	898.21
December	\$ 24.83	1,808.60
Total		<u>7,777.33</u>

¹ The calculation of the "Net Barrels" produced is based on the exclusion of any applicable state severance (production), ad valorem or sale taxes, royalty interests, and third-party non-operating working interests under the TMC Mineral Lease.

ii) Average production costs for fiscal year 2015

Month	Average Production Cost
August	\$ 28.38
September	\$ 29.75
October	\$ 29.26
November	\$ 26.25
December	\$ 22.15

The costs involved in PQE's Extraction Technology process include: the costs for oil sands ore, natural gas liquids, aromatic solvent, operator labor, electricity, propane, nitrogen, water, diesel fuel and rental equipment. The primary costs are the costs of the oil sand ore, natural gas liquid, aromatic solvent, and labor costs. Other than the aromatic solvent, the solvents used in the Extraction Technology process are produced by PQE by processing natural gas liquids through the distillation column. The aromatic solvent is added to the distillate. The fixed costs per barrel based upon current pricing is as follows: operator labor (\$3.77 per barrel), electricity (\$0.63 per barrel), propane (\$0.94 per barrel), nitrogen (\$0.25 per barrel), water (\$0.31 per barrel), diesel fuel (\$0.31 per barrel) and rental equipment (\$0.93 per barrel) the fixed costs remain the same regardless of the API as does the cost for the oil sands ore (two tons of oil sands ore are required per barrel regardless of the API being produced). The cost of the solvent increases per barrel based upon the desired API, the higher the API the higher the cost (ranging from \$2.62 per barrel for an API of 15.7 to \$16.27 for an API of 42, all based on current prices). We further do not expect our operating costs to materially change as the depth of the open pit at Asphalt Ridge increases over time, and further anticipate various economies of scale, such as bulk purchases, could reduce average production costs per barrel as operating capacities are increased.

The API gravity for the raw heavy oil or bitumen extracted from oil sands ores initially treated at the Asphalt Ridge plant average approximately 10 degrees. Through the application of our Extraction Technology at the plant, a new or distinct crude oil is produced having a range of API gravity of between 20 degrees and 35 degrees. Through the use of our solvent formulation and the select distillation capabilities, the plant is able to draft a final crude oil product to meet the specifications of a range of customers (and pipeline).

We initially sold our finished crude oil product directly to a refinery customer at a price representing a discount to West Texas Intermediate Crude benchmark market price. The purchaser took delivery of the finished crude oil product at or near the plant and transported it to a refinery in Nevada. The specifications of the finished crude oil produced at the plant were effectively tailored to meet customer (pipeline and refinery) specifications.

The SITLA Leases

The SITLA Leases have a primary term of ten (10) years, and will remain in effect thereafter for as long as (a) bituminous sands are produced in paying quantities, or (b) PQE is otherwise engaged in diligent operations, exploration or development activity and certain other conditions are satisfied. Generally, the SITLA 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 Leases. Annual minimum royalty paid in any lease year may be credited against production royalties accruing in the same year.

The SITLA Leases provide that PQE 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 Leases, PQE owns 100% of the working interests under the leases, subject to payment of annual rentals, advance annual minimum royalty, and production royalties.

Permits and Taxes

On September 15, 2008, a large mining permit was granted to TME Asphalt Ridge, LLC by the State of Utah Division of Oil, Gas, and Mining (“UDOGM”) for the mining and development of the TME AR Mine #1, an open pit mine located on TMC Mineral Lease.

On or about July 9, 2015, UDOGM approved an application filed by TMC to transfer the “Notice of Intention to Commence Large Mining Operations” for the TME AR Mine #1 (Permit # M/047/0089) from TME Asphalt Ridge LLC to TMC. On October 27, 2017, UDOGM granted final approval to TMC’s “Amended Notice of Intention to Commence Large Mining Operations” and issued final Permit # M/047/0089 authorizing TMC to conduct operations at TME AR Mine #1. On or about August 6, 2018, PQE Oil filed an amended “Notice of Intention to Commence Large Mining Operations” at the TME AR Mine #1, primarily for the purpose of notifying UDOGM that PQE Oil will be the operator under the TMC Minerals Lease and to provide an update on the mining and oil sands processing plan developed by PQE Oil for the TME AR Mine #1. The August 2018 Notice of Intention to Commence Large Mining Operations is currently pending with UDOGM and we anticipate its approval in early 2019.

Mining operations, including the initial development of the mine 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 PQE.

Specifically, a Groundwater Discharge Permit was issued by the Utah Department of Environmental Quality (Division of Water Quality, Water Quality Board), on July 26, 2016 (expiration on July 27, 2021), covering disposal of tailings from ore sands produced from the land area encompassed by the TME AR Mine #1. This permit was required by Utah law even though our processing facility does not use a water-based process and authorizes a return of residual sand tailings to the mine for backfill and capping. A Small Source Registration air permit was issued by the Utah Department of Environmental Quality by a letter dated November 2, 2018. The letter confirms that our processing facility at Asphalt Ridge is exempt from any requirement of additional air quality permits since the facility produces less emissions than the level that would require a special air permit. A Conditional Use Permit (CUP) was issued by the Uintah County (Utah) Commission to us on January 29, 2018, for the operation of our current processing facility. The CUP is a right/interest in land under Utah law and will continue in effect in perpetuity. A local business license was issued to PQE Oil by the County Commission of Uintah County, Utah on November 19, 2018. The business license must be renewed annually on payment of a license renewal fee.

The oil and gas properties (including plants, equipment etc.) included in or under the TMC Mineral Lease are subject to the State of Utah's property (ad valorem) tax. The actual tax rate is established by each county in the State (and therefore may vary) and is generally assessed against the "fair market value" of the property. Under Utah Code § 59-2-1103, the oil and gas properties included in the SITLA Leases are exempt from the State's property (ad valorem) tax (although this exemption does not apply to improvements on state lands).

Under Utah Code § 59-5-120, beginning January 1, 2006 and ending June 30, 2026, no severance (production) tax will be imposed on oil and gas produced from oil sands (tar sands). Accordingly, severance tax will not be owed to the State of Utah on the production of oil and hydrocarbon substances from the TMC Mineral Lease or the SITLA Leases until after June 30, 2026.

Extraction Technology

PQE intends to continue 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) using its patented closed loop, continuous flow, scalable and environmentally safe Extraction Technology. The Extraction Technology process allows the extraction of hydrocarbons from a wide range of both "water-wet" and/or "oil-wet" oil sands deposits and other hydrocarbon sediment types. PQE's oil extraction process takes place in a completely closed loop system that continuously re-circulates and recycles the solvent after it has completely separated the asphalt 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 sand.

The Extraction Technology, which has been modified since 2015 and unlike the technology utilized in 2015, utilizes no water in the process, is anticipated to produce no greenhouse gases, requires no high temperature and/or pressure for the extraction process, and expects to extract up to 99% of all hydrocarbon content and recycle up to 99% of the solvents. The proprietary solvent composition consists of hydrophobic, hydrophilic and polycyclic hydrocarbons. It is expected to dissolve up to 99% of heavy bitumen/asphalt and other lighter hydrocarbons from the oil sands, and prevent their precipitation during the extraction process. Solvents used in this composition form an azeotropic mixture which has a low boiling point of 70 – 75 C degrees and it is expected to allow recycling of over 99% of the solvent. These features, in the event they produce as anticipated by PQE, 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.

In the oil extraction process, depending upon the customer's request for an API level (the extracted bitumen starts from the ground at an average API gravity of 10 degrees), through the use of a distillation process and a solvent which we develop ourselves from natural gas condensate, ordinary chemicals and recycled solvent (the solvent can be used at least four times), the hydro-carbons in the extracted bitumen are manipulated. The higher the temperature, the higher the resultant API, more hydrocarbons are removed and more solvent is used. The crude oil produced and sold to the customer is not bitumen and not solvent, it is not a "blend" of separate products and does not include diluent. It is a hydro-carbon, a distinct product having its own specifications.

As such, in the refining process no diluents or blending agents are used to increase the viscosity of the heavy oil extracted from bitumen saturated ores. Instead, varying amounts of solvent is introduced into a mixing tank with a raw bitumen-saturated stream generated from the initial treatment of mined or extracted oil sands ores and sands (via crushing etc.). The solvent is designed to release crude oil from bitumen-saturated sandstones during processing. This process yields an unfinished crude oil containing the solvent on the one hand, and a second residual consisting of clean sand (containing little to no hydrocarbons).

The oil extraction process has a reboiler, distillation column at the top of the reboiler, heat exchangers, air fin condenser, and a utility boiler plus propane tank as the energy source. Reboiler and distillation column are used to recycle the solvent. The hydrocarbon stream containing the solvent is then subjected to a distillation process where the solvent is recovered and recycled for reuse in future process streams. The oil-solvent mixture is heated up at the reboiler to the solvent's boiling temperatures, overheated vapors travel through the distillation column and solvents are condensed back into the liquid in the air fin cooler and returned back into the process.

During the recovery of the solvent through reboiling and distillation, the plant's engineering and technical personnel are able to select the hydrocarbon chains in the condensate/solvent that are to be flashed off and recovered for recycled reuse in the plant, which in turn produces a crafted finished crude oil. In other words, by selectively stripping or flashing off different hydrocarbon chains from the condensate in the solvent (whether it the heavier hydrocarbons such as the C5 pentanes/pentenes or C6 hexanes, or the lighter hydrocarbons such as methane (C1), ethane (C2), propane (C3) and the butanes (C4), plant personnel are able, by design, to use the condensate component of the solvent as a feedstock to produce a relatively sweet heavy to medium crude oil (with an API gravity in the 20-30 degree range) or a sweet lighter crude oil (with an API gravity in the 30-40 degree range).

As part of a hydrocarbon refining process utilizing basic chemistry, the natural gas condensate used in the solvent serves dual functions of (1) a solvent that effectively causes a release of heavy oil from the bitumen-saturated stream, and (2) a feedstock that, during distillation or reboiling with a second feedstock consisting of the heavy crude oil stream extracted from bitumen, produces a finished crude oil product. The solvent that is not recovered in the refining process effectively acts as a feed stock to produce the crude oil.

While the initial tests of the Extraction Technology in 2015 did not include recycling of the solvents, PQE’s revised Extraction Technology process is expected to be able to recycle over 99% of the solvent, based, among other things, on the results of third party tests of the different batches of the heavy oil that have been produced.

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

PQE has obtained issued patents in the United States, Canada and Russia that protect its proprietary Extraction Technology. See “Intellectual Property” below.

On March 27, 2013, PQE entered into an intellectual property license agreement in a private arm’s length transaction with a 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.

INTELLECTUAL PROPERTY

We rely upon patents to protect our intellectual property. We have obtained issued patents in the United States, Canada and Russia that protect our proprietary Extraction Technology. The following sets forth details of our issued patents.

DOCKET	TITLE	COUNTRY	DATE FILED SERIAL NO.	DATE ISSUED PATENT NO./STATUS
1492.2	Oil From Oil Sands Extraction Process	USA	09/26/12 13/627,518 ----- 10/07/11 61/545,034	02/06/18 9,884,997 Expires: 10/07/31

Summary: A system for extracting bitumen from oil sands includes an extractor tank which incorporates a plurality of jet injectors. Operationally, the jet injectors provide jet streams of an extractant in the extractor tank that creates a fluidized bed of the extractant. A reaction between crushed oil sands and the fluidized bed then separates bitumen from the oil sands.

Corresponding Foreign Patent Properties

11492.2a	Oil Extraction Process	Canada	09/30/11 2,754,355	Received Notice of Allowance; patent payment submitted to Commission of Patents
11492.2d	Oil From Oil Sands Extraction Process	Russia	04/28/14 2014117162	12/20/15 2571827 Expires: 09/27/2032

THE OIL SANDS MARKET

As an unconventional hydrocarbon resource, oil sands hold hundreds of billions of barrels of oil on a worldwide basis. Although Canada is the only country that is currently extracting large quantities of oil from its oil sands deposits, the United States also has large oil sands resources that can be developed. In a 2007 Report entitled “A Technical, Economic, and Legal Assessment of North American Oil Shale, Oil Sands, and Heavy Oil Resources In Response to Energy Policy Act of 2005 Section 369(p)” (September 2007), prepared by the Utah Heavy Oil Program, Institute For Clean and Secure Energy and The University of Utah for the U.S. Department of Energy (the “2007 Report”), the authors reported the following:

- The United States has an estimated 76 billion barrels of oil-in-place (OIP)¹ from bitumen and heavy oil contained in oil sands resources, consisting of proven or measured OIP (22.5 billion barrels) and speculative OIP (53.6 billion barrels);

- In the United States, Utah is known to have the largest oil sands deposits, with total resource estimates ranging from 23 to 32 billion barrels of OIP from bitumen and heavy oil contained in oil sands formations and deposits. This total resource estimate range may be subdivided into proven or measured OIP (11.6 to 22.5 billion barrels) and speculative OIP (20.7 to 53.6 billion barrels); and
- Within the state of Utah, the region that has experienced the most oil sands development, both in terms of existing oil production and supporting infrastructure, is the Asphalt Ridge area located on the northern edge of the Uintah Basin in eastern Utah. In the 2007 Report, it is estimated that about one (1) billion barrels of OIP exist in the form of bitumen and heavy oil contained in oil sands formations and deposits in the Asphalt Ridge area. This estimate of total oil sand resources consists of proven or measured OIP (435 million barrels); probable OIP (438 million barrels); and possible OIP (175 million barrels).

From our own investigation of the oil sands deposits in the Asphalt Ridge area, we believe that a substantial part of the oil sands deposits in this area are accessible through outcroppings or in shallow depths with limited or no overburden. In our view, the location and accessibility of oil sands deposits in Asphalt Ridge create an opportunity for commercial development, supported by positive economics, using surface mining techniques and our extraction technology.

The worldwide growing demand for heavy crude oil and the recent decline in heavy crude oil production in countries such as Venezuela, makes the high quality, low sulfur, heavy oil found in oil sands deposits in the United States a valuable resource that has been underdeveloped to date. The development of “tight shale” oil plays in the United States has produced significant quantities of light, sweet crude oil reserves, but heavy oil development in the United States has lagged. The development of oil sands domestically has the potential to turn the United States into a major supplier of heavy oil to world markets. To date, oil sands development has been limited by the absence of a viable technology that can extract the heavy oil from the oil sands deposits in an economical and environmentally responsible manner. To that end, PQE has developed, and patented an extraction technology that aims to develop oil sands reserves in an economical and environmentally responsible manner. PQE is currently expanding its commercial oil sands extraction operations in Asphalt Ridge, Utah utilizing a process that is economical, environmentally friendly and produces high quality heavy oil.

1. OIP are not estimates of reserves or recoverable resources. Moreover, OIP estimates indicated as “probable”, “speculative” or “possible” carry greater risks of uncertainty than resources that are “proven” or “measured”.

We have tested our Extraction Technology both in Asphalt Ridge and with oil sands sourced from different parts of the world and having different hydrocarbon chemical compositions. To date, we have conducted tests with oil sands from Russia, China, Indonesia and the Middle East. Our tests with Russian oil sands, conducted in Ufa, Bashkortostan (Russia) using a multi-ton pilot plant, used a local oil sands ore with oil saturation in a range of 7-10%, resulted in the industrial quantities of heavy oil. Other tests, consisting of oil sands samples from China, Indonesia and Jordan, were conducted at PQE’s laboratory in San Diego using lab bench testing with our own solvent blend. By introducing the solvent mixture to crushed and treated ore containing bitumen oil, the oil was separated by recycling the solvent with a laboratory-scale rotor vacuum evaporator. Sand tailings were separated by centrifugation and dried under the vacuum.

Through our testing of oil sands sourced from different countries, we found that the efficiency and consistency of PQE’s extraction technology are not affected by differences in the chemical composition of the oil/bitumen in the oil sands. Despite relatively significant differences in oil/bitumen chemistry, both the efficiency and consistency of our extraction technology remained intact, resulting in an oil recovery efficiency that in each test exceeded 99%. We believe that this testing demonstrates that PQE’s extraction process is universal in its application and does not depend on the material source or the hydrocarbon content or fingerprint.

ACCORD ACQUISITION

Since July 4, 2016, when we acquired a 57.3% interest in Accord, which has subsequently been diluted down to 44.7% by third party equity investments into Accord, we have also been engaged in the recovery of heavy oil. Accord has been 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 that it acquired in 2016 located in southwest Texas, 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 by Accord is expected to increase oil production, although commercial production has not commenced as yet.

PETROBLOQ, LLC

In November 2017, through our wholly owned subsidiary, PQE, we formed a subsidiary Petrobloq. 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 Petroteq pay FBCC \$500,000 for the services to be provided, of which an initial \$100,000 has been paid to FBCC to commence its research and development activities and an additional \$152,500 has been paid to FBCC to continue its research and development activities.

The supply chain management platform is currently in the v1 Beta early stage of development and we are in the process of continuing research and development activities. 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 an 1,800 square foot office in Calabasas, California to serve as its headquarters. The office is staffed with four contract employees hired by FBCC serving as Project Manager; Director of Operations, Solutions Architect and Senior Database Developer, respectively.

On August 17, 2018, we entered into a development agreements with MezhOhanian, 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.

Recruiter.com

In November 2016, we entered into a joint venture with Recruiter.com, Inc. and OilPrice.com and 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 are split in accordance with ownership interests. In consideration of our 25% equity interest, we issued Recruiter.com, Inc. 83,333 shares of our stock. Recruiter. OGG is a recruitment venture providing a website based for careers in the oil and gas industry.

REGULATION

Exploration and production operations are subject to various types of regulation at the federal, state and local levels. This regulation includes requiring permits to drill wells, maintaining bonding requirements to drill or operate wells, and regulating the location of wells, the method of drilling and casing wells, the surface use and restoration of properties on which wells are drilled, and the plugging and abandoning of wells. Full mining permits have been granted to PQE from the State of Utah Division of Oil, Gas, and Mining for the mining and development of the Temple Mountain site in Asphalt Ridge, Utah. In addition to the mining permits, all environmental, construction, utility and other local permits necessary for the construction of the plant and the processing of the oil sands have been granted to PQE. Our operations are also subject to various conservation laws and regulations.

Typically, oil enhancements such as hydraulic fracturing operations are overseen by state regulators as part of their oil and gas regulatory programs; however, the EPA has asserted federal regulatory authority over certain hydraulic fracturing activities involving diesel under the Safe Drinking Water Act and has released draft permitting guidance for hydraulic fracturing activities that use diesel in fracturing fluids in those states where EPA is the permitting authority. As a result, we may be subject to additional permitting requirements for our operations. These permitting requirements and restrictions could result in delays in operations at well sites as well as increased costs to make wells productive. In addition, legislation introduced in Congress provides for federal regulation of hydraulic fracturing under the Safe Drinking Water Act and require the public disclosure of certain information regarding the chemical makeup of hydraulic fracturing fluids. Moreover, on November 23, 2011, the EPA announced that it was granting in part a petition to initiate a rulemaking under the Toxic Substances Control Act, relating to chemical substances and mixtures used in oil and gas exploration and production. Further, on May 4, 2012, the Department of the Interior’s Bureau of Land Management (“BLM”) issued a proposed rule to regulate hydraulic fracturing on public and Indian land.

On August 16, 2012, the EPA published final rules that establish new air emission control requirements for natural gas and NGL production, processing and transportation activities, including New Source Performance Standards to address emissions of sulfur dioxide and volatile organic compounds, and National Emission Standards for Hazardous Air Pollutants (NESHAPS) to address hazardous air pollutants frequently associated with gas production and processing activities. Among other things, these final rules require the reduction of volatile organic compound emissions from natural gas wells through the use of reduced emission completions or “green completions” on all hydraulically fractured wells constructed or refractured after January 1, 2015. In addition, gas wells are required to use completion combustion device equipment (e.g., flaring) by October 15, 2012 if emissions cannot be directed to a gathering line. Further, the final rules under NESHAPS include maximum achievable control technology (MACT) standards for “small” glycol dehydrators that are located at major sources of hazardous air pollutants and modifications to the leak detection standards for valves. Compliance with these requirements, especially the imposition of these green completion requirements, may require modifications to certain of our operations, including the installation of new equipment to control emissions at the well site that could result in significant costs, including increased capital expenditures and operating costs, and could adversely impact our business.

In addition to these federal legislative and regulatory proposals, some states such as Pennsylvania, West Virginia, Texas, Kansas, Louisiana and Montana, and certain local governments have adopted, and others are considering adopting, regulations that could restrict hydraulic fracturing in certain circumstances, including requirements regarding chemical disclosure, casing and cementing of wells, withdrawal of water for use in high-volume hydraulic fracturing of horizontal wells, baseline testing of nearby water wells, and restrictions on the type of additives that may be used in hydraulic fracturing operations. For example, the Railroad Commission of Texas adopted rules in December 2011 requiring disclosure of certain information regarding the components used in the hydraulic fracturing process. In addition, Pennsylvania’s Act 13 of 2012 became law on February 14, 2012 and amended the state’s Oil and Gas Act to impose an impact fee for drilling, increase setbacks from certain water sources, require water management plans, increase civil penalties, strengthen the Pennsylvania Department of Environmental Protection’s (PaDEP) authority over the issuance of drilling permits, and require the disclosure of chemical information regarding the components in hydraulic fracturing fluids.

We believe that the technologies we use are cleaner and environmentally friendlier than the known fracking or tar sand technologies. Regulatory and social resistance sometimes prohibits fracking recovery methods in some states and we intend to consider entering in those states with our technologies offering to the regulators and the public solutions that we believe would help to lift the bans and ease resistance to oil and gas field development.

OSHA and Other Laws and Regulations.

We are subject to the requirements of the federal Occupational Safety and Health Act (OSHA), and comparable state laws. The OSHA hazard communication standard, the EPA community right-to-know regulations under the Title III of CERCLA and similar state laws require that we organize and/or disclose information about hazardous materials used or produced in our operations. Also, pursuant to OSHA, the Occupational Safety and Health Administration has established a variety of standards related to workplace exposure to hazardous substances and employee health and safety.

Oil Pollution Act.

The Federal Oil Pollution Act of 1990 (OPA) and resulting regulations impose a variety of obligations on responsible parties related to the prevention of oil spills and liability for damages resulting from such spills in waters of the United States. The term “waters of the United States” has been broadly defined to include inland water bodies, including wetlands and intermittent streams. The OPA assigns joint and several strict liability to each responsible party for oil removal costs and a variety of public and private damages. We believe that we substantially comply with the Oil Pollution Act and related federal regulations.

Clean Water Act.

The Federal Water Pollution Control Act (Clean Water Act) and resulting regulations, which are primarily implemented through a system of permits, also govern the discharge of certain contaminants into waters of the United States. Sanctions for failure to comply strictly with the Clean Water Act are generally resolved by payment of fines and correction of any identified deficiencies. However, regulatory agencies could require us to cease construction or operation of certain facilities or to cease hauling wastewaters to facilities owned by others that are the source of water discharges. We believe that we substantially comply with the Clean Water Act and related federal and state regulations.

COMPETITION

Competition in the oil industry is intense. We compete with other companies seeking to acquire sub economic oil fields, many with substantial financial and other resources. We will also compete with technologies such as gas injection, polymer flooding, microbial injection and thermal methods. As a new technology, we also compete with many of the other technologies that have been proven to be economically successful in enhancing oil production in the United States. As a result of this competition, we may be unable to attract the necessary funding or qualified personnel. If we are unable to successfully compete for funding or for qualified personnel, our activities may be slowed, suspended or terminated, any of which would have a material adverse effect on our ability to continue operations. However due to the innovative nature of our technology and the ecological benefit it provides, while remaining economically efficient, we believe that Competition will not be a significant impediment to our operations or expansion.

IMPLICATIONS OF BEING AN EMERGING GROWTH COMPANY

We are an “emerging growth company,” as defined in the Jumpstart Our Business Startups Act of 2012 (the “JOBS Act”), and therefore we intend to take advantage of certain exemptions from various public company reporting requirements, including not being required to have our internal controls over financial reporting audited by our independent registered public accounting firm pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 (the “Sarbanes-Oxley Act”), reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and any golden parachute payments. We may take advantage of these exemptions until we are no longer an “emerging growth company.” In addition, the JOBS Act provides that an “emerging growth company” can delay adopting new or revised accounting standards until such time as those standards apply to private companies. We have elected to use the extended transition period for complying with new or revised accounting standards under the JOBS Act. This election allows us to delay the adoption of new or revised accounting standards that have different effective dates for public and private companies until those standards apply to private companies. As a result of this election, our financial statements may not be comparable to companies that comply with public company effective dates. We will remain an “emerging growth company” until the earlier of (1) the last day of the fiscal year: (a) following the fifth anniversary of the date of the first sale of our common shares pursuant to an effective registration statement filed under the Securities Act; (b) in which we have total annual gross revenue of at least \$1.07 billion; or (c) in which we are deemed to be a large accelerated filer, which means the market value of our common shares that is held by non-affiliates exceeded \$700.0 million as of the prior June 30th, and (2) the date on which we have issued more than \$1.0 billion in non-convertible debt during the prior three-year period. References herein to “emerging growth company” have the meaning associated with that term in the JOBS Act.

ENFORCEABILITY OF CIVIL LIABILITIES

We are a company incorporated in Ontario, Canada. Certain of our directors and officers named in this registration statement reside outside the U.S. In addition, some of our assets and the assets of our directors and officers are located outside of the United States. As a result, it may be difficult for investors who reside in the United States to effect service of process upon these persons in the United States. You may also have difficulty enforcing, both in and outside the United States, judgments you may obtain in U.S. courts against us or these persons in any action, including actions based upon the civil liability provisions of U.S. federal or state securities laws.

Furthermore, there is substantial doubt whether an action could be brought in Canada in the first instance predicated solely upon U.S. federal securities laws. Canadian courts may refuse to hear a claim based on an alleged violation of U.S. securities laws against us or these persons on the grounds that Canada is not the most appropriate forum in which to bring such a claim. Even if a Canadian court agrees to hear a claim, it may determine that Canadian law and not U.S. law is applicable to the claim. If U.S. law is found to be applicable, the content of applicable U.S. law must be proved as a fact, which can be a time-consuming and costly process. Certain matters of procedure will also be governed by Canadian law.

OUR CORPORATE HEADQUARTERS AND OTHER LOCATIONS

Our registered office address in Canada is Suite 6000, 1 First Canadian Place, 100 King Street West, Toronto, Ontario M5X 1E2, Canada. Our principal executive offices are located at 15165 Ventura Blvd, #200, Sherman Oaks, California 91403. The monthly base rent is \$6,500 for the approximately 1,800 square foot premises and the lease term is five years.

Petrobloq’s headquarters are located at 4768 Park Granada, Calabasas, California 91302. The monthly base rent is \$3,870 for the 1,800 square foot premises and the lease is for a three-year term.

TMC holds a mining and mineral leases, as amended, on the Asphalt Ridge property which is approximately 2,541.76 acres located in Uintah County, Utah of which 1229.82 acres are currently held under the TMC Mineral Lease and an additional 833.03 and 478.91 acres, respectively are held under the SITLA Mineral Leases. We are completing construction of a 20,000 square foot extraction facility based on this leased property that is anticipated to be approximately three acres.

History and Development of the Company

We were incorporated as “AXEA Capital Corp.” on January 4, 2008 pursuant to the *Business Corporations Act* (British Columbia). On October 15, 2012, MCW Energy Group Limited (“MCW NB”), a corporation incorporated in the Province of New Brunswick, completed a reverse acquisition of AXEA Capital Corp. (the “RTO”) and as a result MCW NB became a wholly owned subsidiary of AXEA Capital Corp. which also changed its name from “AXEA Capital Corp.” to “MCW Enterprises Ltd.” Pursuant to articles of continuance filed on December 7, 2012, MCW NB changed its jurisdiction of governance by continuing from the Province of New Brunswick into the Province of Ontario. Pursuant to articles of continuance filed on December 12, 2012, MCW Enterprises Ltd. changed its jurisdiction of governance by continuing from the Province of British Columbia into the Province of Ontario and changed its name to MCW Enterprises Continuance Ltd. Pursuant to a certificate of amalgamation dated December 12, 2012, MCW Enterprises Continuance Ltd. and MCW NB amalgamated in the Province of Ontario and continued under the name “MCW Energy Group Limited”.

We are governed by the *Business Corporations Act* (Ontario) and our registered office is located at Suite 6000, 1 First Canadian Place, PO Box 367, 100 King Street West, Toronto, Ontario M5X 1E2, Canada and our principal place of business is located at 15165 Ventura Blvd., #200, Sherman Oaks, California 91403. Our telephone number is (866) 571-9613.

Our common shares are publicly traded on the TSX Venture Exchange (the “TSXV”) under the trading symbol “PQE”, the Frankfurt Exchange under the trading symbol PQCF.F and on the OTC Pink under the trading symbol “PQEFF”.

On July 4, 2016, we acquired a controlling interest of 57.3% of Accord GR Energy, Inc., however, we currently hold a 44.7% interest in Accord.

Pursuant to articles of amendment filed on May 5, 2017, we changed our name from “MCW Energy Group Limited” to “Petroteq Energy Inc.” and we changed our TSXV trading symbol from MCW to PQE. On June 2, 2017, our OTCQX trading symbol was changed from MCW to PQEFF. Since March 15, 2018, our stock has traded on the OTC Pink market when it no longer traded on the OTCQX International Market.

On May 5, 2017, we effected a share consolidation (reverse stock split) on a 1-for-30 basis. Unless otherwise included, all shares amounts and per share amounts in this registration statement have been prepared on a pro forma basis to reflect the 1-for-30 reverse stock split of our outstanding shares of common shares that we effected May 5, 2017. On November 23, 2018, our shareholders approved a resolution authorizing our Board of Directors to consolidate our shares on a basis of up to ten for one. No consolidation has been effected to date.

Recently through our wholly owned subsidiary PQE, we formed a new subsidiary Petrobloq. We have also acquired a 25% investment in a recruitment venture with three other parties providing a website based for careers in the oil and gas industry.

Additional information related to our company may be found on our website at www.petroteq.energy. Information contained in our website does not form part of the registration statement and is intended for informational purposes only.

ITEM 1A. RISK FACTORS.

The following risks relate specifically to our business and should be considered carefully. Our business, financial condition and results of operations could be harmed by any of the following risks. As a result, the trading price of our common shares could decline and the holders could lose part or all of their investment.

We have a limited operating history, and may not be successful in developing profitable business operations.

Our oil extraction segment has a limited operating history. Our business operations must be considered in light of the risks, expenses and difficulties frequently encountered in establishing a business in the oil extraction business. In May 2018 we recommenced our oil extraction activities, which is expected to be a significant source of our revenue. From 2015 until 2018, we temporarily ceased our oil extraction operations while we relocated our processing plant. For a limited period, we made sales of hydrocarbon products to customers produced at the oil extraction plant we had completed on September 1, 2015. Due to the volatility in the oil markets production ceased as we were not able to operate profitably at low volumes of output. The losses from continuing operations over the past four fiscal years are largely due to us relocating our oil extraction plant to the TMC mineral lease site. As of the date of this registration statement, we have generated limited revenue from these activities and do not anticipate generating any significant revenue from these activities until the new facility is fully operational for at least a few months, which is not expected until the last quarter of fiscal 2019. We have an insufficient history at this time on which to base an assumption that our oil extraction business operations will prove to be successful in the long-term. Our future operating results will depend on many factors, including:

- our ability to raise adequate working capital;
- the success of our development and exploration;
- the demand for oil;
- the level of our competition;
- our ability to attract and maintain key management and employees; and
- our ability to efficiently explore, develop, produce or acquire sufficient quantities of marketable gas or oil in a highly competitive and speculative environment while maintaining quality and controlling costs.

To achieve profitable operations in the future, we must, alone or with others, successfully manage the factors stated above, as well as continue to develop ways to enhance our processing efforts, when commenced. Despite our best efforts, we may not be successful in our exploration or development efforts, or obtain required regulatory approvals.

We have suffered operating losses since inception and we may not be able to achieve profitability.

At November 30, 2018, August 31, 2018 and August 31, 2017, we had an accumulated deficit of (\$68,240,978), (\$61,968,522) and (\$46,856,367), respectively and we expect to continue to incur increasing expenses in the foreseeable future as we develop our oil extraction business. We incurred a net loss of (\$6,272,456 and (3,645,712) as of the three months ended November 30, 2018 and November 30, 2017, respectively and (\$15,112,155 and (\$7,939,643), as of the years ended August 31, 2018 and August 31, 2017, respectively. As a result, we are sustaining substantial operating and net losses, and it is possible that we will never be able to sustain or develop the revenue levels necessary to attain profitability.

Our ability to be profitable will depend in part upon our ability to manage our operating costs and to generate revenue from our extraction operations. 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.

The failure to comply with the terms of our secured notes could result in a default under the terms of the note and, if uncured, it could potentially result in action against the pledged assets.

As of November 30, 2018, we had issued and outstanding notes in the principal amount of \$1,637,396 and convertible notes in the principal amount of \$3,448,974 to certain private investor which mature between January 1, 2019 and August 31, 2020 and are secured by a pledge of all of our assets. If we fail to comply with the terms of the notes, the note holder could declare a default under the notes and if the default were to remain uncured, as secured creditors they would have the right to proceed against the collateral secured by the loans. Any action by secured creditors to proceed against our assets would likely have a serious disruptive effect on our operations.

We have limited capital and will need to raise additional capital in the future.

We do not currently have sufficient capital to fund both our continuing operations and our planned growth. We will require additional capital to meet the terms of the TMC Mineral Lease and to continue to grow our business via acquisitions and to further expand our exploration and development programs. We may be unable to obtain additional capital when required. Future acquisitions and future exploration, development, processing and marketing activities, as well as our administrative requirements (such as salaries, insurance expenses and general overhead expenses, as well as legal compliance costs and accounting expenses) will require a substantial amount of additional capital and cash flow.

We may pursue sources of additional capital through various financing transactions or arrangements, including joint venturing of projects, debt financing, equity financing or other means. We may not be successful in identifying suitable financing transactions in the time period required or at all, and we may not obtain the capital we require by other means. If we do not succeed in raising additional capital, our resources may not be sufficient to fund our planned operations and may force us to curtail operations or cancel planned projects.

Our ability to obtain financing, if and when necessary, may be impaired by such factors as the capital markets (both generally and in the oil and gas industry in particular), our limited operating history, the location of our oil and gas properties and prices of oil and gas on the commodities markets (which will impact the amount of asset-based financing available to us, if any) and the departure of key employees.

Further, if oil or gas prices on the commodities markets decline, our future revenues, if any, will likely decrease and such decreased revenues may increase our requirements for capital. If the amount of capital we are able to raise from financing activities, together with our revenues from operations, is not sufficient to satisfy our capital needs (even to the extent that we reduce our operations), we may be required to cease our operations, divest our assets at unattractive prices or obtain financing on unattractive terms.

Any additional capital raised through the sale of equity may dilute the ownership percentage of our shareholders. Raising any such capital could also result in a decrease in the fair market value of our equity securities because our assets would be owned by a larger pool of outstanding equity. The terms of securities we issue in future capital transactions may be more favorable to our new investors, and may include preferences, superior voting rights and the issuance of other derivative securities, and issuances of incentive awards under equity employee incentive plans, which may have a further dilutive effect.

Any additional debt financing may include conditions that would restrict our freedom to operate our business, such as conditions that:

- increase our vulnerability to general adverse economic and industry conditions;
- require us to dedicate a portion of our cash flow from operations to payments on our debt, thereby reducing the availability of our cash flow to fund capital expenditures, working capital, growth and other general corporate purposes; and
- limit our flexibility in planning for, or reacting to, changes in our business and our industry.

The incurrence of additional indebtedness could require acceptance of covenants that, if violated, could further restrict our operations or lead to acceleration of the indebtedness that would necessitate winding up or liquidation of our company. In addition to the foregoing, our ability to obtain additional debt financing may be limited and there can be no assurance that we will be able to obtain any additional financing on terms that are acceptable, or at all.

We may incur substantial costs in pursuing future capital financing, including investment banking fees, legal fees, accounting fees, securities law compliance fees, printing and distribution expenses and other costs. We may also be required to recognize non-cash expenses in connection with certain securities we may issue, which may adversely impact our financial condition.

There is substantial doubt about our ability to continue as a going concern.

At November 30, 2018, we had not yet achieved profitable operations, had accumulated losses of (\$68, 240,978) since our inception and a working capital deficit of (\$5,829,414), and expect to incur further losses in the development of our business, all of which casts substantial doubt about our ability to continue as a going concern. We have incurred net losses for the past four years. As at August 31, 2018 and August 31, 2017, we had an accumulated deficit of (\$61,968,522) and (\$46,856,367), respectively and a working capital deficit of (\$374,567) and (\$4,250,552), respectively. The opinion of our independent registered accounting firm on our audited financial statements for the years ended August 31, 2018 and 2017 draws attention to our notes to the financial statements which describes certain material uncertainties regarding our ability to continue as a going concern. Our ability to continue as a going concern is dependent upon our ability to generate future profitable operations and/or to obtain the necessary financing to meet our obligations and repay our liabilities arising from normal business operations when they come due. Management's plan to address our ability to continue as a going concern includes: (1) obtaining debt or equity funding from private placement or institutional sources; (2) obtaining loans from financial institutions, where possible; or (3) participating in joint venture transactions with third parties. Although management believes that it will be able to obtain the necessary funding to allow us to remain a going concern through the methods discussed above, there can be no assurances that such methods will prove successful. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Strategic relationships upon which we may rely are subject to change, which may diminish our ability to conduct our operations.

Our ability to successfully acquire oil and gas interests, to establish reserves, and to identify and enter into commercial arrangements with customers will depend on developing and maintaining close working relationships with industry participants and our ability to select and evaluate suitable properties and to consummate transactions in a highly competitive environment. These realities are subject to change and our inability to maintain close working relationships with industry participants or continue to acquire suitable property may impair our ability to execute our business plan.

To continue to develop our business, we will endeavor to use the business relationships of our management to enter into strategic relationships, which may take the form of joint ventures with other private parties and contractual arrangements with other oil and gas companies, including those that supply equipment and other resources that we will use in our business. We may not be able to establish these strategic relationships, or if established, we may not be able to maintain them. In addition, the dynamics of our relationships with strategic partners may require us to incur expenses or undertake activities we would not otherwise be inclined to in order to fulfill our obligations to these partners or maintain our relationships. If our strategic relationships are not established or maintained, our business prospects may be limited, which could diminish our ability to conduct our operations.

We may not be able to successfully manage our growth, which could lead to our inability to implement our business plan.

Our growth is expected to place a significant strain on our managerial, operational and financial resources, especially considering that we currently only have a small number of executive officers, employees and advisors. Further, as we enter into additional contracts, we will be required to manage multiple relationships with various consultants, businesses and other third parties. In addition, once we commence operations at our oil extraction facility, our strain on management will further increase. These requirements will be exacerbated in the event of our further growth or in the event that the number of our drilling and/or extraction operations increases. There can be no assurance that our systems, procedures and/or controls will be adequate to support our operations or that our management will be able to achieve the rapid execution necessary to successfully implement our business plan. If we are unable to manage our growth effectively, our business, results of operations and financial condition will be adversely affected, which could lead to us being forced to abandon or curtail our business plan and operations.

Our operations are dependent upon us maintaining our mineral lease for the Asphalt Ridge Property.

TMC, our subsidiary holds a mining and mineral lease, granted by Asphalt Ridge, Inc., on the Asphalt Ridge property located in Uintah County, Utah (the "TMC Mineral Lease"). We recently moved our processing facility to the TMC Mineral Lease site. The TMC Mineral Lease is subject to termination under various circumstances, including our non-payment of certain royalty fees as well as us not meeting certain minimum production requirements and receiving funding commitments for expanding or building additional production facilities. We currently intend to fund the expansion/ additional facilities through revenue generated from the processing facility at the TMC Mineral Lease, which to date has been minimal, and/ or third party funding sources for which we currently have no commitments. If the TMC Mineral Lease were to be terminated our operations would be significantly impacted until such time that we were able to enter into a substitute lease. Any substitute lease would require extensive construction work and new regulatory permits prior to becoming operational. There can be no assurance that we could enter into a substitute lease upon favorable terms if at all or that such lease would not require us to relocate our extraction facility.

The loss of key personnel would directly affect our efficiency and profitability.

Our future success is dependent, in a large part, on retaining the services of our current management team. Our executive officers possess a unique and comprehensive knowledge of our industry, our technology and related matters that are vital to our success within the industry.

The knowledge, leadership and technical expertise of these individuals would be difficult to replace. The loss of one or more of our officers could have a material adverse effect on our operating and financial performance, including our ability to develop and execute our long term business strategy. We do not maintain key-man life insurance with respect to any employees. We do not have employment agreements with any of our executive officers other than our Chief Executive Officer. There can be no assurance that any of our officers will continue to be employed by us.

In the future, we may incur significant increased costs as a result of operating as a U.S reporting company, and our management may be required to devote substantial time to new compliance initiatives.

In the future, we may incur significant legal, accounting and other expenses as a result of operating as a public company. The Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act"), as well as new rules subsequently implemented by the U.S. Securities and Exchange Commission (the "SEC"), have imposed various requirements on public companies, including requiring changes in corporate governance practices. Our management and other personnel will need to devote a substantial amount of time to these new compliance initiatives. Moreover, these rules and regulations will increase our legal and financial compliance costs and will make some activities more time-consuming and costly. For example, we expect these new rules and regulations to make it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be required to incur substantial costs to maintain the same or similar coverage.

Our operations are currently geographically concentrated and therefore subject to regional economic, regulatory and capacity risks.

All of our production is anticipated to be derived from our properties in the Asphalt Ridge. As a result of this geographic concentration, we may be disproportionately exposed to the effect of regional supply and demand factors, delays or interruptions of production from ore sands in this area caused by governmental regulation, processing or transportation capacity constraints, market limitations, weather events or interruption of the processing or transportation of crude oil or natural gas. Additionally, we may be exposed to additional risks, such as changes in field-wide rules and regulations that could cause us to permanently cease mining operations at Asphalt Ridge.

In addition, the Sarbanes-Oxley Act requires, among other things, that we maintain effective internal controls for financial reporting and disclosure controls and procedures. In particular, we are required to perform system and process evaluation and testing on the effectiveness of our internal controls over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act. Our testing may reveal deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses. Our compliance with Section 404 will require that we incur substantial accounting expense and expend significant management efforts. We currently do not have an internal audit group, and we will need to hire additional accounting and financial staff with appropriate public company experience and technical accounting knowledge. Moreover, if we are not able to comply with the requirements of Section 404 in a timely manner, or if we or our independent registered public accounting firm identifies deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses, the market price of our stock could decline, and we could be subject to sanctions or investigations by the SEC or other regulatory authorities, which would require additional financial and management resources.

Licenses and permits are required for our company to operate in some jurisdictions, and the loss of or failure to renew any or all of these licenses and permits or failure to comply with applicable laws and regulations could prevent us from either completing current projects or obtaining future projects, and, thus, materially adversely affect our business.

Our operations will require licenses, permits and in some cases renewals of licenses and permits from various governmental authorities. Our ability to obtain, sustain or renew such licenses and permits on acceptable terms is subject to change in regulations and policies and to the discretion of the applicable governments, among other factors. Our inability to obtain, or our loss of or denial of extension of, any of these licenses or permits could hamper our ability to produce revenues from our operations.

We may be required to make significant capital expenditures to comply with laws and the applicable regulations and standards of governmental authorities and organizations.

We are subject to various national, state, and local laws and regulations in the various countries in which we operate, including those relating to the renewable energy industry in general, and may be required to make significant capital expenditures to comply with laws and the applicable regulations and standards of governmental authorities and organizations. Moreover, the cost of compliance could be higher than anticipated. On the effective date hereof, our operations will become subject to compliance with the U.S. Foreign Corrupt Practices Act in addition to certain international conventions and the laws, regulations and standards of other foreign countries in which we operate.

In addition, many aspects of our operations are subject to laws and regulations that relate, directly or indirectly, to the renewable industry. Existing and proposed new governmental conventions, laws, regulations and standards, including those related to climate and emissions of “greenhouse gases,” may in the future add significantly to our operating costs or limit our activities or the activities and levels of capital spending by our customers. Failure to comply with these laws and regulations may result in the assessment of administrative, civil and even criminal penalties, the imposition of remedial obligations, and the issuance of injunctions that may limit or prohibit our operations. The application of these requirements, the modification of existing laws or regulations or the adoption of new laws or regulations which impose substantial new regulatory requirements on our oil extraction operations could also harm our business, results of operations, financial condition and prospects.

We could be subject to litigation that could have an adverse effect on our business and operating results.

We are, from time to time, involved in litigation. The numerous operating hazards inherent in our business increase our exposure to litigation, which may involve, among other things, contract disputes, personal injury, environmental, employment, warranty and product liability claims, tax and securities litigation, patent infringement and other intellectual property claims and litigation that arises in the ordinary course of business. Our management cannot predict with certainty the outcome or effect of any claim or other litigation matter. Litigation may have an adverse effect on us because of potential negative outcomes such as monetary damages or restrictions on future operations, the costs associated with defending the lawsuits, the diversion of management’s resources and other factors.

Global political, economic and market conditions could negatively impact our business.

Our company’s operations are affected by global political, economic and market conditions. The recent economic downturn has generally reduced the availability of liquidity and credit to fund business operations worldwide and has adversely affected our customers, suppliers and lenders. Our limited capital resources have negatively impacted our activity levels and, in turn, our financial condition and results of operations. A sustained or deeper recession in regions in which we operate could limit overall demand for our renewable energy solutions and could further constrain our ability to generate revenues and margins in those markets and to grow overall.

War, terrorism, geopolitical uncertainties, public health issues, and other business interruptions have caused and could cause damage or disruption to international commerce and the global economy, and thus could have a material adverse effect on us, our suppliers, logistics providers and customers. Our business operations are subject to interruption by, among others, natural disasters (including, without limitation, earthquakes), fire, power shortages, nuclear power plant accidents, terrorist attacks and other hostile acts, labor disputes, public health issues, and other events beyond our control. Such events could decrease demand for our services and products, make it difficult or impossible for us to make and deliver crude oil and hydrocarbon products to our buyers and customers, or to receive necessary supplies from our suppliers, and create delays and inefficiencies in our supply chain. Should major public health issues, including pandemics, arise, we could be adversely affected by more stringent employee travel restrictions, additional limitations in freight services, governmental actions limiting the movement of products between regions, delays in production ramps of new products, and disruptions in the operations of our customers and suppliers. The majority of our business operations, our corporate headquarters, and other critical business operations, including suppliers and customers, are in locations that could be affected by natural disasters. In the event of a natural disaster, we could incur significant losses, require substantial recovery time and experience significant expenditures in order to resume operations.

We do not carry business interruption insurance, and any unexpected business interruptions could adversely affect our business.

Our operations are vulnerable to interruption by earthquake, fire, power failure and power shortages, hardware and software failure, floods, computer viruses, and other events beyond our control. In addition, we do not carry business interruption insurance to compensate us for losses that may occur as a result of these kinds of events, and any such losses or damages incurred by us could disrupt our projects and our other operations without reimbursement. Because of our limited financial resources, such an event could threaten our viability to continue as a going concern and lead to dramatic losses in the value of our common shares.

Certain Factors Related to Oil Sands Exploration

The Nature of Oil Sands Exploration and Development involves many risks.

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 exploration property, there can be no assurance that commercial deposits of bitumen will be produced from oil sands exploration licenses and our permit lands in Utah.

The Extraction Technology has never been implemented on a large commercial basis as an oil and gas recovery technology before and our assumptions and expectations may not be accurate causing actual results of the implementation of the Extraction Technology to be significantly different from our current expectations. As a result, our operations may not generate any significant revenues from the development of the bitumen resources. In addition, there is no assurance that reserve engineers or lenders will determine that the production resulting from the application of the Extraction Technology can be used to establish reserves.

Furthermore, the marketability of any resource will be affected by numerous factors beyond our 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, land use and environmental protection). The extent of these factors cannot be accurately predicted, but the combination of these factors may result in us not receiving an adequate return on invested capital.

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. Our oil extraction activities will be dependent upon our supply of bitumen.

The viability of our business plan, business operations, and future operating results and financial condition are and will be exposed to fluctuating prices for oil, gas, oil products and chemicals.

Prices of oil, gas, oil products and chemicals are affected by supply and demand, which can fluctuate significantly. Factors that influence supply and demand include operational issues, natural disasters, weather, political instability, or conflicts, economic conditions and actions by major oil-exporting countries. Price fluctuations can have a material effect on our ability to raise capital and fund our exploration activities, our potential future earnings, and our financial condition. For example, in a low oil and gas price environment oil sands exploration and development may not be financially viable or profitable. Prolonged periods of low oil and gas prices, or rising costs, could result in our exploration projects being delayed or cancelled, as well as the impairment of certain assets.

Environmental and regulatory compliance may impose substantial costs on us.

Our operations are or will be subject to stringent federal, provincial and local laws and regulations relating to improving or maintaining environmental quality. Environmental laws often require parties to pay for remedial action or to pay damages regardless of fault. Environmental laws also often impose liability with respect to divested or terminated operations, even if the operations were terminated or divested many years ago.

Our exploration activities and drilling programs are or will be subject to extensive laws and regulations governing prospecting, development, production, exports, taxes, labor standards, occupational health, waste disposal, land use, protection and remediation of the environment, protection of endangered and protected species, operational safety, toxic substances and other matters. Exploration and drilling is also subject to risks and liabilities associated with pollution of the environment and disposal of waste products. Compliance with these laws and regulations will impose substantial costs on us and will subject us to significant potential liabilities. In addition, should there be changes to existing laws or regulations, our competitive position within the oil sands industry may be adversely affected, as many industry players have greater resources than we do.

We are required to obtain various regulatory permits and approvals in order to explore and develop our properties. There is no assurance that regulatory approvals for exploration and development of our properties will be obtained at all or with terms and conditions acceptable to us.

We may be exposed to third party liability and environmental liability in the operation of our business.

Our operations could result in liability for personal injuries, property damage, oil spills, discharge of hazardous materials, remediation and clean-up costs and other environmental damage. We could be liable for environmental damages caused by previous owners. As a result, substantial liabilities to third parties or governmental entities may be incurred, and the payment of such liabilities could have a material adverse effect on our financial condition and results of operations. The release of harmful substances in the environment or other environmental damages caused by our activities could result in us losing our operating and environmental permits or inhibit us from obtaining new permits or renewing existing permits. We currently have a limited amount of insurance and, at such time as we commence additional operations, we expect to be able to obtain and maintain additional insurance coverage for our operations, including limited coverage for sudden environmental damages, but we do not believe that insurance coverage for environmental damage that occurs over time is available at a reasonable cost. Moreover, we do not believe that insurance coverage for the full potential liability that could be caused by environmental damage is available at a reasonable cost. Accordingly, we may be subject to liability or may lose substantial portions of our properties in the event of certain environmental damage. We could incur substantial costs to comply with environmental laws and regulations which could affect our ability to operate as planned.

American climate change legislation could negatively affect markets for crude and synthetic crude oil

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 our business, or require the purchase of emissions credits, which may not be economically feasible.

Because of the speculative nature of oil exploration, there is risk that we will not find commercially exploitable oil and gas and that our business will fail.

The search for commercial quantities of oil and gas as a business is extremely risky. We cannot provide investors with any assurance that any properties in which we obtain a mineral interest will contain commercially exploitable quantities of bitumen, oil and/or gas. The exploration expenditures to be made by us may not result in the discovery of commercial quantities of oil and/or gas. Problems such as unusual or unexpected formations or pressures, premature declines of reservoirs, invasion of water into producing formations and other conditions involved in oil and gas exploration often result in unsuccessful exploration efforts. If we are unable to find commercially exploitable quantities of oil and gas, and/or we are unable to commercially extract such quantities, we may be forced to abandon or curtail our business plan, and as a result, any investment in us may become worthless.

The price of oil and gas has historically been volatile. If it were to decrease substantially, our projections, budgets and revenues would be adversely affected, potentially forcing us to make changes in our operations.

Our future financial condition, results of operations and the carrying value of any oil and gas interests we acquire will depend primarily upon the prices paid for oil and gas production. Oil and gas prices historically have been volatile and likely will continue to be volatile in the future, especially given current world geopolitical conditions. Our cash flows from operations are highly dependent on the prices that we receive for oil and gas. This price volatility also affects the amount of our cash flows available for capital expenditures and our ability to borrow money or raise additional capital. The prices for oil and gas are subject to a variety of additional factors that are beyond our control. These factors include:

- the level of consumer demand for oil and gas;
- the domestic and foreign supply of oil and gas;
- the ability of the members of the Organization of Petroleum Exporting Countries (“OPEC”) to agree to and maintain oil price and production controls;

- the price of foreign oil and gas;
- domestic governmental regulations and taxes;
- the price and availability of alternative fuel sources;
- weather conditions;
- market uncertainty due to political conditions in oil and gas producing regions, including the Middle East; and
- worldwide economic conditions.

These factors as well as the volatility of the energy markets generally make it extremely difficult to predict future oil and gas price movements with any certainty. Declines in oil and gas prices affect our revenues and accordingly, such declines could have a material adverse effect on our financial condition, results of operations, our future oil and gas reserves and the carrying values of our oil and gas properties. If the oil and gas industry experiences significant price declines, we may be unable to make planned expenditures, among other things. If this were to happen, we may be forced to abandon or curtail our business operations, which would cause the value of an investment in us to decline in value or become worthless.

Because of the inherent dangers involved in oil and gas operations, there is a risk that we may incur liability or damages as we conduct our business operations, which could force us to expend a substantial amount of money in connection with litigation and/or a settlement.

The oil and gas business involves a variety of operating hazards and risks such as well blowouts, pipe failures, casing collapse, explosions, uncontrollable flows of oil, gas or well fluids, fires, spills, pollution, releases of toxic gas and other environmental hazards and risks. These hazards and risks could result in substantial losses to us from, among other things, injury or loss of life, severe damage to or destruction of property, natural resources and equipment, pollution or other environmental damage, cleanup responsibilities, regulatory investigation and penalties and suspension of operations. In addition, we may be liable for environmental damages caused by previous owners of property purchased and leased by us. As a result, substantial liabilities to third parties or governmental entities may be incurred, the payment of which could reduce or eliminate the funds available for exploration, development or acquisitions or result in the loss of our properties and/or force us to expend substantial monies in connection with litigation or settlements. There can be no assurance that any insurance we may have in place will be adequate to cover any losses or liabilities. The occurrence of a significant event not fully insured or indemnified against could materially and adversely affect our financial condition and operations. In addition, pollution and environmental risks generally are not fully insurable. The occurrence of an event not fully covered by insurance could have a material adverse effect on our financial condition and results of operations, which could lead to any investment in us becoming worthless.

The market for oil and gas is intensely competitive, and competitive pressures could force us to abandon or curtail our business plan.

The market for oil and gas exploration services is highly competitive, and we only expect competition to intensify in the future. Numerous well-established companies are focusing significant resources on exploration and are currently competing with us for oil and gas opportunities. Other oil and gas companies may seek to acquire oil and gas leases and properties that we have targeted. Additionally, other companies engaged in our line of business may compete with us from time to time in obtaining capital from investors. Competitors include larger companies which, in particular, may have access to greater resources, may be more successful in the recruitment and retention of qualified employees and may conduct their own refining and petroleum marketing operations, which may give them a competitive advantage. Actual or potential competitors may be strengthened through the acquisition of additional assets and interests. Additionally, there are numerous companies focusing their resources on creating fuels and/or materials which serve the same purpose as oil and gas but are manufactured from renewable resources. As a result, there can be no assurance that we will be able to compete successfully or that competitive pressures will not adversely affect our business, results of operations and financial condition. If we are not able to successfully compete in the marketplace, we could be forced to curtail or even abandon our current business plan, which could cause any investment in us to become worthless.

Our estimates of the volume of recoverable resources could have flaws, or such resources could turn out not to be commercially extractable. Further, we may not be able to establish any reserves. As a result, our future revenues and projections could be incorrect.

Estimates of recoverable resources and of future net revenues prepared by different petroleum engineers may vary substantially depending, in part, on the assumptions made and may be subject to adjustment either up or down in the future. To date we have not established any reserves. Our actual amounts of production, revenue, taxes, development expenditures, operating expenses, and future quantities of recoverable oil and gas reserves may vary substantially from the estimates. There are numerous uncertainties inherent in estimating quantities of bitumen resources and recoverable 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. Oil and gas reserve estimates are necessarily inexact and involve matters of subjective engineering judgment. In addition, any estimates of our future net revenues and the present value thereof are based on assumptions derived in part from historical price and cost information, which may not reflect current and future values, and/or other assumptions made by us that only represent our best estimates. 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. Additionally, if declines in and instability of oil and gas prices occur, then write downs in the capitalized costs associated with any oil and gas assets we obtain may be required. Because of the nature of the estimates of our recoverable resources and future reserves and estimates in general, we can provide no assurance that our estimated bitumen resources or future reserves will be present and/or commercially extractable. If our recoverable bitumen resource estimates are incorrect, the value of our common shares could decrease and we may be forced to write down the capitalized costs of our oil and gas properties.

Decommissioning costs are unknown and may be substantial. Unplanned costs could divert resources from other projects.

In the future, we may become responsible for costs associated with abandoning and reclaiming wells, facilities and pipelines which we use for processing of oil and gas reserves. Abandonment and reclamation of these facilities and the costs associated therewith is often referred to as “decommissioning.” We accrue a liability for decommissioning costs associated with our extraction plant and wells but have not established any cash reserve account for these potential costs in respect of any of our properties. If decommissioning is required before economic depletion of our properties or if our estimates of the costs of decommissioning exceed the value of the reserves remaining at any particular time to cover such decommissioning costs, we may have to draw on funds from other sources to satisfy such costs. The use of other funds to satisfy such decommissioning costs could impair our ability to focus capital investment in other areas of our business.

We may have difficulty distributing the oil we produce, which could harm our financial condition.

In order to sell the oil and gas that we are able to produce, if any, the operators of the open mining operations and wells we obtain interests in may have to make arrangements for storage and distribution to the market. We will rely on local infrastructure and the availability of transportation for storage and shipment of our products, but infrastructure development and storage and transportation facilities may be insufficient for our needs at commercially acceptable terms in the localities in which we operate. This situation could be particularly problematic to the extent that our operations are conducted in remote areas that are difficult to access, such as areas that are distant from shipping and/or pipeline facilities. These factors may affect our and potential partners’ ability to explore and develop properties and to store and transport oil and gas production, increasing our expenses.

Furthermore, weather conditions or natural disasters, actions by companies doing business in one or more of the areas in which we will operate, or labor disputes may impair the distribution of oil and/or gas and in turn diminish our financial condition or ability to maintain our operations.

Challenges to our properties may impact our financial condition.

Title to oil and gas interests is often not capable of conclusive determination without incurring substantial expense. While we intend to make appropriate inquiries into the title of properties and other development rights we acquire, title defects may exist. In addition, we may be unable to obtain adequate insurance for title defects, on a commercially reasonable basis or at all. If title defects do exist, it is possible that we may lose all or a portion of our right, title and interests in and to the properties to which the title defects relate. If our property rights are reduced, our ability to conduct our exploration, development and processing activities may be impaired. To mitigate title problems, common industry practice is to obtain a title opinion from a qualified oil and gas attorney prior to the excavation activities undertaken or the drilling operations of a well.

We rely on technology to conduct our business, and our technology could become ineffective or obsolete.

We rely on technology, including geographic and seismic analysis techniques and economic models, to develop our reserve estimates and to guide our exploration, development and processing activities. We and our operator partners will be required to continually enhance and update our technology to maintain its efficacy and to avoid obsolescence. Our oil extraction business is dependent upon the Extraction Technology that we have developed but which has not yet been used on a large commercial scale. As such, the project carries with it a greater degree of technological risk than other projects that employ commercially proven technologies and the Extraction Technology may not perform as anticipated. If major process design changes are required, the costs of doing so may be substantial and may be higher than the costs that we anticipate for technology maintenance and development. If we are unable to maintain the efficacy of our technology, our ability to manage our business and to compete may be impaired. Further, even if we are able to maintain technical effectiveness, our technology may not be the most efficient means of reaching our objectives, in which case we may incur higher operating costs than we would were our technology more efficient.

Our failure to protect our proprietary information and any successful intellectual property challenges or infringement proceedings against us could materially and adversely affect our competitive position.

We rely on a variety of intellectual property rights that we use in our services and products. We rely upon intellectual property rights and other contractual or proprietary rights, including copyright, trademark, trade secrets, confidentiality provisions, contractual provisions, licenses and patents. We may not be able to successfully preserve these intellectual property rights in the future, and these rights could be invalidated, circumvented, or challenged. In addition, the laws of some foreign countries in which our services and products may be sold do not protect intellectual property rights to the same extent as the laws of the United States. Our failure to protect our proprietary information and any successful intellectual property challenges or infringement proceedings against us could materially and adversely affect our competitive position. Without patent and other similar protection, other companies could use substantially identical technology to offer products for sale without incurring the sizable development costs we have incurred. Even if we spend the necessary time and money, a patent may not be issued or it may insufficiently protect the technology it was intended to protect. If our pending patent applications are not approved for any reason, the degree of future protection for our proprietary technology will remain uncertain. If we have to engage in litigation to protect our patents and other intellectual property rights, the litigation could be time consuming and expensive, regardless of whether we are successful. Despite our efforts, our intellectual property rights, particularly existing or future patents, may be invalidated, circumvented, challenged, infringed or required to be licensed to others. We cannot be assured that any steps we may take to protect our intellectual property rights and other rights to such proprietary technologies that are central to our operations will prevent misappropriation or infringement of the right to use or license others to use the Extraction Technology and accordingly may conduct an oil sands extraction operation similar to ours.

Certain Factors Related to Our Common Shares

There presently is a limited market for our common shares, and the price of our common shares may continue to be volatile.

Our common shares are currently quoted on the TSXV, the Frankfurt Exchange and the OTC Pink. Our common shares, however, are very thinly traded, and we have a very limited trading history. There could continue to be volatility in the volume and market price of our common shares moving forward. This volatility may be caused by a variety of factors, including the lack of readily available quotations, the absence of consistent administrative supervision of “bid” and “ask” quotations and generally lower trading volume. In addition, factors such as quarterly variations in our operating results, changes in financial estimates by securities analysts or our failure to meet our or their projected financial and operating results, litigation involving us, factors relating to the oil and gas industry, actions by governmental agencies, national economic and stock market considerations as well as other events and circumstances beyond our control could have a significant impact on the future market price of our common shares and the relative volatility of such market price.

Offers or availability for sale of a substantial number of shares of our common shares may cause the price of our common shares to decline.

Our shareholders could sell substantial amounts of common shares in the public market, including shares sold upon the filing of a registration statement that registers such shares and/or upon the expiration of any statutory holding period under Rule 144 of the Securities Act of 1933 (the “Securities Act”), if available, or upon trading limitation periods. Such volume could create a circumstance commonly referred to as an “overhang” and in anticipation of which the market price of our common shares could fall. The existence of an overhang, whether or not sales have occurred or are occurring, also could make it more difficult for us to secure additional financing through the sale of equity or equity-related securities in the future at a time and price that we deem reasonable or appropriate.

We do not anticipate paying any cash dividends.

We do not anticipate paying cash dividends on our common shares for the foreseeable future. The payment of dividends, if any, would be contingent upon our revenues and earnings, if any, capital requirements, and general financial condition. The payment of any dividends will be within the discretion of our Board of Directors. We presently intend to retain all earnings, if any, to implement our business strategy; accordingly, we do not anticipate the declaration of any dividends in the foreseeable future.

The market price and trading volume of our common shares may continue to be volatile and may be affected by variability in our performance from period to period and economic conditions beyond management’s control.

The market price of our common shares may continue to be highly volatile and could be subject to wide fluctuations. This means that our shareholders could experience a decrease in the value of their common shares regardless of our operating performance or prospects. The market prices of securities of companies operating in the oil and gas sector have often experienced fluctuations that have been unrelated or disproportionate to the operating results of these companies. In addition, the trading volume of our common shares may fluctuate and cause significant price variations to occur. If the market price of our common shares declines significantly, our shareholders may be unable to resell our common shares at or above their purchase price, if at all. There can be no assurance that the market price of our common shares will not fluctuate or significantly decline in the future.

Some specific factors that could negatively affect the price of our common shares or result in fluctuations in their price and trading volume include:

- actual or expected fluctuations in our operating results;
- actual or expected changes in our growth rates or our competitors' growth rates;
- our inability to raise additional capital, limiting our ability to continue as a going concern;
- changes in market prices for our product or for our raw materials;
- changes in market valuations of similar companies;
- changes in key personnel for us or our competitors;
- speculation in the press or investment community;
- changes or proposed changes in laws and regulations affecting the renewable energy industry as a whole;
- conditions in the renewable energy industry generally; and
- conditions in the financial markets in general or changes in general economic conditions.

In the past, following periods of volatility in the market price of the securities of other companies, shareholders have often instituted securities class action litigation against such companies. If we were involved in a class action suit, it could divert the attention of senior management and, if adversely determined, could have a material adverse effect on our results of operations and financial condition.

We may be classified as a foreign investment company for U.S. federal income tax purposes, which could subject U.S. investors in our common shares to significant adverse U.S. income tax consequences.

Depending upon the value of our common shares and the nature of our assets and income over time, we could be classified as a "passive foreign investment company", or "PFIC", for U.S. federal income tax purposes. Based upon our current income and assets and projections as to the value of our common shares, we do not presently expect to be a PFIC for the current taxable year or the foreseeable future. While we do not expect to become a PFIC, if among other matters, our market capitalization is less than anticipated or subsequently declines, we may be a PFIC for the current or future taxable years. The determination of whether we are or will be a PFIC will also depend, in part, on the composition of our income and assets, which will be affected by how, and how quickly, we use our liquid assets. Because PFIC status is a factual determination made annually after the close of each taxable year, including ascertaining the fair market value of our assets on a quarterly basis and the character of each item of income we earn, we can provide no assurance that we will not be a PFIC for the current taxable year or any future taxable year.

If we were to be classified as a PFIC in any taxable year, a U.S. holder would be subject to special rules generally intended to reduce or eliminate any benefits from the deferral of U.S. federal income tax that a U.S. holder could derive from investing in a non-U.S. corporation that does not distribute all of its earnings on a current basis. Further, if we are classified as a PFIC for any year during which a U.S. holder holds our common shares, we generally will continue to be treated as a PFIC for all succeeding years during which such U.S. holder holds our common shares.

We are exposed to credit risk through our cash and cash equivalents held at financial institutions.

Credit risk is the risk of unexpected loss if a customer or third party to a financial instrument fails to meet contractual obligations. We are exposed to credit risk through our cash and cash equivalents held at financial institutions. We have cash balances at four financial institutions. We have not experienced any loss on these accounts, although balances in the accounts may exceed the insurable limits.

Some of our officers and directors have conflicts of interest and cannot devote a substantial amount of time to our company.

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 ours. Several of our officers work for us on a part time basis. These officers have discretion as to what time they devote to our activities, which may result in lack of availability when needed due to responsibilities at other jobs. In addition, 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 of our directors and officers will only devote a portion of their time to our business and affairs and some of them are or will be engaged in other projects or businesses.

Our ability to issue an unlimited number of common shares and preferred shares may have anti-takeover effects that could discourage, delay or prevent a change of control and may result in dilution to our investors.

Our charter documents currently authorize the issuance of an unlimited number of common shares without nominal or par value and an unlimited number of preferred shares without nominal or par value in one or more series without the requirement that we obtain any shareholder approval. The Board could authorize the issuance of additional preferred shares that would grant holders rights to our assets upon liquidation, special voting rights, redemption rights. That could impair the rights of holders of common shares and discourage a takeover attempt. In addition, in an effort to discourage a takeover attempt, our Board could issue an unlimited number of additional common shares. There are currently no preferred shares outstanding. If we issue any additional shares or enter into private placements to raise financing through the sale of equity securities, investors' interests in our company will be diluted and investors may suffer substantial dilution in their net book value per share depending on market conditions and the price at which such securities are sold. If we issue any such additional shares, such issuances also will cause a reduction in the proportionate ownership and voting power of all other shareholders.



Issuances of common shares upon exercise or conversion of convertible securities, including pursuant to our equity incentive plans and outstanding warrants and convertible notes could result in additional dilution of the percentage ownership of our stockholders and could cause our stock price to fall.

We currently have warrants to purchase 20,714,715 common shares outstanding at exercise prices ranging from US 0.48 to \$21.66 (CDN\$28.35) and options to purchase 9,858,333 common shares with a weighted average exercise price of CDN \$1.22 and notes convertible into 8,610,416 common shares based on conversion prices ranging from \$0.40 to \$1.00 per share. The issuance of the common shares underlying the warrants, options and convertible notes will have a dilutive effect on the percentage ownership held by holders of our common shares.

We have applied to list our common shares on the NASDAQ Capital Market (“NASDAQ”); however, there can be no assurance that our common shares will be approved for listing on NASDAQ or if approved that we will meet the continued listing requirements.

We have applied to list our common shares on NASDAQ; however, we currently do not meet the initial listing requirements of NASDAQ. In particular, we do not meet the stock price requirement and may be required to effect another reverse stock split in order to meet such requirement.

If after listing we fail to satisfy the continued listing requirements of NASDAQ such as the corporate governance requirements, the stockholder’s equity requirement or the minimum closing bid price requirement, NASDAQ may take steps to de-list our common shares. Such a de-listing or even notification of failure to comply with such requirements would likely have a negative effect on the price of our common shares and would impair your ability to sell or purchase our common shares when you wish to do so. In the event of a de-listing, we would take actions to restore our compliance with the NASDAQ’s listing requirements, but we can provide no assurance that any such action taken by us would allow our common shares to become listed again, stabilize the market price or improve the liquidity of our common shares, prevent our common shares from dropping below the NASDAQ minimum bid price requirement or prevent future non-compliance with the NASDAQ’s listing requirements.

The National Securities Markets Improvement Act of 1996, which is a federal statute, prevents or preempts the states from regulating the sale of certain securities, which are referred to as “covered securities.” Because we expect that our common shares will be listed on NASDAQ, our common shares will be covered securities. Although the states are preempted from regulating the sale of covered securities, the federal statute does allow the states to investigate companies if there is a suspicion of fraud, and, if there is a finding of fraudulent activity, then the states can regulate or bar the sale of covered securities in a particular case. Further, if we were to be delisted from NASDAQ, our common shares would cease to be recognized as covered securities and we would be subject to regulation in each state in which we offer our securities.

In order to meet the initial listing requirements of NASDAQ, we may need to effect a reverse stock split.

In order to meet the initial listing requirements of NASDAQ. We will likely need to effect a reverse stock split. There are risks associated with a reverse split, including that a reverse split may not result in a sustained increase in the per share price of our common shares. There is no assurance that:

- the market price per share of our common shares after a reverse split will rise in proportion to the reduction in the number of shares of our common shares outstanding before the reverse split;
- a reverse split will result in a per share price that will attract brokers and investors who do not trade in lower priced stocks;
- a reverse split will result in a per share price that will increase our ability to attract and retain employees and other service providers; and
- the market price per share will either exceed or remain in excess of the minimum bid price as required by NASDAQ Capital Market, or that we will otherwise meet the requirements of NASDAQ Capital Market for initial listing for trading on NASDAQ.

Even if the market price of our common shares does rise following a reverse split, we cannot assure you that the market price of our common shares immediately after a reverse split will be maintained for any period of time. Even if an increased per-share price can be maintained, a reverse split may not achieve the desired results that have been outlined above. Moreover, because some investors may view a reverse split negatively, we cannot assure you that a reverse split will not adversely impact the market price of our common shares.

The risks associated with penny stock classification could affect the marketability of our common shares and shareholders could find it difficult to sell their shares.

Our common shares are currently subject to “penny stock” rules as promulgated under the Securities and Exchange Act of 1934, as amended. The SEC adopted rules that regulate broker-dealer practices in connection with transactions in penny stocks. Transaction costs associated with purchases and sales of penny stocks are likely to be higher than those for other securities. Penny stocks generally are equity securities with a price of less than \$5.00 (other than securities listed on certain national securities exchanges, provided that current price and volume information with respect to transactions in such securities is provided by the exchange).

The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document that provides information about penny stocks and the nature and level of risks in the penny stock market. The broker-dealer also must provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in the transaction, and monthly account statements showing the market value of each penny stock held in the customer’s account. The bid and offer quotations, and the broker-dealer and salesperson compensation information, must be given to the customer orally or in writing prior to effecting the transaction and must be given to the customer in writing before or with the customer’s confirmation.

In addition, the penny stock rules require that prior to a transaction in a penny stock not otherwise exempt from such rules, the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser’s written agreement to the transaction. These disclosure requirements may have the effect of reducing the level of trading activity in the secondary market for our common shares in the United States and shareholders may find it more difficult to sell their shares.

The rights of our shareholders may differ from the rights typically offered to shareholders of a U.S. corporation.

We are incorporated under the Business Corporations Act (Ontario). The rights of holders of our common shares are governed by the laws of the Province of Ontario, including the Business Corporations Act (Ontario), by the applicable laws of Canada, and by our Articles, as amended (the “Articles”), and our bylaws (the “bylaws”). These rights differ in certain respects from the rights of shareholders in typical U.S. corporations. The principal differences include without limitation the following:

Under the *Business Corporations Act* (Ontario), we have a lien on any common share registered in the name of a shareholder or the shareholder’s legal representative for any debt owed by the shareholder to us. Under U.S. state law, corporations generally are not entitled to any such statutory liens in respect of debts owed by shareholders. Our bylaws also provide that at least 25% of our Board of Directors must be resident Canadians.

With regard to certain matters, we must obtain approval of our shareholders by way of at least 66 2/3% of the votes cast at a meeting of shareholders duly called for such purpose being cast in favor of the proposed matter. Such matters include without limitation: (a) the sale, lease or exchange of all or substantially all of our assets out of the ordinary course of our business; and (b) any amendments to our Articles including, but not limited to, amendments affecting our capital structure such as the creation of new classes of shares, changing any rights, privileges, restrictions or conditions in respect of our shares, or changing the number of issued or authorized shares, as well as amendments changing the minimum or maximum number of directors set forth in the Articles. Under many U.S. state laws, the sale, lease, exchange or other disposition of all or substantially all of the assets of a corporation generally requires approval by a majority of the outstanding shares, although in some cases approval by a higher percentage of the outstanding shares may be required. In addition, under U.S. state law the vote of a majority of the shares is generally sufficient to amend a company’s certificate of incorporation, including amendments affecting capital structure or the number of directors.

Pursuant to our bylaws, two persons holding 5% of the shares entitled to vote at the meeting present in person or represented by proxy and each entitled to vote thereat shall constitute a quorum for the transaction of business at any meeting of shareholders. Under U.S. state law, a quorum generally requires the presence in person or by proxy of a specified percentage of the shares entitled to vote at a meeting, and such percentage is generally not less than one-third of the number of shares entitled to vote.

Under rules of the Ontario Securities Commission, a meeting of shareholders must be called for consideration and approval of certain transactions between a corporation and any “related party” (as defined in such rules). A “related party” is defined to include, among other parties, directors and senior officers of a corporation, holders of more than 10% of the voting securities of a corporation, persons owning a block of securities that is otherwise sufficient to affect materially the control of the corporation, and other persons that manage or direct, to a substantial degree, the affairs or operations of the corporation. At such shareholders’ meeting, votes cast by any related party who holds common shares and has an interest in the transaction may not be counted for the purposes of determining whether the minimum number of required votes have been cast in favor of the transaction. Under U.S. state law, a transaction between a corporation and one or more of its officers or directors can generally be approved either by the shareholders or a majority of the directors who do not have an interest in the transaction.

Neither Canadian law nor our Articles or bylaws limit the right of a non-resident to hold or vote our common shares, other than as provided in the Investment Canada Act (the “Investment Act”), as amended by the World Trade Organization Agreement Implementation Act (the “WTOA Act”). The Investment Act generally prohibits implementation of a direct reviewable investment by an individual, government or agency thereof, corporation, partnership, trust or joint venture that is not a “Canadian,” as defined in the Investment Act (a “non-Canadian”), unless, after review, the minister responsible for the Investment Act is satisfied that the investment is likely to be of net benefit to Canada. An investment in our common shares by a non-Canadian (other than a “WTO Investor,” as defined below) would be reviewable under the Investment Act if it were an investment to acquire our direct control, and the value of our assets were CDN\$5.0 million or more (provided that immediately prior to the implementation of the investment in our company was not controlled by WTO Investors). An investment in our common shares by a WTO Investor (or by a non-Canadian other than a WTO Investor if, immediately prior to the implementation of the investment our company was controlled by WTO Investors) would be reviewable under the Investment Act if it were an investment to acquire our direct control and the value of our assets equaled or exceeded certain threshold amounts determined on an annual basis.

The threshold for a pre-closing net benefit review depends on whether the purchaser is: (a) controlled by a person or entity from a member of the WTO; (b) a state-owned enterprise (SOE); or (c) from a country considered a “Trade Agreement Investor” under the Investment Act. A different threshold also applies if the Canadian business carries on a cultural business.

The 2018 threshold for WTO investors that are SOEs will be CDN\$398 million based on the book value of the Canadian business’ assets, up from CDN\$379 million in 2017.

The 2018 thresholds for review for direct acquisitions of control of Canadian businesses by private sector investor WTO investors (CDN\$1 billion) and private sector trade-agreement investors (CDN\$1.5 billion) remain the same and are both based on the “enterprise value” of the Canadian business being acquired.

A non-Canadian, whether a WTO Investor or otherwise, would be deemed to acquire control of our company for purposes of the Investment Act if he or she acquired a majority of our common shares. The acquisition of less than a majority, but at least one-third of the shares, would be presumed to be an acquisition of control of our company, unless it could be established that we are not controlled in fact by the acquirer through the ownership of the shares. In general, an individual is a WTO Investor if he or she is a “national” of a country (other than Canada) that is a member of the WTO (“WTO Member”) or has a right of permanent residence in a WTO Member. A corporation or other entity will be a “WTO Investor” if it is a “WTO Investor-controlled entity,” pursuant to detailed rules set out in the Investment Act. The U.S. is a WTO Member. Certain transactions involving our common shares would be exempt from the Investment Act, including:

- an acquisition of our common shares if the acquisition were made in connection with the person’s business as a trader or dealer in securities;
- an acquisition of control of our company in connection with the realization of a security interest granted for a loan or other financial assistance and not for any purpose related to the provisions of the Investment Act; and
- an acquisition of control of our company by reason of an amalgamation, merger, consolidation or corporate reorganization, following which the ultimate direct or indirect control of our company, through the ownership of voting interests, remains unchanged. Under U.S. law, except in limited circumstances, restrictions generally are not imposed on the ability of non-residents to hold a controlling interest in a U.S. corporation.

Upon effectiveness of this registration statement on Form 10, we will be required to comply with the Exchange Act’s domestic reporting regime and cause us to incur significant legal, accounting and other expenses.

Upon effectiveness of this registration statement on Form 10, we will be required to comply with all of the periodic disclosure and current reporting requirements of the Exchange Act applicable to U.S. domestic issuers, which are more detailed and extensive than the requirements for foreign private issuers. We may also be required to make changes in our corporate governance practices in accordance with various SEC and NASDAQ rules. As a result, we expect that compliance would increase our legal and financial compliance costs and is likely to make some activities highly time consuming and costly. We also expect that if we were required to comply with the rules and regulations applicable to U.S. domestic issuers, it would make it more difficult and expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. These rules and regulations could also make it more difficult for us to attract and retain qualified members of our Board of Directors.

We are an emerging growth company within the meaning of the Securities Act and intend to take advantage of certain reduced reporting requirements.

We are an “emerging growth company,” or EGC, as defined in the Jumpstart Our Business Start-ups Act of 2012, or the JOBS Act. For as long as we continue to be an EGC, we may take advantage of exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies, including not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, or Section 404, exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and shareholder approval of any golden parachute payments not previously approved. As an EGC, we are required to report only two years of financial results and selected financial data compared to three and five years, respectively, for comparable data reported by other public companies. We may take advantage of these exemptions until we are no longer an EGC. We could be an EGC for up to five years, although circumstances could cause us to lose that status earlier, including if the aggregate market value of our common shares held by non-affiliates exceeds \$700 million as of any February 28 (the end of our second fiscal quarter) before that time, in which case we would no longer be an EGC as of the following August 31 (our fiscal year-end). We cannot predict if investors will find our common shares less attractive because we may rely on these exemptions. If some investors find our common shares less attractive as a result, there may be a less active trading market for our common shares and the price of our common shares may be more volatile in the event that we decide to make an offering of our common shares following this direct listing.

Claims of U.S. civil liabilities may not be enforceable against us.

We are incorporated under Canadian law. Certain members of our Board of Directors and senior management are non-residents of the United States, and many of our assets and the assets of such persons are located outside the United States. As a result, it may not be possible to serve process on such persons or us in the United States or to enforce judgments obtained in U.S. courts against them or us based on civil liability provisions of the securities laws of the United States. As a result, it may not be possible for investors to effect service of process within the United States upon such persons or to enforce judgments obtained in U.S. courts against them or us, including judgments predicated upon the civil liability provisions of the U.S. federal securities laws.

The United States and Canada do not currently have a treaty providing for recognition and enforcement of judgments (other than arbitration awards) in civil and commercial matters. Consequently, a final judgment for payment given by a court in the United States, whether or not predicated solely upon U.S. securities laws, would not automatically be recognized or enforceable in Canada. In addition, uncertainty exists as to whether Canadian courts would entertain original actions brought in the United States against us or our directors or senior management predicated upon the securities laws of the United States or any state in the United States. Any final and conclusive monetary judgment for a definite sum obtained against us in U.S. courts would be treated by the courts of Canada as a cause of action in itself and sued upon as a debt at common law so that no retrial of the issues would be necessary, provided that certain requirements are met. Whether these requirements are met in respect of a judgment based upon the civil liability provisions of the U.S. securities laws, including whether the award of monetary damages under such laws would constitute a penalty, is an issue for the court making such decision. If a Canadian court gives judgment for the sum payable under a U.S. judgment, the Canadian judgment will be enforceable by methods generally available for this purpose. These methods generally permit the Canadian court discretion to prescribe the manner of enforcement.

As a result, U.S. investors may not be able to enforce against us or our senior management, Board of Directors or certain experts named herein who are residents of Canada or countries other than the United States any judgments obtained in U.S. courts in civil and commercial matters, including judgments under the U.S. federal securities laws.

Our ability to use our net operating losses and certain other tax attributes may be limited.

As of August 31, 2018, we had accumulated net operating losses (NOLs), of approximately CDN \$31.0 million. Varying jurisdictional tax codes have restrictions on the use of NOLs, if a corporation undergoes an “ownership change,” the corporation’s ability to use its pre-change NOLs, R&D credits and other pre-change tax attributes to offset its post-change income may be limited. An ownership change is generally defined as a greater than 50% change in equity ownership. Based upon an analysis of our equity ownership, we do not believe that we have experienced such ownership changes and therefore our annual utilization of our NOLs is not limited. However, should we experience additional ownership changes, our NOL carry forwards may be limited.

ITEM 2. FINANCIAL INFORMATION.

Cautionary Note Regarding Forward-Looking Information

The following discussion of our financial condition and results of operations should be read in conjunction with the consolidated historical financial statements and the related notes appearing elsewhere in this registration statement. The following discussion should also be read in conjunction with the other information relating to our business contained in this registration statement on Form 10, including Item 1A "Risk Factors."

The Historical Financial Information has been prepared in accordance with IFRS as issued by the International Accounting Standards Board. All dollar figures in this management discussion and analysis ("MD&A") are presented in United States dollars unless otherwise indicated.

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 our 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 our 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 our 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" in Item 3D. 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 our 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. We undertake 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 we do 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.

Overview

Since our corporate reorganization and agreement to dispose of our interest in MCW Fuels, LLC ("MCW Fuels"), which was effective May 13, 2015 and for which regulatory approval was received on June 19, 2015, we have had one wholly owned subsidiary, PQE, which has three wholly owned active subsidiary companies, PQE Oil, TMC and Petrobloq. We are now primarily focused on developing our oil sands extraction business and related mining interests.

Through our wholly owned subsidiary PQE, and its two subsidiaries PQE Oil and TMC, we are in the business of oil sands mining on property that TMC leases and processing the mined bitumen deposits using proprietary Extraction Technology to recover oil from surface mined bitumen deposits. PQE Oil is based in Uintah, Utah. The proprietary Extraction Process is conducted in a plant that was recently relocated to the TMC mining site to improve logistical and processing efficiencies of the oil sands recovery process. We once again commenced mining operations at the end of May 2018 and expect to complete our expansion project to increase production to at least 1,000 barrels per day by the last quarter of fiscal 2019. Until our expansion project is completed and we are at full production levels our revenue will suffer. In addition, once we are operating at full production levels, we anticipate that we will need to hire additional staff. We expect that we will require additional capital to continue our operations and planned growth. There can be no assurance that funding will be available if needed or that the terms will be acceptable.

PQE owns the intellectual property rights to the patented Extraction Technology which it has used at the plant to extract oil from oil sands utilizing a closed-loop solvent based extraction system, as more completely described below.

On July 4, 2016, PQE acquired a controlling interest of 57.3% in Accord. Accord's assets include a limited license for two enhanced oil recovery (EOR) technologies for use on Accord's southwest Texas oil opportunities and can also be used on PQE's 2,200 acre oil sands property in Temple Mountain, Utah. It also includes equitable title pursuant to a purchase agreement to 7,000 acres in southwest Texas, with 88 drilled and completed wells. The oil is categorized as "medium crude" and the deposits are in the light gravity range of heavy oil at 18-22 API gravity.

Due to additional cash injections and share subscriptions in Accord by the outside shareholders, PQE has relinquished control of Accord and has deconsolidated the results of Accord from the financial statements and now accounts for the investment in Accord on the equity basis of accounting. The effective holding in Accord as of August 31, 2017 is 44.7%.

Our indirect subsidiary, Petrobloq, which was formed in November 2017, is developing a blockchain-powered supply chain management platform for the oil and gas industry. We also own a 25% interest in Recruiter OGG, a recruitment venture that provides a website focused on careers in the oil and gas industry.

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

Management's Discussion and Analysis of Financial Condition and Results of Operation

Results of Operations for the Three Months Ended November 30, 2018 and November 30, 2017

The tables below present our selected consolidated financial data for the three months ended September 30, 2018 and 2017, which are derived from our unaudited condensed consolidated financial statements. The selected historical consolidated financial data set forth below should be read in conjunction with our consolidated financial statements and related notes included in this registration statement. The following selected financial information, for the three month periods set forth below as shown in the table, was prepared in accordance with IFRS:

Year ended	November 30, 2018 (\$)	November 30, 2017 (\$)
Total revenues from continuing operations	Nil	Nil
Cost of Goods Sold	33,750	111,250
Gross Loss	33,750	111,250
Operating Expenses	6,000,323	3,489,467
Net loss	6,034,073	3,600,717
Loss on Settlement of Liabilities	108,973	Nil
Loss on Settlement of Convertible Debt	79,410	Nil
Equity Loss from investment of Accord GR Energy, net of tax	50,000	44,995
Basic and diluted loss per share*	0.07	0.07

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

Comparison of results of Operations for the three months ended November 30, 2018 and November 30, 2017

Net Revenue, Cost of Goods Sold and Gross Loss

During the three months ended November 30, 2018, we continued conducting test runs of the 1,000 barrel per day plant and continued with our expansion project to increase production capacity by an additional 3,000 barrels per day. Revenue generation is expected to commence during the second quarter of fiscal 2019. 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, we relocated our production plant to the Asphalt Ridge mineral site and expanded production capacity to approximately 1,000 barrels per day with a further expansion to 3,000 barrels per day underway.

The cost of goods sold during the three months ended November 30, 2018 and 2017 consists of advance royalty payments which expire at the end of the calendar year, two years after the payment has been made. These expired royalties have been expensed.

Operating Expenses

Operating expenses from continuing operations were \$6,000,323 for the three months ended November 30, 2018, compared to \$3,489,467 for the three months ended November 30, 2017. The increase in operating expenses is primarily due to:

- a. An increase in general and administrative expenses of \$163,728 or 575% from \$28,478 in fiscal 2018 to \$192,206 in fiscal 2019. The increase is primarily due to an increase in administrative activity related to the relocation of the plant and the increase in head count to administer the capital expenditure and the plant operations;
- b. An increase in capital raising fees of \$1,276,980 or 100% from \$0 for the three months ended November 30, 2017 to \$1,276,980 for the three months ended November 30, 2018. The fee represents stock based compensation paid for the \$9,500,000 letter of credit facility provided by Bay Private Equity during September 2018;
- c. An increase in interest expense of \$97,195 or 80% from \$121,484 for the three months ended November 30, 2017 to \$218,679 for the three months ended November 30, 2018, due to the convertible notes issued during the three months ended November 30, 2018 to fund the plant expansion of an additional 3,000, barrels per day;
- d. An increase in legal fees of \$648,740 or 1,989% from \$32,625 for the three months ended November 30, 2017 to \$681,365 for the three months ended November 30, 2018. The increase is primarily due to the expansion of the plant and the various fund raising initiatives undertaken by us during the for the three months ended November 30, 2018;
- e. An increase in professional fees of \$1,267,492 or 524% for the three months ended November 30, 2018 as compared to the three months ended November 30, 2017, primarily due to professional fees paid to various vendors related to the expansion of the plant and management advisory board services;
- f. An increase in research and development costs of \$112,625 or 100%, from \$nil for the three months ended November 30, 2017 to \$112,625 for the three months ended November 30, 2018, related to expenditure incurred on the development of the Petrobloq blockchain project;
- g. An increase in travel and promotion, and investor relations expense of \$1,148,650 or 1,439% from \$79,814 for the three months ended November 30, 2017 to \$1,228,464 for the three months ended November 30, 2018, primarily related to marketing, public relations and travel costs;
- h. Offset by a reduction in share based compensation expense of \$1,951,322 or 78% from \$2,505,647 for the three months ended November 30, 2017 to \$554,325 for the three months ended November 30, 2018. The prior period charge represents the value of fully vested options issued in November 2017 to certain board members and officers, the current period charge represents the charge for options issued to directors, officer and certain consultants during June 2018, with four year vesting terms.

Loss on settlement of liabilities

The loss on settlement of liabilities increased by \$108,973 or 100% from \$nil for the three months ended November 30, 2017 to \$108,973 for the three months ended November 30, 2018. The current period loss was realized on the settlement of \$545,194 of debt by the issue of 681,151 common shares at a discount to market prices.

Loss on settlement of convertible debt

The loss on settlement of convertible debt increased by \$79,410 or 100% from \$nil for the three months ended November 30, 2017 to \$79,410 for the three months ended November 30, 2018. The current period loss was realized on the conversion of \$255,078 of convertible debt by the issue of 316,223 common shares at a discount to market prices.

Equity loss from investment of Accord GR Energy

The loss from investment in Accord GR Energy increased by \$5,005 or 11% from \$44,995 for the three months ended November 30, 2017 to \$50,000 for the three months ended November 30, 2018.

The following selected financial information, for the three month periods set forth below as shown in the table, was prepared in accordance with IFRS:

	November 30, 2018	August 31, 2018	May 31, 2018	February 28, 2018
3 months ended	(\$)	(\$)	(\$)	(\$)
Total revenues	-	-	-	-
Net loss	6,272,456	6,555,072	3,178,839	1,732,532
Basic and diluted loss per share	0.07	0.09	0.05	0.03

	November 30, 2017	August 31, 2017	May 31, 2017	February 28, 2017
3 months ended	(\$)	(\$)	(\$)	(\$)
Total revenues	-	-	-	-
Net loss	3,645,712	3,101,430	3,581,788	514,637
Basic and diluted loss per share*	0.07	0.12	0.46	0.08

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

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 us by Bay Capital Private 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 our company and our 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 we prepare for the completion of the expansion project, in addition marketing expenditure has increased as we undertake 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 of our directors; and
- (ii) an increase in public relations expenditure of \$202,844 to renew interest in our 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 Chairman 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.

The net loss for the three months ended February 28, 2017 includes:

- (i) a gain on settlement of liabilities of \$875,369 related primarily to the issuance of shares on the conversion of \$2,300,000 of debt to a third party;
- (ii) offset by the reversal of a gain previously recognized of \$499,894 which gain has been deferred until such time as regulatory approval has been obtained.

Results of Operations for the Fiscal Years Ended August 31, 2018 and August 31, 2017

The tables below present our selected consolidated financial data for the years ended August 31, 2018 and 2017, which are derived from our audited consolidated financial statements. Our audited consolidated financial statements have been audited by Hay & Watson, an independent registered public accounting firm. The selected historical consolidated financial data set forth below should be read in conjunction with the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations" for such periods and our consolidated financial statements and related notes. The following selected financial information, for the annual periods as shown in the table, was prepared in accordance with IFRS:

Year ended	August 31, 2018 (\$)	August 31, 2017 (\$)
Revenues	-	-
Advance Royalty Payments	272,333	426,641
Gross loss	272,333	426,641
Operating Expenses	14,643,653	4,948,381
Net Operating Loss	14,915,986	5,375,022
Loss on Settlement of liabilities	92,275	2,366,587
Other income	(56,532)	-
Equity loss in investment of Accord Gr Energy	160,426	198,034
Net loss	15,112,155	7,939,643
Basic and diluted loss per share*	0.24	0.66

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

Our Oil Extraction pilot plant was completed on September 1, 2015. For a limited period thereafter, we made minimal sales of hydrocarbon products to customers. Due to the volatility in the oil markets production ceased as we were not able to operate the pilot plant profitably at low volumes of output.

The losses from operations over the past two fiscal years are due to us relocating the pilot plant to our TMC mineral lease site to increase production and logistical efficiencies and complete our ongoing construction of our 1,000 barrels per day Oil Extraction plant near Vernal, Utah and continued evaluation of our mineral lease interests.

The net loss for the year ended August 31, 2017 included \$2,366,587, arising primarily on the conversion of interest bearing debt and convertible debt to equity during the current year, an interest expense of \$1,106,808, a decrease from the prior year, due to the conversion of substantial debt to equity during the current year and depreciation and amortization expense of \$1,165,830 due to the completion of the oil extraction facility in September 2015.

The net loss for the year ended August 31, 2018 included \$127,757 of travel and promotional expenses, marketing expenditure to market the plant and the technology and to communicate our progress on the plant and construction efforts amounted to \$2,532,029; stock based compensation of \$5,356,004 related to 9,775,000 options issued to directors, officers and certain consultants during the year; professional fees of \$3,582,986 primarily due to legal fees incurred, advisory board fees and consulting fees for financial services provided and; a loss of \$92,275 on the conversion of debt to equity during the current year.

Total assets increased between fiscal 2017 and 2018 from \$28,950,175 to \$39,104,403 is primarily due to; i) the increase in property, plant and equipment of \$6,281,942, offset by depreciation of \$51,181. The increased capital expenditure began with the relocation of the 500 barrel per day plant to the TMC mining site and the current expansion project to increase production capacity to 3,000 barrels per day with increased efficiencies due to the proximity of the site to the mining operation; and ii) an increase in cash balances of \$2,584,581 due to capital raised predominantly through private placements of equity and debt during the current fiscal year to fund the expansion project.

Non-current financial liabilities decreased from \$1,967,996 in fiscal 2017 to \$1,602,646 in fiscal 2018 primarily due to the reduction in convertible debentures due to the conversion of the prior year convertible debentures into equity during the current fiscal year and the issue of a new convertible debenture during the current fiscal year.

Comparison of results of Operations from Continuing Operations for the years ended August 31, 2018 and August 31, 2017

Net Revenue, Cost of Goods Sold and Gross Loss

Due to the volatility in oil markets and the limited production capacity at the plant, no production took place during the years ended August 31, 2018 and August 31, 2017, resulting in no revenue generation. During the year ended August 31, 2018, we relocated our production plant to the Asphalt Ridge mineral site and have 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 goods sold during fiscal 2018 consists of advance royalty payments which expire at the end of the calendar year two years after the payment has been made that have been expensed.

Operating Expenses

Operating expenses from continuing operations were \$14,423,202 for the year ended August 31, 2018, compared to \$4,948,381 for the year ended August 31, 2017. The increase in operating expenses is primarily due to:

- a. An increase in general and administrative expenses of \$273,936 or 79% from \$348,487 in fiscal 2017 to \$622,423 in fiscal 2018. The increase is primarily due to an increase in administrative activity related to the relocation of the plant and the increase in head count to administer the capital expenditure and the plant operations;
- b. An increase in travel and promotion, and investor relations expense of \$2,198,709 or 528% from \$416,007 for fiscal 2017 to \$2,614,786 in fiscal 2018, primarily due to marketing efforts undertaken to inform the oil markets of the existence of the plant and the technology and investor relations efforts undertaken;
- c. An increase in professional fees of \$2,965,371 or 480% from \$617,615 in fiscal 2017 to \$3,582,986 in fiscal 2018, the increase was due to legal fees incurred, advisory board member fees and financial consulting fees incurred and all related to the relocation and expansion of the production plant;
- d. A decrease in plant relocation costs of \$437,800 or 100% from \$437,800 in fiscal 2017. The plant was relocated to the Asphalt Ridge site during the last quarter of 2017;
- e. A decrease in salaries and wages expense of \$191,522 or 27% from \$702,782 in fiscal 2017 to \$511,260 in fiscal 2018 due to reduction of salary expenses paid to certain management personnel;
- f. An increase in stock based compensation of \$5,340,011 from \$15,993 in fiscal 2017 to \$5,356,004 in fiscal 2018 due to the valuation of 9,775,000 options issued to directors, officers and management during the 2018 fiscal year;
- g. Interest expense decreased by \$741,368 from \$1,106,808 in fiscal 2017 to \$365,440 in fiscal 2018, the decrease is due to the conversion of substantial interest bearing debt into equity during the 2017 and 2018 fiscal year and an increase in funds raised through equity issues during the current fiscal year.

Loss on settlement of liabilities

The loss on settlement of liabilities decreased by \$2,274,312 or 96.1% from \$2,366,587 in fiscal 2017 to \$92,275 in fiscal 2018. In the prior fiscal year we converted \$18,008,990 of long and short term debt and convertible debt to equity. In the current fiscal period we converted \$283,671 of long and short term debt and \$1,953,013 of payables owed to service providers, to equity. A further \$1,175,424 of advances made by the Chairman of the Board was converted to equity as well.

Equity loss from investment of Accord GR Energy

The loss from investment in Accord GR Energy decreased by \$37,608 or 19% from \$198,034 in fiscal 2017 to \$160,426 in fiscal 2018.

Summary of Quarter Results

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

	August 31, 2018	May 31, 2018	February 28, 2018	November 30, 2017
	(\$)	(\$)	(\$)	(\$)
3 months ended				
Total revenues	-	-	-	-
Net loss	6,555,072	3,178,839	1,732,532	3,645,712
Basic and diluted loss per share	0.09	0.05	0.03	0.07

	August 31, 2017	May 31, 2017	February 28, 2017	November 30, 2016
	(\$)	(\$)	(\$)	(\$)
3 months ended				
Total revenues	-	-	-	-
Net loss	3,101,430	3,581,788	514,637	741,788
Basic and diluted loss per share*	0.12	0.46	0.08	0.11

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

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 our company and our 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 we completed our 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 we prepared for the completion of the expansion project, in addition marketing expenditure has increased as we undertook 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 of our directors; and

(ii) 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 Chairman 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.

The net loss for the three months ended February 28, 2017 includes;

(i) a gain on settlement of liabilities of \$875,369 related primarily to the issuance of shares on the conversion of \$2,300,000 of debt to a third party;

(ii) offset by the reversal of a gain previously recognized of \$499,894 which gain has been deferred until such time as regulatory approval has been obtained.

The net loss for the three months ended November 30, 2016 includes;

(i) a gain on settlement of liabilities of \$470,601 related primarily to the issuance of shares on the conversion of loans due to the Chairman of the Board of Directors.

Analysis of Quarter ended August 31, 2018

During the quarter ended August 31, 2018, no revenue or gross profit was generated by us from operations at the Oil Extraction plant. The plant has not operated during the current year and is currently undergoing an expansion to a 3,000 barrel per day plant.

Overall expenses increased from approximately \$2,987,974 for the quarter ended August 31, 2017 to \$6,516,861 for the quarter ended August 31, 2018, an increase of \$3,528,887. This increase was primarily due to:

- i) An increase in travel and promotion, and investor relations costs of \$532,099, primarily due to marketing expenses incurred on marketing the production plant and technology to the oil markets;
- ii) An increase in professional fees of \$1,724,959 due to fees paid to advisory board members, financial consultants and legal fees related to the plant expansion;
- iii) An increase in share based compensation of \$2,832,523 due to options issue to our directors during the current fiscal year, including the issue of 8,350,000 options in June 2018;
- iv) Offset by a decrease in plant relocation costs of \$437,800, the plant was relocated in the fourth quarter of the 2017 fiscal year.
- v) Offset by a decrease in salaries and wages expense of \$379,168 due to a reduction in salaries paid to certain management personnel

Liquidity and Capital Resources

As at November 30, 2018, we had liquidity of approximately \$274,096, which was composed entirely of cash. We also had a working capital deficiency of approximately \$5,829,414, due primarily to accounts payable, short term loans and convertible loans and accrued interest thereon which remains outstanding as of November 30, 2018. We raised cash proceeds of \$3,511,310 from the private placements of shares, a further net proceeds of \$450,000 from debt and \$3,500,000 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.

As at August 31, 2018, we had liquidity of approximately \$2,640,001, which was composed entirely of cash. We also had a working capital deficiency of approximately \$374,567, due to short term loans and accrued interest thereon which remains outstanding as of August 31, 2018. We raised \$14,971,808 in private placements, a further net proceeds of \$144,359 from long term debt and \$250,000 from convertible debt, and \$838,846 in net advances from the Chairman of the Board. These funds were primarily used on the relocation and expansion of the oil facility and expenditures related thereto such as professional fees and marketing costs.

Subsequent to November 30, 2018, in terms of various subscription agreements entered into with third parties, we raised an additional \$2,522,106 in proceeds from private equity issues. In addition to this, we issued an additional \$2,000,000 in convertible debt to an investor.

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

We have not paid any dividends on our common shares. We have no present intention of paying dividends on our common shares as we anticipate that all available funds will be reinvested to finance the growth of our business.

In addition to commitments otherwise reported in this MD&A, our contractual obligations as at November 30, 2018, include:

Contractual Obligations	Total (\$ millions)	Up to 1 Year (\$ millions)	2 – 5 Years (\$ millions)	After 5 Years (\$ millions)
Convertible Debt ^[1]	4.36	4.36	-	-
Debt ^[2]	1.79	1.29	0.5	-
Total Contractual Obligations	6.15	5.65	0.5	-

[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.

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.

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. We are currently evaluating the impact of the adoption of the amendments on our 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.

We are currently assessing the impact that these new and amended standards will have on the consolidated financial statements.

ITEM 3. PROPERTIES.

Our registered office address in Canada is Suite 6000, 1 First Canadian Place, 100 King Street West, Toronto, Ontario M5X 1E2, Canada. Our principal executive offices are located at 15165 Ventura Blvd, #200, Sherman Oaks, California 91403. The monthly base rent is \$6,500 for the approximately 1,800 square foot premises and the lease term is five years.

Petrobloq’s headquarters are located at 4768 Park Granada, Calabasas, California 91302. The monthly base rent is \$3,870 for the 1,800 square foot premises and the lease is for a three-year term.

TMC holds a mining and mineral lease, as amended, under the TMC Mineral Lease subleased from Asphalt Ridge, Inc., on the Asphalt Ridge property which is approximately 1,229.82 acres located in Uintah County, Utah and an additional 833.03 acres and 478.91 acres, respectively, held under the SITLA Mineral Leases. We are completing construction of a 20,000 square foot extraction facility based on this leased property that is anticipated to be approximately three acres.

A map of the TMC Mineral Lease property is set forth below:

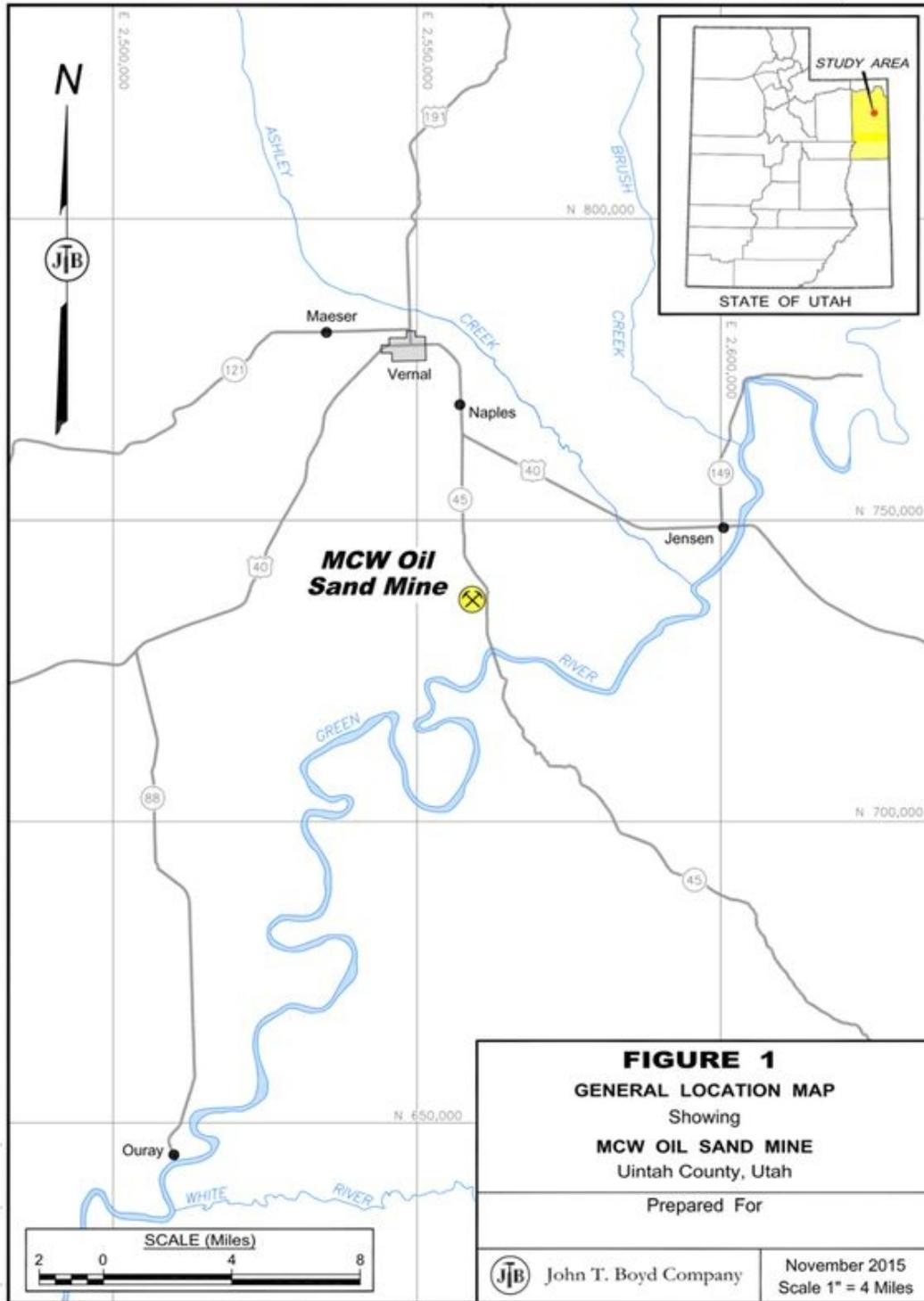


Figure 1. The Index map showing the location of the PQE Oil oil sands mine in Vernal, Utah, USA. The mine and lease are on, or about Section 31, Township 5S Range 22E, Uintah County, Utah.

Source: JT Boyd, 2015.

ITEM 4. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The following table sets forth as of January 31, 2019, the number and percentage of the outstanding shares of common shares which, according to the information supplied to us, were beneficially owned by: (i) each person who is currently a director; (ii) each executive officer; (iii) all current directors and executive officers as a group; and (iv) each person who, to our knowledge, is the beneficial owner of more than 5% of the outstanding common shares. All shares reflect a 30-for-1 stock split that was effected on May 19, 2017.

Name and Address ⁽¹⁾	Number of Shares Beneficially Owned	Percentage of Outstanding shares owned ⁽²⁾
Aleksandr Blyumkin, <i>Director (Chairman) and Executive Chairman</i>	5,170,998 ⁽³⁾	5.3%
David Sealock, <i>Chief Executive Officer</i>	250,000	*
Gerald Bailey, <i>Director and President</i>	733,859 ⁽⁴⁾	*
Mark Korb, <i>Chief Financial Officer</i>	7,079 ⁽⁵⁾	*
Vladimir Podlipskiy, <i>Chief Technology Officer</i>	266,667 ⁽⁶⁾	*
Robert Dennewald, <i>Director</i>	864,058 ⁽⁷⁾	*
Travis Schneider, <i>Director</i>	727,548 ⁽⁸⁾	*
All executive officers and directors as a group (7 persons)	8,020,209	8.2%
5% shareholders		
Bay Private Equity, Inc	9,300,000 ⁽⁹⁾	8.8%

* Less than 1%

(1) The business address for each officer and director listed above is: Petroteq Energy Inc., 15165 Ventura Blvd., #200, Sherman Oaks, California 91403.

(2) Based on 97,623,107 common shares outstanding as of January 31, 2019.

(3) Is comprised of 3,932,463 common shares held directly, 124,096 common shares held through the Alexander & Polina Blyumkin Trust and 1,114,439 common shares held indirectly through six entities in which Mr. Blyumkin has a controlling interest.

(4) Is comprised of 8,859 common shares and options exercisable for 1,475,000 common shares, of which 725,000 are vested and none vest within the next 60 days.

(5) Is comprised of 7,079 common shares.

(6) Is comprised of 16,667 common shares and options exercisable for 1,000,000 common shares, of which 250,000 are vested and none vest within the next 60 days.

(7) Is comprised of 139,058 common shares and options exercisable for 1,475,000 common shares, of which 725,000 are vested and none vest within the next 60 days.

(8) Is comprised of 2,548 common shares and options exercisable for 1,475,000 common shares, of which 725,000 are vested and none vest within the next 60 days.

(9) Is comprised of 950,000 common shares, warrants exercisable for 750,000 common shares and convertible notes, convertible into 7,600,000 common shares at conversion prices ranging from \$0.40 to \$1.00 per share. The beneficial owner is Bay Private Equity, Inc whose registered address is 7250 Keele Street, Suite 410, Concord, Ontario L4K 1Z8.

ITEM 5. DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth certain information about our executive officers, key employees and directors as of January 31, 2019.

Name	Age	Positions and Offices with the Registrant
Aleksandr Blyumkin	47	Executive Chairman and Chairman of the Board of Directors
David Sealock	58	Chief Executive Officer
Mark Korb	51	Chief Financial Officer
Gerald Bailey	77	Director and President
Vladimir Podlipskiy	55	Chief Technology Officer
Robert Dennewald	65	Director
Travis Schneider	45	Director

Biographies

The following are brief biographies of our officers and directors:

Aleksander Blyumkin, Executive Chairman and Chairman of the Board of Directors

Mr. Blyumkin has been our Executive Chairman since March 26, 2018 and the Chairman of our Board of Directors of our company and MCW Fuels, Inc. (formerly McWhirter Distributing Co. Inc.) since November 2006. He also has served as our Executive Chairman from December 12, 2012 to July 18, 2017 and as our Chief Executive Officer from July 2017 to March 26, 2018. Mr. Blyumkin has vast experience in the oil and fuel industry. He has owned and managed several ventures in the oil and fuel industry and has developed oil properties in Eastern Europe, Central Asia and, most recently, in the United States. Since 2011, Mr. Blyumkin has been the Chief Executive Officer of Dalex Industries, Inc., a developer and operator of gasoline service stations in California. Mr. Blyumkin studied Economics and International Relations at Odessa State University, Ukraine.

We selected Mr. Blyumkin to serve on our board because he vast experience in the oil and fuel industry.

David Sealock, Chief Executive Officer

Mr. Sealock has served as our Chief Executive Officer since March 26, 2018. From January 2015 until joining our company, Mr. Sealock served as President of Autus Ventures, Inc. where he established equity financing processes for startup and intermediate oil and gas companies and managed strategic planning and portfolio optimization. Prior to that, from January 2017 until August 2017, he was Vice President of Research & Development at Petroleum Technology Alliance Canada (PTAC), a Canadian hydrocarbon industry association that serves as a neutral non-profit facilitator of collaborative R&D and technology development. There he managed the coordination and services to facilitate the implementation of specific methane related projects. From August 2014 until December 2015, Mr. Sealock served as President and Chief Operating Officer of Sulvaris. Inc. During his tenure at Sulvaris, he collaborated to deliver equity financing and JV financing to recommence project construction. From 2008 to 2014, Mr. Sealock was the Executive Vice President of Sunshine Oilsands, Ltd., and was promoted to President and Chief Executive Officer (Interim) from 2013 to 2014, where he managed daily operations for engineering, construction, technology, operations, regulatory, human resources, investor relations, health, safety & environment, marketing, supply chain management, IT & systems, and corporate governance. From 2007-2008 he was Vice President of MegaWest Energy Corp. (now Gravis Energy) and from 2006-2007 he was Senior Manager of Total E&P (formerly Deer Creek Energy, Ltd.), where he was charged with leading a large-scale business & digital transformation to integrate Deer Creek Energy's technology infrastructure into Total's enterprise-wide global infrastructure. Mr. Sealock holds a Bachelor Degree, Business Management and is a Registered Engineering Technologist with ASET.

Mark Korb, Chief Financial Officer

Mark Korb has served as our Chief Financial Officer since August 2014. Mr. Korb has over 20-years' experience with high-growth companies and experience taking startup operations to the next level. Since July 2011, First South Africa Management, a company for which Mr. Korb has served as the Chief Financial Officer since January 2010 has been providing consulting services to us, including the financial expertise required of public companies. First South Africa Management provides financial management and strategic management services to various companies.

From 2007 to 2009, Mr. Korb was the group chief financial officer and director of Foodcorp (Proprietary) Limited ("Foodcorp"), a multimillion dollar consumer goods company based in South Africa. In his role as chief financial officer, Mr. Korb delivered operational and strategic leadership for the full group financial function during a period of change including mergers, acquisitions and organic growth. As a board director he cultivated relationships with shareholders, bond holders, financial institutions, rating agencies, and auditors. Mr. Korb was also responsible for leading the group IT strategy and implementation and supervised 16 direct reports including 10 divisional financial directors. From 2001 to 2007 Mr. Korb was the group Chief Financial Officer of First Lifestyle, initially a publicly traded company on the Johannesburg Stock Exchange in South Africa which was then purchased by management which included Mr. Korb. He anchored the full group financial function with responsibility for mergers and acquisitions activity, successfully leading the process whereby the company was sold to Foodcorp mentioned above. Upon completion of the merger, Mr. Korb was appointed as the group Chief Financial Officer of Foodcorp. Mr. Korb is also the Chief Financial Officer to several other companies including, Icagen, Inc., a Delaware corporation engaged in pharmaceutical industry.

Gerald Bailey, *President and Director*

Dr. Bailey has over 50 years of experience in the international petroleum industry in all aspects, both upstream and downstream with specific Middle East skills and U.S. onshore/offshore sectors. Dr. Bailey currently serves as our President, a position he has held since July 2017 when he resigned as our Chief Executive Officer. He previously served as our Chief Executive Officer from 2014 until July 2017 and has been a member of our Board of Directors since 2011. Dr. Bailey is currently the Chairman of Bailey Petroleum, LLC, a consulting firm for major oil and gas exploration/development corporations, a position he has held since 1997. In addition, Dr. Bailey is Chief Operating Officer of Indoklanicsa, Nicaragua (since 2012), and Vice Chairman, Trinity Energy Group, Inc. (since 2012) Dr. Bailey is retired from Exxon, lastly as President, Arabian Gulf. During his Exxon career, he also served as the Assistant General Manager, Administration & Commercial, Abu Dhabi Onshore Oil Company; Operations Manager, Qatar General Petroleum Corp., Dukhan Operations and the Operations Manager, Qatar General Petroleum Corp., Umm Said Operations. He was also the Operations Superintendent, Exxon Lago Oil, Aruba and has spent time in Libya as Operations Superintendent for Esso Standard, Libya, Brega, with experience in LNG and oil field production. His earlier career included service with Texaco where he gained skills in oil additives and petrochemicals manufacturing.

Dr. Bailey holds a BS Degree in Chemical Engineering from the University of Houston, an MS Degree in Chemical Engineering from the New Jersey Institute of Technology, Newark, New Jersey, a PhD Degree from Columbia Pacific University, San Rafael, California and is a graduate of Engineering Doctoral Studies from Lamar University, Beaumont, TX. He has written many articles, papers and studies on the oil industry, and has been a keynote speaker of many international industry conferences including the Money Show conference with his address, "The Future of Oil & Gas Developments," and FreedomFest Conference, "Investing in Oil," and also has appeared recently on national Chinese television discussing the "World Energy Outlook." He is a member of the Middle East Policy Council, Society of Petroleum Engineers and the American Institute of Chemical Engineers.

We selected Dr. Bailey to serve on our board because he brings a strong business background to our Company and adds significant strategic, business and financial experience. Dr. Bailey's business background provides him with a broad understanding of the issues facing our Company, the financial markets and the financing opportunities available to us.

Vladimir Podlipskiy, *Chief Technology Officer*

Mr. Podlipskiy has served as our Chief Technology Officer since May 2011. He has extensive experience as a researcher in many senior science disciplines, involved in oil extraction technologies, automobile care, household consumer and cosmetic products and research into mold remediation products, all with a focus on the utilization of benign solvents/solutions. Previously, he held research appointments in new product development for EMD Biosciences, Inc., (Merck KgaA, Darmstadt, Germany), and worked as Chief Chemist in Research & Development for Nanotech, Inc., Los Angeles, California, and as Chief Chemist for Premier Chemical, Compton, California. He is a former Premier Chemical Scientist at UCLA's Department of Chemistry. Mr. Podlipskiy owns patents for innovative fuel additives and car care products and has authored several papers involving fuel re-formulator products and mold remediation. He is currently involved in research and development of new petroleum industry products, systems and technologies.

Mr. Podlipskiy is the principal research scientist responsible for the development of Petroteq Energy Inc.'s technologies used in its various oil extraction programs in Utah, and has recently finalized all fabrication/assembly details for the company's first oil sands extraction plant installed at Asphalt Ridge, Utah. He has worked extensively with a variety of suppliers from the U.S. and Eastern Europe in the planning and design stages of the extraction unit's systems. He holds a PhD Degree in Bio-Organic Chemistry from the Institute of Bio-Organic Chemistry & Petroleum Chemistry, Kiev, Ukraine, and a Degree in MS-Organic Chemistry from the Department of Chemistry, Kiev State University, Kiev, Ukraine.

Robert Dennewald, *Director*

Mr. Dennewald has served as a member of our board since April 2015. He has been the Chairman of Business Federation Luxembourg (FEDIL) since 2006 and is a Vice President of the Luxembourg Chamber of Commerce. He is also a member of our Board of Directors of the Jean-Pierre Pescatore Charity Foundation. He is a director of ING Luxembourg S.A. and of Redline Capital Partners S.A., the president of investment fund EUREFI S.A. and the angel investor of Cleantech Company APATEQ and IT company e-Kenz. In 2006 he initiated, together with four financial partners, a MBO/LBO takeover of the Eurobeton Group. In 2010, through a secondary buy-out, he took a controlling interest in Eurobeton, which is a main supplier of building materials in Luxembourg with its subsidiary Chaux de Contern. Mr. Dennewald obtained a degree in civil engineering at the University of Liège (B).

We selected Mr. Dennewald to serve on our board because he brings a strong business background to our Company and adds significant strategic, business and financial experience. Mr. Dennewald's business background provides him with a broad understanding of the issues facing us, the financial markets and the financing opportunities available to us.

Travis Schneider, *Director*

Mr. Schneider has served as a member of our board since December 2011. He has also served as Manager of Corporate Affairs for AgriMarine Holdings Inc. (“AgriMarine”) from October 2008 to present. AgriMarine was a publicly traded company on the TSXV and later on the Canadian Securities Exchange from 2009 until its acquisition by Dundee Corporation in 2015.

We selected Mr. Schneider to serve on our board because he brings a strong business background to our company and adds significant strategic, business and financial experience. Mr. Schneider’s business background provides him with a broad understanding of the issues facing us, the financial markets and the financing opportunities available to us.

Family Relationships

There are no family relationships between any of our directors or executive officers.

ITEM 6. EXECUTIVE COMPENSATION.

Executive Compensation

The following table sets forth for the two years ended August 31, 2018 and August 31, 2017 the compensation awarded to, paid to, or earned by, our Chief Executive Officer and our other most highly compensated executive officer whose total compensation during such years exceeded \$100,000. We refer to these officers as our “named executive officers.” Certain columns were excluded as the information was not applicable.

Summary Compensation Table

Name and Principal Position⁽¹⁾	Year	Salary (\$)	Bonus (\$)	All Other Compensation⁽²⁾	Stock Awards (\$)	Option Awards (\$)⁽⁷⁾	Total \$
Aleksander Blyumkin <i>Executive Chairman and former CEO⁽³⁾</i>	2018	240,000	-	18,000	-	-	258,000
	2017	240,000	-	18,000	-	-	258,000
David Sealock <i>Chief Executive Officer</i>	2018	50,670	-	-	-	229,060	279,730
	2017	-	-	-	-	-	-
Gerald Bailey ⁽⁴⁾ <i>Director, President and former CEO</i>	2018	0	-	18,000	-	1,030,711 ⁽⁵⁾	1,048,891
	2017	100,000	-	18,000	-	-	118,000
Mark Korb <i>Chief Financial Officer</i>	2018	90,000	-	-	-	-	90,000
	2017	90,000	-	-	-	-	90,000
Vladimir Podlipsky <i>Chief Technology Officer</i>	2018	38,879	-	-	-	229,060 ⁽⁶⁾	267,939
	2017	-	-	-	74,380 ⁽⁶⁾	-	74,380

(1) The business address for each officer listed above is: Petroteq Energy Inc., 15165 Ventura Blvd., #200, Sherman Oaks, California 91403.

(2) Mr. Blyumkin and Dr. Bailey have each earned \$18,000 of director’s fees for the financial years ended August 31, 2018 and 2017. These fees have been accrued but have not been paid by us.

(3) Mr. Blyumkin was appointed as our Chief Executive Officer on July 26, 2017, replacing Gerald Bailey.

(4) Gerald Bailey resigned as Chief Executive Officer on July 26, 2017. He currently serves as our President and maintains a position on our Board of Directors. Mr. Blyumkin assumed the office of Chief Executive Officer upon Mr. Bailey’s resignation.

(5) On November 30, 2017, Gerald Bailey was awarded ten year options exercisable for 475,000 shares of common stock at an exercise price of CDN2.27 per share. These options are immediately exercisable. On June 6, 2018, Gerald Bailey was awarded ten year options exercisable over 1,000,000 shares of Common stock at an exercise price of CDN\$1.00 per share, these options vest annually over a four year period.

- (6) On June 6, 2018, Mr. Podlipsky was awarded ten year options exercisable for 1,000,000 shares of common stock at an exercise price of CDN\$1.00 per share, these options vest annually over a four year period. In 2017, Mr. Podlipsky was awarded 16,667 shares valued at \$74,380 on the date of issue as compensation based on the success of the Extraction Technology.
- (7) The options issued to directors and officers on November 30, 2017 were valued at grant date using a Black Scholes valuation model. The assumptions used in the valuation were as follows: Weighted average exercise price of CDN\$2.27, exercise price CDN\$2.27, term of option: 10 years, risk free interest rate of 1.81% and computed volatility of the underlying stock of 127% and expected dividend yield of 0%.

The options issued to directors and officers on June 3, 2018 were valued at grant date using a Black Scholes valuation model. The assumptions used in the valuation were as follows: Weighted average exercise price of CDN\$1.00, exercise price CDN\$1.00, term of option: 10 years, risk free interest rate of 2.16% and computed volatility of the underlying stock of 125% and expected dividend yield of 0%.

Outstanding Equity Awards at Fiscal Year-End

The table below reflects all outstanding equity awards made to each of the named executive officers that are outstanding at August 31, 2018.

Name	Number of securities underlying unexercised options (#) exercisable	Number of securities underlying unexercised options (#) unexercisable	Option exercise price	Option expiration date
Aleksander Blyumkin, <i>Executive Chairman and former CEO</i> ⁽¹⁾	33,334	-	US \$ 4.80	12/31/2018
Gerald Bailey, <i>Director, President and former CEO</i>	475,000 250,000	- 750,000	CDN \$ 2.27 CDN \$ 1.00	11/30/2027 6/6/2028
Vladimir Podlipsky, <i>Chief Technology Officer</i>	250,000	750,000	CDN \$ 1.00	6/6/2028
David Sealock <i>Chief Executive Officer</i>	250,000	750,000	CDN \$ 1.00	6/6/2028

- (1) These common share purchase warrants are required by the TSXV to be included by us when calculating available room under our 2019 Option Plan. Mr. Blyumkin is the registered and beneficial holder of common share purchase warrants exercisable for 16,667 common shares, and he indirectly controls common share purchase warrants exercisable for 16,667 common shares through the Alex and Polina Blyumkin Family Trust, none of which are included in the chart above. These warrants have subsequently expired.

Narrative to Compensation Tables

Overview

During the financial years ended August 31, 2018 and 2017, our executive compensation program was administered by our Board of Directors. Our executive compensation program has the objective of attracting and retaining a qualified and cohesive group of executives, motivating team performance and aligning the interests of executives with the interests of our shareholders through a package of compensation that is simple and easy to understand and implement. Compensation under the program was designed to achieve both current and our long-term goals of and to optimize returns to shareholders. In addition, in order to further align the interests of executives with the interests of our shareholders, we have implemented share ownership incentives through incentive stock options. Our overall compensation objectives are in line with its peer group of oil sands technology companies with opportunities to participate in equity.

In determining the total compensation of any member of senior management, our directors consider all elements of compensation in total rather than one element in isolation. Our directors also examine the competitive positioning of total compensation and the mix of fixed, incentive and share-based compensation.

Base Salary

While there is no official set of benchmarks that we rely on and there is no a defined list of issuers that we use as a benchmark, we make ourselves aware of, and are cognizant of, how comparable issuers in our business compensate their executives. Our peer group in connection with salary compensation consists of a sampling of other oil sands technology companies both private and public. The Executive Chairman and Chief Executive Officer review and update our directors on the peer group and other informal channels and compares the salaries offered by us against those of the peer group generally to ensure our salary compensation is within the range of expected annual base salary for the group.

Bonus Framework

While our directors believe that a well-balanced executive compensation program must simultaneously motivate and reward participants to deliver financial results while maintaining focus on long-term goals that track financial progress and value creation, during the fiscal years ended August 31, 2018 and 2017, we did not have in place an annual team bonus or discretionary individual bonus plan and we did not pay any bonuses.

Group Benefits

We do not offer a group benefits plan of any kind.

Perquisites and Personal Benefits

While we reimburse our executive officers for expenses incurred in the course of performing their duties as executive officers of our company, we did not provide any compensation that would be considered a perquisite or personal benefit to executive officers.

Equity Compensation

2019 Option Plan

Incentive stock options are currently granted under the 2019 Option Plan, a fixed number stock option plan approved by shareholders on November 23, 2018, which amended and replaced our 2018 Option Plan. Pursuant to the 2019 Option Plan our Board of Directors may from time to time, in its discretion and in accordance with the TSXV requirements, grant to directors, officers and employees, as well as management company employees and consultants (as such terms are defined in Policy 4.4 as amended from time to time), non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 19,524,621, exercisable for a period of up to ten (10) years from the date of the grant. The number of common shares reserved for issuance to any individual director or officer of our company will not exceed 5% of the issued and outstanding common shares (2% in the case of optionees providing investor relations services to us) unless disinterested shareholder approval is obtained. The exercise price of any option granted pursuant to the 2019 Option Plan shall be determined by our Board of Directors when granted, but shall not be less than the Discounted Market Price (as such term is defined in Policy 4.4 as amended from time to time). Options granted pursuant to the 2019 Option Plan are non-assignable, except by means of a will or pursuant to the laws of descent and distribution.

The options may be exercised no later than 12 months following the date the optionee ceases to be a director, officer or consultant of our company, subject to the expiry date of such option. However, if the employment of an employee or consultant is terminated for cause no option held by such optionee may be exercised following the date upon which termination occurred.

Employment Agreements

We do not have any written employment agreements with any of our executive officers or other employees other than David Sealock, our Chief Executive Officer. On March 26, 2018, we entered into an employment agreement with David Sealock to serve as our Chief Executive Officer. For his services, Mr. Sealock is to receive a salary of \$120,000 per annum. The employment agreement term continues indefinitely until terminated in accordance with its provisions. The employment agreement also includes confidentiality obligations, inventions assignments by Mr. Sealock as well as change in control, non-solicitation and post-termination restrictions regarding corporate opportunities.

We may terminate the employment agreement and Mr. Sealock's employment for Just Cause (as defined in the employment agreement) with 30 days' notice to Mr. Sealock and without payment to him of any compensation or severance in lieu of notice past the 30 day notice period. Upon termination of employment for Just Cause, Mr. Sealock would only be entitled to any base salary due and owing up to the date of termination, all expenses properly incurred up to the date of termination in the carrying out of his duties and any accrued but unused vacation pay due and outstanding. We may also terminate the employment agreement and Mr. Sealock's employment without Just Cause upon 15 business days' notice to Mr. Sealock. Upon termination of employment without Just Cause, Mr. Sealock would receive any base salary due and owing up to the date of termination, a lump sum amount equal to \$12,000, all expenses properly incurred up to the date of termination in the carrying out of his duties and any accrued but unused vacation pay due and outstanding. Mr. Sealock may terminate the employment agreement for Good Reason (as defined in the employment agreement) in the event of a Change of Control (as defined in the employment agreement) upon 15 business days' notice to us. Upon termination of employment for Just Cause (as defined in the employment agreement), Mr. Sealock would be entitled to any base salary due and owing up to the date of termination, all expenses properly incurred up to the date of termination in the carrying out of his duties and any accrued but unused vacation pay due and outstanding.



For the purposes of the employment agreement with Mr. Sealock, the term “Just Cause” is defined as: (i) any matter that would constitute lawful just cause for dismissal from employment at common law; (ii) conviction of the executive of a criminal offence involving dishonesty or fraud or which is likely to injure our business or reputation; (iii) misappropriation of any of our property or assets; (iv) any breach by the executive of any term of his employment or the employment agreement which has not been cured within ten days of notice to the executive of such breach; (v) any information, reports, documents or certificates being intentionally furnished by the executive to our Board or any committee thereof which the executive knows to be either false or misleading either because they include or fail to include material facts; or (vi) failure to perform his duties in a diligent and reasonable manner.

The term “Good Reason” (which only applies to Change of Control event) is defined as: (i) a significant change (other than a change that is clearly consistent with a promotion) in his position or duties, responsibilities, title or office held by him with us; (ii) a material reduction of his salary, benefits or any other form of remuneration or any change in the basis upon which the executive’s salary, benefits or any other form of remuneration payable by us is determined or any failure by us to increase his salary, benefits or any other forms of remuneration payable by us in a manner consistent with practices in effect from time to time with respect to our senior executives, whichever is more favorable to him; (iii) any failure by us to continue in effect any benefit, bonus, profit sharing, incentive, remuneration or compensation plan, stock ownership or purchase plan, pension plan or retirement plan in which Mr. Sealock is participating or entitled to participate from time to time, or our taking any action or failing to take any action that would adversely affect his participation in or reduce his rights or benefits under or pursuant to any such plan, or our failing to increase or improve such rights or benefits on a basis consistent with practices with respect to our senior executives, whichever is more favorable to him; (iv) any breach by us of any material provision of the employment agreement; (v) the failure by us to obtain, in a form satisfactory to Mr. Sealock, an effective assumption of our obligations under the employment agreement by any successor to us; or (vi) the good faith determination by Mr. Sealock that we have requested he misrepresent information to external parties, vendors, shareholders or any other party.

The term “Change of Control” is defined as: (i) the sale to a person or acquisition by a person not affiliated with us of net assets from us having a value greater than 50% of the fair market value of our net assets determined on a consolidated basis prior to such sale; (ii) any change in the holding, direct or indirect, of our shares by a person not affiliated with us as a result of which such person, or a group of persons, or persons acting in concert, or persons associated or affiliated with any such person or group, are in a position to exercise effective control over us; (iii) any reconstruction, reorganization, recapitalization, consolidation, amalgamation, arrangement, merger, transfer, sale or other transaction involving us where all of our shareholders immediately prior to such transaction hold greater than 50% of the shares of the Corporation or of the continuing corporation following completion of the transaction; or (iv) any event or transaction which our Board, in its discretion, deems to be a Change of Control.

Pursuant to a Technology Transfer Agreement, effective November 7, 2011, whereby we acquired from Vladimir Podlipskiy certain intellectual property rights relating to extracting bitumen from oil sands (the “Acquired Technology”), we also agreed to employ Mr. Podlipskiy to oversee and operate the Acquired Technology with the compensation of \$120,000.00 per year for as long as the Acquired Technology is utilized by us. In consideration for the Acquired Technology, we issued to Mr. Podlipskiy’s designee 100,000 shares of our common shares and agreed to issue an additional 1,900,000 shares of our common shares on the date when our extraction facility at the TMC Mineral Lease in Vernal, Utah is assembled and tested. We further agreed to pay Mr. Podlipskiy upon the construction of a second plant utilizing the Acquired Technology and any plants thereafter using the Acquired Technology a royalty fee of 2% of gross sales if the price of heavy oil is below \$60.00 per barrel; 3% of gross sales if the price of heavy oil is between \$60.00 and \$69.99 per barrel; 3.5% of gross sales if the price of heavy oil is between \$70.00 and \$79.99 and 4% of gross sales if the price of heavy oil is greater than \$80.00.

Director Compensation

The following table sets forth information for the fiscal year ended August 31, 2018 regarding the compensation of our directors who at August 31, 2018 were not also named executive officers.

Name	Fees Earned or Paid in Cash \$	Option Awards \$(3)	Other Compensation \$	Total \$
Robert Dennewald ⁽¹⁾	18,000	1,030,711	-	1,048,711
Travis Schneider ⁽¹⁾	18,000	1,030,711	-	1,048,711

1. Mr. Schneider and Mr. Dennewald have each earned \$18,000 of director’s fees for the financial year ended August 31, 2018. These fees have been accrued but have not been paid by us.

2. On November 30, 2017, Mr. Schneider and Mr. Dennewald, were each awarded ten year options exercisable to purchase 475,000 shares of common stock at an exercise price of CDN\$2.27 per share. These options are immediately exercisable. On June 6, 2018, Mr. Schneider and Mr. Dennewald were each awarded ten-year options exercisable over 1,000,000 shares of Common stock at an exercise price of CDN\$1.00 per share, these options vest annually over a four year period.
3. The options issued to directors on November 30, 2017 were valued at grant date using a Black Scholes valuation model. The assumptions used in the valuation were as follows: Weighted average exercise price of CDN\$2.27, exercise price CDN\$2.27, term of option: 10 years, risk free interest rate of 1.81% and computed volatility of the underlying stock of 127% and expected dividend yield of 0%.

The options issued to directors on June 3, 2018 were valued at grant date using a Black Scholes valuation model. The assumptions used in the valuation were as follows: Weighted average exercise price of CDN\$1.00, exercise price CDN\$1.00, term of option: 10 years, risk free interest rate of 2.16% and computed volatility of the underlying stock of 125% and expected dividend yield of 0%.

Compensation Committee Interlocks

Not Applicable

ITEM 7. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Director Independence and Related Transactions

Our Board of Directors is comprised of Aleksander Bluymkin, Gerald Bailey, Robert Dennewald, and Travis Schneider, of which only Messrs. Dennewald and Schneider are deemed to be independent within the meaning of the TSXV Guide and applicable Canadian regulations.

The Board of Directors has appointed only one standing committee, the Audit Committee. The Board members comprising our Audit Committee are Alex Blyumkin, Travis S. Schneider and Robert Dennewald, of which only Messrs. Dennewald and Schneider are deemed to be independent within the meaning of the TSXV Guide and applicable Canadian regulations.

The Audit Committee meets at least two times per year.

Certain Relationships and Related Transactions

During the years ended August 31, 2018 and 2017, we received additional advances of \$nil and \$421,250 from various private companies controlled by the Chairman of our Board of Directors. On May 18, 2017, we entered into an agreement to settle a portion of the principal and accrued interest of these advances by issuing 586,475 of our common shares to the lenders.

On May 18, 2017, we entered into a Securities Purchase Agreement whereby we agreed to convert an aggregate principal debt of \$204,000, including interest thereon, owing to the Chairman of the Board or companies controlled by him into 751,681 of common share at a conversion price of \$0.353 per share.

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

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

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

On May 22, 2018, we entered into a Debt Settlement Agreement whereby we agreed to convert \$1,175,424 of advances made to us by the Chairman of the Board into 1,992,244 common shares at a conversion price of \$0.59 per share.

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

As of August 31, 2017, we owed various private companies controlled by the Chairman of the Board the aggregate sum of \$242,250. These loans bore interest at 5% per annum and matured at dates ranging from on demand to September 1, 2020. As of November 30, 2018 and August 31, 2018, all amounts owed to these entities were paid in full.

As at November 30, 2018, the Chairman of the Board of Directors owed us \$374,728.

ITEM 8. LEGAL PROCEEDINGS.

From time to time, we are the subject of litigation arising out of our normal course of operations. While we assess the merits of each lawsuit and defends itself accordingly, we may be required to incur significant expenses or devote significant resources to defend ourselves 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. Except as disclosed in this paragraph, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which we are aware), which may have, or have had during the 12 months prior to the date of this registration statement, a significant effect on our and/or our financial position or profitability. 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 our consolidated financial position.

ITEM 9. MARKET PRICE OF, AND DIVIDENDS ON THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

Quotations for our common shares are included in the Toronto Ventures Exchange Market TSQV under the symbol "PQE.V".

At January 31, 2019, there were approximately 232 holders of record of our common shares.

Since inception, no dividends have been paid on the common shares. We intend to retain any earnings for use in its business activities, so it is not expected that any dividends on the common shares will be declared and paid in the foreseeable future.

Securities Authorized for Issuance under Equity Incentive Plans. At August 31, 2018, we were authorized to issue options covering up to 16,969,601 common shares.

The following table sets forth information about the securities authorized for issuance under our equity compensation plans for the fiscal year ended August 31, 2018.

	Number of securities to be issued upon exercise of outstanding options	Weighted average exercise price of outstanding options	Number of securities remaining for future issuance under equity compensation plans
Equity Compensation plans approved by the stockholders	<u>9,858,333</u>	<u>CDN\$1.22</u>	<u>4,950,000</u>
	<u>9,858,333</u>	<u>CDN\$1.22</u>	<u>4,950,000</u>

ITEM 10. RECENT SALES OF UNREGISTERED SECURITIES.

As at February 5, 2019, there were 97,476,049 common shares issued and outstanding, which are listed for trading on the TSXV, warrants to purchase 20,714,715 common shares were outstanding and stock options to purchase 9,858,333 common shares were outstanding under the 2018 Option Plan (or its predecessors plans) and 8,610,416 shares reserved for other issuances. See Item 6.B “Compensation – Stock Plan” for additional information regarding the 2018 Option Plan (or its predecessors plans).

The number of outstanding common shares at the end of Fiscal 2018 (August 31, 2018), Fiscal 2017 (August 31, 2017), and Fiscal 2016 (August 31, 2016) were as follows: 85,163,631 shares: 54,220,699 shares, and 6,723,167 shares, respectively. There were 54,220,699 common shares outstanding at the beginning of Fiscal 2018 and 85,163,631 common shares outstanding at the end of Fiscal 2018. There were 6,723,167 common shares outstanding at the beginning of Fiscal 2017 and 54,220,699 common shares outstanding at the end of Fiscal 2017. There were 2,020,765 common shares outstanding at the beginning of Fiscal 2016 and 6,723,167 common shares outstanding at the end of Fiscal 2016.

As at the end of Fiscal 2018, 83,331 stock options were outstanding under the 2017 Stock Plan (or its predecessors plans).

The following sets forth information regarding our share capital issuances during the last three years. We have not issued any preferred shares. None of these transactions involved any underwriters, underwriting discounts or commissions, or any public offering. On May 5, 2017, we consolidated our common shares on 1-for-30 basis. The number of common shares issued and outstanding set forth below have been retroactively adjusted for this consolidation.

1. On January 19, 2016, we issued 190,971 common shares to Mr. Blyumkin in consideration for him personally guaranteeing three loans to us in an aggregate amount of \$16,500,000.
2. On February 1, 2016, we issued 3,745 common shares in satisfaction of \$35,000 of indebtedness owed to Mark Korb.
3. On February 19, 2016, we issued 31,124 common shares to Robert Dennewald for gross proceeds of \$100,000.
4. On February 24, 2016, we issued 62,080 common shares in satisfaction of \$160,000 of indebtedness owed to two arm’s length service providers.
5. On February 25, 2016, we issued 200,754 common shares to a lender in consideration for agreeing to extend the maturity of a \$3,500,000 loan.
6. On March 7, 2016, we issued 12,976 common shares pursuant to a private offering for gross proceeds of \$35,000.
7. On March 23, 2016, we issued 882,454 common shares in satisfaction of \$2,447,478 of indebtedness owed pursuant to two arm’s length loans.
8. On March 24, 2016, we issued 85,160 common shares in satisfaction of \$236,411 of indebtedness owed pursuant to two loans with Mr. Blyumkin.
9. On March 28, 2016, we issued 9,268 common shares pursuant to a private offering for gross proceeds of \$25,000.
10. On April 1, 2016, we issued 31,386 common shares pursuant to a private offering for gross proceeds of \$85,000.
11. On April 4, 2016, we issued 22,524 common shares pursuant to a private offering for gross proceeds of \$61,000.
12. On April 5, 2016, we issued 33,333 common shares pursuant to a private offering for gross proceeds of \$110,000.
13. On April 13, 2016, we issued 34,659 common shares in satisfaction of \$129,298 of indebtedness owed to an arm’s length service provider.
14. On April 25, 2016, we issued 22,991 common shares in satisfaction of \$55,556 of indebtedness owed pursuant to pursuant to a secured note issued pursuant to a securities purchase agreement dated December 15, 2016.
15. On April 25, 2016, we issued 43,847 common shares in satisfaction of \$150,000 of indebtedness owed to an arm’s length service provider.
16. On May 11, 2016, we issued 36,666 common shares in satisfaction of \$185,000 of indebtedness owed to two arm’s length service providers.
17. On May 16, 2016, we issued 7,560 common shares in satisfaction of \$20,000 of indebtedness owed to an arm’s length service provider.
18. On May 25, 2016, we issued 10,000 common shares in satisfaction of \$90,000 of indebtedness owed to an arm’s length service provider.
19. On May 30, 2016 and June 8, 2016, we issued 666,666 common shares in satisfaction of \$2,500,000 of indebtedness owed to an arm’s length lender pursuant to a promissory note dated September 8, 2015.
20. On June 3, 2016, we issued 23,809 common shares pursuant to a private offering for gross proceeds of \$75,000.
21. On June 10, 2016, we issued 64,411 common shares in satisfaction of CDN\$217,289 of indebtedness owed to two arm’s length service providers.
22. On June 24, 2016, we issued 16,666 common shares pursuant to a private offering for gross proceeds of \$50,000.

23. On August 19, 2016, we issued 1,989,943 common shares (and warrants to purchase 66,666 common shares at \$7.50 per share for three years) pursuant to our acquisition of 57.3% of all issued and outstanding shares of Accord.
24. On August 23, 2016, we issued 123,897 common shares in satisfaction of \$396,748 of indebtedness owed pursuant to two loans (\$130,602) with Mr. Blyumkin and one (\$266,146) with an arm's length lender.
25. On September 15, 2016, we issued 31,776 common shares in satisfaction of \$110,000 of indebtedness owed to two arm's length service providers.
26. On October 21, 2016, we issued 14,439 common shares (and warrants to purchase 14,439 common shares at CDN\$4.725 per share until April 8, 2021) pursuant to the conversion of \$50,000 of a note originally issued on April 8, 2016.
27. On November 8, 2016, we issued 43,317 common shares (and warrants to purchase 43,317 common shares at CDN\$4.725 per share until April 8, 2021) pursuant to the conversion of \$150,000 of a note originally issued on April 8, 2016.
28. On November 17, 2016, we issued 12,491 common shares pursuant to a private offering for gross proceeds of \$65,000.
29. On November 17, 2016, we issued 24,697 common shares in satisfaction of \$157,205 of indebtedness owed to three arm's length service providers and lenders.
30. On January 17, 2017, we issued 16,666 common shares to Vladimir Podlipsky, our Chief Technology Officer, in pursuant to Restricted Stock Agreement dated April 13, 2012 executed pursuant to a Technology Transfer Agreement, wherein we agreed to issue Mr. Podlipsky 16,666 common shares upon the successful installation and testing of our oil sands extraction technology to our satisfaction.
31. On February 3, 2017, we issued 63,332 common shares in satisfaction of CDN\$135,373 of indebtedness owed to an arm's length service provider.
32. On February 24, 2017, we issued 669,760 common shares to an arm's length lender pursuant to the conversion of \$2,300,000 of a \$3,500,000 loan contemplated in a loan agreement dated February 9, 2015, as amended.
33. On April 21, 2017, we issued 33,333 common shares in satisfaction of \$37,500 of indebtedness owed to an arm's length service provider.
34. On April 21, 2017, we issued 336,341 common shares pursuant to a private offering for gross proceeds of \$441,464 (including \$315,000 from Mr. Blyumkin).
35. On April 24, 2017, we issued 24,027 common shares pursuant to a private offering for gross proceeds of \$35,000.
36. On June 12, 2017, we issued 83,333 common shares to Recruiter.com, Inc. in exchange for a 25% equity interest in the joint venture entity formed pursuant to a joint venture agreement made as of November 11, 2016, between us, Recruiter.com, Inc. and Advance Media Solutions-Venture Company.
37. On July 10, 2017, we issued 220,588 common shares pursuant to a private offering for gross proceeds of \$75,000.
38. On July 11, 2017, we issued 31,083,281 common shares in satisfaction of \$12,189,956 of indebtedness owed to several lenders (including 1,746,824 common shares in satisfaction of \$620,277 of indebtedness owed to Mr. Blyumkin).
39. On August 10, 2017, we issued 58,593 common shares to Robert Dennewald for gross proceeds of \$15,000.
40. On August 14, 2017, we issued 60,000 common shares in satisfaction of \$50,000 of indebtedness owed to an arm's length service provider.
41. On August 22, 2017, we issued 14,391,330 common shares in satisfaction of \$3,215,625 of indebtedness owed to three arm's length lenders pursuant to the assignment of a promissory note dated March 18, 2016.
42. On August 23, 2017, we issued 320,000 common shares in satisfaction of \$99,840 of indebtedness owed to an arm's length service provider.
43. On August 30, 2017, we issued 42,000 common shares pursuant to a private offering for gross proceeds of \$10,080.
44. On August 31, 2017, we issued a convertible secured note in the principal amount of \$565,000 bearing interest at a rate of 5% per annum, conversion price of \$0.20 per share, maturing October 31, 2018 which note is convertible into units comprised of one common share and one warrant to purchase common share at an exercise price of \$0.315 per share. From December 19, 2017 to May 22, 2018, a total of \$508,500 in principal was converted into 1,753,447 units and from March 16, 2018 until July 11, 2018 a total of 1,753,447 warrants were exercised to purchase 1,753,447 common shares
45. On September 27, 2017, we issued 334,615 common shares pursuant to a private offering for gross proceeds of \$87,000.
46. On October 20, 2017, we issued 100,000 common shares pursuant to a private offering for gross proceeds of \$26,000.
47. On November 8, 2017, we issued 754,461 common shares pursuant to a private offering for gross proceeds of \$199,180.
48. On December 19, 2017 and January 22, 2018, we issued an aggregate of 517,241 common shares (and warrants to purchase 517,241 common shares at \$0.315 per share until August 31, 2022) pursuant to the conversion of \$150,000 of a note originally issued on August 31, 2017.
49. On January 10, 2018 and January 22, 2018, we issued an aggregate of 517,241 common shares (and warrants to purchase 517,241 common shares at \$0.315 per share until August 31, 2022) pursuant to the conversion of \$150,000 of a note originally issued on August 31, 2017.
50. On January 25, 2018, we issued 253,802 common shares pursuant to a private offering for gross proceeds of \$180,200.
51. On January 29, 2018, we issued 870,369 common shares pursuant to a private offering for gross proceeds of \$922,591.
52. On February 9, 2018, we issued an aggregate of 517,241 common shares (and warrants to purchase 517,241 common shares at \$0.315 per share until August 31, 2022) pursuant to the conversion of \$150,000 of a note originally issued on August 31, 2017.

53. On March 9, 2018, we issued 222,203 common shares (and warrants to purchase 114,678 common shares at \$1.50 per share for 24 months) pursuant to a private offering for gross proceeds of \$225,000.
54. On March 13, 2018, we issued 932,893 common shares (592,385 common shares in satisfaction of \$613,750 of indebtedness and 340,508 common shares in satisfaction of CDN\$381,370 of indebtedness) to five arm's length service providers.
55. On March 16, 2018, we issued 250,000 common shares pursuant to the partial exercise, at \$0.315 per share, of a warrant issued on December 19, 2017.
56. On April 11, 2018, we issued 250,000 common shares pursuant to the partial exercise, at \$0.315 per share, of a warrant issued on December 19, 2017.
57. On April 19, 2018, we issued 500,000 common shares pursuant to the exercise, at \$0.315 per share, of a warrant issued on January 10, 2018.
58. On May 8, 2018, we issued 493,242 common shares in satisfaction of CDN \$365,000 of indebtedness owed to two arm's length lenders pursuant to debentures originally issued on October 10, 2014, as amended.
59. On May 8, 2018, we issued 500,000 common shares in satisfaction of \$795,000 of indebtedness to an arm's length service provider.
60. On May 22, 2018, we issued an aggregate of 201,724 common shares (and warrants to purchase 201,724 common shares at \$0.315 per share until August 31, 2022) pursuant to the conversion of \$58,500 of a note originally issued on August 31, 2017.
61. On May 2, 2018, we issued 6,000,000 common shares (and warrants to purchase 6,000,000 common shares at \$0.91 per share for three years) pursuant to a private offering for gross proceeds of \$3,600,000.
62. On May 24, 2018, we issued 25,000 common shares in satisfaction of \$17,500 of indebtedness owed to an arm's length service provider.
63. On May 30, 2018, we issued 25,000 common shares in satisfaction of \$17,500 of indebtedness owed to an arm's length service provider.
64. On May 30, 2018, we issued 25,000 common shares to a member of our advisory board pursuant to an advisory board agreement entitling the holder to 100,000 common shares in three installments from May to September.
65. On June 1, 2018, we issued 517,241 common shares pursuant to the exercise, at \$0.315 per share, of a warrant issued on February 9, 2018.
66. On June 11, 2018, we issued 4,799,799 common shares pursuant to a private offering for gross proceeds of \$2,807,022.
67. On June 14, 2018, we issued 764,740 common shares (and warrants to purchase 329,080 common shares at \$1.50 per share for two years) pursuant to a private offering for gross proceeds of \$472,200.
68. On June 25, 2018, we issued 1,992,244 common shares to Mr. Blyumkin in satisfaction of \$1,175,424 of indebtedness owed to Mr. Blyumkin for reimbursement of company expenses.
69. On June 28, 2018, we issued 292,893 common shares pursuant to a private offering for gross proceeds of \$202,100.
70. On July 5, 2018, we issued 25,000 common shares to a consultant pursuant to an independent contractor agreement entitling the holder to 25,000 common shares in three installments at the end of each month commencing in June.
71. On July 11, 2018, we issued 236,206 common shares pursuant to the exercise, at \$0.315 per share, of a warrant issued on January 22, 2018 and a warrant issued on May 22, 2018.
72. On July 26, 2018, we issued 2,765,115 common shares (and warrants to purchase 1,637,160 common shares at \$1.50 per share for two years) pursuant to a private offering for gross proceeds of \$1,832,600.
73. On July 31, 2018, we issued 50,000 common shares to a member of our advisory board pursuant to an advisory board agreement entitling the holder to 100,000 common shares in three installments from May to September.
74. On July 31, 2018, we issued 25,000 common shares to a consultant pursuant to an independent contractor agreement entitling the holder to 25,000 common shares in three installments at the end of each month commencing in June.
75. On August 2, 2018, we issued 287,500 common shares in satisfaction of \$230,000 of indebtedness owed to an arm's length service provider.
76. On August 28, 2018, we issued 5,922,162 common shares (and warrants to purchase 1,623,676 common shares at exercise prices ranging from US\$0.94 to US\$1.50 per share for two years) pursuant to a private offering for gross proceeds of \$4,417,916.
77. On September 1, 2018, we issued 25,000 common shares to a consultant pursuant to an independent contractor agreement entitling the holder to 25,000 common shares in three installments at the end of each month commencing in June.
78. On September 4, 2018, we issued 542,065 common shares in satisfaction of \$411,285 of indebtedness owed to two arm's length service providers (205,194 shares for \$162,000) and Mr. Blyumkin (336,871 for \$249,285).
79. On September 4, 2018, we issued a convertible unsecured debenture for principal amount of \$250,000 and warrants to purchase 287,356 common shares at an exercise price of \$0.87 per share for one year, to an arm's length lender. The debenture has a term of one year and bears interest at a rate of 10% per annum and at the option of the holder the principal amount of the debenture is convertible at \$0.87 per share into up to 287,356 common shares.
80. On September 6, 2018, we issued 1,234,567 common shares (and warrants to purchase 925,925 common shares at an exercise price of \$1.01 per share for two years) pursuant to a private offering for gross proceeds of \$1,000,000.
81. On September 17, 2018, we issued secured convertible debentures with a face value of \$3,300,000 (including an original issue discount of \$300,000) to a third party investor for gross proceeds of \$3,000,000, the convertible debenture bears interest at 10% per annum and has a maturity date, twelve months from the date of issuance. In conjunction with the issuance we issued 950,000 shares of common stock to the investor and a further 300,000 shares to a third party broker. We also issued 1 year warrants exercisable over 750,000 shares of common stock at an exercise price of \$1.10 per share.

82. On September 11, 2018, we issued 316,223 common shares to settle CAD\$335,196 of debt owed to two convertible note holders.
83. On September 28, 2018, we issued 110,206 common shares to settle \$110,516 owed to certain service providers.
84. On September 30, 2018 we issued 25,000 common shares to a consultant pursuant to an independent contractor agreement entitling the holder to 25,000 common shares in three installments at the end of each month commencing in June.
85. On October 11, 2018, we issued 833,269 common shares and warrants exercisable for the purchase of 520,408 common shares at exercise prices ranging from \$1.35 to \$1.50 per share to private investors for gross proceeds of \$816,605.
86. On October 12, 2018, we entered into an agreement with Calvary Fund I LP whereby we 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, for a total of 290,500 warrants.
87. On October 15, 2018, we entered into an agreement with SBI Investments LLC whereby we 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, for a total of 290,500 warrants.
88. On November 7, 2018, we issued 320,408 common shares and warrants exercisable for the purchase of 320,408 common shares at exercise prices ranging from \$0.61 to \$0.66 per share, to private investors for gross proceeds of \$169,000.
89. On November 8, 2018, we issued 918,355 common share purchase warrants to various investors as settlement of expenses incurred by the Company. Each common share purchase warrants entitles the holder to purchase one common share of the Company at a price of \$1.01 per share and expires on November 8, 2020.
90. On November 8, 2018, we issued 28,880 common shares to a director as settlement of \$23,393 of expenses incurred by him.
91. On December 3, 2018 Alpha Capital Anstalt converted the remaining debt outstanding to them of \$56,500 plus interest of \$13,478 into 145,788 of our common shares.
92. On December 5, 2018, we entered into settlement agreements with certain service providers and issued 566,794 common shares to settle \$413,760 of outstanding debt.
93. On December 7, 2018, we issued 3,868,970 common shares and warrants exercisable for the purchase of 3,373,920 common shares at exercise prices ranging from \$0.67 to \$1.50 per share, to private investors for gross proceeds of \$2,275,200.
94. On December 7, 2018, we issued 1,190,476 common shares and warrants exercisable for the purchase of 1,190,476 common shares at exercise prices of \$0.525 per share, to an investor for gross proceeds of \$500,000.
95. On December 28, 2018, we issued a convertible debenture of \$143,750 due April 29, 2019, including an original issue discount of \$18,750, bearing interest at 10% per annum and convertible into common shares at US\$0.48 per share, together with warrants exercisable for 260,416 common shares at a price of US\$0.48 per share, for net proceeds of \$125,000.
96. On January 1, 2019, we issued 25,000 common shares to a consultant pursuant to an independent contractor agreement entitling the holder to 25,000 common shares in three installments at the end of each month commencing in June.
97. On January 10, 2019, we issued 1,522,080 common shares and warrants exercisable for the purchase of 1,437,557 common shares at an exercise price of \$1.50 per share, to investors for gross proceeds of \$645,100.
98. On January 11, 2019, we issued 307,692 common shares and warrants exercisable for the purchase of 307,692 common shares at an exercise price of \$1.50 per share for gross proceeds of \$200,000.
99. On January 16, 2019, we issued a 5% convertible debenture of \$2,400,000 due October 19, 2019, including an original issue discount of \$400,000, convertible into common shares at \$0.40 per share, to an investor for net proceeds of \$2,000,000.
100. On January 25, 2019, we issued 147,058 common shares and warrants exercisable for the purchase of 147,058 common shares at an exercise price of \$0.37 per share, for net proceeds of \$50,000.

ITEM 11. DESCRIPTION OF REGISTRANT'S SECURITIES TO BE REGISTERED.

The following description of our capital stock is a summary only and is qualified in its entirety by reference to our Articles of Amalgamation, as amended and Bylaws, which are included as Exhibits 3.1 and 3.2 of this registration statement.

Authorized/Issued Capital

Our authorized share capital consists of an unlimited number of common shares without nominal or par value and an unlimited number of preferred shares without nominal or par value. There are currently no preferred shares outstanding.

Common Shares

All shares on issue by us are common shares and as such the rights pertaining to these common shares are the same. There are no common shares which have superior or inferior rights. We do not currently have any preferred shares outstanding.

All our outstanding common shares are validly issued, fully paid and non-assessable. The rights attached to our common shares are as follows:

Dividend Rights. The directors may declare that a dividend be paid to the members according to the shareholders' pro rata shareholdings and the directors may fix the amount, the time for payment and the method of payment. No dividend is payable except in accordance with the Business Corporations Act (Ontario) as amended from time to time and no dividend carries interest as against us.

Voting Rights. Holders of common shares have one vote for each ordinary share held on all matters submitted to a vote of shareholders. Such voting rights may be affected by the grant of any special voting rights to the holders of a class of shares with preferential rights that may be authorized in the future.

The quorum required for an ordinary meeting of shareholders consists of at least two shareholders present in person, or by proxy, attorney or representative appointed pursuant to our bylaws. A meeting adjourned for lack of a quorum generally is adjourned to the same day in the following week at the same time and place. At the reconvened meeting, the required quorum consists of any two members holding 5% of the shares entitled to vote at the meeting present in person, or be represented by proxy. The meeting is dissolved if a quorum is not present within a reasonable time, provided the shareholders present may adjourn the meeting to a fixed time and place.

To be adopted, a resolution requires approval by the holders of a majority of the voting rights represented at the meeting, in person, by proxy, or by written ballot and voting thereon

Rights in the Event of Liquidation. In the event of our liquidation, after satisfaction of liabilities to creditors, and the passing of a special resolution giving effect to the following, our assets will be distributed to the holders of common shares in proportion to the capital at the commencement of the liquidation paid up or which ought to have been paid up on the shares held by them, respectively. This right may be affected by the grant of preferential dividend or distribution rights to the holders of a class of shares with preferential rights, such as the right in winding up to payment in cash of the amount then paid up on the share, and any arrears of dividend in respect of that share, in priority to any other class of shares.

Transfer Agent. Common shares are transferable at the offices of our transfer agent and registrar, Computershare Investor Services Inc., 500 Burrard Street, 3rd Floor, Vancouver, British Columbia V6C 3B9.

There are no restrictions in our charter documents on the free transferability of the common shares.

Changing rights attached to common shares

In order to change the rights of our shareholders with respect to certain fundamental changes as described in Section 168 of the *Business Corporations Act* (Ontario), we would need to amend our Articles to effect the change. Such an amendment would require the approval of holders of two-thirds of the votes of our common shares, and any other shares carrying the right to vote at any general meeting of our shareholders, cast at a duly called special meeting. The *Business Corporations Act* (Ontario) also provides that a sale, lease or exchange of all or substantially all of the property of a corporation other than in the ordinary course of business of the corporation likewise requires the approval of the shareholders at a duly called special meeting. For such fundamental changes and sale, lease and exchange, a shareholder is entitled under the *Business Corporations Act* (Ontario) to dissent in respect of such a resolution amending the Articles and, if the resolution is adopted and we implement such changes, demand payment of the fair value of the shareholder's common shares.

Annual and Special Meetings

The *Business Corporations Act* (Ontario) provides that the directors of a corporation shall call an annual meeting of shareholders not later than 15 months after holding the last preceding annual meeting. The *Business Corporations Act* (Ontario) also provides that, in the case of an offering corporation, the directors shall place before each annual meeting of shareholders, the financial statements required to be filed under the *Securities Act* (Ontario) and the regulations thereunder relating to the period that began immediately after the end of the last completed financial year and ended not more than six months before the annual meeting and the immediately preceding financial year, if any.

The Board has the power to call a special meeting of shareholders at any time.

Notice of the date, time and location of each meeting of shareholders must be given not less than 21 days or more than 50 days before the date of each meeting to each director, to our auditor and to each shareholder who at the close of business on the record date for notice is entered in the securities register as the holder of one or more shares carrying the right to vote at the meeting.

Notice of a meeting of shareholders called for any other purpose other than consideration of the minutes of an earlier meeting, financial statements, reports of the directors or auditor, setting or changing the number of directors, the election of directors and reappointment of the incumbent auditor, must state the general nature of the special business in sufficient detail to permit the shareholder to form a reasoned judgment on such business, must state the text of any special resolution to be submitted to the meeting, and must, if the special business includes considering, approving, ratifying, adopting or authorizing any document or the signing of or giving of effect to any document, have attached to it, a copy of the document or state that a copy of the document will be available for inspection by shareholders at our records office or another accessible location.

The only persons entitled to be present at a meeting of shareholders are those entitled to vote, our directors and our auditor. Any other person may be admitted only on the invitation of the chairman of the meeting or with the consent of the meeting. In circumstances where a court orders a meeting of shareholders, the court may direct how the meeting may be held, including who may attend the meeting.

Limitations on the Rights to Own Securities in Our Company

No share may be issued until it is fully paid.

Neither Canadian law nor our Articles or bylaws limit the right of a non-resident to hold or vote our common shares, other than as provided in the Investment Canada Act (the "Investment Act"), as amended by the World Trade Organization Agreement Implementation Act (the "WTOA Act"). The Investment Act generally prohibits implementation of a direct reviewable investment by an individual, government or agency thereof, corporation, partnership, trust or joint venture that is not a "Canadian," as defined in the Investment Act (a "non-Canadian"), unless, after review, the minister responsible for the Investment Act is satisfied that the investment is likely to be of net benefit to Canada. An investment in our common shares by a non-Canadian (other than a "WTO Investor," as defined below) would be reviewable under the Investment Act if it were an investment to acquire direct control of our company, and the value of our assets were CDN\$5.0 million or more (provided that immediately prior to the implementation of the investment our company was not controlled by WTO Investors). An investment in our common shares by a WTO Investor (or by a non-Canadian other than a WTO Investor if, immediately prior to the implementation of the investment our company was controlled by WTO Investors) would be reviewable under the Investment Act if it were an investment to acquire direct control of our company and the value of our assets equaled or exceeded certain threshold amounts determined on an annual basis.

The threshold for a pre-closing net benefit review depends on whether the purchaser is: (a) controlled by a person or entity from a member of the WTO; (b) a state-owned enterprise (SOE); or (c) from a country considered a “Trade Agreement Investor” under the Investment Act. A different threshold also applies if the Canadian business carries on a cultural business.

The 2018 threshold for WTO investors that are SOEs will be CDN\$398 million based on the book value of the Canadian business’ assets, up from CDN\$379 million in 2017.

The 2018 thresholds for review for direct acquisitions of control of Canadian businesses by private sector investor WTO investors (CDN\$1 billion) and private sector trade-agreement investors (CDN\$1.5 billion) remain the same and are both based on the “enterprise value” of the Canadian business being acquired.

A non-Canadian, whether a WTO Investor or otherwise, would be deemed to acquire control of our company for purposes of the Investment Act if he or she acquired a majority of our common shares. The acquisition of less than a majority, but at least one-third of the shares, would be presumed to be an acquisition of control of our company, unless it could be established that we are not controlled in fact by the acquirer through the ownership of the shares. In general, an individual is a WTO Investor if he or she is a “national” of a country (other than Canada) that is a member of the WTO (“WTO Member”) or has a right of permanent residence in a WTO Member. A corporation or other entity will be a “WTO Investor” if it is a “WTO Investor-controlled entity,” pursuant to detailed rules set out in the Investment Act. The U.S. is a WTO Member. Certain transactions involving our common shares would be exempt from the Investment Act, including: an acquisition of the shares if the acquisition were made in the ordinary course of that person’s business as a trader or dealer in securities; an acquisition of control of our company in connection with the realization of a security interest granted for a loan or other financial assistance and not for any purpose related to the provisions of the Investment Act; and an acquisition of control of our company by reason of an amalgamation, merger, consolidation or corporate reorganization, following which the ultimate direct or indirect control in fact of us, through the ownership of voting interests, remains unchanged.

Impediments to Change of Control

In 2016, the Canadian Securities Administrators (the “CSA”) enacted amendments (the “Bid Amendments”) to the Take-Over Bid Regime. The Bid Amendments, which are very significant, are contained in National Instrument (NI) 62-104.

The Bid Amendments were intended to enhance the quality and integrity of the take-over bid regime and rebalance the current dynamics among offerors, offeree issuer boards of directors (“Offeree Boards”), and offeree issuer security holders by (i) facilitating the ability of offeree issuer security holders to make voluntary, informed and coordinated tender decisions, and (ii) providing the Offeree Board with additional time and discretion when responding to a take-over bid.

Specifically, the Bid Amendments require that all non-exempt take-over bids:

- (1) receive tenders of more than 50% of the outstanding securities of the class that are subject to the bid, excluding securities beneficially owned, or over which control or direction is exercised, by the offeror or by any person acting jointly or in concert with the offeror (the “Minimum Tender Requirement”);
- (2) be extended by the offeror for an additional 10 days after the Minimum Tender Requirement has been achieved and all other terms and conditions of the bid have been complied with or waived (the “10 Day Extension Requirement”); and
- (3) remain open for a minimum deposit period of 105 days (the “Minimum 105 Day Bid Period”) unless
 - (a) the offeree board states in a news release a shorter deposit period for the bid of not less than 35 days, in which case all contemporaneous take-over bids must remain open for at least the stated shorter deposit period, or
 - (b) the issuer issues a news release that it intends to effect, pursuant to an agreement or otherwise, a specified alternative transaction, in which case all contemporaneous take-over bids must remain open for a deposit period of at least 35 days.

The Bid Amendments involved fundamental changes to the bid regime to establish a majority acceptance standard for all non-exempt take-over bids, a mandatory extension period to alleviate offeree security holder coercion concerns, and a 105 day minimum deposit period to address concerns that offeree boards did not have enough time to respond to an unsolicited take-over bid. The CSA determined not to amend National Policy 62-202 Defensive Tactics (“NP 62-202”) in connection with these amendments. They reminded participants in the capital markets of the continued applicability of NP 62-202, which means that securities regulators will be prepared to examine the actions of offeree boards in specific cases, and in light of the amended bid regime, to determine whether they are abusive of security holder rights.

Stockholder Ownership Disclosure Threshold in Bylaws

Neither our Articles nor bylaws contain a provision governing the ownership threshold above which shareholder ownership must be disclosed. Pursuant to Canadian securities legislation, an “early warning report”, news release and an “insider report” must be filed if a shareholder obtains ownership on a partially diluted basis of 10% or greater of our company.

Preferred Shares

We do not currently have any preferred shares outstanding. We are authorized to issue an unlimited number of preferred shares, issuable in one or more series. For each series of preferred shares the Board has the authority to fix the number of shares of such series and to determine the designation, rights, privileges, restrictions, and conditions attaching to such series, including: the rate or amount of or method of calculating preferential dividends, whether dividends will be cumulative or non-cumulative, the payment dates, whether the shares will be redeemable, and if so, the redemption price and terms and conditions of redemption, any voting rights, any conversion rights, any sinking fund, any purchase fund or other provisions and the amount payable on return of capital in the event of the liquidation, dissolution or winding-up of our company.

Shares Not Representing Capital

None.

Shares Held by Company

None.

History of Share Capital

As at November 30, 2018, there were 89,849,249 common shares issued and outstanding and as at August 31, 2018, there were 85,163,631 common shares issued and outstanding, which are listed for trading on the TSXV, and 9,858,333 stock options were outstanding under the 2018 Option Plan (or its predecessors plans). See Item 6.B “Compensation – Stock Plan” for additional information regarding the 2018 Option Plan (or its predecessors plans).

The number of outstanding common shares at the end of Fiscal 2018 (August 31, 2018), Fiscal 2017 (August 31, 2017), and Fiscal 2016 (August 31, 2016) were as follows: 85,163,631 shares: 54,220,699 shares, and 6,723,167 shares, respectively. There were 54,220,699 common shares outstanding at the beginning of Fiscal 2018 and 85,163,631 common shares outstanding at the end of Fiscal 2018. There were 6,723,167 common shares outstanding at the beginning of Fiscal 2017 and 54,220,699 common shares outstanding at the end of Fiscal 2017. There were 2,020,765 common shares outstanding at the beginning of Fiscal 2016 and 6,723,167 common shares outstanding at the end of Fiscal 2016.

As at the end of Fiscal 2018, 9,858,333 stock options were outstanding under the 2018 Stock Plan (or its predecessors plans).

ITEM 12. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

Under the Business Corporations Act (Ontario), we may indemnify a director or officer, a former director or officer or another individual who acts or acted at our request as a director or officer, or an individual acting in a similar capacity, of another entity, against all costs, charges and expenses, including an amount paid to settle an action or satisfy a judgment, reasonably incurred by the individual in respect of any civil, criminal, administrative, investigative or other proceeding in which the individual is involved because of that association with us or other entity on condition that (i) the individual acted honestly and in good faith with a view to our best interests or, as the case may be, to the best interests of the other entity for which the individual acted as a director or officer or in a similar capacity at our request, and (ii) in the case of a criminal or administrative action or proceeding that is enforced by a monetary penalty, the individual also had reasonable grounds for believing that his or her conduct was lawful. Further, we may, with court approval, indemnify an individual described above in respect of an action by or on behalf of us or other entity to obtain a judgment in its favor, to which the individual is made a party because of the individual's association with us or other entity, against all costs, charges and expenses reasonably incurred by the individual in connection with such action if the individual fulfills condition (i) above. An individual as described above is entitled as a matter of right to indemnification from us in respect of all costs, charges and expenses reasonably incurred by such individual in connection with the defense of any civil, criminal, administrative, investigative or other proceedings to which such individual is subject if he or she was not judged by a court or other competent authority to have committed any fault or omitted to do anything that he or she ought to have done, and has fulfilled conditions (i) and (ii) above.

In accordance with the Business Corporations Act (Ontario), we have agreed to indemnify each of our directors and officers against all costs, charges and expenses, including an amount paid to settle an action or satisfy a judgment, reasonably incurred by him in respect of any civil, criminal, administrative action or proceeding in which such individual is involved by reason of his association with us or other entity if he acted honestly and in good faith with a view to our best interests or such other entity, and he had reasonable grounds for believing that his conduct was lawful.

A policy of directors' and officers' liability insurance is maintained by the Company that insures directors and officers for losses as a result of claims against the directors and officers of the Registrant in their capacity as directors and officers and also reimburses the Registrant for payments made pursuant to the indemnity provisions under the by-laws of the Registrant and the Business Corporations Act (Ontario).

Insofar as indemnification for liabilities arising under the Securities Act, may be permitted to directors, officers or persons controlling us pursuant to the foregoing provisions, hawse have been informed that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act, and is therefore unenforceable.

ITEM 13. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The financial statements of Petroteq Energy, Inc. appear at the end of this report beginning with the Index to Financial Statements on page F-1.

ITEM 14. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 15. FINANCIAL STATEMENTS AND EXHIBITS.

(a) List of all financial statements filed as part of the registration statement.

Condensed Consolidated Interim Statements of Financial Position as of November 30, 2018 and August 31, 2018 (Unaudited)	F-1
Condensed Consolidated Statements of Loss and Comprehensive Loss for the three months ended November 30, 2018 and 2017 (Unaudited)	F-2
Condensed Consolidated Interim Statements of Changes in Shareholders' Equity for the three months ended November 31, 2018 and 2017 (Unaudited)	F-3
Condensed Consolidated Interim Statements of Cash Flows for the three months ended November 30, 2018 and 2017 (Unaudited)	F-4
Notes to the Condensed Consolidated Interim Financial Statements for the three months ended November 30, 2018 and 2017	F-5
Report of Independent Registered Public Accountants	F-36
Consolidated Statements of Financial Position for the years ended August 31, 2018 and 2017	F-37
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PETROTEQ ENERGY, INC.
Condensed Consolidated Interim Statements of Financial Position
As at November 30, 2018 and August 31, 2018
Expressed in US dollars

	Notes	November 30, 2018 (Unaudited)	August 31, 2018
ASSETS			
Current assets			
Cash	4	\$ 274,096	\$ 2,640,001
Trade and other receivables	5	404,013	404,013
Current portion of advanced royalty payments	8(a)	349,579	331,200
Ore inventory	7	317,839	122,242
Other inventory		290,957	71,390
Receivable from director		374,728	297,256
Prepaid expenses and other current assets		160,114	331,688
		<u>2,171,326</u>	<u>4,197,790</u>
Advanced royalty payments	8(a)	515,757	467,886
Notes receivable	6	1,684,487	381,550
Mineral lease	9	11,111,143	11,111,143
Investments		68,331	68,331
Investment in Accord GR Energy		931,137	981,137
Property, plant and equipment	10	25,927,244	21,188,895
Intangible assets	11	707,671	707,671
		<u>\$ 43,117,096</u>	<u>\$ 39,104,403</u>
LIABILITIES			
Current liabilities			
Accounts payable	12	\$ 2,410,322	\$ 1,102,327
Accrued expenses	12	642,874	1,900,081
Unearned revenue		283,976	283,976
Current portion of debt	13	1,214,594	1,027,569
Current portion of convertible debentures	14	3,448,974	258,404
		<u>8,000,740</u>	<u>4,572,357</u>
Unearned advance royalties received	8(b)	170,000	170,000
Debt	13	422,802	598,982
Convertible debentures	14	-	250,000
Reclamation and Restoration provision	15	586,583	583,664
		<u>9,180,125</u>	<u>6,175,003</u>
SHAREHOLDERS' EQUITY			
Share capital	16	81,495,274	77,870,606
Shares to be issued		2,522,106	996,401
Share option reserve	17	13,377,325	12,823,000
Share warrant reserve	18	4,783,244	3,207,915
Deficit		<u>(68,240,978)</u>	<u>(61,968,522)</u>
		<u>33,936,971</u>	<u>32,929,400</u>
		<u>\$ 43,117,096</u>	<u>\$ 39,104,403</u>

Approved by the Board of Directors

"Aleksandr Blyumkin"
 Aleksandr Blyumkin
 Director

"Travis Schneider"
 Travis Schneider
 Director

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

PETROTEQ ENERGY, INC.
Condensed Consolidated Interim Statements of Loss and Comprehensive Loss
For the three months ended November 30, 2018 and 2017
Expressed in US dollars
(Unaudited)

	Notes	Three months ended	
		November 30, 2018	November 30, 2017
Revenues		\$ -	\$ -
Cost of Goods Sold		33,750	111,250
Gross Loss		(33,750)	(111,250)
Operating Expenses			
Depreciation and amortization		16,173	297,758
General and administrative		192,206	28,478
Capital raising fee		1,276,980	-
Interest expense		218,679	121,484
Other income		(26,259)	-
Legal fees		681,365	32,625
Professional fees		1,509,153	241,661
Research and development costs		112,625	-
Salaries and wages		236,612	182,000
Share-based compensation	17(a) 20(a)	554,325	2,505,647
Travel and promotion		1,228,464	79,814
		<u>6,000,323</u>	<u>3,489,467</u>
Net operating loss		6,034,073	3,600,717
Loss on settlement of liabilities		108,973	-
Loss on settlement of convertible debt	14(b)	79,410	-
Equity loss from investment of Accord GR Energy, net of tax		50,000	44,995
Net loss and Comprehensive loss		<u>6,272,456</u>	<u>3,645,712</u>
Weighted Average Number of Shares Outstanding	19	88,734,027	54,708,759
Basic and Diluted Loss per Share		<u>\$ 0.07</u>	<u>\$ 0.07</u>

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 three months ended November 31, 2018 and 2017
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	1,189,076	312,180	133,000	-	-	-	445,180
Refund of share subscriptions				(56,800)				(56,800)
Net loss		-	-	-	-	-	(3,645,712)	(3,645,712)
Balance at November 30, 2017		55,409,775	\$61,139,674	\$ 133,000	\$ 9,877,199	\$ 618,667	\$(50,502,079)	\$ 21,266,461
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)	\$ 1,300,000	\$ 1,327,915	-	554,325	-	-	1,882,240
Shares subscribed for	16	2,388,244	1,308,099	1,525,705	-	\$ 677,506	-	3,511,310
Settlement of debt	14(b)	316,223	334,487	-	-	-	-	334,487
Settlement of liabilities		681,151	654,167	-	-	-	-	654,167
Valuation of debt settlement warrants issued		-	-	-	-	\$ 383,496	-	383,496
Valuation of convertible debt warrants issued	14(c)-(f)	-	-	-	-	\$ 514,327	-	514,327
Net loss		-	-	-	-	-	(6,272,456)	(6,272,456)
Balance at November 30, 2018		89,849,249	\$81,495,274	\$ 2,522,106	\$13,377,325	\$ 4,783,244	\$(68,240,978)	\$ 33,936,971

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 three months ended November 30, 2018 and 2017
Expressed in US dollars
(Unaudited)

	Three Months ended	
	November 30, 2018	November 30, 2017
Cash flow used for operating activities:		
Net loss	\$ (6,272,456)	\$ (3,645,712)
Adjustments for non-cash, investing and financing items		
Depreciation and amortization	16,173	297,758
Amortization of debt discount	156,802	-
Loss on conversion of debt	79,409	-
Loss (gain) on settlement of liabilities	108,973	-
Share-based compensation	2,265,736	2,505,647
Equity share of losses in Accord GR Energy	50,000	44,995
Other	22,591	98,816
Changes in operating assets and liabilities:		
Accounts payable	1,853,189	(231,245)
Accounts receivable	-	92,301
Inventory	(415,165)	-
Accrued expenses	(477,207)	162,880
Prepaid expenses and deposits	171,574	(447,770)
Net cash used for operating activities	(2,440,381)	(1,122,330)
Cash flows used for investing activities:		
Purchase and construction of property and equipment	(4,754,522)	(496,064)
Investment in notes receivable	(2,202,123)	-
Advance royalty payments	(100,000)	(99,296)
Net cash used for investing activities	(7,056,645)	(595,360)
Cash flows from financing activities:		
Repayment to executive officers	(77,472)	(226,495)
Proceeds on private equity placements	3,511,310	445,180
Payments of debt	(252,717)	(157,821)
Proceeds from debt	450,000	789,300
Proceeds from convertible debt	3,500,000	1,255,000
Net cash from financing activities	7,131,121	2,105,164
(Decrease) increase in cash	(2,365,905)	387,474
Cash, beginning of the period	2,640,001	55,420
Cash, end of the period	\$ 274,096	\$ 442,894
Cash composed of:		
Cash	\$ 274,096	\$ 442,894
Bank overdraft	-	-
	\$ 274,096	\$ 442,894
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 27,292	\$ 1,743

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

PETROTEQ ENERGY INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended November 30, 2018 and 2017

Expressed in US dollars

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 1E2, 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 years ended August 31, 2018 and 2017. The investment in Accord was consolidated for the year ended August 31, 2016 (Note 3(a)).

On April 6, 2017, the shareholders of the Company approved the consolidation 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 approximately 7.331 million barrels of contingent resource expanding Petroteq's total contingent resource of oil by 8.5% to 93.4 million barrels.

The Company has incurred losses for several years and, at November 30, 2018, has an accumulated deficit of \$68,240,978 (August 31, 2018 - \$61,968,522) and working capital (deficiency) of \$5,829,414 (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.

PETROTEQ ENERGY INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended November 30, 2018 and 2017

Expressed in US dollars

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 months ended November 30, 2018 were approved and authorized for issuance by the Board of Directors on January 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.

PETROTEQ ENERGY INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended November 30, 2018 and 2017

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 November 30, 2018 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.

PETROTEQ ENERGY INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended November 30, 2018 and 2017

Expressed in US dollars

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Business combinations

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

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

(c) Income recognition

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

(d) Investment in associate

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

The results and assets and liabilities of associates are incorporated in the 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

PETROTEQ ENERGY INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended November 30, 2018 and 2017

Expressed in US dollars

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Oil and gas properties

Oil and gas property interests

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

Oil and gas reserves

Oil and gas reserves are evaluated by independent qualified reserves evaluators. The estimation of reserves is a subjective process. Estimates are based on projected future rates of production, estimated commodity prices, engineering data and the timing of future expenditures, all of which are subject to uncertainty and interpretation. Reserves estimates can be revised either upwards or downwards based on updated information such as future drilling, testing and production levels. Reserves estimates, although not reported as part of the Company's 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 years ended August 31, 2017 and 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.

PETROTEQ ENERGY INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended November 30, 2018 and 2017

Expressed in US dollars

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.

PETROTEQ ENERGY INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended November 30, 2018 and 2017

Expressed in US dollars

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.

PETROTEQ ENERGY INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended November 30, 2018 and 2017

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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

PETROTEQ ENERGY INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended November 30, 2018 and 2017

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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.

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Notes to the Condensed Consolidated Interim Financial Statements

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) New accounting standards and interpretations (continued)

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

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

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

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

(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:

	November 30, 2018	August 31, 2018
Goods and services tax receivable	\$ 59,013	\$ 59,013
Other receivables	345,000	345,000
	<u>\$ 404,013</u>	<u>\$ 404,013</u>

Information about the Company's exposure to credit risks for trade and other receivables is included in Note 26(a)(i).

PETROTEQ ENERGY INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended November 30, 2018 and 2017

Expressed in US dollars

6. NOTES RECEIVABLE

The Company's notes receivables consist of:

	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Principal due November 30, 2018</u>	<u>Principal due August 31, 2018</u>
Private debtor	October 5, 2019	5%	\$ 100,000	\$ -
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%	1,139,223	-
Interest accrued			7,264	5,550
			<u>\$ 1,684,487</u>	<u>\$ 381,150</u>

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 three months ended November 30, 2018, the cost of mining, hauling and crushing the ore, amounting to \$317,839 (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.

PETROTEQ ENERGY INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended November 30, 2018 and 2017

*Expressed in US dollars***8. ADVANCED ROYALTY PAYMENTS (continued)****(a) Advance royalty payments to Asphalt Ridge, Inc. (continued)**

As at November 30, 2018, the Company has paid advance royalties of \$1,990,336 (August 31, 2018 - \$1,890,336) to the lease holder, of which a total of \$1,125,000 have been used to pay royalties as they have come due under the terms of the TMC Mineral Lease. During the three months ended November 30, 2018, \$100,000 in advance royalties were paid and \$33,750 have been used to pay royalties which have come due. The royalties expensed have been recognized in cost of goods sold on the condensed consolidated interim statement of loss and comprehensive loss.

As at November 30, 2018, the Company expects to record minimum royalties paid of \$349,580 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	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	-	-	-
November 30, 2018	<u>\$11,091,388</u>	<u>\$ 19,755</u>	<u>\$11,111,143</u>
Accumulated Amortization			
August 31, 2017	\$ -	\$ -	\$ -
Additions	-	-	-
August 31, 2018	-	-	-
Additions	-	-	-
November 30, 2018	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Carrying Amount			
August 31, 2017	<u>\$11,091,388</u>	<u>\$ -</u>	<u>\$11,091,388</u>
August 31, 2018	<u>\$11,091,388</u>	<u>\$ 19,755</u>	<u>\$11,111,143</u>
November 30, 2018	<u>\$11,091,388</u>	<u>\$ 19,755</u>	<u>\$11,111,143</u>

PETROTEQ ENERGY INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended November 30, 2018 and 2017

Expressed in US dollars

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.

PETROTEQ ENERGY INC.

Notes to the Condensed Consolidated Interim Financial Statements

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Expressed in US dollars

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%.

PETROTEQ ENERGY INC.

Notes to the Condensed Consolidated Interim Financial Statements

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*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	4,737,232	17,290	4,754,522
November 30, 2018	<u>\$27,838,267</u>	<u>\$ 411,845</u>	<u>\$28,250,112</u>
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	-	16,173	16,173
November 30, 2018	<u>\$ 2,148,214</u>	<u>\$ 174,654</u>	<u>\$ 2,322,868</u>
Carrying Amount			
August 31, 2017	<u>\$14,698,286</u>	<u>\$ 208,667</u>	<u>\$14,906,953</u>
August 31, 2018	<u>\$20,952,821</u>	<u>\$ 236,074</u>	<u>\$21,188,895</u>
November 30, 2018	<u>\$25,690,053</u>	<u>\$ 237,191</u>	<u>\$25,927,244</u>

(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 three months ended November 30, 2018 of \$nil (year ended August 31, 2018: \$18,666) and total capitalized borrowing costs as at November 30, 2018 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 months ended November 30, 2018 and the 2018 fiscal year as there has only been test production during that period.

PETROTEQ ENERGY INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended November 30, 2018 and 2017

*Expressed in US dollars***11. INTANGIBLE ASSETS**

	Oil Extraction Technology
Cost	
August 31, 2017	\$ 809,869
Additions	-
August 31, 2018	809,869
Additions	-
November 30, 2018	<u>\$ 809,869</u>
Accumulated Amortization	
August 31, 2017	\$ 102,198
Additions	-
August 31, 2018	102,198
Additions	-
November 30, 2018	<u>\$ 102,198</u>
Carrying Amounts	
August 31, 2017	<u>\$ 707,671</u>
August 31, 2018	<u>\$ 707,671</u>
November 30, 2018	<u>\$ 707,671</u>

(a) Oil extraction technologies

During the year ended August 31, 2012, the Company acquired a closed-loop solvent based oil extraction technology which facilitates the extraction of oil from a wide range of bituminous sands and other hydrocarbon sediments. The Company has filed patents 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 2018 fiscal year.

PETROTEQ ENERGY INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended November 30, 2018 and 2017

*Expressed in US dollars***12. ACCOUNTS PAYABLE AND ACCRUED EXPENSES**

Accounts payable as at November 30, 2018 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 November 30, 2018 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).

13. DEBT

Lender	Maturity Date	Interest Rate	Principal due November 30, 2018	Principal due August 31, 2018
Private lenders	September 1, 2018	10.00%	\$ 350,000	\$ 200,000
Private lenders	May 1, 2019	5.00%	566,974	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%	549,522	602,239
Total loans			\$ 1,637,396	\$ 1,626,551

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

	November 30, 2018	August 31, 2018
Principal classified as repayable within one year	\$ 1,214,594	\$ 1,027,569
Principal classified as repayable later than one year	422,802	598,982
	\$ 1,637,396	\$ 1,626,551

(a) Private lenders

- (i) 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, interest free and repayable on December 2, 2018.

PETROTEQ ENERGY INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended November 30, 2018 and 2017

Expressed in US dollars

13. DEBT (continued)**(a) Private lenders (continued)**

- (ii) On October 10, 2014, the Company issued two secured debentures for an aggregate principal amount of CAD \$1,100,000 to two private lenders. The debentures bear interest at a rate of 12% per annum, maturing on October 15, 2017 and are secured by all of the assets of the Company. In addition, the Company issued common share purchase warrants to acquire an aggregate of 16,667 common shares of the Company. On September 22, 2016, the two secured debentures were amended to extend the maturity date to January 31, 2017. The terms of these debentures were renegotiated with the debenture holders to allow for the conversion of the secured debentures into common shares of the Company at a rate of CAD \$4.50 per common share and to increase the interest rate, starting June 1, 2016, to 15% per annum. On January 31, 2017, the two secured debentures were amended to extend the maturity date to July 31, 2017. Additional transaction costs and penalties incurred for the loan modifications amounted to \$223,510. 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.
- (iii) 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 of the line of credit the Company issued 950,000 commitment shares to Bay Private Equity and a further 300,000 shares as a finders fee to a third party.
- (iv) 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 \$1,260,123, refer note 6 above.
- (v) 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.

PETROTEQ ENERGY INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended November 30, 2018 and 2017

*Expressed in US dollars***14. CONVERTIBLE DEBENTURES**

<u>Lender</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Principal due November 30, 2018</u>	<u>Principal due August 31, 2018</u>
Alpha Capital Anstalt	October 31, 2018	5.00%	\$ 56,500	\$ 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%	3,300,000	-
Calvary Fund I LP	September 4, 2019	10.00%	250,000	-
SBI Investments LLC	September 4, 2019	10.00%	250,000	-
			4,106,500	508,404
Unamortized debt discount			(657,526)	-
Total loans			\$ 3,448,974	\$ 508,404

The maturity date of the convertible debentures are as follows:

	<u>November 30, 2018</u>	<u>August 31, 2017</u>
Principal classified as repayable within one year	\$ 3,448,974	\$ 258,404
Principal classified as repayable later than one year	-	250,000
	\$ 3,448,974	\$ 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.

PETROTEQ ENERGY INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended November 30, 2018 and 2017

Expressed in US dollars

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.

(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.

PETROTEQ ENERGY INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended November 30, 2018 and 2017

*Expressed in US dollars***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	1,858	1,061	2,919
Balance at November 30, 2018	<u>\$ 373,281</u>	<u>\$ 213,302</u>	<u>\$ 586,583</u>

(a) Oil Extraction Plant

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

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

The discount rate used in the calculation of the provision as at August 31, 2018 and 2017 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 August 31, 2018 and 2017 is 2.0%.

PETROTEQ ENERGY INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended November 30, 2018 and 2017

Expressed in US dollars

16. COMMON SHARES

Authorized	unlimited common shares without par value
Issued and Outstanding	89,849,249 common shares as at November 30, 2018.

Between September 4, 2018 and November 8, 2018, the Company issued 681,151 shares of common stock to several investors in settlement of \$545,194 of trade debt.

Between September 1, 2018 and September 30, 2018, the Company issued 1,300,000 shares valued at \$1,327,915 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.

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 17,919,849 common shares reserved for issuance.

During the three months ended November 30, 2018, 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.

During the three months ended November 30, 2018 the share based compensation expense of \$554,325 relates to the vesting of options granted during the year ended August 31, 2018. The share based compensation expense for the three months ended November 30, 2017 of \$2,505,647 relates to options issued during that period with immediate vesting.

PETROTEQ ENERGY INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended November 30, 2018 and 2017

*Expressed in US dollars***17. SHARE PURCHASE OPTIONS (continued)****(b) Share purchase options**

Share purchase option transactions under the stock option plan were:

Share purchase options outstanding and exercisable as at November 30, 2018 are:

Expiry Date	Exercise Price	Options Outstanding	Options Exercisable
December 31, 2018	USD \$4.80	50,000	50,000
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
		<u>9,858,333</u>	<u>4,908,333</u>
Weighted average remaining contractual life		9.3 years	9.4 years
Weighted average exercise price		<u>CAD \$1.22</u>	<u>CAD \$1.44</u>

18. SHARE PURCHASE WARRANTS

Share purchase warrants outstanding as at November 30, 2018 are:

Expiry Date	Exercise Price	Warrants Outstanding
April 12, 2019	USD \$4.95	16,667
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
March 9, 2020	USD \$1.50	114,678
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
April 8, 2021	CAD \$4.73	57,756
May 22, 2021	USD \$0.91	6,000,000
		<u>14,144,654</u>
Weighted average remaining contractual life		1.95 years
Weighted average exercise price	<u>CAD \$1.48</u>	

PETROTEQ ENERGY INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended November 30, 2018 and 2017

*Expressed in US dollars***18. SHARE PURCHASE WARRANTS (continued)**

From September 6, 2018 to October 15, 2018, the Company issued 1,618,356 warrants to convertible debt note holders in terms of subscription unit agreements entered into with the convertible note holders, refer to Note 14(b) to 14 (d) above. The fair value of the warrants granted was estimated using the relative fair value method at between \$0.08 to \$0.38 per warrant.

From September 6, 2018 to November 7, 2018, the Company issued 1,766,741 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 \$0.43 and \$0.53 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.

The warrants issued, during the three months ended November 30, 2018, were valued at \$1,575,330 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	CAD\$0.96 to 1.17
Exercise price	CAD\$0.80 to 1.96
Expected share price volatility ⁽¹⁾	112% to 133%
Risk-free interest rate	1.97% to 2.33%
Expected term	2.00

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.

PETROTEQ ENERGY INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended November 30, 2018 and 2017

*Expressed in US dollars***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	
	November 30,	November 30,
	2018	2017
Salaries, fees and other benefits	\$ 213,962	\$ 102,000
Share based compensation	419,943	2,505,647
	<u>\$ 633,905</u>	<u>\$ 2,607,647</u>

At November 30, 2018 \$387,392 (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 months ended November 30, 2018 and 2017, no common shares were granted as compensation to key management and directors of the Company.

(b) Due to director

During the three months ended November 30, 2018 and the year ended August 31, 2018, the Company received additional advances of \$nil and \$nil from various private companies controlled by the Chair of the Board of Directors of the Company.

As of November 30, 2018 and August 31, 2018, the Company owed various private companies controlled by the Chair of the Board the aggregate sum of \$nil 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.

As at November 30, 2018, the Chair of the Board of Directors owed the Company \$374,728.

PETROTEQ ENERGY INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended November 30, 2018 and 2017

*Expressed in US dollars***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 November 30, 2018.

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 \$102,500 was advanced to First Bitcoin Capital during the three months ended November 30, 2018. 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 months ended November 30, 2018 and 2017, 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 months ended November 30, 2018 and 2017. Other information about reportable segments are:

	November 30, 2018		
(in '000s of dollars)	Oil Extraction	Mining operations	Consolidated
Additions to non-current assets	\$ 4,755	\$ -	\$ 4,755
Reportable segment assets	34,105	9,012	43,117
Reportable segment liabilities	\$ 9,011	\$ 169	\$ 9,180

	November 30, 2017		
(in '000s of dollars)	Oil Extraction	Mining operations	Consolidated
Additions to non-current assets	\$ 496	\$ -	\$ 496
Reportable segment assets	20,691	9,143	29,834
Reportable segment liabilities	\$ 8,399	\$ 169	\$ 8,568

PETROTEQ ENERGY INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended November 30, 2018 and 2017

*Expressed in US dollars***22. SEGMENT INFORMATION (continued)**

(in '000s of dollars)	November 30, 2018		
	Oil Extraction	Mining operations	Consolidated
External Revenues	\$ -	\$ -	\$ -
Cost of Goods Sold	-	34	34
Gross Loss	-	(34)	(34)
Operating Expenses			
General and administrative	191	1	192
Capital raising fee	1,277	-	1,277
Travel and promotion	1,228	-	1,228
Professional fees	1,509	-	1,509
Legal fees	681	-	681
Research and development	113	-	113
Salaries and wages	237	-	237
Share-based compensation	554	-	554
Loss on settlement of liabilities	109	-	109
Loss on convertible debt	79	-	79
Interest expense	219	-	219
Equity loss	50	-	50
Other income	(26)	-	(26)
Depreciation and amortization	16	-	16
Net loss	\$ 6,237	\$ 35	\$ 6,272

(in '000s of dollars)	November 30, 2017		
	Oil Extraction	Mining operations	Consolidated
External Revenues	\$ -	\$ -	\$ -
Cost of Goods Sold	-	111	111
Gross Loss	-	(111)	(111)
Operating Expenses			
General and administrative	20	8	28
Travel and promotion	80	-	80
Professional fees	274	-	274
Salaries and wages	182	-	182
Share-based compensation	2,506	-	2,506
Interest expense	122	-	122
Equity income from investment in Accord Energy	45	-	45
Depreciation and amortization	298	-	298
Net loss	\$ 3,527	\$ 119	\$ 3,646

PETROTEQ ENERGY INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended November 30, 2018 and 2017

Expressed in US dollars

23. COMMITMENTS

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	\$	93,330
2020		124,440
2021		101,220
2022		78,000
2023	\$	65,000

For the three months ended year November 30, 2018, the Company made \$10,000 (2017 - \$nil) in office lease payments.

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.

PETROTEQ ENERGY INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended November 30, 2018 and 2017

*Expressed in US dollars***25. MANAGEMENT OF CAPITAL (continued)****(a) Credit risk (continued)**

At November 30, 2018 and August 31, 2018, the Company had no trade receivables. The Company considers its maximum exposure to credit risk to be its trade and other receivables and notes receivable.

(b) Interest rate risk

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

(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 November 30, 2018

(in '000s of dollars)	Contractual cash flows				
	Carrying amount	Total	1 year or less	2 - 5 years	More than 5 years
Accounts payable	\$ 2,410	\$ 2,410	\$ 2,410	\$ -	\$ -
Accrued liabilities	643	643	643	-	-
Convertible debenture	3,449	4,360	4,360	-	-
Long-term debt	1,637	1,791	1,287	504	-
	<u>\$ 8,139</u>	<u>\$ 9,204</u>	<u>\$ 8,700</u>	<u>\$ 504</u>	<u>\$ -</u>

At November 30, 2017

(in '000s of dollars)	Contractual cash flows				
	Carrying amount	Total	1 year or less	2 - 5 years	More than 5 years
Accounts payable	\$ 890	\$ 890	\$ 890	\$ -	\$ -
Accrued liabilities	2,201	2,201	2,201	-	-
Convertible debenture	1,776	1,853	1,853	-	-
Long-term debt	2,480	3,118	1,477	1,641	-
	<u>\$ 7,347</u>	<u>\$ 8,062</u>	<u>\$ 6,421</u>	<u>\$ 1,641</u>	<u>\$ -</u>

PETROTEQ ENERGY INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended November 30, 2018 and 2017

*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	November 30, 2018	November 30, 2017
Balance, beginning of the year	\$ 2,134,955	\$ 2,804,202
Changes from financing cash flows		
Proceeds from debt	450,000	1,255,000
Proceeds from convertible debt	3,500,000	789,300
Proceeds from officer loan	-	-
Repayment of long term loans	(252,717)	(157,821)
Repayment of officer loan		(226,495)
Effect of changes in foreign exchange rate	(12,364)	(27,364)
Other changes		
Debt settled through share issuance	(54,495)	-
Conversion of convertible debt	(200,582)	-
Debt applied to notes receivable	(120,900)	
Interest accrual	-	(794)
Value placed on warrants issued	(514,327)	
Accretion of loan balance	156,800	12,069
Balance, end of the year	\$ 5,086,370	\$ 4,448,097

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 December 5, 2018 the Company entered into a subscription agreement with an investor whereby 1,234,567 units were issued to the investor, each unit consisting of one common share of the Company and three quarters of one common share purchase warrant of the Company. One common share purchase warrant entitles the holder to purchase an additional common share of the Company at a price of \$1.01 per share. The warrants will expire on September 5, 2020 if unexercised. A total of 1,234,567 common shares and 925,925 common share purchase warrants were issued for gross proceeds of \$1,000,000.

On December 7, 2018 under the terms of subscription agreements entered into with subscribers, the Company issued 3,868,970 common shares and warrants exercisable for the purchase of 3,373,920 common shares at exercise prices ranging from \$0.67 to \$1.50 per share, to private investors for gross proceeds of \$2,275,200.

On December 7, 2018 under the terms of subscription agreements entered into with subscribers, the Company issued 1,190,476 common shares and warrants exercisable for the purchase of 1,190,476 common shares at exercise price of \$0.525 per share, to an investor for gross proceeds of \$500,000.

PETROTEQ ENERGY INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended November 30, 2018 and 2017

Expressed in US dollars

27. EVENTS AFTER THE REPORTING DATE (continued)

(a) Common shares (continued)

On January 10, 2019, under the terms of subscription agreements entered into with subscribers, the Company issued 1,522,080 common shares and warrants exercisable for the purchase of 1,437,557 common shares at exercise prices of \$1.50 per share, to investors for gross proceeds of \$645,100.

On January 11, 2019, under the terms of a subscription agreement entered into with a subscriber, the Company issued 307,692 common shares and warrants exercisable for the purchase of 372,692 common shares at an exercise price of \$ 1.50 per share for gross proceeds of \$200,000.

(b) Debt settlements

On December 5, 2018 the Company entered into settlement agreements with certain service providers and issued 566,794 common shares to settle \$413,760 of outstanding debt.

(c) Debt conversion

On December 3, 2018 Alpha Capital Anstalt converted the remaining debt outstanding to them of \$56,500 (Note 14(a)) plus interest of \$13,478 into 145,788 common shares of the Company.

(d) Financing Activity

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.

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.

(e) Approval for Share Consolidation

On November 23, 2018, the shareholders of the Company approved a resolution authorizing the Board of Directors of the Company to consolidate the Company's shares on a basis of up to ten for one. No consolidation has been effected to date.



INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of Petroteq Energy Inc. (formerly MCW Energy Group Limited), which comprise the consolidated statements of financial position as at August 31, 2018 and 2017, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Petroteq Energy Inc. (formerly MCW Energy Group Limited) as at August 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

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

Chartered Professional Accountants
Vancouver, British Columbia
December 28, 2018

PETROTEQ ENERGY INC.
(Formerly MCW Energy Group Limited)
Consolidated Statements of Financial Position
August 31, 2018 and 2017
Expressed in US dollars

	<u>Notes</u>	<u>2018</u>	<u>2017</u>
ASSETS			
Current assets			
Cash	4	\$ 2,640,001	\$ 55,420
Accounts receivable	5	404,013	306,909
Current portion of advance royalty payments	8(a)	331,200	258,333
Ore inventory	7	122,242	-
Other inventory		71,390	-
Receivable from director		297,256	-
Prepaid expenses		331,688	92,819
		<u>4,197,790</u>	<u>713,481</u>
Advance royalty payments	7(a)	467,886	244,790
Notes receivable	6	381,550	76,000
Mineral lease	9	11,111,143	11,091,388
Investment in joint venture	21	68,331	68,331
Investment in Accord GR Energy	3(a)	981,137	1,141,561
Property, plant and equipment	10	21,188,895	14,906,953
Intangible assets	11	707,671	707,671
		<u>\$ 39,104,403</u>	<u>\$ 28,950,175</u>
LIABILITIES			
Current liabilities			
Accounts payable	12	\$ 1,102,327	\$ 1,121,327
Accrued expenses	12	1,900,081	1,980,304
Unearned revenue		283,976	283,976
Current portion of long-term debt	13	1,027,569	1,159,104
Current portion of convertible debentures	14	258,404	-
Payable to director		-	419,322
		<u>4,572,357</u>	<u>4,964,033</u>
Unearned advance royalties received	8(c)	170,000	170,000
Long-term debt	13	598,982	717,276
Convertible debentures	14	250,000	508,500
Reclamation and restoration provisions	15	583,664	572,220
		<u>6,175,003</u>	<u>6,932,029</u>
SHAREHOLDERS' EQUITY			
Share capital	16	77,870,606	60,827,494
Shares to be issued		996,401	56,800
Share option reserve	17	12,823,000	7,371,552
Share warrant reserve	18	3,207,915	618,667
Deficit		(61,968,522)	(46,856,367)
		<u>32,929,400</u>	<u>22,018,146</u>
		<u>\$ 39,104,403</u>	<u>\$ 28,950,175</u>

Approved by the Board of Directors

"Aleksandr Blyumkin"
Aleksandr Blyumkin, Director

"Travis Schneider"
Travis Schneider, Director

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

PETROTEQ ENERGY INC.
(Formerly MCW Energy Group Limited)
Consolidated Statements of Loss and Comprehensive Loss
Years ended August 31, 2018 and 2017
Expressed in US dollars

	<u>Notes</u>	<u>2018</u>	<u>2017</u>
Revenues		\$ -	\$ -
Advance Royalty Payments	8(b)	272,333	426,641
		<u>272,333</u>	<u>426,641</u>
Other Expenses			
Amortization	10	51,181	1,165,830
Business development		4,700	-
Compliance costs		2,658	3,292
Financing costs		445,992	122,216
General and administrative		622,423	348,487
Interest expense		365,440	1,106,808
Investor relations		2,487,029	298,158
Market development		45,000	-
Professional fees		3,582,986	617,615
Plant relocation costs		-	437,800
Public relations		921,223	11,481
Research and development cost	21	120,000	-
Salaries and wages		511,260	702,782
Share-based compensation	17(a)	5,356,004	15,993
Travel and promotion		127,757	117,919
		<u>14,643,653</u>	<u>4,948,381</u>
Net operating loss		14,915,986	5,375,022
Loss on settlement of liabilities		92,275	2,366,587
Other income		(56,532)	-
Equity loss in investment of Accord GR Energy	2(c)	160,426	198,034
Net Loss and Comprehensive Loss		<u>\$ 15,112,155</u>	<u>\$ 7,939,643</u>
Weighted Average Number of Shares Outstanding	19	62,519,504	12,096,101
Basic and Diluted Loss Per Share		<u>\$ 0.24</u>	<u>\$ 0.66</u>

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

PETROTEQ ENERGY INC.
(Formerly MCW Energy Group Limited)
Consolidated Statements of Changes in Shareholders' Equity
Years ended August 31, 2018 and 2017
Expressed in US dollars

	Notes	Number of Shares Outstanding	Share Capital	Share to be issued	Option Reserve	Warrant Reserve	Deficit	Shareholder's Equity	Non- Controlling Interest	Total Equity
Balance at August 31, 2016		6,723,167	\$39,416,380	\$ 100,000	\$ 7,355,559	\$ 512,934	\$(38,916,724)	\$ 8,468,149	\$ 1,035,690	\$ 9,503,839
Settlement of loans		46,144,371	20,235,451	(100,000)	-	-	-	20,135,451	-	20,135,451
Conversion of debentures	14(c)	57,756	94,267	-	-	105,733	-	200,000	-	200,000
Settlement of liabilities		501,363	297,157	-	-	-	-	297,157	-	297,157
Private placement of shares	16	694,042	641,528	56,800	-	-	-	698,328	-	698,328
Share based compensation	17(a)	-	-	-	15,993	-	-	15,993	-	15,993
Shares issued for technology		16,667	74,380	-	-	-	-	74,380	-	74,380
Shares issued for investment in joint venture	21	83,333	68,331	-	-	-	-	68,331	-	68,331
Deconsolidation of subsidiary	1, 3(a)	-	-	-	-	-	-	-	(1,035,690)	(1,035,690)
Net loss		-	-	-	-	-	(7,939,643)	(7,939,643)	-	(7,939,643)
Balance at August 31, 2017		54,220,699	60,827,494	56,800	7,371,552	618,667	(46,856,367)	22,018,146	-	22,018,146
Settlement of loans		2,485,486	1,794,080	-	-	-	-	1,794,080	-	1,794,080
Conversion of debentures	14(c)	1,753,447	273,602	-	-	234,898	-	508,500	-	508,500
Settlement of liabilities		1,745,393	1,710,304	-	-	-	-	1,710,304	-	1,710,304
Private placement of shares	16, 18	23,080,159	12,382,449	939,601	-	2,589,248	-	15,911,298	-	15,911,298
Share based compensation	17(a)	-	-	-	5,451,448	-	-	5,451,448	-	5,451,448
Share based payments	16	125,000	95,444	-	-	-	-	95,444	-	95,444
Warrants exercised for shares	14(c)	1,753,447	787,233	-	-	(234,898)	-	552,335	-	552,335
Net loss		-	-	-	-	-	(15,112,155)	(15,112,155)	-	(15,112,155)
Balance at August 31, 2018		<u>85,163,631</u>	<u>\$77,870,606</u>	<u>\$ 996,401</u>	<u>\$12,823,000</u>	<u>\$3,207,915</u>	<u>\$(61,968,522)</u>	<u>\$ 32,929,400</u>	<u>\$ -</u>	<u>\$ 32,929,400</u>

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

PETROTEQ ENERGY INC.
(Formerly MCW Energy Group Limited)
Consolidated Statements of Cash Flows
Years ended August 31, 2018 and 2017
Expressed in US dollars

	<u>2018</u>	<u>2017</u>
Cash flow (used for) from operating activities:		
Net loss	\$ (15,112,155)	\$ (7,939,643)
Adjustments for non-cash, investing and financing items		
Amortization	51,181	1,165,830
Loss on conversion of debt	95,444	2,515,498
Gain on settlement of liabilities	92,275	(71,316)
Share-based compensation	5,451,448	15,993
Equity income from investment of Accord GR Energy	160,426	198,034
Other	1,579	1,039,503
Changes in operating assets and liabilities:		
Accounts payable	1,891,383	251,241
Accounts receivable	(454,104)	(99,808)
Accrued expenses	11,164	942,229
Prepaid expenses	(238,869)	44,164
Inventory	(193,632)	-
Unearned revenue	-	150,426
Net cash used for operating activities	<u>(8,243,860)</u>	<u>(1,787,849)</u>
Cash flows used for investing activities:		
Purchase and construction of property and equipment	(6,314,457)	(68,483)
Purchase of mineral lease rights	(19,755)	-
Advance royalty payments - net	(534,296)	(294,790)
Net cash used for investing activities	<u>(6,868,508)</u>	<u>(363,273)</u>
Cash flows from (used for) financing activities:		
Receipts (payments to) from director	838,846	409,254
Private placements	15,911,409	698,328
Payment of long-term debt	(4,685,836)	(26,800)
Proceeds from long-term debt	4,830,195	1,119,631
Proceeds from convertible debt	250,000	-
Proceeds from exercise of warrants	552,335	-
Net cash from financing activities	<u>17,696,949</u>	<u>2,200,413</u>
Increase in cash	2,584,581	49,291
Cash, beginning of the year	55,420	6,129
Cash, end of the year	<u>\$ 2,640,001</u>	<u>\$ 55,420</u>
Supplemental disclosure of cash flow information		
Cash paid for interest	<u>\$ 44,997</u>	<u>\$ 33,131</u>

Reconciliation of changes in liabilities arising from financing activities (Note 27)

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

PETROTEQ ENERGY INC.

(Formerly MCW Energy Group Limited)

Notes to the Consolidated Financial Statements

August 31, 2018, and 2017

Expressed in US dollars

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 1E2, 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 years ended August 31, 2018 and 2017. The investment in Accord was consolidated for the year ended August 31, 2016 (Note 3(a)).

On April 6, 2017, the shareholders of the Company approved the consolidation of 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 approximately 7.331 million barrels of contingent resource expanding Petroteq’s total contingent resource of oil by 8.5% to 93.4 million barrels.

The Company has incurred losses for several years and, at August 31, 2018, has an accumulated deficit of \$61,968,522 (August 31, 2017 - \$46,856,367) and working capital (deficiency) of \$374,567 (August 31, 2017 - \$4,250,552). These consolidated financial statements have been prepared on the basis that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. The ability of the Company to continue as a going concern is dependent on obtaining additional financing, which it is currently in the process of obtaining. There is a risk that additional financing will not be available on a timely basis or on terms acceptable to the Company. These consolidated financial statements do not reflect the adjustments or reclassifications that would be necessary if the Company were unable to continue operations in the normal course of business.

2. BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 1 *Presentation of Financial Statements*, using accounting policies which are consistent with the International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”). The consolidated financial statements were authorized for issue by the Board of Directors on December 28, 2018.

2. BASIS OF PREPARATION (continued)

(b) Basis of measurement

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

(c) Significant accounting judgments and estimates

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

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

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

Income taxes and recoverability of deferred tax assets

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

Judgment is required in determining whether deferred tax assets are recognized on the consolidated statement of financial position. Deferred tax assets, including those arising from unutilized tax losses, require management of the Company to assess the likelihood that the Company will generate sufficient taxable profit in future periods in order to utilize recognized deferred tax assets. Estimates of future taxable profit are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable profit differ from estimates, the ability of the Company to realize the deferred tax assets recorded on the consolidated statement of financial position could be impacted. The Company has not recognized any deferred tax assets as at August 31, 2018 and August 31, 2017.

PETROTEQ ENERGY INC.**(Formerly MCW Energy Group Limited)**

Notes to the Consolidated Financial Statements

August 31, 2018, and 2017

*Expressed in US dollars***3. SIGNIFICANT ACCOUNTING POLICIES****(a) Basis of consolidation**

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

The consolidated entities are:

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.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Investment in associate (continued)

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

(e) Property, plant and equipment

Property, plant and equipment is recorded at cost and amortized over their useful lives 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

(f) Oil and gas properties

Oil and gas property interests

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

Oil and gas reserves

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

(g) Intangible assets

Intangible assets are recorded at cost less accumulated depreciation and accumulated impairment losses. Amortization of intangible assets is recorded on a straight-line basis over a life determined by the maximum length of the benefits expected 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Intangible assets (continued)

The useful life for the Oil Extraction Technologies was established as 15 years in these consolidated 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 years ended August 31, 2017 and 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.

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 consolidated statement of (income) loss and comprehensive (income) loss. Where an impairment subsequently reverses, the carrying amount is increased to the revised estimate of the recoverable amount but only to the carrying value that would have been recorded if no impairment had previously been recognized. A reversal is recognized as a reduction in the impairment charge for the period.

(i) Financial instruments

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

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

The Company's financial instruments are:

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Financial instruments (continued)

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.

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

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

(j) Provisions

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

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

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

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

(k) Income taxes

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

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

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

(l) Comprehensive income or loss

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

(m) Earnings per share

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

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

(n) Share-based payments

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

The Company may also grant equity instruments to consultants and other parties in exchange for goods and services. Such instruments are measured at the fair value of the goods and services received on the date they are received and are recorded as share-based 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Reclamation and restoration obligations

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

(p) Comparative amounts

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

(q) New accounting standards and interpretations

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

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

(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.

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

4. CASH

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

5. TRADE AND OTHER RECEIVABLES

The Company's trade and other receivables consist of:

	<u>August 31, 2018</u>	<u>August 31, 2017</u>
Goods and services tax receivable	\$ 59,013	\$ 181,881
Other receivables	345,000	125,028
	<u>\$ 404,013</u>	<u>\$ 306,909</u>

Information about the Company's exposure to credit risks for trade and other receivables is included in Note 26(a)(i).

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6. NOTES RECEIVABLE

The Company's notes receivables consist of:

	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Principal due August 31, 2018</u>	<u>Principal due August 31, 2017</u>
Private debtor	March 15, 2020	5%	\$ 76,000	\$ 76,000
Private debtor	August 20, 2021	5%	300,000	-
Interest accrued			5,550	-
			<u>\$ 381,550</u>	<u>\$ 76,000</u>

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 year ended August 31, 2018, the cost of mining, hauling and crushing the ore, amounting to \$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.

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*Expressed in US dollars***8. ADVANCED ROYALTY PAYMENTS (continued)****(a) Advance royalty payments to Asphalt Ridge, Inc. (continued)**

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.

As at August 31, 2018, the Company has paid advance royalties of \$1,890,336 (2017 - \$1,356,040) to the lease holder, of which a total of \$1,091,250 have been used to pay royalties as they have come due under the terms of the TMC Mineral Lease. During the year ended August 31, 2018, \$534,296 in advance royalties were paid and \$272,333 have been used to pay royalties which have come due. The royalties expensed have been recognized in cost of goods sold on the consolidated statement of loss and comprehensive loss.

As at August 31, 2018, the Company expects to record minimum royalties paid of \$331,200 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	Accord Oil & Gas Lease	Total
Cost				
August 31, 2016	\$11,091,388	\$ -	\$ 1,052,350	\$12,143,738
Additions	-	-	237,813	237,813
Deconsolidation of Accord (Note 3(a))	-	-	(1,290,163)	(1,290,163)
August 31, 2017	11,091,388	-	-	11,091,388
Additions	-	19,755	-	19,755
August 31, 2018	<u>\$11,091,388</u>	<u>\$ 19,755</u>	<u>\$ -</u>	<u>\$11,111,143</u>
Accumulated Amortization				
August 31, 2016, 2017 and 2018	\$ -	\$ -	\$ -	\$ -
Carrying Amounts				
August 31, 2016	\$11,091,388	\$ -	\$ 1,052,350	\$12,143,738
August 31, 2017	<u>\$11,091,388</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$11,091,388</u>
August 31, 2018	<u>\$11,091,388</u>	<u>\$ 19,755</u>	<u>\$ -</u>	<u>\$11,111,143</u>

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

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

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

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

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

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

Advance royalties required are:

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

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

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

9. MINERAL LEASES (continued)

(a) TMC mineral lease (continued)

On February 1, 2018, a third amendment to the TMC Mineral Lease amended the termination clause in the lease to:

- (i) Termination will be automatic if there is a lack of a written financial commitment to fund the proposed 1,000 barrel per day production facility prior to March 1, 2019 and another 1,000 barrel per day production facility 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 six months of such cessation.
- (iii) The proposed 5,000 barrel per day plant fails to produce a minimum of 80% of its rated capacity for at least 180 calendar days during the lease year commencing July 1, 2020 plus any extension periods.
- (iv) The lessee may surrender the lease with 30 days written notice.
- (v) Breach of material terms of the lease, the lessor will inform the lessee in writing and the lessee will have 30 days to cure financial breaches and 150 days to cure any other non-monetary breach.

The term of the lease was extended by the extension of 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, 2018 plus any extension periods, 80% of 1,000 barrels per day.
- (ii) By July 1, 2020 plus any extension periods, 80% of 3,000 barrels per day.
- (iii) By July 1, 2022, plus any extension periods, 80% of 5,000 barrels per day.

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.

Minimum expenditures to be incurred on the properties are \$2,000,000 beginning July 1, 2020 if a minimum daily production of 3,000 barrels per day during a 180 day period is not achieved.

On November 21, 2018, a fourth amendment was made to the mining and mineral lease agreement whereby certain properties previously excluded from the third amendment were included in the lease agreement.

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.

9. MINERAL LEASES (continued)

(a) TMC mineral lease (continued)

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

- (i) By July 1, 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.

(b) Oil and gas leases

On July 4, 2016, the Company acquired 57.3% of the common shares of Accord (Note 1) and accounted for this investment on a consolidated basis.

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

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

(c) 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%.

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	Oil Extraction Plant	Other Property and Equipment	Total
Cost			
August 31, 2016	\$16,678,017	\$ 352,854	\$17,030,871
Additions	290,120	-	290,120
Deconsolidation of Accord (Note 3(a))		(1,887)	(1,887)
Disposals and scrapping	(121,637)	(35,000)	(156,637)
August 31, 2017	<u>16,846,500</u>	<u>315,967</u>	<u>17,162,467</u>
Additions	6,254,535	78,588	6,333,123
August 31, 2018	<u>\$23,101,035</u>	<u>\$ 394,555</u>	<u>\$23,495,590</u>
Accumulated Amortization			
August 31, 2016	\$ 1,082,273	\$ 96,114	\$ 1,178,387
Additions	1,082,159	46,814	1,128,973
Deconsolidation of Accord (Note 3(a))		(628)	(628)
Disposals and scrapping	(16,218)	(35,000)	(51,218)
August 31, 2017	<u>2,148,214</u>	<u>107,300</u>	<u>2,255,514</u>
Additions	-	51,181	51,181
August 31, 2018	<u>\$ 2,148,214</u>	<u>\$ 158,481</u>	<u>\$ 2,306,695</u>
Carrying Amount			
August 31, 2016	\$15,595,744	\$ 256,740	\$15,852,484
August 31, 2017	<u>\$14,698,286</u>	<u>\$ 208,667</u>	<u>\$14,906,953</u>
August 31, 2018	<u>\$20,952,821</u>	<u>\$ 236,074</u>	<u>\$21,188,895</u>

(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 substantially 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 year ended August 31, 2018 of \$18,666 (2017 - \$100,000) and total capitalized borrowing costs as at August 31, 2018 of \$2,230,746 (2017 - \$2,212,080).

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 2018 fiscal year as there has only been test production during that period.

11. INTANGIBLE ASSETS

	<u>Oil Extraction Technologies</u>
Cost	
August 31, 2016	\$ 2,291,488
Additions	333,998
Deconsolidation of Accord (Note 3(a))	<u>(1,815,617)</u>
August 31, 2017	809,869
Additions	-
August 31, 2018	<u>\$ 809,869</u>
Accumulated Amortization	
August 31, 2016	\$ 49,033
Additions	<u>53,165</u>
August 31, 2017	102,198
Additions	-
August 31, 2018	<u>\$ 102,198</u>
Carrying Amounts	
August 31, 2016	\$ 2,242,455
August 31, 2017	<u>\$ 707,671</u>
August 31, 2018	<u>\$ 707,671</u>

(a) Oil extraction technologies

During the year ended August 31, 2012, the Company acquired a closed-loop solvent based oil extraction technology which facilitates the extraction of oil from a wide range of bituminous sands and other hydrocarbon sediments. The Company has filed patents 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 increased the capacity of the plant to 1,000 barrels daily during 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 2018 fiscal year.

12. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable as at August 31, 2018 and 2017 consist primarily of amounts outstanding for construction and expansion of the oil extraction plant and other operating expenses that are due on demand.

Accrued expenses as at August 31, 2018 and 2017 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).

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13. LONG-TERM DEBT

Lender	Maturity Date	Interest Rate		Principal due August 31, 2018	Principal due August 31, 2017
Private lenders	May 1, 2017	15.00	% \$	-	\$ 100,000
Private lenders	September 1, 2018	10.00	%	200,000	-
Private lenders	May 1, 2019	5.00	%	632,512	1,001,905
Private lenders	July 28, 2020	10.00	%	120,900	33,305
Private lenders	August 31, 2020	5.00	%	70,900	336,080
Equipment loans	November 7, 2021	4.30 - 12.36%		602,239	160,343
Director	August 18, 2020	5.00	%	-	242,250
Total loans				\$ 1,626,551	\$ 1,873,883
Accrued interest				-	2,497
				\$ 1,626,551	\$ 1,876,380

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

	August 31, 2018	August 31, 2017
Principal classified as repayable within one year	\$ 1,027,569	\$ 1,159,104
Principal classified as repayable later than one year	598,982	717,276
	\$ 1,626,551	\$ 1,876,380

(a) Private lenders

- (i) On December 16, 2013, the Company obtained a demand loan from a private investor for \$430,000, bearing interest at 15% per annum. The loan was personally guaranteed by the Chair of the Board of Directors. The loan was amended on November 1, 2016 to extend the maturity date to May 1, 2017, and was fully repaid on May 1, 2018.
- (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.

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13. LONG-TERM 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) The Company received advances from various private lenders during the year ended August 31, 2018 and 2017 in the form of unsecured promissory notes. These promissory notes mature at various dates, between demand and July 28, 2020, and bear interest at 10% per annum. Various promissory notes, including interest thereon, were converted into common shares on May 19, 2017, under the terms of various Securities Purchase Agreements entered into with the lenders (Note 13(a)(vii)).
- (v) During the year ended August 31, 2016, the Company obtained a loan from Altlands Overseas Corp. for \$750,000, bearing interest at a rate of 6% per annum and maturing on September 10, 2017. This loan, including all interest thereon was converted into common shares on May 19, 2017 under the terms of a Securities Purchase Agreement entered into with the lender (Note 13(a)(vii)).
- (vi) The Company received advances from various private lenders during the year ended August 31, 2018 and 2017 in the form of unsecured promissory notes. These promissory notes mature at various dates, between May 19, 2020 and August 31, 2020 and bear interest at 5% per annum. Various promissory notes, including interest thereon, were converted into common shares on May 19, 2017, under terms of various Securities Purchase Agreements entered into with the lenders (Note 13(a)(vii)).
- (vii) On May 19, 2017, under the terms of Securities Purchase Agreements entered into with various lenders, including the promissory notes in Note 13(d), the Company issued 31,083,281 common shares at conversion prices ranging from \$0.353 per share to \$0.397 per share in exchange for promissory notes, including interest thereon, amounting to \$12,185,904. These common shares were issued on July 11, 2017.

(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.

(c) Promissory notes

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

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13. LONG-TERM DEBT (continued)

(c) Promissory notes (continued)

During the year ended August 31, 2016, the Company issued 666,667 common shares as repayment of \$2,500,000 of this indebtedness.

The remaining promissory notes were converted into common shares on May 19, 2017 (Note 13(a)(vii)), under the terms of Securities Purchase Agreements entered into with the lenders, at a conversion price of \$0.397 per share.

(d) Director

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

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

During the years ended August 31, 2018 and 2017, the Company issued unsecured promissory notes to private companies controlled by the Chair of the Board of Directors of the Company (Note 20).

14. CONVERTIBLE DEBENTURES

<u>Lender</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Principal due August 31, 2018</u>	<u>Principal due August 31, 2017</u>
Alpha Capital Anstalt	October 31, 2018	5.00%	\$ 56,500	\$ 508,500
Deloro Energy, LLC	June 1, 2018	0.00%	-	-
Private lenders	January 1, 2019	0.00%	201,904	-
Calvary Fund I LP	September 4, 2019	10.00%	250,000	-
Total loans			<u>\$ 508,404</u>	<u>\$ 508,500</u>

The maturity date of the convertible debentures are as follows:

	<u>August 31, 2018</u>	<u>August 31, 2017</u>
Principal classified as repayable within one year	\$ 258,404	\$ -
Principal classified as repayable later than one year	250,000	508,500
	<u>\$ 508,404</u>	<u>\$ 508,500</u>

(a) Alpha Capital Anstalt

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

14. CONVERTIBLE DEBENTURES (continued)

(a) Alpha Capital Anstalt (continued)

On April 5, 2016, \$55,556 of the principal of the convertible secured note was settled by the issuance of 22,991 common shares of the Company. The remaining \$500,000 of the principal and \$12,577 of accrued interest of the convertible secured note was settled on April 8, 2016 using the proceeds from the issuance of an additional convertible secured note to Alpha Capital Anstalt.

On April 8, 2016, the Company issued an additional convertible secured note for \$600,000 to Alpha Capital Anstalt. The convertible secured note bears interest at a rate of 5% per annum and matures on October 8, 2017. The convertible secured note is convertible into units, consisting of one common share of the Company and one common share purchase warrant of the Company, at a conversion price of \$3.469 per unit. Each warrant would entitle the holder to acquire one additional common share at an exercise price of CAD \$4.725 per share until April 8, 2021. The convertible secured note is secured by all of the assets of the Company.

Between October 14, 2016 and October 31, 2016, \$200,000 of the principal of the convertible secured notes was converted into 57,756 units.

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

(b) Deloro Energy, LLC

On September 11, 2017, Petroteq Energy CA, Inc. ("PQE CA") entered into an agreement ("Agreement") with Deloro Energy, LLC, ("Deloro"). Under the Agreement, Deloro was to provide financing of \$10,000,000 to the Company in three separate tranches, to be used primarily for the expansion of the oil extraction plant. On the completion of the \$10,000,000 advance, the loan would have been automatically converted to a 49% equity interest in each of Petroteq Oil Sands Recovery, LLC and TMC Capital, LLC.

On May 2, 2018, PQE CA and Deloro agreed to terminate the Agreement and apply the proceeds received from Deloro of \$3,600,000 towards a subscription of 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.

(c) 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)).

(d) 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 common 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.

15. RECLAMATION AND RESTORATION PROVISIONS

	Oil Extraction Facility	Site Restoration	Total
Balance at August 31, 2016	\$ 357,000	\$ 204,000	\$ 561,000
Accretion expense	7,140	4,080	11,220
Balance at August 31, 2017	364,140	208,080	572,220
Accretion expense	7,200	4,244	11,444
Balance at August 31, 2018	<u>\$ 371,340</u>	<u>\$ 212,324</u>	<u>\$ 583,664</u>

(a) Oil Extraction Plant

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

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

The discount rate used in the calculation of the provision as at August 31, 2018 and 2017 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 August 31, 2018 and 2017 is 2.0%.

16. COMMON SHARES

Authorized unlimited common shares without par value
Issued and Outstanding 85,163,631 common shares as at August 31, 2018.

From September 27, 2017 to August 28, 2018, the Company issued 12,846,217 common shares to investors for net proceeds of \$8,312,216.

From September 27, 2017 to August 28, 2018, the Company issued 4,233,942 units to investors for net proceeds of \$3,064,116. Each unit consists of one common share and one common share purchase warrant. Each common share purchase warrant entitles the holder to purchase an additional common share between prices of \$0.94 to \$1.50 per share.

16. COMMON SHARES (continued)

Between December 19, 2017 and May 22, 2018, Alpha Capital Anstalt converted \$508,500 of convertible debt into 1,753,447 units. Each unit consists of one common share and one common share purchase warrant. Each common share purchase warrant entitles the holder to purchase an additional common share at a price of \$0.315 per share (Note 14(a)).

On May 8, 2018, certain private lenders converted \$283,671 of debt into 493,242 common shares of the Company at a conversion price of \$0.58 per share.

On May 22, 2018, Deloro Energy, LLC applied the \$3,600,000 originally advanced as part of a loan agreement to the purchase of 6,000,000 units (Note 14(b)). Each unit consists of one common share and one common share purchase warrant. Each common share purchase warrant entitles the holder to purchase an additional common share at a price of \$0.91 per share (Note 14(b)).

Between March 1, 2018 and July 23, 2018, the Company issued 3,737,637 common shares to settle outstanding debt of \$3,128,437.

Between May 30, 2018 and August 31, 2018, the company issued 125,000 shares at a market price of \$95,444 as compensation to an advisory board members and a consultant.

Between March 16, 2018 and July 11, 2018, Alpha Capital Anstalt exercised common share purchase warrants to purchase 1,753,447 common shares at an exercise price of \$0.315 per share for gross proceeds of \$552,335.

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 16,959,601 common shares reserved for issuance.

During the year ended August 31, 2018, the Company granted 9,775,000 (August 31, 2017 – nil) 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.

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

	Year ended August 31, 2018	
Share price	CAD\$	1.18
Exercise price	CAD\$	1.19
Expected share price volatility ⁽¹⁾		125%
Risk-free interest rate		2.08%
Expected term		10.00

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

During the year ended August 31, 2018 the share-based compensation expense of \$5,356,004 relates to the vesting of options granted during the year ended August 31, 2018. During the year ended August 31, 2017, the share-based compensation expense of \$15,993 relates to the vesting of options granted during the year ended August 31, 2016.

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17. SHARE PURCHASE OPTIONS (continued)

(b) Share purchase options (continued)

Share purchase option transactions under the stock option plan were:

	Year ended August 31, 2018		Year ended August 31, 2017	
	Number of Options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of period	113,333	CAD \$ 12.57	126,666	CAD \$ 14.70
Options granted	9,775,000	CAD \$ 1.19	-	-
Options cancelled	-	-	-	-
Options expired	(30,000)	CAD \$ 33.00	(13,333)	CAD \$ 33.00
Balance, end of period	<u>9,858,333</u>	<u>CAD \$ 1.22</u>	<u>113,333</u>	<u>CAD \$ 12.57</u>

Share purchase options outstanding and exercisable as at August 31, 2018 are:

Expiry Date	Exercise Price	Options Outstanding	Options Exercisable
December 31, 2018	USD \$ 4.80	50,000	50,000
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
		<u>9,858,333</u>	<u>4,908,333</u>
Weighted average remaining contractual life		<u>9.6 years</u>	<u>9.5 years</u>

18. SHARE PURCHASE WARRANTS

Share purchase warrants outstanding as at August 31, 2018 are:

Expiry Date	Exercise Price	Warrants Outstanding
April 12, 2019	CAD \$ 5.10	16,667
August 19, 2019	CAD \$ 7.50	66,666
November 5, 2019	CAD \$ 28.35	25,327
March 9, 2020	USD \$ 1.50	114,678
June 14, 2020	USD \$ 1.50	329,080
July 26, 2020	USD \$ 1.50	1,637,160
August 28, 2020	USD \$ 0.94	1,237,910
August 28, 2020	USD \$ 1.00	246,913
August 28, 2020	USD \$ 1.50	109,047
April 8, 2021	CAD \$ 4.74	57,756
May 22, 2021	USD \$ 0.91	6,000,000
		<u>9,841,203</u>
Weighted average remaining contractual life		<u>2.41 years</u>
Weighted average exercise price	<u>CAD \$ 1.49</u>	

18. SHARE PURCHASE WARRANTS (continued)

On October 14, 2016 and October 31, 2016, the Company issued 14,439 and 43,317 share purchase warrants in connection with the conversion of \$50,000 and \$150,000, respectively, of the convertible secured notes (Note 14(a)) into units composed of one common share of the Company and one share purchase warrant of the Company. The fair value of the warrants granted was estimated, using the relative fair value method, at \$1.83 per warrant.

From December 19, 2017 to May 22, 2018, the Company issued 1,753,447 common share purchase warrants in connection with the conversion of a total of \$508,500 of the convertible secured notes (Note 14(a)) into units composed of one common share of the Company and one share purchase warrant of the Company. The fair value of the warrants granted was estimated, using the relative fair value method, at \$0.13 per warrant. From March 5, 2018 to July 11, 2018, the 1,753,447 share purchase warrants were exercised to purchase 1,753,447 common shares of the Company at a price of \$0.315 per share for gross proceeds of \$552,335.

On May 22, 2018, the Company issued 6,000,000 common share purchase warrants in connection to a loan agreement that was terminated (Note 14(b)) and converted into a subscription of units composed of one common share of the Company and one share purchase warrant of the Company. The fair value of the warrants granted was estimated, using the relative fair value method, at \$0.23 per warrant.

From March 9, 2018 to August 28, 2018, the Company issued 3,674,788 warrants to various investors in connection to subscription of units composed of one common share of the Company and one common share purchase warrant of the Company. The fair value of the warrants granted was estimated, using the relative fair value method, at \$0.23 to \$0.67 per warrant.

The warrants issued, during the year ended August 31, 2018, were valued at \$2,824,145 using the relative fair value method. The fair value of warrants were estimated using the Black-Scholes valuation model utilizing the following weighted average assumptions:

	Year ended August 31, 2018	
Share price	CAD \$	1.17
Exercise price	CAD \$	1.19
Expected share price volatility ⁽¹⁾		133%
Risk-free interest rate		2.12%
Expected term		2.00

19. DILUTED LOSS PER SHARE

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

20. RELATED PARTY TRANSACTIONS

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

(a) Key management personnel and director compensation

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

	<u>2018</u>	<u>2017</u>
Salaries, fees and other benefits	\$ 466,170	\$ 508,000
Share based compensation	5,232,538	15,992
	<u>\$ 5,698,708</u>	<u>\$ 523,992</u>

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20. RELATED PARTY TRANSACTIONS (continued)

(a) Key management personnel and director compensation (continued)

At August 31, 2018, \$1,065,392 was due to members of key management and directors for unpaid salaries, expenses and directors' fees (August 31, 2017 – \$1,137,392).

During August 31, 2018, no common shares were granted as compensation to key management and directors of the Company. During August 31, 2017, the Chair of the Board and the Chief Technology Officer were each granted, respectively, 280,497 and 16,667 common shares.

(b) Due to director

During the years ended August 31, 2018 and 2017, the Company received additional advances of \$nil and \$421,250 from various private companies controlled by the Chair of the Board of Directors of the Company (Notes 13(b)(vii) and 13(e)). On May 18, 2017, the Company entered into an agreement to settle a portion of the principal and accrued interest of these advances by issuing 586,475 common shares of the Company to the lenders.

As of August 31, 2018 and 2017, the Company owed various private companies controlled by the Chair of the Board the aggregate sum of \$nil and \$242,250, respectively. These loans bear interest at 5% per annum and mature at dates ranging from on demand to September 1, 2020.

On May 18, 2017, the Company entered into a Securities Purchase Agreement whereby it agreed to convert an aggregate principal debt of \$204,000, including interest thereon, owing to the Chair of the Board or companies controlled by him into 751,681 of common share at a conversion price of \$0.353 per share.

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

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

As at August 31, 2017, 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 May 22, 2018, the Company entered into a Debt Settlement Agreement whereby it agreed to convert \$1,175,424 of advances made to the Company by the Chair of the Board into 1,992,244 common shares at a conversion price of \$0.59 per share.

As at August 31, 2018, the Chair of the Board of Directors owed the Company \$297,256.

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 August 31, 2018.

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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.

22. INCOME TAXES

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

	2018	2017
Property, plant and equipment and intangible assets	\$ (1,571,771)	\$ (1,258,439)
Non-capital tax loss carry-forwards	11,601,966	10,419,975
Other tax-related balances and credits	349,408	379,036
Valuation allowance	(10,379,603)	(9,540,572)
Net deferred tax assets (liabilities)	<u>\$ -</u>	<u>\$ -</u>

A reconciliation of the provision for income taxes is:

	2018	2017
Net loss before income taxes	\$15,112,155	\$ 7,939,643
Combined Canadian federal and provincial statutory income tax rates	26.5%	26.5%
Tax recovery using the Company's domestic tax rate	4,004,722	2,104,005
Effect of tax rates in foreign jurisdictions	86,030	416,160
Net effect of (non-deductible) deductible items	(1,581,710)	(1,091,260)
Current year deductible amounts	763,571	1,137,670
Current period losses not recognized	(3,272,613)	(2,566,575)
Provision for income taxes	<u>\$ -</u>	<u>\$ -</u>

As at August 31, 2018, the Company has, on a consolidated basis, non-capital losses of approximately \$31.0 million for income tax purposes which may be used to reduce taxable income of future years. If unused, these losses will expire between 2028 and 2038.

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The Company operated in two reportable segments within the USA during the year ended August 31, 2018 and 2017, 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 consolidated statements of loss and comprehensive loss provides information about the oil extraction and processing segment. There were no operations in the mining operations segment during the years ended August 31, 2018 and 2017. Other information about reportable segments are:

(in '000s of dollars)	August 31, 2018		
	Oil	Mining	Consolidated
	Extraction	Operations	
Additions to non-current assets	\$ 6,353	\$ 534	\$ 6,887
Reportable segment assets	38,247	857	39,104
Reportable segment liabilities	\$ 6,006	\$ 169	\$ 6,175

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

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23. SEGMENT INFORMATION (continued)

(in '000s of dollars)	August 31, 2018		
	Oil Extraction	Mining Operations	Consolidated
External Revenue	-	-	-
Advance Royalty Payments	-	272	272
Gross Loss	-	272	272
Amortization	51	-	51
Business development	5	-	5
Compliance costs	3	-	3
Financing costs	446	-	446
General and administrative	617	5	622
Interest expense	365	-	365
Investor relations	2,488	-	2,488
Loss on settlement of liabilities	92	-	92
Market development	45	-	45
Other income	(57)	-	(57)
Professional fees	3,576	7	3,583
Public relations	921	-	921
Research and development	120	-	120
Salaries and wages	511	-	511
Share based compensation	5,357	-	5,357
Equity income from investment in Accord GR Energy	160	-	160
Travel and promotion	128	-	128
Net Loss	14,828	284	15,112

(in '000s of dollars)	August 31, 2017		
	Oil Extraction	Mining Operations	Consolidated
External Revenue	-	-	-
Advance Royalty Payments	1	426	427
Gross Loss	1	426	427
Amortization	1,166	-	1,166
Compliance costs	3	-	3
Financing costs	122	-	122
Loss on deconsolidation	24	-	24
General and administrative	345	3	348
Interest expense	1,106	-	1,106
Investor relations	298	-	298
Loss on settlement of liabilities	2,367	-	2,367
Professional fees	612	6	618
Public relations	12	-	12
Relocation costs	438	-	438
Salaries and wages	703	-	703
Share based compensation	16	-	16
Equity income from investment in Accord GR Energy	174	-	174
Travel and promotion	118	-	118
Net Loss	7,505	435	7,940

24. COMMITMENTS

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	\$ 124,440
2020	124,440
2021	101,220
2022	78,000
2023	65,000

For the year ended August 31, 2018, the Company made \$78,864 (2017 - \$nil) in office lease payments.

25. 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.

26. 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.

26. MANAGEMENT OF FINANCIAL RISKS (continued)

(a) Credit risk (continued)

At August 31, 2018 and 2017, the Company had no trade receivables. The Company considers its maximum exposure to credit risk to be its trade and other receivables and notes receivable.

(b) Interest rate risk

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

(c) Liquidity risk

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

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

At August 31, 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	-
	<u>\$ 5,137</u>	<u>\$ 5,416</u>	<u>\$ 4,419</u>	<u>\$ 996</u>	<u>\$ -</u>

At August 31, 2017

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

27. 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 years ended	August 31, 2018	August 31, 2017
Balance, beginning of the year	\$ 2,804,202	\$ 17,083,792
Changes from financing cash flows		
Proceeds from long term loans	4,830,195	1,119,631
Proceeds from convertible debt	250,000	-
Proceeds from officer loan	838,846	409,254
Repayment of long term loans	(4,685,836)	(26,800)
Effect of changes in foreign exchange rate	41,877	47,329
Other changes		
Debt settled through share issuance	(1,491,829)	(15,673,128)
Conversion of convertible debt	(508,500)	(200,000)
Accretion of loan balance	56,000	44,124
Balance, end of the year	\$ 2,134,955	\$ 2,804,202

28. EVENTS AFTER THE REPORTING DATE

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

(a) Common shares

On September 6, 2018 the Company entered into a subscription agreement with an investor whereby 1,234,567 units were issued to the investor, each unit consisting of one common share of the Company and three quarters of one common share purchase warrant of the Company. One common share purchase warrant entitles the holder to purchase an additional common share of the Company at a price of \$1.01 per share. The warrants will expire on September 5, 2020 if unexercised. A total of 1,234,567 common shares and 925,925 common share purchase warrants were issued for gross proceeds of \$1,000,000.

On October 11, 2018 under the terms of subscription agreements entered into with subscribers, the Company issued 833,269 common shares and warrants exercisable for the purchase of 752,040 common shares at exercise prices ranging from \$1.35 to \$1.50 per share to private investors for gross proceeds of \$816,605.

On November 7, 2018 under the terms of subscription agreements entered into with subscribers, the Company issued 320,408 common shares and warrants exercisable for the purchase of 320,408 common shares at exercise prices ranging from \$0.61 to \$0.66 per share, to private investors for gross proceeds of \$169,000

28. EVENTS AFTER THE REPORTING DATE (continued)

(a) Common shares (continued)

On December 7, 2018 under the terms of subscription agreements entered into with subscribers, the Company issued 3,868,970 common shares and warrants exercisable for the purchase of 3,373,920 common shares at exercise prices ranging from \$0.67 to \$1.50 per share, to private investors for gross proceeds of \$2,275,200.

On December 7, 2018 under the terms of subscription agreements entered into with subscribers, the Company issued 1,190,476 common shares and warrants exercisable for the purchase of 1,190,476 common shares at exercise price of \$0.525 per share, to an investor for gross proceeds of \$500,000.

(b) Debt settlements

On September 4, 2018 the Company issued 205,194 common shares to two individuals to settle \$162,000 of debt related to advisory board and consulting services provided to the Company. In addition, the Company issued 336,871 common shares to the Chair of the Board to settle \$249,285 of outstanding management fees owed to him.

On September 28, 2018 the Company issued 316,223 common shares to settle CAD\$335,196 of debt owed to two convertible note holders (Note 14(c)).

On September 28, 2018, the Company issued 110,206 common shares to settle \$110,516 owed to certain service providers.

On November 8, 2018, the Company issued 918,355 common share purchase warrants to various investors. Each common share purchase warrants entitles the holder to purchase one common share of the Company at a price of \$1.01 per share and expires on November 8, 2020.

On November 8, 2018, the Company issued 28,880 common shares to a director as settlement of \$23,393 of expenses incurred by him.

On December 5, 2018 the Company entered into settlement agreements with certain service providers and issued 566,794 common shares to settle \$413,760 of outstanding debt.

(c) Debt conversion

On December 3, 2018 Alpha Capital Anstalt converted the remaining debt outstanding to them of \$56,500 (Note 14(a)) plus interest of \$13,478 into 145,788 common shares of the Company.

(d) Financing Activity

On September 17, 2018, the Company entered into an agreement with Bay Private Equity (“Bay”), Inc. to issue convertible debentures of up to \$9,500,000. The debenture bears interest at 10% of the original issue price and expires on September 17, 2019. The Company also issued 950,000 common shares in consideration for securing the funding commitment. On September 17, 2018, the Company issued 3 one year units of \$1,100,000 each to 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. The Company issued 300,000 common shares as finder fees in connection with the issue of these units.

PETROTEQ ENERGY INC.

(Formerly MCW Energy Group Limited)

Notes to the Consolidated Financial Statements

August 31, 2018, and 2017

Expressed in US dollars

28. EVENTS AFTER THE REPORTING DATE (continued)

(d) Financing Activity (continued)

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.

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.

(e) Amendment to TMC Mineral Lease

On November 21, 2018, a fourth amendment was made to the mining and mineral lease agreement whereby certain properties previously excluded from the third amendment were included in the lease agreement.

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; or
- (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.

(f) Approval for Share Consolidation

On November 23, 2018, the shareholders of the Company approved a resolution authorizing the Board of Directors of the Company to consolidate the Company's shares on a basis of up to ten for one. No consolidation has been effected to date.

(b) Exhibits

The following documents are included as exhibits to this report.

Exhibit No.	Title of Document
3.1	<u>Articles of Amalgamation filed December 12, 2012*</u>
3.2	<u>Bylaws*</u>
3.3	<u>Articles of Amendment filed May 5, 2017*</u>
4.1	<u>Specimen of Stock Certificate evidencing the Common Shares*</u>
4.2	<u>Convertible Debenture between MCW Energy Group Limited and Aleksandr Blyumkin dated April 9, 2014*</u>
4.3	<u>Secured Convertible Note Due May 5, 2016 between MCW Energy Group Limited and Alpha Capital Anstalt dated November 5, 2014*</u>
4.4	<u>Secured Convertible Note Due May 20, 2016 between MCW Energy Group Limited and Alpha Capital Anstalt dated November 24, 2014*</u>
4.5	<u>Secured Convertible Note Due June 15, 2017 between MCW Energy Group Limited and Alpha Capital Anstalt dated December 15, 2015*</u>
4.6	<u>Secured Convertible Note Due October 8, 2017 between MCW Energy Group Limited and Alpha Capital Anstalt dated April 8, 2016*</u>
4.7	<u>2018 Stock Option Plan*</u>
10.1	<u>Technology Transfer Agreement, between MCW Energy Group Limited and Vladimir Podlipskiy, effective as of November 7, 2011*</u>
10.2	<u>Mining and Mineral Lease Agreement between Asphalt Ridge, Inc. and TMC Capital, LLC dated July 1, 2013*</u>
10.3	<u>Securities Purchase Agreement between MCW Energy Group Limited and Alpha Capital Anstalt dated November 5, 2014*</u>
10.4	<u>Securities Purchase Agreement between MCW Energy Group Limited and Alpha Capital Anstalt dated November 24, 2014*</u>
10.5	<u>Loan Agreement between Atlands Overseas Corp. and MCW Energy CA, Inc. dated February 9, 2015*</u>
10.6	<u>Amendment No. 1 to Loan Agreement between MCW Energy CA, Inc. and Atlands Overseas Corp. dated July 21, 2015*</u>
10.7	<u>First Amendment to Mining and Mineral Lease Agreement between Asphalt Ridge, Inc. and TMC Capital, LLC dated as of October 1, 2015*</u>
10.8	<u>Securities Purchase Agreement between MCW Energy Group and Alpha Capital Anstalt dated December 15, 2015*</u>
10.9	<u>Amendment No. 2 to Loan Agreement between MCW Energy CA, Inc. and Atlands Overseas Corp. dated February 1, 2016*</u>
10.10	<u>Reinstatement of and Second Amendment to Mining and Mineral Lease Agreement between Asphalt Ridge, Inc. and TMC Capital, LLC dated as of March 1, 2016*</u>

- 10.11 [Securities Purchase Agreement between MCW Energy CA, Inc. and Alpha Capital Anstalt dated April 8, 2016*](#)
- 10.12 [Amendment No. 3 to Loan Agreement between MCW Energy CA, Inc. and Atlands Overseas Corp. dated July 26, 2016*](#)
- 10.13 [Debt Conversion Agreement between Petroteq Energy Inc. and Aleksandr Blyumkin dated May 18, 2017*](#)
- 10.14 [Debt Conversion Agreement between Petroteq Energy Inc. and Palmira Associates, Inc. dated May 18, 2017*](#)
- 10.15 [Debt Conversion Agreement between Petroteq Energy Inc. and Express Consulting, LLC dated May 18, 2017*](#)
- 10.16 [Debt Conversion Agreement between Petroteq Energy Inc. and Aleksandr Blyumkin dated May 18, 2017*](#)
- 10.17 [Form of Director and Officer Indemnification Agreement *](#)
- 10.18 [Office Lease, between Camp Granada LLC, as Lessor, and PetroBloq LLC, as Lessee, dated January 17, 2018 *](#)
- 10.19 [Third Amendment to Mining and Mineral Lease Agreement between Asphalt Ridge, Inc. and TMC Capital, LLC dated as of February 21, 2018*](#)
- 10.20 [Employment Agreement between the Company and David Sealock dated as of March 15, 2018*](#)
- 10.21 [Debt Conversion Agreement between Petroteq Energy Inc. and Aleksandr Blyumkin dated August 3, 2018*](#)
- 10.22 [Distributed Ledger Technology Services Agreement between Petroteq Energy, Inc. and First Bitcoin Capital Corp. dated November 3, 2017*](#)
- 10.23 [Fourth Amendment to Mining and Mineral Lease Agreement between Asphalt Ridge, Inc. and TMC Capital, LLC dated November 21, 2018*](#)
- 10.24 [Utah State Mineral Lease for Bituminous-Asphaltic Sands dated June 1, 2018 - Mineral Lease No 53806*](#)
- 10.25 [Utah State Mineral Lease for Bituminous-Asphaltic Sands dated June 1, 2018 - Mineral Lease No 53807*](#)
- 21.1 [Subsidiaries of the Registrant *](#)

* Filed herewith

SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized.

PETROTEQ ENERGY, INC.
(Registrant)

Dated: February 11, 2019

By: /s/ David Sealock
David Sealock
Chief Executive Officer

For Ministry Use Only
À l'usage exclusif du ministère

Ontario Corporation Number
Numéro de la société en Ontario



Ministry of
Government Services
Ontario

Ministère des
Services gouvernementaux

1886084

CERTIFICATE
This is to certify that these articles
are effective on

CERTIFICAT
Ceci certifie que les présents statuts
entrent en vigueur le

DECEMBER 1 2 DÉCEMBRE, 2012

Director / Directrice
Business Corporations Act / Loi sur les sociétés par actions

Form 4
Business
Corporations
Act

Formule 4
Loi sur les
sociétés par
actions

**ARTICLES OF AMALGAMATION
STATUTS DE FUSION**

1. The name of the amalgamated corporation is: (Set out in BLOCK CAPITAL LETTERS)
Dénomination sociale de la société issue de la fusion: (Écrire en LETTRES MAJUSCULES SEULEMENT):

M	C	W	E	N	E	R	G	Y	G	R	O	U	P	L	I	M	I	T	E	D

2. The address of the registered office is:
Adresse du siège social :

801-1 Adelaide Street East

Street & Number or R.R. Number & if Multi-Office Building give Room No. /
Rue et numéro ou numéro de la R.R. et, s'il s'agit d'un édifice à bureaux, numéro du bureau

Toronto

ONTARIO

M 5 C 2 V 9

Name of Municipality or Post Office /
Nom de la municipalité ou du bureau de poste

Postal Code/Code postal

3. Number of directors is: Fixed number OR minimum and maximum 1 10
Nombre d'administrateurs : Nombre fixe OU minimum et maximum 1 10

4. The director(s) is/are: / Administrateur(s) :

First name, middle names and surname Prénom, autres prénoms et nom de famille	Address for service, giving Street & No. or R.R. No., Municipality, Province, Country and Postal Code Domicile élu, y compris la rue et le numéro ou le numéro de la R.R., le nom de la municipalité, la province, le pays et le code postal	Resident Canadian State 'Yes' or 'No' Résident canadien Oui/Non
Bill G. Calsbeck	8089 Heather Street Vancouver, BC V6P 3S1	Yes
Travis S. Schneider	13572 Crestview Drive Surrey, BC V3R 6T2	Yes
Alex Blyumkin	1714 Stone Cyn Road Los Angeles, CA 90077 USA	No

List of Directors (continued)

Name of Directors	Address for service	Resident Canadian
David Sutton	15800 Woodvale Road Encino, CA 91436 USA	No
Dr. Gerald Bailey	1711 Old Spanish Trail Apt #102 Houston, TX 77054 USA	No
Ronald Fisher	110 - 1383 Marinaside Crescent Vancouver, BC V6Z 2W9	Yes

5. Method of amalgamation, check A or B
 Méthode choisie pour la fusion – Cocher A ou B :

A - Amalgamation Agreement / Convention de fusion :

The amalgamation agreement has been duly adopted by the shareholders of each of the amalgamating corporations as required by subsection 176 (4) of the *Business Corporations Act* on the date set out below.
 Les actionnaires de chaque société qui fusionne ont dûment adopté la convention de fusion conformément au paragraphe 176(4) de la *Loi sur les sociétés par actions* à la date mentionnée ci-dessous.

or
ou

B - Amalgamation of a holding corporation and one or more of its subsidiaries or amalgamation of subsidiaries / Fusion d'une société mère avec une ou plusieurs de ses filiales ou fusion de filiales :

The amalgamation has been approved by the directors of each amalgamating corporation by a resolution as required by section 177 of the *Business Corporations Act* on the date set out below.
 Les administrateurs de chaque société qui fusionne ont approuvé la fusion par voie de résolution conformément à l'article 177 de la *Loi sur les sociétés par actions* à la date mentionnée ci-dessous.

The articles of amalgamation in substance contain the provisions of the articles of incorporation of
 Les statuts de fusion reprennent essentiellement les dispositions des statuts constitutifs de

MCW Enterprises Continuance Ltd.

and are more particularly set out in these articles.
 et sont énoncés textuellement aux présents statuts.

Names of amalgamating corporations Dénomination sociale des sociétés qui fusionnent	Ontario Corporation Number Numéro de la société en Ontario	Date of Adoption/Approval Date d'adoption ou d'approbation		
		Year année	Month mois	Day jour
MCW Enterprises Continuance Ltd.	1886054	2012	12	12
MCW Energy Group Limited	1886044	2012	12	12

6. Restrictions, if any, on business the corporation may carry on or on powers the corporation may exercise.
Limites, s'il y a lieu, imposées aux activités commerciales ou aux pouvoirs de la société.

None.

7. The classes and any maximum number of shares that the corporation is authorized to issue:
Catégories et nombre maximal, s'il y a lieu, d'actions que la société est autorisée à émettre :

- (i) An unlimited number of common shares without nominal or par value.
- (ii) An unlimited number of preferred shares without nominal or par value.

8. Rights, privileges, restrictions and conditions (if any) attaching to each class of shares and directors authority with respect to any class of shares which may be issued in series:

Droits, privilèges, restrictions et conditions, s'il y a lieu, rattachés à chaque catégorie d'actions et pouvoirs des administrateurs relatifs à chaque catégorie d'actions qui peut être émise en série :

(i) No special rights or restrictions attach to the common shares.

(ii) The preferred shares as a class shall have attached to them the following special rights, conditions, restrictions and limitations:

(1) The Preferred shares may at any time and from time to time be issued by the directors in one or more series.

(2) Subject to the Business Corporations Act, the directors may from time to time, by resolution, if none of the preferred shares of any particular series are issued, alter these Articles to do one or more of:

(a) determine the maximum number of shares of that series that the Company is authorized to issue, determine that there is no such maximum number, or alter any such determination;

(b) create an identifying name for the shares of that series, or alter any such identifying name;

(c) attach special rights or restrictions to the shares of that series, including, but without limiting or restricting the generality of the foregoing, the rate or amount of dividends (whether cumulative, non-cumulative or partially cumulative), the dates and places of payment thereof, the consideration for, and the terms and conditions of, any share purchase for cancellation or redemption thereof (including redemption after a fixed term or at a premium), conversion or exchange rights, the terms and conditions of any share purchase plan or sinking fund, restrictions respecting payment of dividends on, or the repayment of capital in respect of, any other shares of the Company and voting rights and restrictions; or alter any such special rights or restrictions; but no such special right or restriction shall contravene the provisions of paragraphs (3) and (4) below.

(3) The holders of preferred shares shall be entitled, on the liquidation or dissolution of the Company, whether voluntary or involuntary, or on any other distribution of its assets among its shareholders for the purpose of winding up its affairs, to receive, before any distribution is made to the holders of common shares or any other shares of the Company ranking junior to the preferred shares with respect to repayment of capital on the liquidation or dissolution of the Company, whether voluntary or involuntary, or on any other distribution of its assets among its shareholders for the purpose of winding up its affairs, the amount paid up with respect to each preferred share held by them, together with the fixed premium (if any) thereon, all accrued and unpaid cumulative dividends (if any and if preferential) thereon, which for such purpose shall be calculated as if such dividends were accruing on a day-to-day basis up to the date of such distribution, whether or not earned or declared, and all declared and unpaid non-cumulative dividends (if any and if preferential) thereon. After payment to the holders of preferred shares of the amounts so payable to them, they shall not, as such, be entitled to share in any further distribution of the property or assets of the Company except as specifically provided in the special rights and restrictions attached to any particular series.

(4) Except for such rights relating to the ejection of directors on a default in payment of dividends as may be attached to any series of the preferred shares by the directors, holders of preferred shares shall not be entitled, as such, to receive notice of, or to attend or vote at, any general meeting of shareholders of the Company.

9. The issue, transfer or ownership of shares is/is not restricted and the restrictions (if any) are as follows:
L'émission, le transfert ou la propriété d'actions est/n'est pas restreint. Les restrictions, s'il y a lieu, sont les suivantes :

No restrictions.

10. Other provisions, (if any):
Autres dispositions, s'il y a lieu :

None.

11. The statements required by subsection 178(2) of the *Business Corporations Act* are attached as Schedule "A".
Les déclarations exigées aux termes du paragraphe 178(2) de la *Loi sur les sociétés par actions* constituent l'annexe A.

12. A copy of the amalgamation agreement or directors' resolutions (as the case may be) is/are attached as Schedule "B".
Une copie de la convention de fusion ou les résolutions des administrateurs (selon le cas) constitue(nt) l'annexe B.

These articles are signed in duplicate.
Les présents statuts sont signés en double exemplaire.

Name and original signature of a director or authorized signing officer of each of the amalgamating corporations. Include the name of each corporation, the signatory's name and description of office (e.g. president, secretary). Only a director or authorized signing officer can sign on behalf of the corporation. / Nom et signature originale d'un administrateur ou d'un signataire autorisé de chaque société qui fusionne. Indiquer la dénomination sociale de chaque société, le nom du signataire et sa fonction (p. ex. : président, secrétaire). Seul un administrateur ou un dirigeant habilité peut signer au nom de la société.

MCW Enterprises Continuance Ltd.

Names of Corporations / Dénomination sociale des sociétés

By / Par

	David Sutton	Director
Signature / Signature	Print name of signatory / Nom du signataire en lettres moulées	Description of Office / Fonction

MCW Energy Group Limited

Names of Corporations / Dénomination sociale des sociétés

By / Par

	David Sutton	Director
Signature / Signature	Print name of signatory / Nom du signataire en lettres moulées	Description of Office / Fonction

Names of Corporations / Dénomination sociale des sociétés

By / Par

Signature / Signature	Print name of signatory / Nom du signataire en lettres moulées	Description of Office / Fonction

Names of Corporations / Dénomination sociale des sociétés

By / Par

Signature / Signature	Print name of signatory / Nom du signataire en lettres moulées	Description of Office / Fonction

Names of Corporations / Dénomination sociale des sociétés

By / Par

Signature / Signature	Print name of signatory / Nom du signataire en lettres moulées	Description of Office / Fonction

SCHEDULE A

STATEMENT OF DIRECTOR OR OFFICER

PURSUANT TO SUBSECTION 178(2) OF THE BUSINESS CORPORATIONS ACT

I, David Sutton, of the City of Los Angeles, in the State of California, hereby certify and state as follows:

1. This statement is made pursuant to subsection 178(2) of the *Business Corporations Act*.
2. I am a Director of MCW Energy Group Limited and as such have knowledge of its affairs.
3. I have conducted such examinations of the books and records of MCW Energy Group Limited (the "**Amalgamating Corporation**") as are necessary to enable me to make the statements hereinafter set forth.
4. There are reasonable grounds for believing that the Amalgamating Corporation is and the corporation to be formed by the amalgamation will be able to pay its liabilities as they become due and that the realizable value of such Amalgamated Corporation's assets will not be less than the aggregate of its liabilities and stated capital of all classes.
5. There are reasonable grounds for believing that no creditor of the Amalgamating Corporation will be prejudiced by the amalgamation.
6. Based on the statements made above the Amalgamating Corporation is not obligated to give notice to any creditor.

This statement is made this 12th day of December, 2012.



David Sutton

SCHEDULE A

STATEMENT OF DIRECTOR OR OFFICER

PURSUANT TO SUBSECTION 178(2) OF THE BUSINESS CORPORATIONS ACT

I, David Sutton, of the City of Los Angeles, in the State of California, hereby certify and state as follows:

1. This statement is made pursuant to subsection 178(2) of the *Business Corporations Act*.
2. I am a Director of MCW Enterprises Continuance Ltd. and as such have knowledge of its affairs.
3. I have conducted such examinations of the books and records of MCW Enterprises Continuance Ltd. (the "**Amalgamating Corporation**") as are necessary to enable me to make the statements hereinafter set forth.
4. There are reasonable grounds for believing that the Amalgamating Corporation is and the corporation to be formed by the amalgamation will be able to pay its liabilities as they become due and that the realizable value of such Amalgamated Corporation's assets will not be less than the aggregate of its liabilities and stated capital of all classes.
5. There are reasonable grounds for believing that no creditor of the Amalgamating Corporation will be prejudiced by the amalgamation.
6. Based on the statements made above the Amalgamating Corporation is not obligated to give notice to any creditor.

This statement is made this 12th day of December, 2012.



David Sutton

SCHEDULE B

RESOLUTION OF THE DIRECTORS

OF

**MCW ENERGY GROUP LIMITED
(the "Corporation")**

AMALGAMATION WITH MCW ENTERPRISES CONTINUANCE LTD.

WHEREAS the Corporation is a wholly-owned subsidiary of and has decided to amalgamate with MCW Enterprises Continuance Ltd. pursuant to Section 177 (1) of the *Business Corporations Act*;

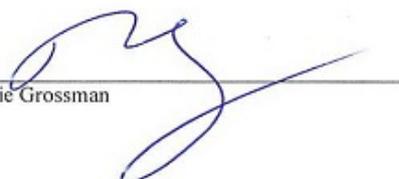
RESOLVED that:

1. The amalgamation of the Corporation and MCW Enterprises Continuance Ltd. under the *Business Corporations Act* pursuant to Section 177 (1) thereof, be and the same is hereby approved.
2. Upon the endorsement of a Certificate of Amalgamation pursuant to subsection 178 (4) of the *Business Corporations Act*, all shares of the capital stock of the Corporation, including all shares which have been issued and outstanding as at the date hereof, shall be and the same shall be hereby cancelled without any repayment of capital in respect thereof;
3. The Articles of Amalgamation of the Amalgamated Corporation shall be the same as the Articles of Continuance of MCW Enterprises Continuance Ltd.
4. The By-Laws of the Amalgamated Corporation shall be the same as the By-Laws of MCW Enterprises Continuance Ltd.
5. No securities shall be issued and no assets shall be distributed by the Amalgamated Corporation in connection with the Amalgamation.
6. Any one officer or director of the Corporation be and is hereby authorized and directed to do all such further acts and things and to execute and deliver or sign and file (as the case may be) all such further agreements, instruments, notices, certificates, applications and other documents (for and on behalf of the Corporation and whether under corporate seal or otherwise), as such officer or director may consider necessary or advisable having regard to the foregoing paragraphs of this resolution.
7. This resolution may be executed in any number of counterparts with the same effect as if all parties had signed the same document. All counterparts shall be construed together, and shall constitute one and the same resolution. A facsimile or PDF counterpart of this resolution shall be fully effective for all purposes.

CERTIFICATE

I, the undersigned, Robbie Grossman, Secretary of MCW Enterprises Continuance Ltd., hereby certify that the foregoing is a true and correct copy of a Resolution passed by the Directors of MCW Enterprises Continuance Ltd., on the 12th day of December, 2012, and that the said Resolution is now in full force and effect.

DATED the 12th day of December, 2012.



Robbie Grossman

SCHEDULE B

RESOLUTION OF THE DIRECTORS

OF

**MCW ENTERPRISES CONTINUANCE LTD.
(the "Corporation")**

AMALGAMATION WITH MCW ENERGY GROUP LIMITED

WHEREAS the Corporation has decided to amalgamate with its wholly-owned subsidiary MCW Energy Group Limited pursuant to Section 177 (1) of the *Business Corporations Act*;

RESOLVED that:

1. The amalgamation of the Corporation and MCW Energy Group Limited under the *Business Corporations Act* pursuant to Section 177 (1) thereof, be and the same is hereby approved.
2. Upon the endorsement of a Certificate of Amalgamation pursuant to subsection 178 (4) of the *Business Corporations Act*, all shares of the capital stock of MCW Energy Group Limited, including all shares which are issued and outstanding and held by the Corporation as at the date hereof, be and the same shall be hereby cancelled without any repayment of capital in respect thereof;
3. The Articles of Amalgamation of the Amalgamated Corporation shall be the same as the Articles of Continuance of the Corporation.
4. The By-Laws of the Amalgamated Corporation shall be the same as the By-Laws of the Corporation.
5. No securities shall be issued and no assets shall be distributed by the Amalgamated Corporation in connection with the Amalgamation.
6. Any one officer or director of the Corporation be and is hereby authorized and directed to do all such further acts and things and to execute and deliver or sign and file (as the case may be) all such further agreements, instruments, notices, certificates, applications and other documents (for and on behalf of the Corporation and whether under corporate seal or otherwise), as such officer or director may consider necessary or advisable having regard to the foregoing paragraphs of this resolution.
7. This resolution may be executed in any number of counterparts with the same effect as if all parties had signed the same document. All counterparts shall be construed together, and shall constitute one and the same resolution. A facsimile or PDF counterpart of this resolution shall be fully effective for all purposes.

CERTIFICATE

I, the undersigned, Robbie Grossman, Secretary of MCW Enterprises Continuance Ltd., hereby certify that the foregoing is a true and correct copy of a Resolution passed by the Directors of MCW Enterprises Continuance Ltd., on the 12th day of December, 2012, and that the said Resolution is now in full force and effect.

DATED the 12th day of December, 2012.

Robbie Grossman



RECEIVED
COUNTER SERVICES #5
DEC 17 2012
Retail Offices Branch

BY-LAW NO. 1**A by-law relating generally to the transaction
of the business and affairs of****MCW ENERGY GROUP LIMITED**

Article	Contents
One	Interpretation
Two	Execution of Documents
Three	Directors
Four	Committees
Five	Officers
Six	Protection of Directors, Officers and Others
Seven	Shares
Eight	Dividends
Nine	Meetings of Shareholders
Ten	Notices
Eleven	Fiscal Year

BE IT AND IT IS HEREBY ENACTED as a By-law of the Corporation as follows:

**ARTICLE 1
INTERPRETATION**

1.1 Definitions

In this by-law, unless the context otherwise clearly requires:

“**Act**” means the *Business Corporations Act* (Ontario), and the Regulations thereto, as amended from time to time, or any successor Act or regulations thereto, as the case may be;

“**Articles**” means the articles (as that term is defined in the Act) of the Corporation as from time to time amended or restated;

“**Board**” means the board of directors of the Corporation;

“**Business Day**” means any day on which banks are generally open for business in Toronto, Ontario but excluding Saturdays and Sundays;

“**Corporation**” means MCW Energy Group Limited; and

“**special meeting of shareholders**” includes a meeting of any class of shareholders.

Save as aforesaid, words and expressions defined in the Act have the same meanings when used herein; words importing the singular number include the plural and vice versa; words importing gender include the masculine, feminine and neuter genders; and words importing persons include individuals, corporations, partnerships, trusts and unincorporated organizations.

**ARTICLE 2
EXECUTION OF DOCUMENTS**

2.1 Execution of Instruments

Deeds, transfers, assignments, agreements, contracts, obligations, certificates and other instruments may be signed on behalf of the Corporation by any one director or officer of the Corporation. Notwithstanding any provision to the contrary contained in the by-laws of the Corporation, the Board may at any time or times direct the manner in which and the person or persons by whom any particular instrument or class of instruments may or shall be signed. Any signing officer may affix the corporate seal to any instrument requiring the same.

2.2 Banking Arrangements

All funds of the Corporation shall be deposited in its name in such account or accounts as are designated by the Board. Withdrawals from such account or accounts or the making, signing, drawing, accepting; endorsing, negotiating, lodging, depositing or transferring of any cheques, promissory notes, drafts, acceptances, bills of exchange and orders for the payment of money with the institution maintaining such account or accounts shall be made by such person or persons as the Board may from time to time determine.

2.3 Voting Rights in Other Bodies Corporate

Unless otherwise determined by the Board, any two of the directors or officers of the Corporation, as well as any person so empowered by the Board, may execute and deliver instruments of proxy appointing such persons as respectively are named therein the proxy of the Corporation to exercise the voting rights attaching to any securities held by the Corporation.

ARTICLE 3 DIRECTORS

3.1 Number of Directors and Quorum

Subject to the Articles, the Board shall consist of not greater than ten nor less than one director and the Board shall have the power to fix the number of directors within the minimum and maximum from time to time. If in respect of any year, the Board shall not so determine the number of directors, the number of directors shall be the same as in the last preceding year. A quorum for the transaction of business at any meeting of the Board shall be a majority of the number of directors then holding office.

3.2 Canadian Residency

At least twenty five per cent (25%) of the directors shall be resident Canadians provided that if the number of directors is less than four (4), at least one shall be a resident Canadian.

3.3 Chairman of the Board

The Board may from time to time also appoint a chairman of the Board who shall be a director. If appointed, the Board may assign to him any of the powers and duties that are by any provisions of this by-law assigned to the managing director or to the president; and he shall, subject to the provisions of the Act, the articles or any unanimous shareholder agreement, have such other powers and duties as the Board may specify. During the absence or disability of the chairman of the Board, his duties shall be performed and his powers exercised by the managing director, if any, or by the president.

3.4 Qualification

No person shall be qualified for election as a director if he is less than eighteen years of age; if he is of unsound mind and has been so found by a court in Canada or elsewhere; if he is not a individual; or if he has the status of a bankrupt. A director need not be a shareholder.

3.5 Election and Term

The election of directors shall take place at the first meeting of shareholders and at each annual meeting of shareholders and all the directors then in office shall retire but, if qualified, shall be eligible for re-election. The election shall be by resolution. If an election of directors is not held at the proper time, the incumbent directors shall continue in office until their successors are elected.

3.6 Removal of Directors

Subject to the provisions of the Act, the shareholders may by resolution passed at an annual or special meeting remove any director from office and the vacancy created by such removal may be filled at the same meeting failing which it may be filled by the directors.

3.7 Vacation of Office

A director ceases to hold office when he dies; he is removed from office by the shareholders; he ceases to be qualified for election as a director; or his written resignation is sent or delivered to the Corporation, or if a time is specified in such resignation, at the time so specified, whichever is later.

3.8 Vacancies

Subject to the Act, a quorum of the Board may fill a vacancy in the Board, except a vacancy resulting from an increase in the number of directors or in the maximum number of directors or from a failure of the shareholders to elect the number of directors. In the absence of a quorum of the Board, or if the vacancy has arisen from a failure of the shareholders to elect the number of directors, the Board shall forthwith call a special meeting or if there are no such directors then in office, any shareholder may call the meeting.

3.9 Meetings by Telephone

If all the directors present at or participating in a meeting of directors consent, a director may participate in a meeting of the Board or of a committee of the Board by means of such telephonic, electronic or other communications facilities as permit all persons participating in the meeting to hear each other, and a director participating in such a meeting by such means is deemed to be present at the meeting. Any such consent shall be effective whether given before or after the meeting to which it relates and may be given with respect to all meetings of the Board and of committees of the Board held while a director holds office.

3.10 Place of Meetings

Meetings of the Board may be held at any place within or without Ontario. In any financial year of the Corporation a majority of the meetings of the Board need not be held within Canada.

3.11 Calling of Meetings

- (a) Any one officer of the Corporation who is a director, or any two directors, may at any time and from time to time call a meeting of the Board to be held on any Business Day at the time and place determined by the Board or by the person(s) calling the meeting. Meetings of the Board may be held in any place within or outside Canada, provided that in any financial year of the Corporation a majority of the meetings of the Board shall be held within Canada.
- (b) If a quorum of directors is present, each newly elected Board may, without notice, hold its first meeting for the purpose of its organization and the election or appointment of officers, immediately following the meeting of shareholders at which such Board was elected.

3.12 Notice of Meeting

- (a) Notice of the time and place of each meeting of the Board shall be given in the manner provided in Section 10.1 to each director not less than 48 hours before the time when the meeting is to be held. Notice of a meeting of directors shall specify the purpose of or the general nature of the business to be transacted at the meeting as regards those matters which reasonably can be considered to be material.
- (b) A director may in any manner and at any time waive notice of a meeting of directors and attendance of a director at a meeting of directors is a waiver of notice of the meeting, except where a director attends a meeting for the express purpose of objecting to the transaction of any business on the grounds that the meeting was not lawfully called.

3.13 Adjourned Meeting

Notice of an adjourned meeting of the Board is not required if the time and place of the adjourned meeting is announced at the original meeting.

3.14 Regular Meetings

The Board may by resolution appoint a Business Day or Business Days in any month or months for regular meetings of the Board at a place and hour to be named. A copy of any resolution of the Board fixing the place and time of such regular meetings shall be sent to each director forthwith after being passed, but no other notice shall be required for any such regular meeting except where the Act requires the purpose thereof or the business to be transacted thereat to be specified.

3.15 Resolution in Lieu of Meeting

A resolution in writing, signed by all the directors entitled to vote on that resolution at a meeting of directors or committee of directors, is as valid as it had been passed at a meeting of directors or committee of directors.

3.16 Chairman

The chairman of any meeting of the Board shall be the first mentioned of such of the following officers as have been appointed and who is a director and is present at the meeting: Chairman of the Board, Chief Executive Officer, President, Executive Vice-President, or a Vice-President. If no such officer is present, the directors present shall choose one of their number to be chairman.

3.17 Votes to Govern

At all meetings of the Board, every question shall be decided by a majority of the votes cast on the question. In case of any equality of votes, the chairman of the meeting shall not be entitled to a second or casting vote.

3.18 Conflict of Interest

A director or officer who is a party to, or who is a director or officer of or has a material interest in any person who is a party to, a material contract or proposed material contract with the Corporation shall disclose the nature and extent of his interest at the time and in the manner provided by the Act. Any such contract or proposed contract shall be referred to the Board or shareholders for approval even if such contract is one that in the ordinary course of the Corporation's business would not require approval by the Board or shareholders, and a director interested in a contract so referred to the Board shall not vote at or attend any portion of the meeting as it pertains to any resolution to approve the same except as provided by the Act.

3.19 Remuneration and Expenses

The directors shall be paid such remuneration for their services as the Board may from time to time determine. The directors shall also be entitled to be reimbursed for travelling and other expenses properly incurred by them in attending meetings of the Board or any committee thereof to the extent that the Board authorizes. Nothing herein contained shall preclude any director from serving the Corporation in any other capacity and receiving remuneration therefor.

ARTICLE 4 COMMITTEES

4.1 Committee of Directors

The Board may appoint, by a resolution of the Board, committees of directors and delegate to any such committee any of the powers of the Board except those which, under the Act, cannot be so delegated.

4.2 Transaction of Business

The powers of a committee of directors may be exercised by a meeting at which a quorum of each committee is present or by a resolution in writing signed by all the members of such committee who would have been entitled to vote on that resolution at a meeting of the committee. Meetings of such committee may be held at any place in or outside Canada.

4.3 Procedure

Unless otherwise determined by the Board, each committee shall have the power to fix its quorum at not less than a majority of its members, to elect its chairman and to regulate its procedure.

ARTICLE 5 OFFICERS

5.1 Appointment

The Board may from time to time designate the offices of the Corporation, including but without limitation, Chairman of the Board, Chief Executive Officer, Chief Financial Officer, President, one or more Vice-Presidents (to which title may be added words indicating seniority or function), Chief Operating Officer and Secretary, and may specify the duties attaching to such offices, appoint officers, and subject to the provisions of this by-law and the Act, delegate to such officers powers to manage the business and affairs of the Corporation in any particular manner in which the Board sees fit. Without limiting the generality of the foregoing, the Board may at any time and from time to time, but subject to this by-law and the Act, vary, add to, remove or otherwise limit the powers and duties of any officer of the Corporation. In addition, any of the powers and duties of an officer to whom an assistant has been appointed by the Board may be exercised and performed by such assistant unless the Board, the Chairman of the Board, the President or the Chief Operating Officer otherwise directs.

5.2 Officers of Divisions

From time to time, the Board or any officer of the Corporation duly authorized may appoint one or more officers for any division of the business or of any branch office of the Corporation, prescribe their powers and duties and settle their terms of employment and remuneration. The Board or any such officer may remove at its or his pleasure any officer so appointed, without prejudice to such officer's rights under any employment contract. Officers of such divisions or branch offices shall not, as such, be officers of the Corporation.

5.3 Holding of Office

Each officer shall hold office until he resigns, his successor is appointed or he is removed from such office by the Board.

5.4 Agents and Attorneys

The Board shall have power from time to time to appoint agents or attorneys of the Corporation in or outside Canada with such powers of management or otherwise (including the power to sub-delegate) as may be thought fit.

5.5 Fidelity Bonds

The Board may at any time require any officer, employee or agent of the Corporation as the Board deems advisable to furnish a bond for the faithful discharge of his powers and duties, in such form and with such surety as the Board may from time to time determine.

ARTICLE 6 PROTECTION OF DIRECTORS, OFFICERS AND OTHERS

6.1 Limitation of Liability

No director or officer shall be liable for the acts, receipts, neglects or defaults of any other director or officer or employee, or for joining in any receipt or other act for conformity, or for any loss, damage or expense happening to the Corporation through the insufficiency or deficiency of any security in or upon which any of the monies of the Corporation shall be invested, or for any loss or damage arising from the bankruptcy, insolvency or tortious acts of any person with whom any of the monies, securities or effects of the Corporation shall be deposited, or for any loss Toned by any error of judgment or oversight on his part, or for any other loss, damage or misfortune whatever which shall happen in the execution of the duties of his office or in relation thereto; provided that nothing herein shall relieve any director or officer from the duty to act in accordance with the Act and the regulations thereunder or from liability for any breach thereof.

6.2 Indemnity

Subject to the Act, the Corporation shall indemnify each director and officer of the Corporation, each former director and officer of the Corporation, and each person who acts or acted at the Corporation's request as a director or officer of a body corporate of which the Corporation is or was a shareholder or creditor (or a person who undertakes or has undertaken any liability on behalf of the Corporation or any such body corporate), and his heirs and legal representatives, against all costs, charges and expenses, including an amount paid to settle an action or satisfy a judgment, reasonably incurred by him in respect of any civil, criminal or administrative action or proceeding to which he is made a party by reason of being or having been a director or officer of the Corporation or such body corporate, if (i) he acted honestly and in good faith with a view to the best interests of the Corporation; and (ii) in the case of a criminal or administrative action or proceeding that is enforced by a monetary penalty, he had reasonable grounds for believing that his conduct was lawful.

6.3 Insurance

Subject to the limitations contained in the Act, the Corporation may purchase and maintain such insurance for the benefit of its directors and officers as such, as the Board may from time to time determine.

ARTICLE 7
SHARES

7.1 Allotment

The Board may from time to time allot, or grant options to purchase any of the authorized and unissued shares of the Corporation at such time and to such persons and for such consideration as the Board shall determine, provided that no share shall be issued until it is fully paid as provided by the Act.

7.2 Commissions

The Board may from time to time authorize the Corporation to pay a commission to any person in consideration of his purchasing or agreeing to purchase shares of the Corporation, whether from the Corporation or from any other person, or procuring or agreeing to procure purchasers for any such shares.

7.3 Registration of Transfer

Subject to the provisions of the Act, no transfer of shares shall be registered in a securities register except upon presentation of the certificate representing such shares with a transfer endorsed thereon or delivered therewith duly executed by the registered holder or by his attorney or successor duly appointed and authorized, together with such reasonable assurance or evidence of signature, identification and authority to transfer as the Board may from time to time prescribe, upon payment of all applicable taxes and any fees prescribed by the Board.

7.4 Transfer Agents and Registrars

The Board may from time to time appoint a registrar to maintain the securities register and a transfer agent to maintain the register of transfers and may also appoint one or more branch registrars to maintain branch securities registers and one or more branch transfer agents to maintain branch registers of transfers, but one person may be appointed both registrar and transfer agent. The Board may at any time terminate any such appointment.

7.5 Non-Recognition of Trusts

Subject to the provisions of the Act, the Corporation shall treat as the absolute owner of any share the person in whose name the share is registered in the securities register as if that person had full legal capacity and authority to exercise all rights of ownership, irrespective of any indication to the contrary through knowledge or notice of description in the Corporation's records or on the share certificate.

7.6 Share Certificates

Every holder of one or more shares in the capital of the Corporation shall be entitled, at his option, to a share certificate, or to a non-transferable written acknowledgment of his right to obtain a share certificate, stating the number and class or series of shares in the capital of the Corporation held by him as shown on the register thereof. Subject to the Act, share certificates and acknowledgements of a shareholder's right to obtain a share certificate shall be in such respective forms as the Board shall from time to time approve. Any share certificate shall be signed in accordance with Section 2.1 hereof and need not be under the corporate seal; provided that, unless the Board otherwise determines, certificates representing shares in respect of which a transfer agent and/or registrar has been appointed shall not be valid unless countersigned by or on behalf of such transfer agent and/or registrar. A share certificate shall be manually signed by at least one director or officer of the Corporation or by or on behalf of a registrar, transfer agent, branch transfer agent or other authenticating agent of the Corporation. In addition to the foregoing, a share certificate may be executed and delivered by the Corporation if the signatures therein are printed, engraved, lithographed or otherwise mechanically reproduced in facsimile. A share certificate executed as aforesaid shall be valid notwithstanding that one or both of the directors or officers whose facsimile signature appears thereon no longer holds office at the date of issue of the certificate.

In the event it is, or becomes, permitted pursuant to the Act, the directors may provide by resolution that any or all classes and series of shares or other securities of the Corporation shall be uncertificated securities, provided that the Corporation complies with the Act in respect of the issuance of such uncertificated securities.

7.7 Replacement of Share Certificates

Where the registered holder of a share certificate claims that the share certificate has been lost, apparently destroyed or wrongfully taken, the Corporation shall issue a new share certificate in place of the original share certificate if such holder:

- (i) so requests in writing before the Corporation has notice that the share certificate has been acquired by a bona fide purchaser;
- (ii) files with the Corporation an indemnity bond sufficient in the Corporation's opinion to protect the Corporation and any transfer agent, registrar or other agent of the Corporation from any loss that any of them may respectively suffer by complying with the request to issue anew share certificate; and
- (iii) satisfies any other reasonable requirements imposed by the Corporation and its transfer agents;

and the Board may, in its discretion, if requested by a shareholder, waive any or all of the above requirements as regards such shareholder and substitute other requirements to be satisfied as a condition to the granting of any such waiver.

7.8 Joint Shareholders

If two or more persons are registered as joint holders of any share in the capital of the Corporation, the Corporation shall not be bound to issue more than one certificate in respect thereof, and delivery of such certificate to one of such persons shall be sufficient delivery to all of them. Any one of such persons may give effectual receipts for the certificate issued in respect thereof or for any dividend, bonus; return of capital or other money payable or warrant issuable in respect of such share in the capital of the Corporation.

7.9 Deceased Shareholders

In the event of the death of a holder, or of one of the joint holders, of any share in the capital of the Corporation, the Corporation shall not be required to make any entry in the securities register in respect thereof or to make payment of any dividends thereon except upon production of all such documents as may be required by law and upon compliance with the reasonable requirements of the Corporation and its transfer agents.

ARTICLE 8 DIVIDENDS

8.1 Dividend Cheques

A dividend payable in cash shall be paid by cheque to the order of each registered holder of shares of the class or series in respect of which it has been declared, as at the record date for the determination of shareholders entitled to receive such dividend, which cheque shall be delivered or mailed by prepaid ordinary mail to such registered holder at his last recorded address appearing in the securities register of the Corporation, unless such holder otherwise directs in writing. In the case of joint holders, the cheque shall, unless such joint holders otherwise direct in writing, be made payable to the order of all of such joint holders and delivered or mailed to them at their last recorded address appearing in the securities register of the Corporation and, if more than one address appears on the securities register of the Corporation in respect of such joint holders, the cheque shall be delivered or mailed, in the manner aforesaid, to the first address so appearing. The delivery or mailing of such cheque as aforesaid, unless the same is not paid on due presentation, shall satisfy and discharge the liability for the dividend to the extent of the sum represented thereby plus the amount of any tax which the Corporation is required to and does withhold.

8.2 Non-Receipt of Cheques

In the event of non-receipt of any dividend cheque by the person to whom it is sent as aforesaid, the Corporation shall issue to such person a replacement cheque for a like amount on such terms as to indemnity, reimbursement of expenses and evidence of non-receipt and of title as the Board may from time to time prescribe, whether generally or in any particular case.

8.3 Unclaimed Dividends

Any dividend unclaimed after a period of six years from the date on which the same has been declared to be payable shall be forfeited and shall revert to the Corporation.

ARTICLE 9
MEETINGS OF SHAREHOLDERS

9.1 Annual Meetings

The annual meeting of the shareholders of the Corporation shall be held on any Business Day at such time in each year and, subject to Section 9.3, at such place as the Board may from time to time determine, for the purpose of there being placed before the meeting the financial statements and reports required by the Act to be placed before the shareholders of the Corporation at an annual meeting, electing directors, appointing auditors and for the transaction of such other business as may properly be brought before the meeting.

9.2 Special Meetings

Subject to the Act, the Board shall have power to call a special meeting of shareholders of the Corporation to be held on any Business Day at the time and place determined by the Board.

9.3 Place of Meetings

Subject to the Articles, a meeting of shareholders of the Corporation shall be held at such place in or outside of the Province of Ontario as the Board may determine or, in the absence of such a determination, at the place where the registered office of the Corporation is located.

9.4 Notice of Meetings

Notice of the time and place of each meeting of shareholders of the Corporation shall be given in the manner provided in Section 10.1 not less than 21 days nor more than 50 days before the date of the meeting to each director of the Corporation, to the auditor of the Corporation and to each shareholder of the Corporation who, at the close of business on the record date, if any, for notice is entered in the securities register as the holder of one or more shares carrying the right to vote at or entitled to receive notice of the meeting. Notice of a meeting of shareholders called for any purpose other than consideration of the financial statements and auditor's report, election of directors and reappointment of the incumbent auditor shall state the nature of such business in sufficient detail to permit the shareholder to form a reasoned judgment thereon and shall state the text of any special resolution to be submitted to the meeting. A shareholder may in any manner waive notice of or otherwise consent to a meeting of shareholders.

9.5 Record Date for Notice

The Board may fix in advance a date preceding the date of any meeting of shareholders by not more than 60 days and not less than 30 days, as a record date for the determination of the shareholders entitled to receive notice of the meeting and notice of any such record date shall be given not less than 7 days before such record date in the manner provided in the Act and in the *Securities Act* (Ontario) in force from time to time and by written notice to each stock exchange in Canada upon which any class of shares in the capital of the Corporation are then listed for trading. If no record date is so fixed, the record date for the determination of the shareholders entitled to notice of the meeting shall be the close of business on the day immediately preceding the day on which the notice is given.

9.6 Chairman, Secretary and Scrutineers

The chairman of any meeting of shareholders shall be the first mentioned of such of the following officers of the Corporation as have been appointed and who is present at the meeting: Chairman of the Board, Chief Executive Officer, President, Executive Vice-President or a Vice-President. If no such officer is present within 15 minutes after the time fixed for the holding of the meeting, the persons present and entitled to vote shall choose one of their number to be chairman. If the Secretary of the Corporation is absent, the chairman shall appoint some person, who need not be a shareholder, to act as secretary of the meeting. If desired, one or more scrutineers, who need not be shareholders, may be appointed by a resolution of the meeting or by the chairman with the consent of the meeting.

9.7 Persons Entitled to be Present

The only persons entitled to be present at a meeting of the shareholders of the Corporation shall be those entitled to vote thereat, the directors and auditors of the Corporation and others who, although not entitled to vote, are entitled or required under any provision of the Act or the Articles or by-laws of the Corporation to be present at the meeting. Any other person may be admitted only on the invitation of the chairman of the meeting or with the consent of the meeting.

9.8 Quorum

Any two shareholders holding 5% of the shares of the Corporation entitled to vote at a meeting of the shareholders of the Corporation, whether present in person or represented by proxy, constitute a quorum. If a quorum is present at the opening of a meeting of the shareholders of the Corporation, the shareholders present may proceed with the business of the meeting notwithstanding that a quorum is not present throughout the meeting. If a quorum is not present at the time appointed for a meeting of shareholders, or within such reasonable time thereafter as the shareholders present may determine, the shareholders present may adjourn the meeting to a fixed time and place but may not transact any other business.

9.9 Joint Shareholders

If two or more persons hold shares jointly, any one of such persons present in person or represented by proxy at a meeting of shareholders may, in the absence of the other or others, vote the shares; but, if two or more of those persons are present in person or represented by proxy and vote, they shall vote as one on the shares jointly held by them.

9.10 Votes to Govern

At any meeting of shareholders every question shall, unless otherwise required by the Articles or by-laws or by law, be determined by the majority of the votes cast on the question. In case of an equality of votes either upon a show of hands or upon a poll, the chairman of the meeting shall not be entitled to a second or casting vote.

9.11 Voting

- (a) Voting at a meeting of shareholders shall be by show of hands except where a ballot is demanded by a shareholder or proxyholder entitled to vote at the meeting. A shareholder or proxyholder may demand a ballot either before or after any vote by show of hands. Upon a show of hands, every person present and entitled to vote has one vote. Whenever a vote by show of hands has been taken upon a motion, unless a ballot thereon is demanded, a declaration by the chairman of the meeting that the vote upon the motion has been carried or carried by a particular majority or not carried and an entry to that effect in the minutes of the meeting is prima facie evidence of the fact without proof of the number or proportion of the votes recorded in favour of or against the motion, and the result of the votes so taken is a decision of the shareholders of the Corporation upon the motion. A demand for a ballot may be withdrawn at any time prior to the taking of the ballot.
- (b) Upon a ballot, each shareholder of the Corporation who is present or represented by proxy is entitled, in respect of the shares which he is entitled to vote at the meeting upon the motion, to that number of votes provided by the Act or the Articles in respect of those shares and the result of the ballot is the decision of the shareholders of the Corporation upon the motion.

9.12 Adjournment

If a meeting of shareholders is adjourned for less than 30 days, it shall not be necessary to give notice of the adjourned meeting, other than by announcement of the adjournment at the meeting which has been adjourned. If a meeting of shareholders is adjourned by one or more adjournments for an aggregate of 30 days or more, notice of the adjourned meeting shall be given as for an original meeting.

ARTICLE 10 NOTICES

10.1 Method of Giving Notices

Any notice (which term includes any communication or document) to be given (which term includes sent, delivered or served) pursuant to the Act, the Articles, the by-laws or otherwise to a shareholder, director, officer, auditor or member of a committee of the Board shall be sufficiently given if delivered personally to the person to whom it is to be given or if delivered to his recorded address or if mailed to him at his recorded address by prepaid ordinary or air mail or if sent to him at his recorded address by means of prepaid transmitted or recorded communication. A notice so delivered shall be deemed to have been given when delivered or when deposited in a post office or public letter box; and a notice so sent by any means of transmitted or recorded communication shall be deemed to have been given when dispatched or delivered to the appropriate communications company or agency or its representative for dispatch. The Secretary may change or cause to be changed the recorded address of any shareholder, director, officer, auditor or member of a committee of the Board in accordance with any information believed by him to be reliable.

10.2 Notice to Joint Shareholders

If two or more persons are registered as joint holders of any share, any notice shall be addressed to all of such joint holders but notice to one of such persons shall be sufficient notice to all of them.

10.3 Computation of Time

Unless otherwise provided for in the Act, in computing the date when notice must be given under any provision requiring a specified number of days' notice of any meeting or other event, the date of giving the notice shall be excluded and the date of the meeting or other event shall be included.

10.4 Undelivered Notices

If any notice given to a shareholder pursuant to Section 10.1 is returned on three consecutive occasions because he cannot be found, the Corporation shall not be required to give any further notices to such shareholder until he informs the Corporation in writing of his new address.

10.5 Omissions and Errors

The accidental omission to give any notice to any shareholder, director, officer, auditor or member of a committee of the Board or the non-receipt of any notice by any such person or any error in any notice not affecting the substance thereof shall not invalidate any action taken at any meeting held pursuant to such notice or otherwise founded thereon.

10.6 Persons Entitled by Death or Operation of Law

Every person who, by operation of law, transfer, death of a shareholder or any other means whatsoever, shall become entitled to any share, shall be bound by every notice in respect of any share which shall have been duly given to the shareholder from whom he derives his title to such share prior to his name and address being entered on the securities register (whether such notice was given before or after the happening of the event upon which he became so entitled) and prior to his furnishing to the Corporation the proof of authority or evidence of his entitlement prescribed by the Act.

10.7 Waiver of Notice

Any shareholder (or his duly appointed proxyholder), director, officer, auditor or member of a committee of the Board may at any time waive notice, or waive or abridge the time for any notice, required to be given to him under any provision of the Act, the Articles, the by-laws or otherwise and such waiver or abridgment shall cure any default in the giving or in the time of such notice, as the case may be. Any such waiver or abridgment shall be in writing except a waiver of notice of a meeting of shareholders or of the Board or of a committee of the Board, which may be given in any manner.

10.8 Signature of Notice

The signature of any notice to be given by the Corporation may be written or printed or partly written and partly printed.

ARTICLE 11 FISCAL YEAR

11.1 Fiscal Year

The financial or fiscal year of the Corporation shall be as determined from time to time by the Board by resolution.

ADOPTED AND APPROVED by the directors of the Corporation as of the 5th day of November, 2012, as evidenced by the signature of the Corporate Secretary endorsed below.

(signed) "Robbie Grossman"

Corporate Secretary

CONFIRMED by the shareholders of the Corporation as of the 12th day of December, 2012, as evidenced by the signature of the Corporate Secretary endorsed below.

(signed) "Robbie Grossman"

Corporate Secretary

(a) The name of the Corporation is changed to Petroteq Energy Inc.; and

(b) the Articles of the Corporation are amended to consolidate all of the current issued and outstanding common shares of the Corporation on the basis of one new common share for every thirty old common shares. Where the exchange results in a fractional common share, any resulting fractional common share that is less than one-half of a common share will be cancelled and each resulting fractional common share that is at least one-half of a common share will be changed to one whole common share.

6. The amendment has been duly authorized as required by sections 168 and 170 (as applicable) of the *Business Corporations Act*.
La modification a été dûment autorisée conformément aux articles 168 et 170 (selon le cas) de la *Loi sur les sociétés par actions*.
7. The resolution authorizing the amendment was approved by the shareholders/directors (as applicable) of the corporation on
Les actionnaires ou les administrateurs (selon le cas) de la société ont approuvé la résolution autorisant la modification le

2017 04 06

(Year, Month, Day)
(année, mois, jour)

These articles are signed in duplicate.
Les présents statuts sont signés en double exemplaire.

MCW Energy Group Limited

(Print name of corporation from Article 1 on page 1)
(Veuillez écrire le nom de la société de l'article un à la page une).

By/
Par :



(Signature)
(Signature)

Alex Blyumkin

Director and Executive Chairman

(Description of Office)
(Fonction)

INCORPORATED UNDER THE BUSINESS CORPORATIONS ACT OF ONTARIO

Petroteq Energy Inc.

NUMBER

00000000

THIS CERTIFIES THAT

SHARES

*****0*****
*****0*****
*****0*****
*****0*****

SPECIMEN

IS THE REGISTERED HOLDER OF

CUSIP 71678B107

ISIN CA71678B1076

FULLY PAID AND NON-ASSESSABLE COMMON SHARES WITHOUT NOMINAL OR PAR VALUE

in the Capital Stock of the above named Corporation transferable on the books of the Corporation by the registered holder in person or by duly authorized attorney in writing upon surrender of this Certificate properly endorsed.

This Certificate is not valid until countersigned and registered by the Transfer Agent and Registrar of the Corporation.

IN WITNESS WHEREOF the Corporation has caused this Certificate to be signed by the facsimile signatures of its duly authorized officers.

[Signature]
Executive Chairman & Director

[Signature]
Corporate Secretary

VOID

COUNTERSIGNED AND REGISTERED
COMPUTERSHARE TRUST COMPANY,
N.A.
(GOLDEN CO.)
TRANSFER AGENT AND REGISTRAR

By _____
Authorized Officer

Date: Apr 07, 2017

COUNTERSIGNED AND REGISTERED
COMPUTERSHARE TRUST COMPANY OF CANADA
(VANCOUVER)
TRANSFER AGENT AND REGISTRAR

By _____
Authorized Officer

VOID

The shares represented by this certificate are transferable at the offices of Computershare Trust Company of Canada in Vancouver, BC and Computershare Trust Company, N.A. in Golden, CO.

SECURITY INSTRUCTIONS (EN) REVISED 01/15 VOID INSTRUCTIONS DE SECURITE (FR) REVISE 01/15



CS&A: 0000000230 | M

THIS CONVERTIBLE DEBENTURE MAY NOT BE CONVERTED BY OR FOR THE ACCOUNT OR BENEFIT OF A “U.S. PERSON” OR A PERSON IN THE UNITED STATES UNLESS THE CONVERTIBLE DEBENTURE AND THE UNDERLYING SECURITIES HAVE BEEN REGISTERED UNDER THE U.S. SECURITIES ACT AND THE APPLICABLE SECURITIES LEGISLATION OF ANY SUCH STATE, OR AN EXEMPTION FROM SUCH REGISTRATION REQUIREMENTS IS AVAILABLE. “UNITED STATES” AND “U.S. PERSON” ARE AS DEFINED BY REGULATION S UNDER THE U.S. SECURITIES ACT.

THE SECURITIES REPRESENTED HEREBY AND THE SECURITIES ISSUABLE UPON CONVERSION THEREOF HAVE NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “U.S. SECURITIES ACT”), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. THE HOLDER HEREOF, BY PURCHASING SUCH SECURITIES, AGREES FOR THE BENEFIT OF THE COMPANY THAT SUCH SECURITIES MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED, DIRECTLY OR INDIRECTLY, ONLY (A) TO THE COMPANY; (B) OUTSIDE THE UNITED STATES IN ACCORDANCE WITH RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT AND IN ACCORDANCE WITH ALL LOCAL LAWS AND REGULATIONS; (C) IN ACCORDANCE WITH THE EXEMPTION FROM REGISTRATION UNDER THE U.S. SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER, IF AVAILABLE, AND IN COMPLIANCE WITH ANY APPLICABLE STATE SECURITIES LAWS; OR (D) IN A TRANSACTION THAT DOES NOT REQUIRE REGISTRATION UNDER THE U.S. SECURITIES ACT AND ANY APPLICABLE STATE SECURITIES LAWS, AND, IN THE CASE OF CLAUSE (C) OR (D), THE SELLER FURNISHES TO THE COMPANY AN OPINION OF COUNSEL OF RECOGNIZED STANDING IN FORM AND SUBSTANCE SATISFACTORY TO THE COMPANY TO SUCH EFFECT. THE PRESENCE OF THIS LEGEND MAY IMPAIR THE ABILITY OF THE HOLDER HEREOF TO EFFECT “GOOD DELIVERY” OF THE SECURITIES REPRESENTED HEREBY ON A CANADIAN STOCK EXCHANGE.

WITHOUT PRIOR WRITTEN APPROVAL OF TSX VENTURE EXCHANGE AND COMPLIANCE WITH ALL APPLICABLE SECURITIES LEGISLATION, THE SECURITIES REPRESENTED BY THIS CERTIFICATE MAY NOT BE SOLD, TRANSFERRED, HYPOTHECATED OR OTHERWISE TRADED ON OR THROUGH THE FACILITIES OF TSX VENTURE EXCHANGE OR OTHERWISE IN CANADA OR TO OR FOR THE BENEFIT OF A CANADIAN RESIDENT UNTIL AUGUST 10, 2014.

UNLESS PERMITTED UNDER SECURITIES LEGISLATION, THE HOLDER OF THIS SECURITY MUST NOT TRADE THE SECURITY BEFORE AUGUST 10, 2014.

PRINCIPAL AMOUNT: US\$824,000
(hereinafter referred to as the “Principal Amount”)

MCW ENERGY GROUP LIMITED
(Amalgamated under the laws of the Province of Ontario)

CONVERTIBLE DEBENTURE

MCW Energy Group Limited (hereinafter referred to as the “**Debtor**”), for value received hereby acknowledges itself indebted and promises to pay to Aleksandr Blyumkin, 1714 Stone Canyon Road, Los Angeles, California, 90077, (the “**Holder**”), on March 7, 2017, or such earlier date as the Principal Amount may become due and payable (subject to and in accordance with the terms, conditions and provisions of Schedule “A” attached hereto and forming a part hereof) (the “**Maturity Date**”), the Principal Amount in lawful money of the United States at the foregoing address of the Holder, or at such other place or places within the United States, as may be designated by the Holder from time to time by notice in writing to the Debtor (together with all costs and expenses that may become payable to the Holder in accordance with Schedule “A”). The Debtor will pay interest on the Principal Amount outstanding from time to time at a rate of 10% per annum, calculated semi-annually and not in advance. Accrued but unpaid interest will be payable by the Company together with principal at the end of the term. By its execution hereof, the Holder acknowledges and agrees to the terms and conditions hereof, including the terms set out in Schedule “A” hereto.

IN WITNESS WHEREOF, the Debtor and the Holder have caused this Debenture to be executed as of April 9, 2014.

MCW Energy Group Limited

Per: /s/ Alex Blyumkin

Per: Alex Blyumkin, Chairman

SCHEDULE "A"

The following terms and conditions are applicable to the Convertible Debenture of MCW Energy Group Limited made in favour of the Holder.

ARTICLE 1 INTERPRETATION

1.1 Definitions

Whenever used in this Debenture, unless there is something in the subject matter or context inconsistent therewith, the following words and terms shall have the indicated meanings, respectively:

"this Debenture", "the Debenture", "Debenture", "hereto", "herein", "hereby", "hereunder", "hereof" and similar expressions refer to the convertible debenture represented hereby and not to any particular Article, Section, Subsection, clause, subdivision or other portion hereof and include any and every instrument supplemental or ancillary hereto and every debenture issued in replacement hereof;

"business day" means a day that is not a Saturday or Sunday or a civic or statutory holiday in the City of Los Angeles, California;

"Change of Control" means:

- a) the acceptance by holders of Common Shares, representing in the aggregate more than fifty percent (50%) of the outstanding Common Shares, of any offer, whether by way of a takeover bid or otherwise, for not less than fifty percent (50%) plus one of the outstanding Common Shares;
- b) the acquisition hereafter, by whatever means, of ownership or control of more than fifty percent (50%), in aggregate, of all issued and outstanding Common Shares by any company and/or individual or companies and/or individuals acting in concert;
- c) the passing of a resolution by the board of directors or shareholders of the Debtor to substantially liquidate its assets or wind-up its business or significantly rearrange its affairs in one or more transactions or series of transactions or the commencement of proceedings for such a liquidation, winding-up or re-arrangement (except where such re-arrangement is part of a *bona fide* reorganization of the Debtor in circumstances where the business of the Debtor is continued and where the shareholdings remain substantially the same following the re-arrangement as they existed prior to the re-arrangement);
- d) the sale by the Debtor of all or substantially all of its assets; or
- e) a change in the board of directors of the Debtor such that immediately following any meeting of shareholders or directors of the Debtor, fifty-one percent (51%) or more of the individuals comprising the board of directors are not persons who were directors of the Debtor immediately prior to such meeting;

"Common Share" or "Common Shares" means the common shares in the capital of the Debtor, as constituted on the date hereof;

"Conversion Price" means \$0.90 per Common Share, unless such amount is adjusted in accordance with the provisions of Section 2.3, in which case it shall mean the adjusted amount in effect at the applicable time;

“**Counsel**” means a barrister or solicitor or firm of barristers or solicitors or other legal counsel retained by the Debtor;

“**Date of Conversion**” shall have the meaning ascribed therein in Subsection 2.2(b);

“**Debtor**” means MCW Energy Group Limited, a body corporate amalgamated under the laws of the Province of Ontario and includes any successor corporation to or of the Debtor within the meaning of Article 12;

“**Debtor’s Auditors**” or “**Auditors of the Debtor**” means an independent firm of chartered or certified public accountants duly appointed as auditors of the Debtor;

“**Director**” means a director of the Debtor for the time being and “directors” or “board of directors” means the board of directors of the Debtor or, if duly constituted and whenever duly empowered, the executive committee of the board of directors of the Debtor for the time being, and reference to action by the directors means action by the directors of the Debtor as a board or action by the said executive committee as such committee;

“**Event of Default**” means any event specified in Section 5.1, which has not been waived, cured or remedied;

“**Guarantor**” means MCW Fuels Inc., a body corporate incorporated under the laws of the State of California and includes any successor corporation to or of the Guarantor within the meaning of Article 12;

“**Holder**” shall have the meaning ascribed to such term on the face page of this Debenture;

“**Maturity Date**” shall have the meaning ascribed to such term on the face page hereof;

“**Offer**” means an offer made generally to the holders of Common Shares in one or more jurisdictions to acquire, directly or indirectly, not less than 50% of the outstanding Common Shares and that is in the nature of a “take-over bid” (as defined in the *Securities Act* (Ontario)) and, where the Common Shares are listed and posted for trading on a stock exchange, that is not exempt from the formal take-over bid requirements of the *Securities Act* (Ontario).

“**Officer’s Certificate**” means a certificate signed by a senior officer and/or a director of the Debtor;

“**Person**” includes individuals, partnerships, corporations, companies and other business or legal entities;

“**PPSA**” means the *Personal Property Security Act* (Ontario), as amended from time to time;

“**Principal Amount**” means the principal amount of this Debenture as set forth on the face page hereof;

“**Share Reorganization**” shall have the meaning ascribed thereto in subsection 2.3(a);

“**Subscription Agreement**” means the agreement dated as of the date hereof between the Debtor and the Holder, pursuant to which the Holder subscribed for and agreed to purchase one or more Debentures;

“**Subsidiary**” or “**Subsidiary Debtor**” means any corporation of which more than 50% of the outstanding voting shares are owned, directly or indirectly, by or for the Debtor;

“**Time of Expiry**” shall have the meaning ascribed thereto in subsection 2.1(a); and

“**Written direction of the Debtor**” means an instrument in writing signed by a senior officer and/or director of the Debtor.

1.2 Interpretation

Whenever used in this Debenture, words importing the singular number only shall include the plural and vice versa and words importing the masculine gender shall include the neuter or the feminine gender and vice versa.

1.3 Headings, Etc.

The division of this Debenture into Articles and Sections and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation of this Debenture.

1.4 Day Not a Business Day

In the event that any day on or before which any action is required to be taken hereunder is not a business day, then such action shall be required to be taken on or before the requisite time on the next succeeding day that is a business day.

1.5 Calculation of interest

For purposes of the *Interest Act* (Canada), (i) whenever any interest or fee under this Debenture is calculated using a rate based on a year of 360 days or 365 days, as the case may be, the rate determined pursuant to such calculation, when expressed as an annual rate, is equivalent to (x) the applicable rate based on a year of 360 days or 365 days, as the case may be, (y) multiplied by the actual number of days in the calendar year in which the period for which such interest or fee is payable (or compounded) ends, and (z) divided by 360 or 365, as the case may be, (ii) the principle of deemed reinvestment of interest does not apply to any interest or fee calculation under this Debenture, and (iii) the rates of interest stipulated in this Debenture are intended to be nominal rates and not effective rates or yields.

1.6 Currency

All references to currency herein shall be to lawful money of United States.

ARTICLE 2 CONVERSION OF DEBENTURE

2.1 Conversion and Conversion Price

- (a) Upon and subject to the terms and conditions set out in this Article 2, the Holder shall have the right, at its option at any time, and from time to time, prior to the close of business on the Maturity Date (the “**Time of Expiry**”) to convert, in whole or in part, the Principal Amount into fully paid and non-assessable Common Shares, at the Conversion Price in effect on the Date of Conversion.
- (b) The Conversion Price shall be subject to adjustment as provided in Section 2.3.
- (c) The right of conversion set forth in subsection 2.1(a) shall extend only to the maximum number of whole Common Shares into which the Principal Amount may be converted in accordance with the foregoing provisions of this Article 2.
- (d) Fractional interests in Common Shares that would otherwise be issuable upon any conversion of the Principal Amount shall be adjusted in the manner provided in Section 2.4.

2.2 Manner of Exercise of Right to Convert

- (a) If the Holder wishes to convert the Principal Amount into Common Shares, the Holder shall, prior to the Time of Expiry, surrender this Debenture to the Debtor, together with written notice, substantially in the form of Appendix 1 hereto, duly executed by the Holder or its legal representative or attorney duly appointed by an instrument in writing in form and executed in a manner satisfactory to the Debtor, exercising its right to convert the Principal Amount into Common Shares. Thereupon, the Holder or, subject to the payment of all applicable security transfer taxes or other governmental charges by the Holder, its nominee(s) or assignee(s), shall be entitled to be entered in the books of the Debtor (as of the Date of Conversion) as the holder of the number of Common Shares into which the Principal Amount is converted and, as soon as practicable thereafter, the Debtor shall deliver to the Holder or, subject as aforesaid, its nominee(s), or assignee(s), a certificate or certificates for such Common Shares.
- (b) For the purposes of this Article 2, this Debenture shall be deemed to be surrendered for conversion by the Holder on the date (herein called the “**Date of Conversion**”) on which it (and the notice contemplated by subsection 2.2(a) above) is actually received by the Debtor.
- (c) Upon the surrender of this Debenture pursuant to this Section 2.2, the Holder shall be entitled to receive accrued and unpaid interest in respect thereof up to the Date of Conversion. Common Shares issued upon conversion of the Principal Amount by the Holder shall only be entitled to receive dividends declared in favour of shareholders of record on or after the Date of Conversion, from which applicable date such Common Shares will for all purposes be and be deemed to be issued and outstanding as fully paid and non-assessable Common Shares.

2.3 Adjustment of Conversion Price

- (a) If, and whenever at any time and from time to time the Debtor shall (i) subdivide, redivide or change its then outstanding Common Shares into a greater number of Common Shares, (ii) reduce, combine, consolidate or change its then outstanding Common Shares into a lesser number of Common Shares, or (iii) issue Common Shares (or securities exchangeable or convertible into Common Shares) to the holders of all or substantially all of its then outstanding Common Shares by way of stock dividend or other distribution (other than a dividend in the ordinary course paid in Common Shares or securities exchangeable or convertible into Common Shares) (any of such events being herein called a “**Share Reorganization**”), the Conversion Price shall be adjusted effective immediately after the effective date or record date for the Share Reorganization, by multiplying the Conversion Price in effect immediately prior to such effective date or record date by the quotient obtained when:
 - (i) the number of Common Shares outstanding on such effective date or record date before giving effect to the Share Reorganization,is divided by
 - (ii) the number of Common Shares outstanding immediately after the completion of such Share Reorganization (but before giving effect to the issue of any Common Shares issued after such record date otherwise than as part of such Share Reorganization) including, in the case where securities exchangeable or convertible into Common Shares are distributed, the number of Common Shares that would have been outstanding had such securities been exchanged for or converted into Common Shares on such record date.

- (b) If, and whenever there is a capital reorganization of the Debtor not otherwise provided for in subsection 2.3(a) or a consolidation, merger, arrangement or amalgamation (statutory or otherwise) of the Debtor with or into another body corporate (any such event being called a “**Capital Reorganization**”), and the Holder has not exercised its right of conversion prior to the effective date or record date for such Capital Reorganization, then the Holder shall be entitled to receive and shall accept, upon any conversion of the Principal Amount after the effective date or record date for such Capital Reorganization, in lieu of the number of Common Shares to which it was theretofore entitled upon conversion, the aggregate number of Common Shares or other securities of the Debtor or of the corporation or body corporate resulting, surviving or continuing from the Capital Reorganization that the Holder would have been entitled to receive as a result of such Capital Reorganization if, on the effective date or record date thereof, it had been the registered holder of the number of Common Shares to which it was theretofore entitled upon the conversion of the Principal Amount; provided that no such Capital Reorganization shall be carried into effect unless all necessary steps shall have been taken so that the Holder shall thereafter be entitled to receive such number of Common Shares or other securities of the Debtor or of the corporation or body corporate resulting, surviving or continuing from the Capital Reorganization. The foregoing provisions of this subsection 2.3(b) shall apply *mutatis mutandis* in respect of any interest proposed to be paid through the issuance of Common Shares by the Debtor.

2.4 No Requirement to Issue Fractional Common Shares

The Debtor shall not be required to issue fractional Common Shares upon the conversion of the Principal Amount into Common Shares pursuant to this Article 2. If any fractional interest in a Common Share would, except for the provisions of this Section 2.5, be deliverable upon the conversion of the Principal Amount or the payment of any accrued and unpaid interest in Common Shares, the Debtor shall, in lieu of issuing any such fractional interest, satisfy such fractional interest by issuing to the Holder one full Common Share and delivering a certificate representing such Common Share to the Holder.

2.5 Cancellation of Converted Debenture

Upon conversion of the entire Principal Amount, if applicable, pursuant to this Article 2 and payment of all accrued and unpaid interest (whether in cash or Common Shares), this Debenture shall be cancelled and shall be of no further force or effect.

2.6 Certificate as to Adjustment

The Debtor shall from time to time, immediately after the occurrence of any event that requires an adjustment or readjustment as provided in Section 2.3, deliver an Officer’s Certificate to the Holder (the “**Officer’s Certificate**”) specifying the nature of the event requiring the same and the amount of the adjustment necessitated thereby and setting forth in reasonable detail the method of calculation and the facts upon which such calculation is based, provided, however, that in the event the Holder does not agree with the adjustment as set forth in the Officer’s Certificate, the Debtor shall obtain the certificate or opinion as to the appropriate adjustment from the Auditors of the Debtor, which certificate or opinion shall be conclusive and binding on the Debtor and the Holder.

2.7 Notice of Special Matters

The Debtor covenants with the Holder that, so long as this Debenture remains outstanding, it will give notice to the Holder, in the manner provided in Section 12.4, of its intention to fix a record date or an effective date for any event referred to in Section 2.3 that may give rise to an adjustment in the Conversion Price, and, in each case, such notice shall specify the particulars of such event and the record date and the effective date for such event; and, if prepared or available as at the date that such notice is required to be given pursuant to this Section 2.7, such notice shall be accompanied by the material (i.e. proxy circulars, information booklets etc.) sent to the holders of Common Shares in respect of the event in question, provided that the Debtor shall only be required to specify in such notice such particulars of such event as shall have been fixed and determined on the date on which such notice is given. Such notice shall be given not less than 14 days in each case prior to such applicable record date or effective date.

2.8 Canadian Resale Restrictions

Any Common Shares issued upon conversion of this Debenture before August 10, 2014, shall bear the following legends:

“UNLESS PERMITTED UNDER SECURITIES LEGISLATION, THE HOLDER OF THIS SECURITY MUST NOT TRADE THE SECURITY BEFORE AUGUST 10, 2014.”

“WITHOUT PRIOR WRITTEN APPROVAL OF TSX VENTURE EXCHANGE AND COMPLIANCE WITH ALL APPLICABLE SECURITIES LEGISLATION, THE SECURITIES REPRESENTED BY THIS CERTIFICATE MAY NOT BE SOLD, TRANSFERRED, HYPOTHECATED OR OTHERWISE TRADED ON OR THROUGH THE FACILITIES OF TSX VENTURE EXCHANGE OR OTHERWISE IN CANADA OR TO OR FOR THE BENEFIT OF A CANADIAN RESIDENT UNTIL AUGUST 10, 2014.”

2.9 United States Resale Restrictions

Any Common Shares issued upon conversion of this Debenture shall bear the following legend:

- (a) **“THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “U.S. SECURITIES ACT”), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. THE HOLDER HEREOF, BY PURCHASING SUCH SECURITIES, AGREES FOR THE BENEFIT OF THE COMPANY THAT SUCH SECURITIES MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED, DIRECTLY OR INDIRECTLY, ONLY (A) TO THE COMPANY; (B) OUTSIDE THE UNITED STATES IN ACCORDANCE WITH RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT AND IN ACCORDANCE WITH ALL LOCAL LAWS AND REGULATIONS; (C) IN ACCORDANCE WITH THE EXEMPTION FROM REGISTRATION UNDER THE U.S. SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER, IF AVAILABLE, AND IN COMPLIANCE WITH ANY APPLICABLE STATE SECURITIES LAWS; OR (D) IN A TRANSACTION THAT DOES NOT REQUIRE REGISTRATION UNDER THE U.S. SECURITIES ACT AND ANY APPLICABLE STATE SECURITIES LAWS, AND, IN THE CASE OF CLAUSE (C) OR (D), THE SELLER FURNISHES TO THE COMPANY AN OPINION OF COUNSEL OF RECOGNIZED STANDING IN FORM AND SUBSTANCE SATISFACTORY TO THE COMPANY TO SUCH EFFECT. THE PRESENCE OF THIS LEGEND MAY IMPAIR THE ABILITY OF THE HOLDER HEREOF TO EFFECT “GOOD DELIVERY” OF THE SECURITIES REPRESENTED HEREBY ON A CANADIAN STOCK EXCHANGE.”**

**ARTICLE 3
COVENANTS**

The Debtor hereby covenants and agrees with the Holder as follows.

3.1 To Pay Principal and Interest

The Debtor will duly and punctually pay or cause to be paid to the Holder the principal of and interest accrued on this Debenture on the dates, at the places and in the manner mentioned in this Debenture.

3.2 To Carry on Business

Subject to the express provisions hereof, the Debtor will carry on and conduct its business in a proper and efficient manner consistent with past practice and, subject to the express provisions hereof, it will do or cause to be done all things necessary to preserve and keep in full force and effect its corporate existence and rights.

3.3 To Maintain Accurate Books and Records

The Debtor will keep and maintain proper books of account and records accurately covering all material aspects of the business affairs of the Debtor.

3.4 Notice of Event of Default

The Debtor will give notice in writing forthwith to the Holder of the occurrence of any Event of Default or other event that, with lapse of time and/or giving of notice or otherwise, would be an Event of Default, forthwith upon becoming aware thereof and specifying the nature of such default and/or Event of Default and the steps taken to remedy the same.

3.5 Dividends

The Debtor will not declare or pay any dividends on any of its outstanding Common Shares, unless all interest, principal and all other monies payable hereunder are current.

3.6 Change of Control

The Debtor will give notice of any Change of Control to the Holder as soon as reasonably practicable following the occurrence of any event constituting a Change of Control. The Debtor will as soon as reasonably practicable following the occurrence of a Change of Control (and, in any event, within 30 business days of the occurrence of the applicable Change of Control) offer to purchase this Debenture (for cash), at a price equal to the principal amount thereof then outstanding plus all accrued but unpaid interest to the date of tender and to accept this Debenture for purchase if the same is properly tendered by the Holder on or prior to the date that is 30 business days following the date of delivery of the foregoing offer to purchase.

ARTICLE 4
SECURITY

4.1 As general and continuing collateral security for the due payment of the Principal Amount, interest and all other monies payable hereunder or from time to time secured hereby and as security for the performance and observance of the covenants and agreements on the part of the Debtor herein contained the Debtor hereby:

- (i) mortgages and charges (subject to the exceptions as to leaseholds hereinafter contained) as and by way of a fixed and specific mortgage and charge to and in favour of the Holder (and as more particularly set out in the general security agreement entered into between the Debtor and the Holder), and grants to the Holder a security interest in, all personal and immoveable property (including, by way of sub-lease) any leased premises now or hereafter owned or acquired by the Debtor and all buildings erections, improvements, fixtures and plants now or hereafter owned or acquired by the Debtor (whether the same form part of the realty or not) and all appurtenances to any of the foregoing; for the purposes of this subsection 4.1(i), all references to “real and immoveable property” shall be read to include any estate or interest in or right with respect to real and immoveable property;
- (ii) mortgages and charges to the Holder and grants to the Holder a security interest in, all its present and future equipment, and all fixtures, plant, machinery, tools and furniture now or hereafter owned or acquired by it;
- (iii) mortgages and charges to and in favour of the Holder, and grants to the Holder a security interest in, all its present and future inventory, including, without limiting the generality of the foregoing, all raw materials, goods in process, finished goods and packaging material and goods acquired or held for sale or furnished or to be furnished under contracts of rental or service;
- (iv) grants to the Holder a security interest in, all its present and future intangibles, including, without limiting the generality of the foregoing, all its present and future book debts, accounts and other amounts receivable, contract rights and choses in action of every kind or nature including insurance rights arising from or out of any insurance now or hereafter placed on or in respect of the assets referred to in subsections 4.1(i), (ii) or (iii), goodwill, chattel paper, instruments of title, investments, money, securities and all intellectual property rights;
- (v) charges in favour of the Holder as and by way of a floating charge, and grants to the Holder as a security interest in, its business and undertaking and all its property and assets, real and personal, moveable or immoveable, of whatsoever nature and kind, both present and future (other than property and assets hereby validly assigned or subjected to a specific mortgage, charge or security interest by subsections 4.1(i), (ii), (iii) or (iv) and subject to the exceptions hereinafter contained); and
- (vi) assigns, mortgages and charges to and in favour of the Holder, and grants to the Holder a security interest in, the proceeds arising from any of the assets referred to in this Section 4.1;

All of which present and future property and assets of the Debtor referred to in the foregoing sub-paragraphs of this Section 4.1 are hereinafter collectively called the “**Collateral**” and the Holder’s rights in and to the Collateral is herein called the “**Security Interest**”. The aforesaid Security Interest shall be registered under and comply with the PPSA so as to provide the Holder or to whomsoever it may direct with a security interest and charge against the Collateral.

4 . 2 The Debtor and the Holder each agree and acknowledge that the Security Interest and the Collateral shall rank after any other security holders currently in place.

4 . 3 Until the occurrence of an Event of Default, which is continuing, the Debtor may dispose of or deal with the Collateral in the ordinary course of its business (including, for greater certainty, disposing of assets that are obsolete or surplus to its business) and for the purpose of carrying on the same, so that purchasers thereof or parties dealing with the Debtor take title thereto free and clear of the Security Interest. In the event of any such disposition in the ordinary course of business, the Holder will, at the written request of the Debtor (which will include a certificate of the Debtor stating that such Collateral is being dealt with or disposed of in accordance with this Section 4.3), release its Security Interest over the Collateral which has been disposed.

4 . 4 The Security Interest will not extend or apply to any personal property which is “consumer goods”, as such term is defined in the PPSA and the last day of the term of any lease of real property or agreement therefore, but upon the enforcement of the Security Interest, the Debtor will stand possessed of such last day in trust to assign the same at the direction of the Holder to any Person acquiring such term.

4 . 5 If any of the Collateral may not be assigned, or if the Security Interest may not be created therein by the Debtor in favour of the Holder (because the consent or approval of a third party or parties is required and such consent or approval has not been obtained or the requirement therefore waived as of the date hereof, and if the failure to obtain such consent or approval renders any of the Security Interest hereunder invalid and/or unenforceable or because rights appurtenant to the Collateral would not, as a matter of law, pass to the Holder as an incidence of the Security Interest made pursuant to this Debenture) the Debtor shall hold such Collateral and all benefits derived thereunder in trust for the Holder. The Debtor shall, at the request and under the direction of the Holder, in the name of the Debtor, take or cause to be taken all such action and do or cause to be done all such things as are necessary or desirable to preserve such Collateral and all benefits to be derived thereunder for the benefit and account of the Holder, and the Debtor agrees that following the occurrence of an Event of Default and so long as the same is continuing, it shall, subject to Section 4.2, pay promptly to the Holder all monies collected by or paid to the Debtor in respect of such Collateral.

4.6 The Debtor confirms that value has been given, that the Debtor has rights in the Collateral, and that the Debtor and the Holder have not agreed to postpone the time for attachment of the Security Interest to any of the Collateral. In respect of Collateral that is acquired after the date of execution of this Debenture, the time for attachment will be the time when the Debtor acquires such Collateral.

4 . 7 Nothing herein contained shall render the Holder liable to any person for the fulfilment or non-fulfilment of the covenants, obligations, agreements and undertakings of the Debtor under the Collateral or any of them and the Debtor agrees to indemnify and save harmless the Holder from and against any and all claims or demands whatsoever of any person arising from or out of the Collateral, other than any claims or demands arising as a result of the negligence, gross negligence or wilful misconduct of the Holder.

4.8 The Security Interest does not and will not extend to, and the Collateral will not include, any agreement, right, franchise, licence or permit (the “**Contractual Rights**”) to which the Debtor is a party or of which the Debtor has the benefit, to the extent that the creation of the Security Interest would constitute a breach of the terms of, or permit any Person to terminate, the Contractual Rights, but the Debtor will hold its interest therein in trust for the Holder and will assign such Contractual Rights to the Holder forthwith upon obtaining the consent of the other party or parties thereto.

4.9 If the grant of the Security Interest in respect of any contract, lease, agreement to lease, license, permit, approval or intellectual property right would result in the termination or breach of such contract, lease, agreement to lease, license, permit, approval or intellectual property right, then the applicable contract, lease, agreement to lease, license, permit, approval or intellectual property right will not be subject to the Security Interest but will be held in trust by the Debtor for the benefit of the Holder and, on exercise by the Holder of any of its rights under this Agreement following Default, assigned by the Debtor as directed by the Holder.

ARTICLE 5 EVENTS OF DEFAULT

5.1 Events of Default

The happening of any one or more of the following events shall be considered an event of default (each an “**Event of Default**”):

- (a) if the Debtor defaults in the payment of the Principal Amount of the Debenture when the same becomes due and payable under any provision hereof;
- (b) if the Debtor defaults in the payment of any interest or other monies due pursuant to the Debenture and such default continues for a period of 30 days;
- (c) if any proceedings are commenced against the Debtor or the Guarantor under the *Bankruptcy and Insolvency Act* (Canada) or under the *Winding-Up Act* (Canada) or any other similar legislation and not discharged within 60 days or if the Debtor or the Guarantor makes a proposal under insolvency or restructuring statutes;
- (d) there occurs any material adverse change in the Debtor or the Guarantor or either of their respective businesses;
- (e) the Debtor or the Guarantor (i) is generally not paying, or admits in writing its inability to pay, its debts as they become due, (ii) files, or consents by answer or otherwise to the filing against it of, a petition for relief or reorganization or arrangement or any other petition in bankruptcy, for liquidation or to take advantage of any bankruptcy, insolvency, reorganization, moratorium or other similar law of any jurisdiction, (iii) makes an assignment for the benefit of its creditors, (iv) consents to the appointment of a custodian, receiver, trustee, liquidator, sequestrator or other officer with similar powers with respect to it or with respect to any substantial part of its property, (v) is adjudicated as insolvent or to be liquidated, or (vi) takes corporate or legally equivalent action for the purpose of any of the foregoing;
- (f) a court or governmental authority of competent jurisdiction enters an order appointing, without sent by the Debtor or the Guarantor, a custodian, receiver, trustee, liquidator, sequestrator or other officer with similar powers with respect to it or with respect to any substantial part of this property, or constituting an order for relief or approving a petition for relief or reorganization or any other petition in bankruptcy or for liquidation or to take advantage of any bankruptcy or insolvency law of any jurisdiction, or ordering the dissolution, winding-up or liquidation for the Debtor or the Guarantor, or any such petition shall be filed against the Debtor or the Guarantor, and such petition shall not be dismissed within 60 days;

- (g) if the Debtor or the Guarantor shall neglect to observe or perform any other covenant or condition herein contained on its part to be observed or performed and after notice in writing has been given by the Holder to the Debtor or the Guarantor specifying such default and requiring the Debtor or the Guarantor to rectify the same, the Debtor or the Guarantor shall fail to make good such default within a period of 15 days unless the Holder (having regard to the subject matter of the default) shall have agreed to a longer period and in such event within the period agreed to by the Holder;
- (h) if an encumbrancer shall lawfully take possession of the property of the Debtor or the Guarantor or any part thereof which is a substantial part thereof and is not stayed or discharged within 30 days;
- (i) if the Common Shares are not listed and posted for trading on a stock exchange for more than 30 consecutive days and the Debtor ceases to be a reporting issuer in at least one province of Canada; or
- (j) the Debtor undergoes a Change of Control directly or indirectly in any manner whatsoever without the prior written consent of the Holder.

ARTICLE 6 ENFORCEMENT

6.1 Enforcement

Remedies. Upon the occurrence and during the continuance of any Event of Default, the Holder will be entitled to exercise any of the remedies specified below:

- (a) **Receiver.** The Holder may appoint by instrument in writing one or more receivers, managers or receiver/manager for the Collateral or the business and undertaking of the Debtor pertaining to the Collateral (the “**Receiver**”). Any such Receiver will have, in addition to any other rights, remedies and powers which a Receiver may have at Law, in equity or by statute, the rights and powers set out in clauses (b) through (d) in this Section 6.1. In exercising such rights and powers, any Receiver will act as and for all purposes will be deemed to be the agent of the Debtor and the Holder will not be responsible for any act or default of any Receiver. The Holder may remove any Receiver and appoint another from time to time. No Receiver appointed by the Holder need be appointed by, nor need its appointment be ratified by, or its actions in any way supervised by, a court.
- (b) **Power of Sale.** Any Receiver may sell, consign, lease or otherwise dispose of any Collateral by public auction, private tender, private contract, lease or deferred payment with or without notice, advertising or any other formality, all of which are hereby waived by the Debtor. Any Receiver may, at its discretion establish the terms of such disposition, including terms and conditions as to credit, upset, reserve bid or price. All payments made pursuant to such dispositions will be credited against the Principal Amount only as they are actually received. Any Receiver may buy in, rescind or vary any contract for the disposition of any Collateral and may dispose of any Collateral without being answerable for any loss occasioned thereby. Any such disposition may take place whether or not the Receiver has taken possession of the Collateral.

- (c) **Pay Liens and Borrow Money.** Any Receiver may pay any liability secured by any actual or threatened mortgage, pledge, charge, assignment, security interest, hypothec, lien or other encumbrance, including, without limitation, any agreement to give any of the foregoing, or any conditional sale or other title retention agreement (each, a “**Lien**”) against any Collateral. Any Receiver may borrow money for the maintenance, preservation or protection of any Collateral or for carrying on any of the business or undertaking of the Debtor pertaining to the Collateral and may grant Liens in any Collateral (in priority to the Security Interest or otherwise) as security for the money so borrowed. The Debtor will forthwith upon demand reimburse the Receiver for all such payments and borrowings and such payments and borrowings will be secured hereby and will be added to the money hereby secured and bear interest at the rate set forth on the face page of this Debenture.
- (d) **Dealing with Collateral.** Any Receiver may seize, collect, realize, dispose of, enforce, release to third parties or otherwise deal with any Collateral in such manner, upon such terms and conditions and at such time as it deems advisable, including without limitation:
- (i) to ask, demand, collect, sue for, recover, compromise, receive and give acquittance and receipts for moneys due and to become due under or in connection with the Collateral;
 - (ii) to receive, endorse, and collect any drafts or other instruments, documents and chattel paper in connection with subsection 6.1(d)(i);
 - (iii) to file any claims or take any action or institute any proceedings which the Holder may deem to be necessary or desirable for the collection of the Collateral or to enforce compliance with the terms and conditions of any contract or any account; and
 - (iv) to perform the affirmative obligations of the Debtor hereunder (including all obligations of the Debtor pursuant to this Debenture).
- (e) **Carry on Business.** The Holder or any Receiver may carry on, or concur in the carrying on of, any or all of the business or undertaking of the Debtor and enter on, occupy and use (without charge by the Debtor) any of the premises, buildings, plant and undertaking of, or occupied or used by, the Debtor.
- (f) **Right to Have Court Appoint a Receiver.** The Holder may, at any time, apply to a court of competent jurisdiction for the appointment of a Receiver, or other official, who may have powers the same as, greater or lesser than, or otherwise different from, those capable of being granted to a Receiver appointed by the Holder pursuant to this Debenture.
- (g) **Retention of Collateral.** The Holder may elect to retain any Collateral in satisfaction of the Principal Amount. The Holder may designate any part of the Principal Amount to be satisfied by the retention of particular Collateral which the Holder considers to have a net realizable value approximating the amount of the designated part of the Principal Amount, in which case only the designated part of the Principal Amount will be deemed to be satisfied by the retention of the particular Collateral.
- (h) **Limitation of Liability.** The Holder will not be liable or accountable for any failure to take possession of, seize, collect, realize, dispose of, enforce or otherwise deal with any Collateral and the Holder will not be bound to institute proceedings for any such purposes or for the purpose of reserving any rights, remedies and powers of the Holder, the Debtor or any other Person in respect of any Collateral. If any Receiver or the Holder takes possession of any Collateral, neither the Holder nor any Receiver will have any liability as a mortgagee in possession or be accountable for anything except actual receipts.

- (i) **Extensions of Time.** Following the occurrence and during the continuance of any Event of Default, the Holder may grant renewals, extensions of time and other indulgences, accept compositions, grant releases and discharges, and otherwise deal or fail to deal with the Debtor, debtors of the Debtor, guarantors, sureties and others and with any Collateral as the Holder may see fit, all without prejudice to the liability of the Debtor to the Holder or the Holder's rights, remedies and powers under this Debenture.
- (j) **Validity of Sale.** No Person dealing with the Holder or any Receiver, or with any officer, employee, agent or solicitor of the Holder or any Receiver will be concerned to inquire whether the Security Interests have become enforceable, whether the right, remedy or power of the Holder or the Receiver has become exercisable, whether the Principal Amount remaining outstanding or otherwise as to the proprietary or regularity of any dealing by the Holder or the Receiver with any Collateral or to see to the application of any money paid to the Holder or the Receiver, and in the absence of fraud on the part of such Person such dealings will be deemed, as regards such Person, to be within the rights, remedies and powers hereby conferred and to be valid and effective accordingly.
- (k) **Effect of Appointment of Receiver.** As soon as the Holder takes possession of any Collateral or appoints a Receiver, all powers, functions, rights and privileges of the Debtor including, without limitation, any such powers, functions, rights and privileges which have been delegated to directors, officers of the Debtor or committees with respect to such Collateral will cease, unless specifically continued by the written consent of the Holder or the Receiver.
- (l) **Time for Payment.** If the Holder demands payment of the Principal Amount that is payable on demand or if the Principal Amount is otherwise due by maturity or acceleration, it will be deemed reasonable for the Holder to exercise its remedies immediately if such payment is not made, and any days of grace or any time for payment that might otherwise be required to be afforded to the Debtor at law or in equity is hereby irrevocably waived.
- (m) **No Implied Waiver.** The rights of the Holder (whether arising under this Debenture, any other agreement or at law or in equity) will not be capable of being waived or varied otherwise than by an express waiver or variation in writing, and in particular any failure to exercise or any delay in exercising any of such rights will not operate as a waiver or variation of that or any other such right; any defective or partial exercise of any of such rights will not preclude any other or further exercise of that or any other such right, and no act or course of conduct or negotiation on the part of the Holder or on its behalf will in any way preclude the Holder from exercising any such right or constitute a suspension or any variation of any such right.
- (n) **Rights Cumulative.** The rights, remedies and powers conferred by this Section 5.1 are in addition to, and not in substitution for, any other rights, remedies or powers that the Holder may have under this Debenture, at law, in equity, by or under the *Personal Property Security Act* (Ontario) or by any other statute or agreement. The Holder may proceed by way of any action, suit or other proceeding at law or in equity and no right, remedy or power of the Holder will be exclusive of or dependent on any other. The Holder may exercise any of its rights, remedies or powers separately or in combination and at any time.

6.2 Application of Amounts Received

Subject to Section 4.2, the proceeds of or any other amount from time to time received by the Holder or the Receiver will be applied as follows: first, to the payment in full of all reasonable fees of the Holder and all reasonable out-of-pocket costs, fees and expenses (including reasonable legal fees on a solicitor and his own client substantial indemnity basis) incurred by the Holder and any Receiver or other enforcement agent appointed by the Holder or a court of competent jurisdiction, as the case may be, in connection with the collection or enforcement of the Principal Amount owed to the Holder, the enforcement of the Security Interest or the preservation of the Collateral; second, in payment to the Holder of the Principal Amount and other amounts payable hereunder; and third, the balance, if any, will be paid, subject to applicable law, to the Debtor.

6.3 Deliver Possession

Subject to Section 4.2, if the Holder or any Receiver exercises its rights herein to take possession of the Collateral, the Debtor will upon request from the Holder or any such Receiver, assemble and deliver possession of the Collateral at such place or places as directed by the Holder or any such Receiver.

6.4 Release

If the Debtor pays to the Holder the balance of the Principal Amount (including, without limitation, all amounts forming part thereof pursuant to Section 9.1) with interest thereon as set forth in this Debenture and any and all other amounts that are payable to the Holder on or in relation to the repayment thereof, then the Holder will, at the written request and sole expense of the Debtor, if applicable, reassign and reconvey the Collateral to the Debtor and will release the Security Interest.

ARTICLE 7 PREPAYMENT

7.1 Prepayment

This Debenture shall be fully open to repayment of the outstanding principal balance herein in whole or in part without bonus or penalty upon ten (10) days notice in writing to the Holder.

ARTICLE 8 ATTORNEY IN FACT

8.1 Attorney In Fact

Subject to Section 4.2, the Debtor and the Guarantor hereby irrevocably constitutes and appoints the Holder and any officer, nominee or agent thereof, with full power of substitution, as its true and lawful attorney-in-fact with full irrevocable power and authority in the place and stead of the Debtor and the Guarantor and in the name of the Debtor and the Guarantor or in its own name, from time to time in the Holder's discretion, for the purpose of carrying out the terms of this Debenture, to take any and all appropriate action and to execute any and all documents and instruments which may be necessary or desirable to accomplish the purposes of this Debenture and which the Debtor and the Guarantor being required to take or execute has failed to take or execute. The Debtor and the Guarantor hereby ratifies all that said attorneys will lawfully do or cause to be done by virtue hereof. This power of attorney is a power coupled with an interest and will be irrevocable until the Principal Amount has been unconditionally and irrevocably paid and performed in full. Subject to Section 4.2, the Debtor and the Guarantor also authorizes the Holder, at any time and from time to time, to execute any endorsements, assignments or other instruments of conveyance or transfer with respect to the Collateral in connection with the sale provided for in subsection 6.1(b).

**ARTICLE 9
EXPENSES**

9.1 Expenses

The Debtor agrees to pay the Holder forthwith on demand all reasonable costs, charges and expenses, including, without limitation, all reasonable legal fees (on a solicitor and his own client basis), incurred by the Holder in connection with the recovery or enforcement of payment of any amounts payable hereunder whether by realization or otherwise. All such sums will be secured hereby and will be added to the money hereby secured and bear interest at the rate set forth on the first page of this Debenture.

**ARTICLE 10
PLEDGE OF DEBENTURE**

10.1 Pledge of Debenture

This Debenture may be assigned, deposited or pledged by the Holder as security for its present and future obligations provided that the recipient agrees to be bound by Section 4.2.

**ARTICLE 11
PRESENTMENT**

11.1 Presentment

The Debtor hereby expressly waives demand for payment, presentment, protest and notice of dishonour of this Debenture. Any failure or omission by the Holder to present this Debenture for payment, protest or provide notice of dishonour will not invalidate or adversely affect in any way any demand for payment or enforcement proceeding taken under this Debenture.

**ARTICLE 12
MISCELLANEOUS**

12.1 Discharge

Upon payment by the Debtor to the Holder of the Principal Amount, interest thereon and other monies payable by the Debtor under this Debenture the Holder shall, upon the written request of the Debtor, deliver up this Debenture to the Debtor and shall at the expense of the Debtor execute and deliver to the Debtor such deeds and other documents as the Debtor may reasonably require to evidence the release and discharge of this Debenture.

12.2 Severability

If any covenant or provision herein is determined to be illegal, unenforceable or prohibited by applicable law such illegality, unenforceability or prohibition shall not affect or impair the validity of any other covenant or provision herein.

12.3 Laws of Ontario

This Debenture shall be governed by and construed in accordance with the laws of the Province of Ontario. The Holder hereby irrevocably submits to the jurisdiction of the courts of Ontario in respect of any action, suit or any other proceeding arising out of or relating to this Debenture and any other agreement or instrument mentioned herein and any of the transactions contemplated thereby.

12.4 Notices

All notices, reports or other communications required or permitted by this Debenture must be in writing and either delivered by hand, mail or by any form of electronic communication by means of which a written or typed copy is produced at the address of the recipient and is effective on actual receipt unless sent (i) by mail in which case it shall be deemed to have been received and be effective on the date that is three business days following the date of mailing, or (ii) by electronic means in which case it is effective on the business day, next following the date of transmission, addressed to the relevant party, as follows:

(a) if to the Debtor:

MCW Energy Group Limited
344 Mira Loma Avenue
Glendale, CA 91204
Email: info@mcwenergygroup.com

with a copy to:

McMillan LLP
181 Bay Street, Suite 4400
Toronto, ON M5J 2T3
Attention: Robbie Grossman
Email: robbie.grossman@mcmillan.ca

(b) if to the Holder, at the address specified on the face page hereof,

or the last address or telecopier number of the addressee, notice of which was given in accordance with this Section 12.4.

12.5 Enurement

This Debenture and all its provisions shall enure to the benefit of the Holder, its successors and assigns and shall be binding upon the Debtor and its successors and assigns.

12.6 Time of the Essence

Time shall be of the essence of this Agreement.

12.7 Maximum Rate Permitted by Law

Under no circumstances shall the Holder be entitled to receive nor shall it in fact receive a payment or partial payment of interest, fees or other amounts under or in relation to this Debenture at a rate that is prohibited by applicable law. Accordingly, notwithstanding anything herein or elsewhere contained, if and to the extent that under any circumstances, the effective annual rate of "interest" (as defined in Section 347 of the Criminal Code of Canada) received or to be received by a Holder (determined in accordance with such section) on any amount of "credit advanced" (as defined in that section) pursuant to these presents or any agreement or arrangement collateral hereto entered into in consequence or implementation hereof would, but for this Section 12.7, be a rate that is prohibited by applicable law, then the effective annual rate of interest, as so determined, received or to be received by the Holder on such amount of credit advanced shall be and be deemed to be adjusted to a rate that is one whole percentage point less than the lowest effective annual rate of interest that is so prohibited (the "adjusted rate"); and, if the Holder has received a payment or partial payment which would, but for this Section 12.7, be so prohibited then any amount or amounts so received by the Holder in excess of the lowest effective annual rate that is so prohibited shall and shall be deemed to have comprised a credit to be applied to subsequent payments on account of interest, fees or other amounts due to the Holder at the adjusted rate.

12.8 Transferability

Subject to applicable statutory resale restrictions, this Debenture may be assigned and transferred by the Holder upon providing written notice of such transfer to the Debtor.

ARTICLE 13 SUCCESSOR CORPORATION

13.1 Certain Requirements

The Debtor shall not, directly or indirectly, sell, lease, transfer or otherwise dispose of all or substantially all of its property and assets as an entirety to any other corporation (any such other corporation being herein referred to as a “**Successor Debtor**”) unless the successor corporation shall execute, prior to or contemporaneously with the consummation of any such transaction, an agreement together with such other instruments as are, in the opinion of Counsel, necessary or advisable to evidence the assumption by the Successor Debtor of the due and punctual payment of this Debenture and the interest thereon and all other moneys payable hereunder and its agreement to observe and perform all the covenants and obligations of the Debtor under this Debenture.

**APPENDIX 1 TO THE CONVERTIBLE DEBENTURE
OF MCW ENERGY GROUP LIMITED**

To: MCW Energy Group Limited
344 Mira Loma Avenue
Glendale, CA 91204

The undersigned registered Holder of the within convertible debenture (the "**Debenture**") hereby irrevocably elects to convert \$ _____ of principal amount of the Debenture into common shares of MCW Energy Group Limited in accordance with the terms of the Debenture and directs that the common shares issuable and deliverable upon the conversion be issued and delivered to the Holder (or person indicated below)*.

DATED _____, 201__.

(Signature of Registered Holder)

Name: _____

(Address)

(City and State/Province)

(Zip/Postal Code)

* The signature of the registered holder must be guaranteed by a Canadian chartered bank, Medallion Guarantee or other entity acceptable to MCW Energy Group Limited, if the Direction as to the Registration is in the name of anything other than the registered holder of the Debenture.

THIS CONVERTIBLE DEBENTURE MAY NOT BE CONVERTED BY OR FOR THE ACCOUNT OR BENEFIT OF A "U.S. PERSON" OR A PERSON IN THE UNITED STATES UNLESS THE CONVERTIBLE DEBENTURE AND THE UNDERLYING SECURITIES HAVE BEEN REGISTERED UNDER THE U.S. SECURITIES ACT AND THE APPLICABLE SECURITIES LEGISLATION OF ANY SUCH STATE, OR AN EXEMPTION FROM SUCH REGISTRATION REQUIREMENTS IS AVAILABLE. "UNITED STATES" AND "U.S. PERSON" ARE AS DEFINED BY REGULATION S UNDER THE U.S. SECURITIES ACT.

THE SECURITIES REPRESENTED HEREBY AND THE SECURITIES ISSUABLE UPON CONVERSION THEREOF HAVE NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "U.S. SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. THE HOLDER HEREOF, BY PURCHASING SUCH SECURITIES, AGREES FOR THE BENEFIT OF THE BORROWER THAT SUCH SECURITIES MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED, DIRECTLY OR INDIRECTLY, ONLY (A) TO THE BORROWER; (B) OUTSIDE THE UNITED STATES IN ACCORDANCE WITH RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT AND IN ACCORDANCE WITH ALL LOCAL LAWS AND REGULATIONS; (C) IN ACCORDANCE WITH THE EXEMPTION FROM REGISTRATION UNDER THE U.S. SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER, IF AVAILABLE, AND IN COMPLIANCE WITH ANY APPLICABLE STATE SECURITIES LAWS; OR (D) IN A TRANSACTION THAT DOES NOT REQUIRE REGISTRATION UNDER THE U.S. SECURITIES ACT AND ANY APPLICABLE STATE SECURITIES LAWS. THE PRESENCE OF THIS LEGEND MAY IMPAIR THE ABILITY OF THE HOLDER HEREOF TO EFFECT "GOOD DELIVERY" OF THE SECURITIES REPRESENTED HEREBY ON A CANADIAN STOCK EXCHANGE.

UNLESS PERMITTED UNDER SECURITIES LEGISLATION, THE HOLDER OF THIS SECURITY MUST NOT TRADE THE SECURITY BEFORE MARCH 6, 2015.

Original Issue Date: November 5, 2014

Principal Amount: \$555,556

Purchase Price: \$500,000

**SECURED CONVERTIBLE NOTE
DUE MAY 5, 2016**

THIS CONVERTIBLE NOTE is one of a series of duly authorized and validly issued Notes of MCW Energy Group Limited, a corporation amalgamated under the laws of the Province of Ontario (the "Borrower"), having its principal place of business at 344 Mira Loma Avenue, Glendale, CA 91204, due **May 5, 2016** (this note, the "Note" and, collectively with the other notes of such series, the "Notes").

FOR VALUE RECEIVED, Borrower promises to pay to ALPHA CAPITAL ANSTALT at Pradafant 7, 9490 Furstentums, Vaduz, Lichtenstein or its registered assigns (the "Holder"), or shall have paid pursuant to the terms hereunder, the principal sum of \$555,556 on **May 5, 2016** (the "Maturity Date") or such earlier date as this Note is required or permitted to be repaid as provided hereunder, and to pay interest to the Holder on the aggregate unconverted and then outstanding principal amount of this Note in accordance with the provisions hereof.

This Note is subject to the following additional provisions:

Section 1. Definitions. For the purposes hereof, in addition to the terms defined elsewhere in this Note, (a) capitalized terms not otherwise defined herein shall have the meanings set forth in the Purchase Agreement and (b) the following terms shall have the following meanings:

“Alternate Consideration” shall have the meaning set forth in Section 5(d).

“Bankruptcy Event” means any of the following events: (a) Borrower commences a case or other proceeding under any bankruptcy, reorganization, arrangement, adjustment of debt, relief of debtors, dissolution, insolvency or liquidation or similar law of any jurisdiction relating to Borrower, (b) there is commenced against Borrower any such case or proceeding that is not dismissed within 60 days after commencement, (c) Borrower is adjudicated insolvent or bankrupt or any order of relief or other order approving any such case or proceeding is entered, (d) Borrower suffers any appointment of any custodian or the like for it or any substantial part of its property that is not discharged or stayed within 60 calendar days after such appointment, (e) Borrower makes a general assignment for the benefit of creditors, (f) Borrower calls a meeting of its creditors with a view to arranging a composition, adjustment or restructuring of its debts or (g) Borrower, by any act or failure to act, expressly indicates its consent to, approval of or acquiescence in any of the foregoing or takes any corporate or other action for the purpose of effecting any of the foregoing.

“Business Day” means any day except any Saturday, any Sunday, any day which is a federal legal holiday in the United States, a statutory or civil holiday in the Province of Ontario, or any day on which banking institutions in the State of New York or the Province of Ontario are authorized or required by law or other governmental action to close.

“Buy-In” shall have the meaning set forth in Section 4(c)(v).

“Conversion” shall have the meaning ascribed to such term in Section 4.

“Conversion Date” shall have the meaning set forth in Section 4(a).

“Conversion Price” shall have the meaning set forth in Section 4(b).

“Conversion Shares” means, collectively, the shares of Common Stock issuable upon conversion of this Note in accordance with the terms hereof.

“Equity Conditions” means, during the period in question, (a) Borrower shall have duly honored all conversions scheduled to occur or occurring by virtue of one or more Notices of Conversion of the applicable Holder on or prior to the dates so requested or required, if any, (b) Borrower shall have paid all liquidated damages and other amounts owing to the applicable Holder in respect of this Note and the other Transaction Documents, (c) the Common Stock is trading on a Trading Market and all of the shares issuable pursuant to the Transaction Documents are listed or quoted for trading on such Trading Market (and Borrower believes, in good faith, that trading of the Common Stock on a Trading Market will continue uninterrupted (subject to standard halts imposed by regulators or stock exchanges in the ordinary course) for as long as this Note remains outstanding, (d) there is a sufficient number of authorized, but unissued and otherwise unreserved, shares of Common Stock for the issuance of all of the shares then issuable pursuant to the Transaction Documents, (e) an Event of Default has not occurred, which is continuing or has not been cured by the Borrower or waived by the Holder, (f) to the knowledge of the Borrower, there is no existing event which, with the passage of time or the giving of notice, would constitute an Event of Default, and (g) there has been no public announcement of a pending or proposed Fundamental Transaction that has not been consummated.

“Event of Default” shall have the meaning set forth in Section 8(a).

“Fundamental Transaction” shall have the meaning set forth in Section 5(d).

“Interest Conversion Price” shall have the meaning set forth in Section 2(a).

“Interest Payment Date” shall have the meaning set forth in Section 2(a).

“Interest Share Amount” shall have the meaning set forth in Section 2(a).

“Liens” means a lien, charge, pledge, security interest, encumbrance, right of first refusal, preemptive right or other restriction.

“Mandatory Default Amount” means the sum of (a) 115% of the outstanding principal amount of this Note and (b) interest and all other amounts, costs, expenses and liquidated damages due in respect of this Note.

“New York Courts” shall have the meaning set forth in Section 10(d).

“Notice of Conversion” shall have the meaning set forth in Section 4(a).

“Optional Redemption” shall have the meaning set forth in Section 6(b).

“Optional Redemption Amount” means the sum of (i) 110% of the outstanding principal amount of this Note, and (b) interest and all other amounts, costs, expenses and liquidated damages due in respect of this Note.

“Optional Redemption Date” shall have the meaning set forth in Section 6(b).

“Optional Redemption Notice” shall have the meaning set forth in Section 6(b).

“Optional Redemption Notice Date” shall have the meaning set forth in Section 6(b).

“Original Issue Date” means the date of the first issuance of the Notes, regardless of any transfers of any Note and regardless of the number of instruments which may be issued to evidence such Notes.

“Other Holders” means holders of Other Notes.

“Other Notes” means Notes nearly identical to this Note issued to other Holders pursuant to the Purchase Agreement.

“Permitted Liens” shall have the meaning set forth in the Purchase Agreement.

“Purchase Agreement” means the Securities Purchase Agreement, dated as of November 5, 2014 among Borrower and the original Holders, as amended, modified or supplemented from time to time in accordance with its terms.

“Share Delivery Date” shall have the meaning set forth in Section 4(c)(ii).

“Successor Entity” shall have the meaning set forth in Section 5(d).

“Trading Day” means a day on which the principal Trading Market is open for trading.

“Trading Market” means any of the following markets or exchanges on which the Common Stock is listed or quoted for trading on the date in question: the Toronto Stock Exchange, the NYSE MKT, the Nasdaq Capital Market, the Nasdaq Global Market, the Nasdaq Global Select Market, the New York Stock Exchange, the OTC Bulletin Board, the OTCQB, the OTCQX, the TSXV (or any successors to any of the foregoing). As of the Initial Closing Date, the TSXV is the principal Trading Market.

“Underlying Shares” means all of the Conversion Shares and all of the Warrant Shares issuable upon exercise of the Warrants issued pursuant to the Purchase Agreement and upon conversion of this Note.

“U.S. Securities Act” means the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

“Warrants” means, collectively, the Common Stock purchase warrants to be delivered to the Holders upon conversion of the Notes in accordance with the Notes, which Warrants shall be exercisable immediately and have a term of exercise equal to five (5) years from the date of issuance of such Note and be in the form of Exhibit B attached to the Purchase Agreement.

Section 2. Interest.

a) Interest in Cash or in Kind. Holder shall be entitled to receive, and Borrower shall pay, cumulative interest on the outstanding principal amount of this Note compounded annually at the annual rate of five percent (5%) (subject to increase as set forth in this Note), payable quarterly on March 31, June 30, September 30, and December 31, beginning on the second such date after the Original Issue Date and on each Conversion Date (with respect only to Note principal being converted) (each such date, an “Interest Payment Date”) (if any Interest Payment Date is not a Business Day, the applicable payment shall be due on the next succeeding Business Day) in cash. Interest may be paid, at the option of Borrower, in cash, in duly authorized, validly issued, fully paid and non-assessable shares of Common Stock as set forth in this Section 2(a), or a combination thereof in each case as provided in the next sentence (the amount to be paid in shares of Common Stock, the “Interest Share Amount”). The Common Stock to be paid in satisfaction of the Interest Share Amount shall be valued solely for such purpose at the Discounted Market Price (as such term is defined by the TSXV) as of the close of trading on the Interest Payment Date, pursuant to a Shares for Debt application with the TSXV (the “Interest Conversion Price”). The Holders shall have the same rights and remedies with respect to the delivery of any such shares as if such shares were being issued pursuant to Section 4 of this Note, including the right to receive Warrants as described in Section 4. Borrower may not pay interest by delivery of Common Stock without the consent of the Holder in the event that the Equity Conditions are not in effect on each day from the tenth Trading Day preceding the relevant Interest Payment Date through the date the Interest Share Amount is delivered to the Holder. Borrower must notify the Holder not less than ten (10) Trading Days prior to an Interest Payment Date if it intends to pay interest due on such Interest Payment Date by delivery of an Interest Share Amount. If Borrower fails to provide such notice, the Holder may elect to receive the Interest Share Amount in lieu of cash by notifying Borrower any time prior to the relevant Interest Payment Date.

b) Payment Grace Period. The Borrower shall not have any grace period to pay any monetary amounts due under this Note.

c) Conversion Privileges. The Conversion Rights set forth in Section 4 shall remain in full force and effect immediately from the date hereof and until the Note is paid in full regardless of the occurrence of an Event of Default. This Note shall be payable in full on the Maturity Date, unless previously converted into Common Stock in accordance with Section 4 hereof.

d) Application of Payments. Interest on this Note shall be calculated on the basis of a 360-day year and the actual number of days elapsed. Payments made in connection with this Note shall be applied first to amounts due hereunder other than principal and interest, thereafter to interest and finally to principal.

e) Pari Passu. Except as otherwise set forth herein, all payments made on this Note and the Other Notes and all actions taken by the Borrower with respect to this Note and the Other Notes, including but not limited to Mandatory Conversion, shall be made and taken *pari passu* with respect to this Note and the Other Notes. Notwithstanding anything to the contrary contained herein or in the Transaction Documents, it shall not be considered non-*pari passu* for a Holder or Other Holder to elect to receive interest paid in shares of Common Stock or for the Borrower to actually pay interest in shares of Common Stock to such electing Holder or Other Holder.

f) Manner and Place of Payment. Principal and interest on this Note and other payments in connection with this Note shall be payable at the Holder's offices as designated above in lawful money of the United States of America in immediately available funds without set-off, deduction or counterclaim. Upon assignment of the interest of Holder in this Note, Borrower shall instead make its payment pursuant to the assignee's instructions upon receipt of written notice thereof. Except as set forth herein, this Note may not be prepaid or mandatorily converted without the consent of the Holder.

Section 3. Registration of Transfers and Exchanges.

a) Different Denominations. Subject to compliance with applicable Securities Laws, this Note is exchangeable for an equal aggregate principal amount of Notes of different authorized denominations, as requested by the Holder surrendering the same. No service charge will be payable for such registration of transfer or exchange.

b) Investment Representations. This Note has been issued subject to certain investment representations of the original Holder set forth in the Purchase Agreement and may be transferred or exchanged only in compliance with the Purchase Agreement and applicable federal and state securities laws and regulations.

c) Reliance on Books and Records. Prior to due presentment for transfer to Borrower of this Note, Borrower and any agent of Borrower may treat the Person in whose name this Note is duly registered on the books and records of the Borrower as the owner hereof for the purpose of receiving payment as herein provided and for all other purposes, whether or not this Note is overdue, and neither Borrower nor any such agent shall be affected by notice to the contrary.

Section 4. Conversion.

a) Voluntary Conversion. At any time commencing four (4) months after the Original Issue Date until this Note is no longer outstanding, this Note shall be convertible, in whole or in part, into shares of Common Stock at the option of the Holder, at any time and from time to time. The Holder shall effect conversions by delivering to Borrower a Notice of Conversion, the form of which is attached hereto as Annex A (each, a “Notice of Conversion”), specifying therein the principal amount of this Note to be converted and the date on which such conversion shall be effected (such date, the “Conversion Date”). If no Conversion Date is specified in a Notice of Conversion, the Conversion Date shall be the date that such Notice of Conversion is deemed delivered hereunder. To effect conversions hereunder, the Holder shall not be required to physically surrender this Note to Borrower unless the entire principal amount of this Note has been so converted. Conversions hereunder shall have the effect of lowering the outstanding principal amount of this Note in an amount equal to the applicable conversion. The Holder and Borrower shall maintain records showing the principal amount(s) converted and the date of such conversion(s). Borrower may deliver an objection to any Notice of Conversion within one (1) Business Day of delivery of such Notice of Conversion. In the event of any dispute or discrepancy, the records of the Holder shall be controlling and determinative in the absence of manifest error. **The Holder, and any assignee by acceptance of this Note, acknowledge and agree that, by reason of the provisions of this paragraph, following conversion of a portion of this Note, the unpaid and unconverted principal amount of this Note may be less than the amount stated on the face hereof.**

b) Conversion Price. The conversion price for the principal in connection with voluntary conversions by the Holder shall be USD\$0.789 [equal to CND\$0.90 on November 4, 2014], subject to adjustment herein (the “Conversion Price”).

c) Mechanics of Conversion.

i. Conversion Shares Issuable Upon Conversion of Principal Amount. The number of Conversion Shares issuable upon a conversion hereunder shall be determined by the quotient obtained by dividing (x) the outstanding principal amount of this Note to be converted by (y) the Conversion Price.

ii. Delivery of Certificate Upon Conversion. Not later than six (6) Trading Days after each Conversion Date (the “Share Delivery Date”), Borrower shall deliver, or cause to be delivered, to the Holder a certificate or certificates representing the Conversion Shares which, on or after the date that is four months and one day after the Original Issue Date, shall be free of restrictive legends and trading restrictions, representing the number of Conversion Shares being acquired upon the conversion of this Note. Contemporaneously with the delivery of the Conversion Shares certificates, the Borrower shall deliver an original Warrant certificate representing the right to acquire an amount of Warrant Shares equal to the amount of Conversion Shares required to be delivered.

iii. Failure to Deliver Certificates. If, in the case of any Notice of Conversion, such Common Stock or Warrant certificate or certificates are not delivered to or as directed by the applicable Holder by the Share Delivery Date, the Holder shall be entitled to elect by written notice to Borrower at any time on or before its receipt of such certificate or certificates, to rescind such Conversion, in which event Borrower shall promptly return to the Holder any original Note delivered to Borrower and the Holder shall promptly return to Borrower the Common Stock certificates issued to such Holder pursuant to the rescinded Conversion Notice.

iv. Obligation Absolute: Partial Liquidated Damages. Borrower's obligations to issue and deliver the Conversion Shares and Warrants upon conversion of this Note in accordance with the terms hereof are absolute and unconditional, irrespective of any action or inaction by the Holder to enforce the same, any waiver or consent with respect to any provision hereof, the recovery of any judgment against any Person or any action to enforce the same, or any setoff, counterclaim, recoupment, limitation or termination, or any breach or alleged breach by the Holder or any other Person of any obligation to Borrower or any violation or alleged violation of law by the Holder or any other Person, and irrespective of any other circumstance which might otherwise limit such obligation of Borrower to the Holder in connection with the issuance of such Conversion Shares and Warrants; provided, however, that such delivery shall not operate as a waiver by Borrower of any such action Borrower may have against the Holder. In the event the Holder of this Note shall elect to convert any or all of the outstanding principal amount hereof, Borrower may not refuse conversion based on any claim that the Holder or anyone associated or affiliated with the Holder has been engaged in any violation of law, agreement or for any other reason, unless an injunction from a court, on notice to Holder, restraining and or enjoining conversion of all or part of this Note shall have been sought and obtained, and Borrower posts a surety bond for the benefit of the Holder in the amount of 150% of the outstanding principal amount of this Note and accrued interest, which is subject to the injunction, which bond shall remain in effect until the completion of arbitration/litigation of the underlying dispute and the proceeds of which shall be payable to the Holder to the extent it obtains judgment. In the absence of such injunction, Borrower shall issue Conversion Shares and Warrants, upon a properly noticed conversion. If Borrower fails for any reason to deliver to the Holder such certificate or certificates pursuant to Section 4(c)(ii) by the Share Delivery Date, Borrower shall pay to the Holder, in cash, as liquidated damages and not as a penalty, for each \$1,000 of principal amount being converted, \$10 per Trading Day (increasing to \$20 per Trading Day on the fifth (5th) Trading Day after such liquidated damages being to accrue) for each Trading Day after such Share Delivery Date until such certificates are delivered or Holder rescinds such conversion. Nothing herein shall limit a Holder's right to pursue actual damages or declare an Event of Default pursuant to Section 8 hereof for Borrower's failure to deliver Conversion Shares or Warrants within the period specified herein and the Holder shall have the right to pursue all remedies available to it hereunder, at law or in equity including, without limitation, a decree of specific performance and/or injunctive relief. The exercise of any such rights shall not prohibit the Holder from seeking to enforce damages pursuant to any other Section hereof or under applicable law.

v. Compensation for Buy-In on Failure to Timely Deliver Certificates Upon Conversion. In addition to any other rights available to the Holder, if Borrower fails for any reason, other than delays caused by the applicable courier company retained by the Company's transfer agent, to deliver to the Holder such certificate or certificates by the Share Delivery Date pursuant to Section 4(c)(ii), and if after such Share Delivery Date the Holder is required by its brokerage firm to purchase (in an open market transaction or otherwise), or the Holder or Holder's brokerage firm otherwise purchases, shares of Common Stock to deliver in satisfaction of a sale by the Holder of the Conversion Shares or Warrant Shares which the Holder was entitled to receive upon the Note conversion or Warrant exercise relating to such Share Delivery Date (a "Buy-In"), then, Borrower shall (A) pay in cash to the Holder (in addition to any other remedies available to or elected by the Holder) the amount, if any, by which (x) the Holder's total purchase price (including any brokerage commissions) for the Common Stock so purchased exceeds (y) the product of (1) the aggregate number of shares of Common Stock that the Holder was entitled to receive from the conversion at issue multiplied by (2) the actual sale price at which the sell order giving rise to such purchase obligation was executed (including any brokerage commissions) and (B) at the option of the Holder, either reissue (if surrendered) this Note in a principal amount equal to the principal amount of the attempted conversion or relevant amount of Warrants (in which case such conversion and/or Warrant exercise shall be deemed rescinded) or, subject to TSXV approval, deliver to the Holder the number of shares of Common Stock that would have been issued if Borrower had timely complied with its delivery requirements under Section 4(c)(ii). For example, if the Holder purchases Common Stock having a total purchase price of \$11,000 to cover a Buy-In with respect to an attempted conversion of this Note with respect to which the actual sale price of the Conversion Shares (including any brokerage commissions) giving rise to such purchase obligation was a total of \$10,000 under clause (A) of the immediately preceding sentence, Borrower shall be required to pay the Holder \$1,000. The Holder shall provide Borrower written notice indicating the amounts payable to the Holder in respect of the Buy-In and, upon request of Borrower, evidence of the amount of such loss. Nothing herein shall limit a Holder's right to pursue any other remedies available to it hereunder, at law or in equity including, without limitation, a decree of specific performance and/or injunctive relief with respect to Borrower's failure to timely deliver certificates representing shares of Common Stock upon conversion of this Note as required pursuant to the terms hereof.

vi. Reservation of Shares Issuable Upon Conversion. Borrower covenants that it will at all times reserve and keep available out of its authorized and unissued shares of Common Stock for the sole purpose of issuance upon conversion of this Note as herein provided, free from preemptive rights or any other actual contingent purchase rights of Persons other than the Holder (and the other holders of the Notes), not less than such aggregate number of shares of the Common Stock as shall (subject to the terms and conditions set forth in the Purchase Agreement) be issuable (taking into account the adjustments and restrictions of Section 5) upon the conversion of the then outstanding principal amount of this Note, assuming such principal amount was not converted through the Maturity Date. Borrower covenants that all shares of Common Stock that shall be so issuable shall, upon issue, be duly authorized, validly issued, fully paid and nonassessable.

vii. Fractional Shares. No fractional shares or scrip representing fractional shares shall be issued upon the conversion of this Note. As to any fraction of a share which the Holder would otherwise be entitled to purchase upon such conversion, Borrower shall at its election, either pay a cash adjustment in respect of such final fraction in an amount equal to such fraction multiplied by the Conversion Price or round up to the next whole share.

viii. Transfer Taxes and Expenses. The issuance of certificates for shares of the Common Stock on conversion of this Note shall be made without charge to the Holder hereof for any documentary stamp or similar taxes that may be payable in respect of the issue or delivery of such certificates, provided that, Borrower shall not be required to pay any tax that may be payable in respect of any transfer involved in the issuance and delivery of any such certificate upon conversion in a name other than that of the Holder of this Note so converted and Borrower shall not be required to issue or deliver such certificates unless or until the Person or Persons requesting the issuance thereof shall have paid to Borrower the amount of such tax or shall have established to the satisfaction of Borrower that such tax has been paid. Borrower shall pay all Transfer Agent fees required for same-day processing of any Notice of Conversion.

Section 5. Certain Adjustments.

a) Stock Dividends and Stock Splits. If Borrower, at any time while this Note is outstanding: (i) pays a stock dividend or otherwise makes a distribution or distributions payable in shares of Common Stock on shares of Common Stock or any Common Stock Equivalents (which, for avoidance of doubt, shall not include any shares of Common Stock issued by Borrower upon conversion of the Notes), (ii) subdivides outstanding shares of Common Stock into a larger number of shares, (iii) combines (including by way of a reverse stock split) outstanding shares of Common Stock into a smaller number of shares or (iv) issues, in the event of a reclassification of shares of the Common Stock, any shares of capital stock of Borrower, then the Conversion Price shall be multiplied by a fraction of which the numerator shall be the number of shares of Common Stock (excluding any treasury shares of Borrower) outstanding immediately before such event, and of which the denominator shall be the number of shares of Common Stock outstanding immediately after such event. Any adjustment made pursuant to this Section shall become effective immediately after the record date for the determination of stockholders entitled to receive such dividend or distribution and shall become effective immediately after the effective date in the case of a subdivision, combination or re-classification.

b) Subsequent Rights Offerings. In addition to any adjustments pursuant to Section 5(a) above, if at any time Borrower grants, issues or sells any Common Stock Equivalents or rights to purchase stock, warrants, securities or other property pro rata to the record holders of any class of shares of Common Stock (the "Purchase Rights"), then the Holder will be entitled to acquire, upon the terms applicable to such Purchase Rights, the aggregate Purchase Rights which the Holder could have acquired if the Holder had held the number of shares of Common Stock acquirable upon complete conversion of this Note immediately before the date on which a record is taken for the grant, issuance or sale of such Purchase Rights, or, if no such record is taken, the date as of which the record holders of shares of Common Stock are to be determined for the grant, issue or sale of such Purchase Rights.

c) Pro Rata Distributions. During such time as this Note is outstanding, if Borrower shall declare or make any dividend or other distribution of its assets (or rights to acquire its assets) to holders of shares of Common Stock, by way of return of capital or otherwise (including, without limitation, any distribution of cash, stock or other securities, property or options by way of a dividend, spin off, reclassification, corporate rearrangement, scheme of arrangement or other similar transaction) (a "Distribution"), at any time after the issuance of this Note, then, in each such case, the Holder shall be entitled to participate in such Distribution to the same extent that the Holder would have participated therein if the Holder had held the number of shares of Common Stock acquirable upon complete exercise of this Note immediately before the date of which a record is taken for such Distribution, or, if no such record is taken, the date as of which the record holders of shares of Common Stock are to be determined for the participation in such Distribution.

d) Fundamental Transaction. If, at any time while this Note is outstanding, (i) Borrower, directly or indirectly, in one or more related transactions effects any merger or consolidation of Borrower with or into another Person except in the event of a three-cornered amalgamation where the Borrower is acquired by another entity and the securities of the Borrower are exchanged for securities of another entity and the shareholders of the Borrower hold at least 50% of the acquired entity's shares, (ii) Borrower, directly or indirectly, effects any sale, lease, license, assignment, transfer, conveyance or other disposition of all or substantially all of its assets in one or a series of related transactions, except for the sale of its fuels distribution business, (iii) any, direct or indirect, purchase offer, tender offer or exchange offer (whether by Borrower or another Person) is completed pursuant to which holders of Common Stock are permitted to sell, tender or exchange their shares for other securities, cash or property and has been accepted by the holders of 50% or more of the outstanding Common Stock, (iv) Borrower, directly or indirectly, in one or more related transactions effects any reclassification, reorganization or recapitalization of the Common Stock or any compulsory share exchange pursuant to which the Common Stock is effectively converted into or exchanged for other securities, cash or property except in the event of a three-cornered amalgamation where the Borrower is acquired by another entity and the securities of the Borrower are exchanged for securities of another entity and the shareholders of the Borrower hold at least 50% of the acquired entity's shares, (v) Borrower, directly or indirectly, in one or more related transactions consummates a stock or share purchase agreement or other business combination (including, without limitation, a reorganization, recapitalization, spin-off or scheme of arrangement) with another Person whereby such other Person acquires more than 50% of the outstanding shares of Common Stock (not including any shares of Common Stock held by the other Person or other Persons making or party to, or associated or affiliated with the other Persons making or party to, such stock or share purchase agreement or other business combination) (each a "Fundamental Transaction"), then, upon any subsequent conversion of this Note, the Holder shall have the right to receive, for each Conversion Share that would have been issuable upon such conversion immediately prior to the occurrence of such Fundamental Transaction, the number of shares of Common Stock of the successor or acquiring corporation or of Borrower, if it is the surviving corporation, and any additional consideration (the "Alternate Consideration") receivable as a result of such Fundamental Transaction by a holder of the number of shares of Common Stock for which this Note is convertible immediately prior to such Fundamental Transaction. For purposes of any such conversion, the determination of the Conversion Price shall be appropriately adjusted to apply to such Alternate Consideration based on the amount of Alternate Consideration issuable in respect of one (1) share of Common Stock in such Fundamental Transaction, and Borrower shall apportion the Conversion Price among the Alternate Consideration in a reasonable manner reflecting the relative value of any different components of the Alternate Consideration. If holders of Common Stock are given any choice as to the securities, cash or property to be received in a Fundamental Transaction, then the Holder shall be given the same choice as to the Alternate Consideration it receives upon any conversion of this Note following such Fundamental Transaction. Borrower shall cause any successor entity in a Fundamental Transaction in which Borrower is not the survivor (the "Successor Entity") to assume in writing all of the obligations of Borrower under this Note and the other Transaction Documents (as defined in the Purchase Agreement) in accordance with the provisions of this Section 5(d) pursuant to written agreements in form and substance reasonably satisfactory to the Holder and approved by the Holder (without unreasonable delay) prior to such Fundamental Transaction and shall, at the option of the holder of this Note, deliver to the Holder in exchange for this Note a security of the Successor Entity evidenced by a written instrument substantially similar in form and substance to this Note which is convertible for a corresponding number of shares of capital stock of such Successor Entity (or its parent entity) equivalent to the shares of Common Stock acquirable and receivable upon conversion of this Note (without regard to any limitations on the conversion of this Note) prior to such Fundamental Transaction, and with a conversion price which applies the conversion price hereunder to such shares of capital stock (but taking into account the relative value of the shares of Common Stock pursuant to such Fundamental Transaction and the value of such shares of capital stock, such number of shares of capital stock and such conversion price being for the purpose of protecting the economic value of this Note immediately prior to the consummation of such Fundamental Transaction), and which is reasonably satisfactory in form and substance to the Holder. Upon the occurrence of any such Fundamental Transaction, the Successor Entity shall succeed to, and be substituted for (so that from and after the date of such Fundamental Transaction, the provisions of this Note and the other Transaction Documents referring to the "Company" shall refer instead to the Successor Entity), and may exercise every right and power of Borrower and shall assume all of the obligations of Borrower under this Note and the other Transaction Documents with the same effect as if such Successor Entity had been named as Borrower herein.

e) Calculations. All calculations under this Section 5 shall be made to the nearest cent or the nearest 1/100th of a share, as the case may be. For purposes of this Section 5, the number of shares of Common Stock deemed to be issued and outstanding as of a given date shall be the sum of the number of shares of Common Stock (excluding any treasury shares of Borrower) issued and outstanding.

f) Notice to the Holder.

i. Adjustment to Conversion Price. Whenever the Conversion Price is adjusted pursuant to any provision of this Section 5, Borrower shall promptly deliver to each Holder a notice setting forth the Conversion Price after such adjustment and setting forth a brief statement of the facts requiring such adjustment.

ii. Notice to Allow Conversion by Holder. If (A) Borrower shall declare a dividend (or any other distribution in whatever form) on the Common Stock, (B) Borrower shall declare a special nonrecurring cash dividend on or a redemption of the Common Stock, (C) Borrower shall authorize the granting to all holders of the Common Stock of rights or warrants to subscribe for or purchase any shares of capital stock of any class or of any rights, (D) the approval of any stockholders of Borrower shall be required in connection with any reclassification of the Common Stock, any consolidation or merger to which Borrower is a party, any sale or transfer of all or substantially all of the assets of Borrower, or any compulsory share exchange whereby the Common Stock is converted into other securities, cash or property or (E) Borrower shall authorize the voluntary or involuntary dissolution, liquidation or winding up of the affairs of Borrower, then, in each case, Borrower shall cause to be filed at each office or agency maintained for the purpose of conversion of this Note, and shall cause to be delivered to the Holder at its last address as it shall appear in the books and records of Borrower, at least twenty (20) calendar days prior to the applicable record or effective date hereinafter specified, a notice stating (x) the date on which a record is to be taken for the purpose of such dividend, distribution, redemption, rights or warrants, or if a record is not to be taken, the date as of which the holders of the Common Stock of record to be entitled to such dividend, distributions, redemption, rights or warrants are to be determined or (y) the date on which such reclassification, consolidation, merger, sale, transfer or share exchange is expected to become effective or close, and the date as of which it is expected that holders of the Common Stock of record shall be entitled to exchange their shares of the Common Stock for securities, cash or other property deliverable upon such reclassification, consolidation, merger, sale, transfer or share exchange, provided that the failure to deliver such notice or any defect therein or in the delivery thereof shall not affect the validity of the corporate action required to be specified in such notice. To the extent that any notice provided hereunder constitutes, or contains, material, non-public information regarding Borrower, Borrower shall simultaneously file such notice with the TSXV. The Holder shall remain entitled to convert this Note during the 20-day period commencing on the date of such notice through the effective date of the event triggering such notice except as may otherwise be expressly set forth herein.

Section 6. Prepayment/Redemption.

a) General. Except as otherwise provided herein, the Borrower may not prepay or redeem this Note in whole or in part without the prior written consent of the Holder, and to the extent the Borrower agrees with Other Holders to prepay or redeem Other Notes in whole or in part, the Borrower shall offer such prepayment or redemption of this Note on a pro rata basis on the same terms and conditions as agreed upon by the Holder and all Other Holders for such Other Notes.

b) Optional Redemption at Election of Borrower. Following four months plus one day after the Initial Closing Date, and subject to the provisions of this Section 6 and provided that on each day of the twenty (20) Trading Days preceding the Optional Redemption Notice Date (except as waived by Holder): (i) the closing bid price for the Common Stock was above 150% of the Conversion Price, (ii) no Event of Default has occurred that has not been waived by the Purchaser, and (iii) no event which, in the reasonable estimation of the Borrower, could become an Event of Default has occurred that has not been waived by the Purchaser, the Borrower may deliver a notice to the Holder (an “Optional Redemption Notice” and the date such notice is deemed delivered hereunder, the “Optional Redemption Notice Date”) of its irrevocable election to redeem the outstanding principal amount, in whole or in part, of this Note for cash in an amount equal to the Optional Redemption Amount, on the 20th Trading Day following the Optional Redemption Notice Date (such date, the “Optional Redemption Date” and such redemption, the “Optional Redemption”). The Optional Redemption Amount is payable in full on the Optional Redemption Date. The Borrower covenants and agrees that it will honor all Notices of Conversion tendered from the Optional Redemption Notice Date through the date all amounts owing on the Optional Redemption Date are paid in full.

c) Redemption Procedure. The payment of cash pursuant to an Optional Redemption shall be payable on the Optional Redemption Date. If any portion of the payment pursuant to an Optional Redemption shall not be paid by the Borrower by the applicable due date, interest shall accrue thereon at an interest rate equal to the lesser of ten percent (10%) per annum or the maximum rate permitted by applicable law until such amount is paid in full. Notwithstanding anything herein contained to the contrary, if any portion of the Optional Redemption Amount remains unpaid after such date, the Holder may elect, by written notice to the Borrower given at any time thereafter, to invalidate such Optional Redemption with respect to any or all of the unpaid portion of the Optional Redemption Amount, and the Borrower shall have no further right to exercise such Optional Redemption and the Holder will be entitled to receive interest which may have accrued at the rate stated above and declare the failure to timely pay the Optional Redemption Amount as an Event of Default.

Section 7. Negative Covenants. As long as any portion of this Note remains outstanding, unless the holders of at least 51% in principal amount of the then outstanding Notes shall have otherwise given prior written consent, Borrower shall not, directly or indirectly:

a) other than Permitted Liens, and as may otherwise be permitted pursuant to the Purchase Agreement, enter into, create, incur, assume or suffer to exist any Liens of any kind, on or with respect to any of its Collateral (as such term is defined in the Purchase Agreement) or any interest therein or any income or profits therefrom;

b) amend its charter documents, including, without limitation, its certificate of incorporation and bylaws, in any manner that materially and adversely affects any rights of the Holder;

c) repay, repurchase or offer to repay, repurchase or otherwise acquire more than a de minimis number of shares of its Common Stock or Common Stock Equivalents other than Conversion Shares or Warrant Shares as permitted or required under the Transaction Documents;

d) pay cash dividends or distributions on any equity securities of Borrower;

e) enter into any transaction with any Affiliate of Borrower, unless such transaction is made on an arm’s-length basis and expressly approved by a majority of the disinterested directors of Borrower (even if less than a quorum otherwise required for board approval), except with respect to the sale of its fuels distribution business; or

f) enter into any agreement with respect to any of the foregoing.

Section 8. Events of Default.

a) “Event of Default” means, wherever used herein, any of the following events (whatever the reason for such event and whether such event shall be voluntary or involuntary or effected by operation of law or pursuant to any judgment, decree or order of any court, or any order, rule or regulation of any administrative or governmental body):

i. any default in the payment of (A) the principal amount or interest of any Note or (B) liquidated damages and other amounts owing to a Holder on any Note, as and when the same shall become due and payable (whether on a Conversion Date or the Maturity Date or by acceleration or otherwise) which default, solely in the case of a default under clause (B) above, is not cured within 3 Trading Days after Borrower has become or should have become aware of such default;

ii. Borrower shall fail to observe or perform any other covenant or agreement contained in the Notes (other than a breach by Borrower of its obligations to deliver shares of Common Stock to the Holder upon conversion, which breach is addressed in clause (x) below) which failure is not cured, if possible to cure, within the earlier to occur of (A) 5 Trading Days after notice of such failure sent by the Holder or by any Other Holder to Borrower and (B) 10 Trading Days after Borrower has become or should have become aware of such failure;

iii. a default or event of default (subject to any grace or cure period provided in the applicable agreement, document or instrument) shall occur under (A) any of the Transaction Documents, including but not limited to failure to strictly comply with the provisions of the Warrants, or (B) any other material agreement, lease, document or instrument to which Borrower is obligated (and not covered by clause (vi) below);

iv. any representation or warranty made in this Note, any other Transaction Documents, any written statement pursuant hereto or thereto or any other report, financial statement or certificate made or delivered to the Holder or any Other Holder shall be untrue or incorrect in any material respect as of the date when made or deemed made;

v. Borrower shall be subject to a Bankruptcy Event;

vi. Borrower shall default on any of its obligations under any mortgage, credit agreement or other facility, indenture agreement, factoring agreement or other instrument under which there may be issued, or by which there may be secured or evidenced, any indebtedness for borrowed money or money due under any long term leasing or factoring arrangement that (a) involves an obligation greater than \$100,000, whether such indebtedness now exists or shall hereafter be created, and (b) results in such indebtedness becoming or being declared due and payable prior to the date on which it would otherwise become due and payable;

vii. Borrower shall agree to sell or dispose of all or in excess of 30% of its assets in one transaction or a series of related transactions, except for the sale of its fuels distribution business;

viii. Borrower is in material default under Securities Laws or the policies of the TSXV;

ix. Borrower shall fail for any reason to deliver certificates representing Conversion Shares and Warrants to a Holder within the timeline established in Section 4(c)(ii) or Borrower shall provide at any time notice to the Holder, including by way of public announcement, of Borrower's intention to not honor requests for conversions of any Notes in accordance with the terms hereof;

x. any Person shall breach any agreement delivered to the initial Holders pursuant to Section 2.2 or 2.5 of the Purchase Agreement;

xi. any monetary judgment, writ or similar final process shall be entered or filed against Borrower, or any of its property or other assets for more than \$100,000, and such judgment, writ or similar final process shall remain unvacated, unbonded or unstayed for a period of 60 calendar days;

xii. any dissolution, liquidation or winding up by Borrower of a substantial portion of their business;

xiii. cessation of operations by Borrower;

xiv. the failure by Borrower to maintain any material intellectual property rights, personal, real property, equipment, leases or other assets which are necessary to conduct its oil sands extraction business (whether now or in the future) and such breach is not cured with twenty (20) days after written notice to the Borrower from the Holder;

xv. An event resulting in the Common Stock no longer being listed or quoted on a Trading Market, or notification from a Trading Market that the Borrower is not in compliance with the conditions for such continued quotation and such non-compliance continues for twenty (20) days following such notification;

xvi. a judicial or regulatory suspension from its principal Trading Market;

xvii. the restatement after the date hereof of any financial statements filed by the Borrower and available on SEDAR for any date or period from two years prior to the Original Issue Date and until this Note is no longer outstanding, if the result of such restatement would, by comparison to the unrestated financial statements, have constituted a Material Adverse Effect. For the avoidance of doubt, any restatement related to new accounting pronouncements shall not constitute a default under this Section;

xviii. the Borrower effectuates a reverse split of its Common Stock without ten (10) days prior written notice to the Holder;

xix. a failure by Borrower to notify Holder of any material event of which Borrower is obligated to notify Holder pursuant to the terms of this Note or any other Transaction Document which has not been waived by such Holder;

xx. a default by the Borrower of a material term, covenant, warranty or undertaking of any other agreement to which the Borrower and Holder are parties, or the occurrence of an event of default under any such other agreement to which Borrower and Holder are parties which is not cured after any required notice and/or cure period and not waived by such Holder;

xxi. the occurrence of an Event of Default under any Other Note; or

xxii. any material provision of any Transaction Document shall at any time for any reason (other than pursuant to the express terms thereof) cease to be valid and binding on or enforceable against the Borrower, or the validity or enforceability thereof shall be contested by Borrower, or a proceeding shall be commenced by Borrower or any governmental authority having jurisdiction over Borrower or Holder, seeking to establish the invalidity or unenforceability thereof, or Borrower shall deny in writing that it has any liability or obligation purported to be created under any Transaction Document.

b) Remedies Upon Event of Default and Fundamental Transaction. If any Fundamental Transaction occurs, the outstanding principal amount of this Note, liquidated damages and other amounts owing in respect thereof through the date of acceleration, shall become, at the Holder's election, immediately due and payable in cash at the Mandatory Default Amount. Commencing on the Maturity Date and also five (5) days after the occurrence of any Event of Default interest on this Note shall accrue at an interest rate equal to the lesser of ten percent (10%) per annum or the maximum rate permitted under applicable law. Upon the payment in full of the Mandatory Default Amount, or all other sums payable in connection with this Note, the Holder shall surrender this Note to or as directed by Borrower. In connection with such acceleration described herein, the Holder need not provide, and Borrower hereby waives, any presentment, demand, protest or other notice of any kind, and the Holder may immediately and without expiration of any grace period enforce any and all of its rights and remedies hereunder and all other remedies available to it under applicable law. Such acceleration may be rescinded and annulled by Holder at any time prior to payment hereunder and the Holder shall have all rights as a holder of the Note until such time, if any, as the Holder receives full payment pursuant to this Section 8(b). No such rescission or annulment shall affect any subsequent Event of Default, Fundamental Transaction or impair any right consequent thereon.

Section 9. Security Interest. This Note is secured by a security interest granted to the Holder pursuant to a Security Agreement, as delivered by Borrower to Holder.

Section 10. Miscellaneous.

a) Notices. All notices, demands, requests, consents, approvals, and other communications required or permitted hereunder shall be in writing and, unless otherwise specified herein, shall be (i) personally served, (ii) deposited in the mail, registered or certified, return receipt requested, postage prepaid, (iii) delivered by reputable air courier service with charges prepaid, or (iv) transmitted by hand delivery, telegram, or facsimile, addressed as set forth below or to such other address as such party shall have specified most recently by written notice. Any notice or other communication required or permitted to be given hereunder shall be deemed effective (a) upon hand delivery or delivery by facsimile, with accurate confirmation generated by the transmitting facsimile machine, at the address or number designated below (if delivered on a business day during normal business hours where such notice is to be received), or the first business day following such delivery (if delivered other than on a business day during normal business hours where such notice is to be received) or (b) on the second business day following the date of mailing by express courier service, fully prepaid, addressed to such address, or upon actual receipt of such mailing, whichever shall first occur. The addresses for such communications shall be: (i) if to Borrower, to: MCW Energy Group Limited, 344 Mira Loma Avenue, Glendale, CA 91204, Attn: Alex Blyumkin, Executive Chairman, facsimile: 866-571-9613, with a copy by email only to (which shall not constitute notice): robbie.grossman@mcmillan.ca, and (ii) if to the Holder, to: the address and fax number indicated on the front page of this Note, with an additional copy by fax only to (which shall not constitute notice): Grushko & Mittman, P.C., 515 Rockaway Avenue, Valley Stream, New York 11581, facsimile: (212) 697-3575.

b) Absolute Obligation. Except as expressly provided herein, no provision of this Note shall alter or impair the obligation of Borrower, which is absolute and unconditional, to pay the principal of, liquidated damages and accrued interest, as applicable, on this Note at the time, place, and rate, and in the coin or currency, herein prescribed. This Note is a direct debt obligation of Borrower. This Note ranks pari passu with all other Notes now or hereafter issued under the terms set forth herein.

c) Lost or Mutilated Note. If this Note shall be mutilated, lost, stolen or destroyed, Borrower shall execute and deliver, in exchange and substitution for and upon cancellation of a mutilated Note, or in lieu of or in substitution for a lost, stolen or destroyed Note, a new Note for the principal amount of this Note so mutilated, lost, stolen or destroyed, but only upon receipt of evidence of such loss, theft or destruction of such Note, and of the ownership hereof, reasonably satisfactory to Borrower.

d) Governing Law. All questions concerning the construction, validity, enforcement and interpretation of this Note shall be governed by and construed and enforced in accordance with the internal laws of the State of New York, without regard to the principles of conflict of laws thereof. Each party agrees that all legal proceedings concerning the interpretation, enforcement and defense of the transactions contemplated by any of the Transaction Documents (whether brought against a party hereto or its respective Affiliates, directors, officers, shareholders, employees or agents) shall be commenced in the state and federal courts sitting in the City of New York, Borough of Manhattan (the "New York Courts") or solely at the election of Holder in a court of appropriate jurisdiction in the Province of Ontario, or any jurisdiction where collateral under the Loan Documents or a guarantor of this Note is situated. Each party hereto hereby irrevocably submits to the exclusive jurisdiction of the New York Courts for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein (including with respect to the enforcement of any of the Transaction Documents), and hereby irrevocably waives, and agrees not to assert in any suit, action or proceeding, any claim that it is not personally subject to the jurisdiction of such New York Courts, or such New York Courts are improper or an inconvenient venue for such proceeding. Each party hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or proceeding by mailing a copy thereof via registered or certified mail or overnight delivery (with evidence of delivery) to such party at the address in effect for notices to it under this Note and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any other manner permitted by applicable law. Each party hereto hereby irrevocably waives, to the fullest extent permitted by applicable law, any and all right to trial by jury in any legal proceeding arising out of or relating to this Note or the transactions contemplated hereby. If any party shall commence an action or proceeding to enforce any provisions of this Note, then the prevailing party in such action or proceeding shall be reimbursed by the other party for its reasonable attorneys' fees and other costs and expenses incurred in the investigation, preparation and prosecution of such action or proceeding. **This Note shall be deemed an unconditional obligation of Borrower for the payment of money and, without limitation to any other remedies of Holder, may be enforced against Borrower by summary proceeding pursuant to New York Civil Procedure Law and Rules Section 3213 or any similar rule or statute in the jurisdiction where enforcement is sought. For purposes of such rule or statute, any other document or agreement to which Holder and Borrower are parties or which Borrower delivered to Holder, which may be convenient or necessary to determine Holder's rights hereunder or Borrower's obligations to Holder are deemed a part of this Note, whether or not such other document or agreement was delivered together herewith or was executed apart from this Note.**

e) Waiver. Any waiver by Borrower or the Holder of a breach of any provision of this Note shall not operate as or be construed to be a waiver of any other breach of such provision or of any breach of any other provision of this Note. The failure of Borrower or the Holder to insist upon strict adherence to any term of this Note on one or more occasions shall not be considered a waiver or deprive that party of the right thereafter to insist upon strict adherence to that term or any other term of this Note on any other occasion. Any waiver by Borrower or the Holder must be in writing.

f) Severability. If any provision of this Note is invalid, illegal or unenforceable, the balance of this Note shall remain in effect, and if any provision is inapplicable to any Person or circumstance, it shall nevertheless remain applicable to all other Persons and circumstances.

g) Usury. If it shall be found that any interest or other amount deemed interest due hereunder violates the applicable law governing usury, the applicable rate of interest due hereunder shall automatically be lowered to equal the maximum rate of interest permitted under applicable law. Borrower covenants (to the extent that it may lawfully do so) that it shall not at any time insist upon, plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay, extension or usury law or other law which would prohibit or forgive Borrower from paying all or any portion of the principal of or interest on this Note as contemplated herein, wherever enacted, now or at any time hereafter in force, or which may affect the covenants or the performance of this Note, and Borrower (to the extent it may lawfully do so) hereby expressly waives all benefits or advantage of any such law, and covenants that it will not, by resort to any such law, hinder, delay or impede the execution of any power herein granted to the Holder, but will suffer and permit the execution of every such as though no such law has been enacted.

h) Next Business Day. Whenever any payment or other obligation hereunder shall be due on a day other than a Business Day, such payment shall be made on the next succeeding Business Day.

i) Headings. The headings contained herein are for convenience only, do not constitute a part of this Note and shall not be deemed to limit or affect any of the provisions hereof.

j) Amendment. Unless otherwise provided for hereunder, this Note may not be modified or amended or the provisions hereof waived without the written consent of Borrower and the Holder.

k) Facsimile Signature. In the event that the Borrower's signature is delivered by facsimile transmission, PDF, electronic signature or other similar electronic means, such signature shall create a valid and binding obligation of the Borrower with the same force and effect as if such signature page were an original thereof.

(Signature Pages Follow)

IN WITNESS WHEREOF, Borrower has caused this Note to be signed in its name by an authorized officer as of the 5th day of November, 2014.

MCW ENERGY GROUP LIMITED

By: /s/ Alex Blyumkin

Name: Alex Blyumkin

Title: Executive Chairman

WITNESS:

ANNEX A

NOTICE OF CONVERSION

The undersigned hereby elects to convert principal under the Convertible Note due **May 5, 2016** of MCW Energy Group Limited, a corporation amalgamated pursuant to the laws of the Province of Ontario (the "Borrower"), into shares of common stock (the "Common Stock"), of Borrower according to the conditions hereof, as of the date written below. If shares of Common Stock are to be issued in the name of a person other than the undersigned, the undersigned will pay all transfer taxes payable with respect thereto and is delivering herewith such certificates and opinions as reasonably requested by Borrower in accordance therewith. No fee will be charged to the holder for any conversion, except for such transfer taxes, if any.

The undersigned agrees to comply with the prospectus delivery requirements under the applicable securities laws in connection with any transfer of the aforesaid shares of Common Stock.

Conversion calculations:

Date to Effect Conversion: _____

Principal Amount of Note to be Converted: \$ _____

Interest Amount to be Converted: \$ _____

Number of shares of Common Stock to be issued: _____

Number of Warrants to be delivered: _____

Signature: _____

Name: _____

Address for Delivery of Common Stock Certificates: _____

Or

DWAC Instructions: _____

Broker No: _____

Account No: _____

THIS CONVERTIBLE DEBENTURE MAY NOT BE CONVERTED BY OR FOR THE ACCOUNT OR BENEFIT OF A "U.S. PERSON" OR A PERSON IN THE UNITED STATES UNLESS THE CONVERTIBLE DEBENTURE AND THE UNDERLYING SECURITIES HAVE BEEN REGISTERED UNDER THE U.S. SECURITIES ACT AND THE APPLICABLE SECURITIES LEGISLATION OF ANY SUCH STATE, OR AN EXEMPTION FROM SUCH REGISTRATION REQUIREMENTS IS AVAILABLE. "UNITED STATES" AND "U.S. PERSON" ARE AS DEFINED BY REGULATION S UNDER THE U.S. SECURITIES ACT.

THE SECURITIES REPRESENTED HEREBY AND THE SECURITIES ISSUABLE UPON CONVERSION THEREOF HAVE NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "U.S. SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. THE HOLDER HEREOF, BY PURCHASING SUCH SECURITIES, AGREES FOR THE BENEFIT OF THE BORROWER THAT SUCH SECURITIES MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED, DIRECTLY OR INDIRECTLY, ONLY (A) TO THE BORROWER; (B) OUTSIDE THE UNITED STATES IN ACCORDANCE WITH RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT AND IN ACCORDANCE WITH ALL LOCAL LAWS AND REGULATIONS; (C) IN ACCORDANCE WITH THE EXEMPTION FROM REGISTRATION UNDER THE U.S. SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER, IF AVAILABLE, AND IN COMPLIANCE WITH ANY APPLICABLE STATE SECURITIES LAWS; OR (D) IN A TRANSACTION THAT DOES NOT REQUIRE REGISTRATION UNDER THE U.S. SECURITIES ACT AND ANY APPLICABLE STATE SECURITIES LAWS. THE PRESENCE OF THIS LEGEND MAY IMPAIR THE ABILITY OF THE HOLDER HEREOF TO EFFECT "GOOD DELIVERY" OF THE SECURITIES REPRESENTED HEREBY ON A CANADIAN STOCK EXCHANGE.

UNLESS PERMITTED UNDER SECURITIES LEGISLATION, THE HOLDER OF THIS SECURITY MUST NOT TRADE THE SECURITY BEFORE MARCH 25, 2015.

Original Issue Date: November 24, 2014

Principal Amount: \$555,556

Purchase Price: \$500,000

**SECURED CONVERTIBLE NOTE
DUE MAY 24, 2016**

THIS CONVERTIBLE NOTE is one of a series of duly authorized and validly issued Notes of MCW Energy Group Limited, a corporation amalgamated under the laws of the Province of Ontario (the "Borrower"), having its principal place of business at 344 Mira Loma Avenue, Glendale, CA 91204, due **May 20, 2016** (this note, the "Note" and, collectively with the other notes of such series, the "Notes").

FOR VALUE RECEIVED, Borrower promises to pay to ALPHA CAPITAL ANSTALT at Pradafant 7, 9490 Furstentums, Vaduz, Lichtenstein or its registered assigns (the "Holder"), or shall have paid pursuant to the terms hereunder, the principal sum of \$555,556 on **May 24, 2016** (the "Maturity Date") or such earlier date as this Note is required or permitted to be repaid as provided hereunder, and to pay interest to the Holder on the aggregate unconverted and then outstanding principal amount of this Note in accordance with the provisions hereof.

This Note is subject to the following additional provisions:

Section 1. Definitions. For the purposes hereof, in addition to the terms defined elsewhere in this Note, (a) capitalized terms not otherwise defined herein shall have the meanings set forth in the Purchase Agreement and (b) the following terms shall have the following meanings:

“Alternate Consideration” shall have the meaning set forth in Section 5(d).

“Bankruptcy Event” means any of the following events: (a) Borrower commences a case or other proceeding under any bankruptcy, reorganization, arrangement, adjustment of debt, relief of debtors, dissolution, insolvency or liquidation or similar law of any jurisdiction relating to Borrower, (b) there is commenced against Borrower any such case or proceeding that is not dismissed within 60 days after commencement, (c) Borrower is adjudicated insolvent or bankrupt or any order of relief or other order approving any such case or proceeding is entered, (d) Borrower suffers any appointment of any custodian or the like for it or any substantial part of its property that is not discharged or stayed within 60 calendar days after such appointment, (e) Borrower makes a general assignment for the benefit of creditors, (f) Borrower calls a meeting of its creditors with a view to arranging a composition, adjustment or restructuring of its debts or (g) Borrower, by any act or failure to act, expressly indicates its consent to, approval of or acquiescence in any of the foregoing or takes any corporate or other action for the purpose of effecting any of the foregoing.

“Business Day” means any day except any Saturday, any Sunday, any day which is a federal legal holiday in the United States, a statutory or civil holiday in the Province of Ontario, or any day on which banking institutions in the State of New York or the Province of Ontario are authorized or required by law or other governmental action to close.

“Buy-In” shall have the meaning set forth in Section 4(c)(v).

“Conversion” shall have the meaning ascribed to such term in Section 4.

“Conversion Date” shall have the meaning set forth in Section 4(a).

“Conversion Price” shall have the meaning set forth in Section 4(b).

“Conversion Shares” means, collectively, the shares of Common Stock issuable upon conversion of this Note in accordance with the terms hereof.

“Equity Conditions” means, during the period in question, (a) Borrower shall have duly honored all conversions scheduled to occur or occurring by virtue of one or more Notices of Conversion of the applicable Holder on or prior to the dates so requested or required, if any, (b) Borrower shall have paid all liquidated damages and other amounts owing to the applicable Holder in respect of this Note and the other Transaction Documents, (c) the Common Stock is trading on a Trading Market and all of the shares issuable pursuant to the Transaction Documents are listed or quoted for trading on such Trading Market (and Borrower believes, in good faith, that trading of the Common Stock on a Trading Market will continue uninterrupted (subject to standard halts imposed by regulators or stock exchanges in the ordinary course) for as long as this Note remains outstanding, (d) there is a sufficient number of authorized, but unissued and otherwise unreserved, shares of Common Stock for the issuance of all of the shares then issuable pursuant to the Transaction Documents, (e) an Event of Default has not occurred, which is continuing or has not been cured by the Borrower or waived by the Holder, (f) to the knowledge of the Borrower, there is no existing event which, with the passage of time or the giving of notice, would constitute an Event of Default, and (g) there has been no public announcement of a pending or proposed Fundamental Transaction that has not been consummated.

“Event of Default” shall have the meaning set forth in Section 8(a).

“Fundamental Transaction” shall have the meaning set forth in Section 5(d).

“Interest Conversion Price” shall have the meaning set forth in Section 2(a).

“Interest Payment Date” shall have the meaning set forth in Section 2(a).

“Interest Share Amount” shall have the meaning set forth in Section 2(a).

“Liens” means a lien, charge, pledge, security interest, encumbrance, right of first refusal, preemptive right or other restriction.

“Mandatory Default Amount” means the sum of (a) 115% of the outstanding principal amount of this Note and (b) interest and all other amounts, costs, expenses and liquidated damages due in respect of this Note.

“New York Courts” shall have the meaning set forth in Section 10(d).

“Notice of Conversion” shall have the meaning set forth in Section 4(a).

“Optional Redemption” shall have the meaning set forth in Section 6(b).

“Optional Redemption Amount” means the sum of (i) 110% of the outstanding principal amount of this Note, and (b) interest and all other amounts, costs, expenses and liquidated damages due in respect of this Note.

“Optional Redemption Date” shall have the meaning set forth in Section 6(b).

“Optional Redemption Notice” shall have the meaning set forth in Section 6(b).

“Optional Redemption Notice Date” shall have the meaning set forth in Section 6(b).

“Original Issue Date” means the date of the first issuance of the Notes, regardless of any transfers of any Note and regardless of the number of instruments which may be issued to evidence such Notes.

“Other Holders” means holders of Other Notes.

“Other Notes” means Notes nearly identical to this Note issued to other Holders pursuant to the Purchase Agreement.

“Permitted Liens” shall have the meaning set forth in the Purchase Agreement.

“Purchase Agreement” means the Securities Purchase Agreement, dated as of November 24, 2014 among Borrower and the original Holders, as amended, modified or supplemented from time to time in accordance with its terms.

“Share Delivery Date” shall have the meaning set forth in Section 4(c)(ii).

“Successor Entity” shall have the meaning set forth in Section 5(d).

“Trading Day” means a day on which the principal Trading Market is open for trading.

“Trading Market” means any of the following markets or exchanges on which the Common Stock is listed or quoted for trading on the date in question: the Toronto Stock Exchange, the NYSE MKT, the Nasdaq Capital Market, the Nasdaq Global Market, the Nasdaq Global Select Market, the New York Stock Exchange, the OTC Bulletin Board, the OTCQB, the OTCQX, the TSXV (or any successors to any of the foregoing). As of the Initial Closing Date, the TSXV is the principal Trading Market.

“Underlying Shares” means all of the Conversion Shares and all of the Warrant Shares issuable upon exercise of the Warrants issued pursuant to the Purchase Agreement and upon conversion of this Note.

“U.S. Securities Act” means the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

“Warrants” means, collectively, the Common Stock purchase warrants to be delivered to the Holders upon conversion of the Notes in accordance with the Notes, which Warrants shall be exercisable immediately and have a term of exercise equal to five (5) years from the date of issuance of such Note and be in the form of Exhibit B attached to the Purchase Agreement.

Section 2. Interest.

a) Interest in Cash or in Kind. Holder shall be entitled to receive, and Borrower shall pay, cumulative interest on the outstanding principal amount of this Note compounded annually at the annual rate of five percent (5%) (subject to increase as set forth in this Note), payable quarterly on March 31, June 30, September 30, and December 31, beginning on the second such date after the Original Issue Date and on each Conversion Date (with respect only to Note principal being converted) (each such date, an “Interest Payment Date”) (if any Interest Payment Date is not a Business Day, the applicable payment shall be due on the next succeeding Business Day) in cash. Interest may be paid, at the option of Borrower, in cash, in duly authorized, validly issued, fully paid and non-assessable shares of Common Stock as set forth in this Section 2(a), or a combination thereof in each case as provided in the next sentence (the amount to be paid in shares of Common Stock, the “Interest Share Amount”). The Common Stock to be paid in satisfaction of the Interest Share Amount shall be valued solely for such purpose at the Discounted Market Price (as such term is defined by the TSXV) as of the close of trading on the Interest Payment Date, pursuant to a Shares for Debt application with the TSXV (the “Interest Conversion Price”). The Holders shall have the same rights and remedies with respect to the delivery of any such shares as if such shares were being issued pursuant to Section 4 of this Note, including the right to receive Warrants as described in Section 4. Borrower may not pay interest by delivery of Common Stock without the consent of the Holder in the event that the Equity Conditions are not in effect on each day from the tenth Trading Day preceding the relevant Interest Payment Date through the date the Interest Share Amount is delivered to the Holder. Borrower must notify the Holder not less than ten (10) Trading Days prior to an Interest Payment Date if it intends to pay interest due on such Interest Payment Date by delivery of an Interest Share Amount. If Borrower fails to provide such notice, the Holder may elect to receive the Interest Share Amount in lieu of cash by notifying Borrower any time prior to the relevant Interest Payment Date.

b) Payment Grace Period. The Borrower shall not have any grace period to pay any monetary amounts due under this Note.

c) Conversion Privileges. The Conversion Rights set forth in Section 4 shall remain in full force and effect immediately from the date hereof and until the Note is paid in full regardless of the occurrence of an Event of Default. This Note shall be payable in full on the Maturity Date, unless previously converted into Common Stock in accordance with Section 4 hereof.

d) Application of Payments. Interest on this Note shall be calculated on the basis of a 360-day year and the actual number of days elapsed. Payments made in connection with this Note shall be applied first to amounts due hereunder other than principal and interest, thereafter to interest and finally to principal.

e) Pari Passu. Except as otherwise set forth herein, all payments made on this Note and the Other Notes and all actions taken by the Borrower with respect to this Note and the Other Notes, including but not limited to Mandatory Conversion, shall be made and taken *pari passu* with respect to this Note and the Other Notes. Notwithstanding anything to the contrary contained herein or in the Transaction Documents, it shall not be considered non-*pari passu* for a Holder or Other Holder to elect to receive interest paid in shares of Common Stock or for the Borrower to actually pay interest in shares of Common Stock to such electing Holder or Other Holder.

f) Manner and Place of Payment. Principal and interest on this Note and other payments in connection with this Note shall be payable at the Holder's offices as designated above in lawful money of the United States of America in immediately available funds without set-off, deduction or counterclaim. Upon assignment of the interest of Holder in this Note, Borrower shall instead make its payment pursuant to the assignee's instructions upon receipt of written notice thereof. Except as set forth herein, this Note may not be prepaid or mandatorily converted without the consent of the Holder.

Section 3. Registration of Transfers and Exchanges.

a) Different Denominations. Subject to compliance with applicable Securities Laws, this Note is exchangeable for an equal aggregate principal amount of Notes of different authorized denominations, as requested by the Holder surrendering the same. No service charge will be payable for such registration of transfer or exchange.

b) Investment Representations. This Note has been issued subject to certain investment representations of the original Holder set forth in the Purchase Agreement and may be transferred or exchanged only in compliance with the Purchase Agreement and applicable federal and state securities laws and regulations.

c) Reliance on Books and Records. Prior to due presentment for transfer to Borrower of this Note, Borrower and any agent of Borrower may treat the Person in whose name this Note is duly registered on the books and records of the Borrower as the owner hereof for the purpose of receiving payment as herein provided and for all other purposes, whether or not this Note is overdue, and neither Borrower nor any such agent shall be affected by notice to the contrary.

Section 4. Conversion.

a) Voluntary Conversion. At any time commencing four (4) months after the Original Issue Date until this Note is no longer outstanding, this Note shall be convertible, in whole or in part, into shares of Common Stock at the option of the Holder, at any time and from time to time. The Holder shall effect conversions by delivering to Borrower a Notice of Conversion, the form of which is attached hereto as Annex A (each, a “Notice of Conversion”), specifying therein the principal amount of this Note to be converted and the date on which such conversion shall be effected (such date, the “Conversion Date”). If no Conversion Date is specified in a Notice of Conversion, the Conversion Date shall be the date that such Notice of Conversion is deemed delivered hereunder. To effect conversions hereunder, the Holder shall not be required to physically surrender this Note to Borrower unless the entire principal amount of this Note has been so converted. Conversions hereunder shall have the effect of lowering the outstanding principal amount of this Note in an amount equal to the applicable conversion. The Holder and Borrower shall maintain records showing the principal amount(s) converted and the date of such conversion(s). Borrower may deliver an objection to any Notice of Conversion within one (1) Business Day of delivery of such Notice of Conversion. In the event of any dispute or discrepancy, the records of the Holder shall be controlling and determinative in the absence of manifest error. **The Holder, and any assignee by acceptance of this Note, acknowledge and agree that, by reason of the provisions of this paragraph, following conversion of a portion of this Note, the unpaid and unconverted principal amount of this Note may be less than the amount stated on the face hereof.**

b) Conversion Price. The conversion price for the principal in connection with voluntary conversions by the Holder shall be USD\$0.789 [equal to CND\$0.90 on November 4, 2014], subject to adjustment herein (the “Conversion Price”).

c) Mechanics of Conversion.

i. Conversion Shares Issuable Upon Conversion of Principal Amount. The number of Conversion Shares issuable upon a conversion hereunder shall be determined by the quotient obtained by dividing (x) the outstanding principal amount of this Note to be converted by (y) the Conversion Price.

ii. Delivery of Certificate Upon Conversion. Not later than six (6) Trading Days after each Conversion Date (the “Share Delivery Date”), Borrower shall deliver, or cause to be delivered, to the Holder a certificate or certificates representing the Conversion Shares which, on or after the date that is four months and one day after the Original Issue Date, shall be free of restrictive legends and trading restrictions, representing the number of Conversion Shares being acquired upon the conversion of this Note. Contemporaneously with the delivery of the Conversion Shares certificates, the Borrower shall deliver an original Warrant certificate representing the right to acquire an amount of Warrant Shares equal to the amount of Conversion Shares required to be delivered.

iii. Failure to Deliver Certificates. If, in the case of any Notice of Conversion, such Common Stock or Warrant certificate or certificates are not delivered to or as directed by the applicable Holder by the Share Delivery Date, the Holder shall be entitled to elect by written notice to Borrower at any time on or before its receipt of such certificate or certificates, to rescind such Conversion, in which event Borrower shall promptly return to the Holder any original Note delivered to Borrower and the Holder shall promptly return to Borrower the Common Stock certificates issued to such Holder pursuant to the rescinded Conversion Notice.

iv. Obligation Absolute: Partial Liquidated Damages. Borrower's obligations to issue and deliver the Conversion Shares and Warrants upon conversion of this Note in accordance with the terms hereof are absolute and unconditional, irrespective of any action or inaction by the Holder to enforce the same, any waiver or consent with respect to any provision hereof, the recovery of any judgment against any Person or any action to enforce the same, or any setoff, counterclaim, recoupment, limitation or termination, or any breach or alleged breach by the Holder or any other Person of any obligation to Borrower or any violation or alleged violation of law by the Holder or any other Person, and irrespective of any other circumstance which might otherwise limit such obligation of Borrower to the Holder in connection with the issuance of such Conversion Shares and Warrants; provided, however, that such delivery shall not operate as a waiver by Borrower of any such action Borrower may have against the Holder. In the event the Holder of this Note shall elect to convert any or all of the outstanding principal amount hereof, Borrower may not refuse conversion based on any claim that the Holder or anyone associated or affiliated with the Holder has been engaged in any violation of law, agreement or for any other reason, unless an injunction from a court, on notice to Holder, restraining and or enjoining conversion of all or part of this Note shall have been sought and obtained, and Borrower posts a surety bond for the benefit of the Holder in the amount of 150% of the outstanding principal amount of this Note and accrued interest, which is subject to the injunction, which bond shall remain in effect until the completion of arbitration/litigation of the underlying dispute and the proceeds of which shall be payable to the Holder to the extent it obtains judgment. In the absence of such injunction, Borrower shall issue Conversion Shares and Warrants, upon a properly noticed conversion. If Borrower fails for any reason to deliver to the Holder such certificate or certificates pursuant to Section 4(c)(ii) by the Share Delivery Date, Borrower shall pay to the Holder, in cash, as liquidated damages and not as a penalty, for each \$1,000 of principal amount being converted, \$10 per Trading Day (increasing to \$20 per Trading Day on the fifth (5th) Trading Day after such liquidated damages being to accrue) for each Trading Day after such Share Delivery Date until such certificates are delivered or Holder rescinds such conversion. Nothing herein shall limit a Holder's right to pursue actual damages or declare an Event of Default pursuant to Section 8 hereof for Borrower's failure to deliver Conversion Shares or Warrants within the period specified herein and the Holder shall have the right to pursue all remedies available to it hereunder, at law or in equity including, without limitation, a decree of specific performance and/or injunctive relief. The exercise of any such rights shall not prohibit the Holder from seeking to enforce damages pursuant to any other Section hereof or under applicable law.

v. Compensation for Buy-In on Failure to Timely Deliver Certificates Upon Conversion. In addition to any other rights available to the Holder, if Borrower fails for any reason, other than delays caused by the applicable courier company retained by the Company's transfer agent, to deliver to the Holder such certificate or certificates by the Share Delivery Date pursuant to Section 4(c)(ii), and if after such Share Delivery Date the Holder is required by its brokerage firm to purchase (in an open market transaction or otherwise), or the Holder or Holder's brokerage firm otherwise purchases, shares of Common Stock to deliver in satisfaction of a sale by the Holder of the Conversion Shares or Warrant Shares which the Holder was entitled to receive upon the Note conversion or Warrant exercise relating to such Share Delivery Date (a "Buy-In"), then, Borrower shall (A) pay in cash to the Holder (in addition to any other remedies available to or elected by the Holder) the amount, if any, by which (x) the Holder's total purchase price (including any brokerage commissions) for the Common Stock so purchased exceeds (y) the product of (1) the aggregate number of shares of Common Stock that the Holder was entitled to receive from the conversion at issue multiplied by (2) the actual sale price at which the sell order giving rise to such purchase obligation was executed (including any brokerage commissions) and (B) at the option of the Holder, either reissue (if surrendered) this Note in a principal amount equal to the principal amount of the attempted conversion or relevant amount of Warrants (in which case such conversion and/or Warrant exercise shall be deemed rescinded) or, subject to TSXV approval, deliver to the Holder the number of shares of Common Stock that would have been issued if Borrower had timely complied with its delivery requirements under Section 4(c)(ii). For example, if the Holder purchases Common Stock having a total purchase price of \$11,000 to cover a Buy-In with respect to an attempted conversion of this Note with respect to which the actual sale price of the Conversion Shares (including any brokerage commissions) giving rise to such purchase obligation was a total of \$10,000 under clause (A) of the immediately preceding sentence, Borrower shall be required to pay the Holder \$1,000. The Holder shall provide Borrower written notice indicating the amounts payable to the Holder in respect of the Buy-In and, upon request of Borrower, evidence of the amount of such loss. Nothing herein shall limit a Holder's right to pursue any other remedies available to it hereunder, at law or in equity including, without limitation, a decree of specific performance and/or injunctive relief with respect to Borrower's failure to timely deliver certificates representing shares of Common Stock upon conversion of this Note as required pursuant to the terms hereof.

vi. Reservation of Shares Issuable Upon Conversion. Borrower covenants that it will at all times reserve and keep available out of its authorized and unissued shares of Common Stock for the sole purpose of issuance upon conversion of this Note as herein provided, free from preemptive rights or any other actual contingent purchase rights of Persons other than the Holder (and the other holders of the Notes), not less than such aggregate number of shares of the Common Stock as shall (subject to the terms and conditions set forth in the Purchase Agreement) be issuable (taking into account the adjustments and restrictions of Section 5) upon the conversion of the then outstanding principal amount of this Note, assuming such principal amount was not converted through the Maturity Date. Borrower covenants that all shares of Common Stock that shall be so issuable shall, upon issue, be duly authorized, validly issued, fully paid and nonassessable.

vii. Fractional Shares. No fractional shares or scrip representing fractional shares shall be issued upon the conversion of this Note. As to any fraction of a share which the Holder would otherwise be entitled to purchase upon such conversion, Borrower shall at its election, either pay a cash adjustment in respect of such final fraction in an amount equal to such fraction multiplied by the Conversion Price or round up to the next whole share.

viii. Transfer Taxes and Expenses. The issuance of certificates for shares of the Common Stock on conversion of this Note shall be made without charge to the Holder hereof for any documentary stamp or similar taxes that may be payable in respect of the issue or delivery of such certificates, provided that, Borrower shall not be required to pay any tax that may be payable in respect of any transfer involved in the issuance and delivery of any such certificate upon conversion in a name other than that of the Holder of this Note so converted and Borrower shall not be required to issue or deliver such certificates unless or until the Person or Persons requesting the issuance thereof shall have paid to Borrower the amount of such tax or shall have established to the satisfaction of Borrower that such tax has been paid. Borrower shall pay all Transfer Agent fees required for same-day processing of any Notice of Conversion.

Section 5. Certain Adjustments.

a) Stock Dividends and Stock Splits If Borrower, at any time while this Note is outstanding: (i) pays a stock dividend or otherwise makes a distribution or distributions payable in shares of Common Stock on shares of Common Stock or any Common Stock Equivalents (which, for avoidance of doubt, shall not include any shares of Common Stock issued by Borrower upon conversion of the Notes), (ii) subdivides outstanding shares of Common Stock into a larger number of shares, (iii) combines (including by way of a reverse stock split) outstanding shares of Common Stock into a smaller number of shares or (iv) issues, in the event of a reclassification of shares of the Common Stock, any shares of capital stock of Borrower, then the Conversion Price shall be multiplied by a fraction of which the numerator shall be the number of shares of Common Stock (excluding any treasury shares of Borrower) outstanding immediately before such event, and of which the denominator shall be the number of shares of Common Stock outstanding immediately after such event. Any adjustment made pursuant to this Section shall become effective immediately after the record date for the determination of stockholders entitled to receive such dividend or distribution and shall become effective immediately after the effective date in the case of a subdivision, combination or re-classification.

b) Subsequent Rights Offerings. In addition to any adjustments pursuant to Section 5(a) above, if at any time Borrower grants, issues or sells any Common Stock Equivalents or rights to purchase stock, warrants, securities or other property pro rata to the record holders of any class of shares of Common Stock (the "Purchase Rights"), then the Holder will be entitled to acquire, upon the terms applicable to such Purchase Rights, the aggregate Purchase Rights which the Holder could have acquired if the Holder had held the number of shares of Common Stock acquirable upon complete conversion of this Note immediately before the date on which a record is taken for the grant, issuance or sale of such Purchase Rights, or, if no such record is taken, the date as of which the record holders of shares of Common Stock are to be determined for the grant, issue or sale of such Purchase Rights.

c) Pro Rata Distributions. During such time as this Note is outstanding, if Borrower shall declare or make any dividend or other distribution of its assets (or rights to acquire its assets) to holders of shares of Common Stock, by way of return of capital or otherwise (including, without limitation, any distribution of cash, stock or other securities, property or options by way of a dividend, spin off, reclassification, corporate rearrangement, scheme of arrangement or other similar transaction) (a "Distribution"), at any time after the issuance of this Note, then, in each such case, the Holder shall be entitled to participate in such Distribution to the same extent that the Holder would have participated therein if the Holder had held the number of shares of Common Stock acquirable upon complete exercise of this Note immediately before the date of which a record is taken for such Distribution, or, if no such record is taken, the date as of which the record holders of shares of Common Stock are to be determined for the participation in such Distribution.

d) Fundamental Transaction. If, at any time while this Note is outstanding, (i) Borrower, directly or indirectly, in one or more related transactions effects any merger or consolidation of Borrower with or into another Person except in the event of a three-cornered amalgamation where the Borrower is acquired by another entity and the securities of the Borrower are exchanged for securities of another entity and the shareholders of the Borrower hold at least 50% of the acquired entity's shares, (ii) Borrower, directly or indirectly, effects any sale, lease, license, assignment, transfer, conveyance or other disposition of all or substantially all of its assets in one or a series of related transactions, except for the sale of its fuels distribution business, (iii) any, direct or indirect, purchase offer, tender offer or exchange offer (whether by Borrower or another Person) is completed pursuant to which holders of Common Stock are permitted to sell, tender or exchange their shares for other securities, cash or property and has been accepted by the holders of 50% or more of the outstanding Common Stock, (iv) Borrower, directly or indirectly, in one or more related transactions effects any reclassification, reorganization or recapitalization of the Common Stock or any compulsory share exchange pursuant to which the Common Stock is effectively converted into or exchanged for other securities, cash or property except in the event of a three-cornered amalgamation where the Borrower is acquired by another entity and the securities of the Borrower are exchanged for securities of another entity and the shareholders of the Borrower hold at least 50% of the acquired entity's shares, (v) Borrower, directly or indirectly, in one or more related transactions consummates a stock or share purchase agreement or other business combination (including, without limitation, a reorganization, recapitalization, spin-off or scheme of arrangement) with another Person whereby such other Person acquires more than 50% of the outstanding shares of Common Stock (not including any shares of Common Stock held by the other Person or other Persons making or party to, or associated or affiliated with the other Persons making or party to, such stock or share purchase agreement or other business combination) (each a "Fundamental Transaction"), then, upon any subsequent conversion of this Note, the Holder shall have the right to receive, for each Conversion Share that would have been issuable upon such conversion immediately prior to the occurrence of such Fundamental Transaction, the number of shares of Common Stock of the successor or acquiring corporation or of Borrower, if it is the surviving corporation, and any additional consideration (the "Alternate Consideration") receivable as a result of such Fundamental Transaction by a holder of the number of shares of Common Stock for which this Note is convertible immediately prior to such Fundamental Transaction. For purposes of any such conversion, the determination of the Conversion Price shall be appropriately adjusted to apply to such Alternate Consideration based on the amount of Alternate Consideration issuable in respect of one (1) share of Common Stock in such Fundamental Transaction, and Borrower shall apportion the Conversion Price among the Alternate Consideration in a reasonable manner reflecting the relative value of any different components of the Alternate Consideration. If holders of Common Stock are given any choice as to the securities, cash or property to be received in a Fundamental Transaction, then the Holder shall be given the same choice as to the Alternate Consideration it receives upon any conversion of this Note following such Fundamental Transaction. Borrower shall cause any successor entity in a Fundamental Transaction in which Borrower is not the survivor (the "Successor Entity") to assume in writing all of the obligations of Borrower under this Note and the other Transaction Documents (as defined in the Purchase Agreement) in accordance with the provisions of this Section 5(d) pursuant to written agreements in form and substance reasonably satisfactory to the Holder and approved by the Holder (without unreasonable delay) prior to such Fundamental Transaction and shall, at the option of the holder of this Note, deliver to the Holder in exchange for this Note a security of the Successor Entity evidenced by a written instrument substantially similar in form and substance to this Note which is convertible for a corresponding number of shares of capital stock of such Successor Entity (or its parent entity) equivalent to the shares of Common Stock acquirable and receivable upon conversion of this Note (without regard to any limitations on the conversion of this Note) prior to such Fundamental Transaction, and with a conversion price which applies the conversion price hereunder to such shares of capital stock (but taking into account the relative value of the shares of Common Stock pursuant to such Fundamental Transaction and the value of such shares of capital stock, such number of shares of capital stock and such conversion price being for the purpose of protecting the economic value of this Note immediately prior to the consummation of such Fundamental Transaction), and which is reasonably satisfactory in form and substance to the Holder. Upon the occurrence of any such Fundamental Transaction, the Successor Entity shall succeed to, and be substituted for (so that from and after the date of such Fundamental Transaction, the provisions of this Note and the other Transaction Documents referring to the "Company" shall refer instead to the Successor Entity), and may exercise every right and power of Borrower and shall assume all of the obligations of Borrower under this Note and the other Transaction Documents with the same effect as if such Successor Entity had been named as Borrower herein.

e) Calculations. All calculations under this Section 5 shall be made to the nearest cent or the nearest 1/100th of a share, as the case may be. For purposes of this Section 5, the number of shares of Common Stock deemed to be issued and outstanding as of a given date shall be the sum of the number of shares of Common Stock (excluding any treasury shares of Borrower) issued and outstanding.

f) Notice to the Holder.

i. Adjustment to Conversion Price. Whenever the Conversion Price is adjusted pursuant to any provision of this Section 5, Borrower shall promptly deliver to each Holder a notice setting forth the Conversion Price after such adjustment and setting forth a brief statement of the facts requiring such adjustment.

ii. Notice to Allow Conversion by Holder. If (A) Borrower shall declare a dividend (or any other distribution in whatever form) on the Common Stock, (B) Borrower shall declare a special nonrecurring cash dividend on or a redemption of the Common Stock, (C) Borrower shall authorize the granting to all holders of the Common Stock of rights or warrants to subscribe for or purchase any shares of capital stock of any class or of any rights, (D) the approval of any stockholders of Borrower shall be required in connection with any reclassification of the Common Stock, any consolidation or merger to which Borrower is a party, any sale or transfer of all or substantially all of the assets of Borrower, or any compulsory share exchange whereby the Common Stock is converted into other securities, cash or property or (E) Borrower shall authorize the voluntary or involuntary dissolution, liquidation or winding up of the affairs of Borrower, then, in each case, Borrower shall cause to be filed at each office or agency maintained for the purpose of conversion of this Note, and shall cause to be delivered to the Holder at its last address as it shall appear in the books and records of Borrower, at least twenty (20) calendar days prior to the applicable record or effective date hereinafter specified, a notice stating (x) the date on which a record is to be taken for the purpose of such dividend, distribution, redemption, rights or warrants, or if a record is not to be taken, the date as of which the holders of the Common Stock of record to be entitled to such dividend, distributions, redemption, rights or warrants are to be determined or (y) the date on which such reclassification, consolidation, merger, sale, transfer or share exchange is expected to become effective or close, and the date as of which it is expected that holders of the Common Stock of record shall be entitled to exchange their shares of the Common Stock for securities, cash or other property deliverable upon such reclassification, consolidation, merger, sale, transfer or share exchange, provided that the failure to deliver such notice or any defect therein or in the delivery thereof shall not affect the validity of the corporate action required to be specified in such notice. To the extent that any notice provided hereunder constitutes, or contains, material, non-public information regarding Borrower, Borrower shall simultaneously file such notice with the TSXV. The Holder shall remain entitled to convert this Note during the 20-day period commencing on the date of such notice through the effective date of the event triggering such notice except as may otherwise be expressly set forth herein.

Section 6. Prepayment/Redemption.

a) General. Except as otherwise provided herein, the Borrower may not prepay or redeem this Note in whole or in part without the prior written consent of the Holder, and to the extent the Borrower agrees with Other Holders to prepay or redeem Other Notes in whole or in part, the Borrower shall offer such prepayment or redemption of this Note on a pro rata basis on the same terms and conditions as agreed upon by the Holder and all Other Holders for such Other Notes.

b) Optional Redemption at Election of Borrower. Following four months plus one day after the Initial Closing Date, and subject to the provisions of this Section 6 and provided that on each day of the twenty (20) Trading Days preceding the Optional Redemption Notice Date (except as waived by Holder): (i) the closing bid price for the Common Stock was above 150% of the Conversion Price, (ii) no Event of Default has occurred that has not been waived by the Purchaser, and (iii) no event which, in the reasonable estimation of the Borrower, could become an Event of Default has occurred that has not been waived by the Purchaser, the Borrower may deliver a notice to the Holder (an “Optional Redemption Notice” and the date such notice is deemed delivered hereunder, the “Optional Redemption Notice Date”) of its irrevocable election to redeem the outstanding principal amount, in whole or in part, of this Note for cash in an amount equal to the Optional Redemption Amount, on the 20th Trading Day following the Optional Redemption Notice Date (such date, the “Optional Redemption Date” and such redemption, the “Optional Redemption”). The Optional Redemption Amount is payable in full on the Optional Redemption Date. The Borrower covenants and agrees that it will honor all Notices of Conversion tendered from the Optional Redemption Notice Date through the date all amounts owing on the Optional Redemption Date are paid in full.

c) Redemption Procedure. The payment of cash pursuant to an Optional Redemption shall be payable on the Optional Redemption Date. If any portion of the payment pursuant to an Optional Redemption shall not be paid by the Borrower by the applicable due date, interest shall accrue thereon at an interest rate equal to the lesser of ten percent (10%) per annum or the maximum rate permitted by applicable law until such amount is paid in full. Notwithstanding anything herein contained to the contrary, if any portion of the Optional Redemption Amount remains unpaid after such date, the Holder may elect, by written notice to the Borrower given at any time thereafter, to invalidate such Optional Redemption with respect to any or all of the unpaid portion of the Optional Redemption Amount, and the Borrower shall have no further right to exercise such Optional Redemption and the Holder will be entitled to receive interest which may have accrued at the rate stated above and declare the failure to timely pay the Optional Redemption Amount as an Event of Default.

Section 7. Negative Covenants. As long as any portion of this Note remains outstanding, unless the holders of at least 51% in principal amount of the then outstanding Notes shall have otherwise given prior written consent, Borrower shall not, directly or indirectly:

a) other than Permitted Liens, and as may otherwise be permitted pursuant to the Purchase Agreement, enter into, create, incur, assume or suffer to exist any Liens of any kind, on or with respect to any of its Collateral (as such term is defined in the Purchase Agreement) or any interest therein or any income or profits therefrom;

b) amend its charter documents, including, without limitation, its certificate of incorporation and bylaws, in any manner that materially and adversely affects any rights of the Holder;

c) repay, repurchase or offer to repay, repurchase or otherwise acquire more than a de minimis number of shares of its Common Stock or Common Stock Equivalents other than Conversion Shares or Warrant Shares as permitted or required under the Transaction Documents;

d) pay cash dividends or distributions on any equity securities of Borrower;

e) enter into any transaction with any Affiliate of Borrower, unless such transaction is made on an arm's-length basis and expressly approved by a majority of the disinterested directors of Borrower (even if less than a quorum otherwise required for board approval), except with respect to the sale of its fuels distribution business; or

f) enter into any agreement with respect to any of the foregoing.

Section 8. Events of Default.

a) "Event of Default" means, wherever used herein, any of the following events (whatever the reason for such event and whether such event shall be voluntary or involuntary or effected by operation of law or pursuant to any judgment, decree or order of any court, or any order, rule or regulation of any administrative or governmental body):

i. any default in the payment of (A) the principal amount or interest of any Note or (B) liquidated damages and other amounts owing to a Holder on any Note, as and when the same shall become due and payable (whether on a Conversion Date or the Maturity Date or by acceleration or otherwise) which default, solely in the case of a default under clause (B) above, is not cured within 3 Trading Days after Borrower has become or should have become aware of such default;

ii. Borrower shall fail to observe or perform any other covenant or agreement contained in the Notes (other than a breach by Borrower of its obligations to deliver shares of Common Stock to the Holder upon conversion, which breach is addressed in clause (x) below) which failure is not cured, if possible to cure, within the earlier to occur of (A) 5 Trading Days after notice of such failure sent by the Holder or by any Other Holder to Borrower and (B) 10 Trading Days after Borrower has become or should have become aware of such failure;

iii. a default or event of default (subject to any grace or cure period provided in the applicable agreement, document or instrument) shall occur under (A) any of the Transaction Documents, including but not limited to failure to strictly comply with the provisions of the Warrants, or (B) any other material agreement, lease, document or instrument to which Borrower is obligated (and not covered by clause (vi) below);

iv. any representation or warranty made in this Note, any other Transaction Documents, any written statement pursuant hereto or thereto or any other report, financial statement or certificate made or delivered to the Holder or any Other Holder shall be untrue or incorrect in any material respect as of the date when made or deemed made;

v. Borrower shall be subject to a Bankruptcy Event;

vi. Borrower shall default on any of its obligations under any mortgage, credit agreement or other facility, indenture agreement, factoring agreement or other instrument under which there may be issued, or by which there may be secured or evidenced, any indebtedness for borrowed money or money due under any long term leasing or factoring arrangement that (a) involves an obligation greater than \$100,000, whether such indebtedness now exists or shall hereafter be created, and (b) results in such indebtedness becoming or being declared due and payable prior to the date on which it would otherwise become due and payable;

vii. Borrower shall agree to sell or dispose of all or in excess of 30% of its assets in one transaction or a series of related transactions, except for the sale of its fuels distribution business;

viii. Borrower is in material default under Securities Laws or the policies of the TSXV;

ix. Borrower shall fail for any reason to deliver certificates representing Conversion Shares and Warrants to a Holder within the timeline established in Section 4(c)(ii) or Borrower shall provide at any time notice to the Holder, including by way of public announcement, of Borrower's intention to not honor requests for conversions of any Notes in accordance with the terms hereof;

x. any Person shall breach any agreement delivered to the initial Holders pursuant to Section 2.2 or 2.5 of the Purchase Agreement;

xi. any monetary judgment, writ or similar final process shall be entered or filed against Borrower, or any of its property or other assets for more than \$100,000, and such judgment, writ or similar final process shall remain unvacated, unbonded or unstayed for a period of 60 calendar days;

xii. any dissolution, liquidation or winding up by Borrower of a substantial portion of their business;

xiii. cessation of operations by Borrower;

xiv. the failure by Borrower to maintain any material intellectual property rights, personal, real property, equipment, leases or other assets which are necessary to conduct its oil sands extraction business (whether now or in the future) and such breach is not cured with twenty (20) days after written notice to the Borrower from the Holder;

xv. An event resulting in the Common Stock no longer being listed or quoted on a Trading Market, or notification from a Trading Market that the Borrower is not in compliance with the conditions for such continued quotation and such non-compliance continues for twenty (20) days following such notification;

xvi. a judicial or regulatory suspension from its principal Trading Market;

xvii. the restatement after the date hereof of any financial statements filed by the Borrower and available on SEDAR for any date or period from two years prior to the Original Issue Date and until this Note is no longer outstanding, if the result of such restatement would, by comparison to the unrestated financial statements, have constituted a Material Adverse Effect. For the avoidance of doubt, any restatement related to new accounting pronouncements shall not constitute a default under this Section;

xviii. the Borrower effectuates a reverse split of its Common Stock without ten (10) days prior written notice to the Holder;

xix. a failure by Borrower to notify Holder of any material event of which Borrower is obligated to notify Holder pursuant to the terms of this Note or any other Transaction Document which has not been waived by such Holder;

xx. a default by the Borrower of a material term, covenant, warranty or undertaking of any other agreement to which the Borrower and Holder are parties, or the occurrence of an event of default under any such other agreement to which Borrower and Holder are parties which is not cured after any required notice and/or cure period and not waived by such Holder;

xxi. the occurrence of an Event of Default under any Other Note; or

xxii. any material provision of any Transaction Document shall at any time for any reason (other than pursuant to the express terms thereof) cease to be valid and binding on or enforceable against the Borrower, or the validity or enforceability thereof shall be contested by Borrower, or a proceeding shall be commenced by Borrower or any governmental authority having jurisdiction over Borrower or Holder, seeking to establish the invalidity or unenforceability thereof, or Borrower shall deny in writing that it has any liability or obligation purported to be created under any Transaction Document.

b) Remedies Upon Event of Default and Fundamental Transaction. If any Fundamental Transaction occurs, the outstanding principal amount of this Note, liquidated damages and other amounts owing in respect thereof through the date of acceleration, shall become, at the Holder's election, immediately due and payable in cash at the Mandatory Default Amount. Commencing on the Maturity Date and also five (5) days after the occurrence of any Event of Default interest on this Note shall accrue at an interest rate equal to the lesser of ten percent (10%) per annum or the maximum rate permitted under applicable law. Upon the payment in full of the Mandatory Default Amount, or all other sums payable in connection with this Note, the Holder shall surrender this Note to or as directed by Borrower. In connection with such acceleration described herein, the Holder need not provide, and Borrower hereby waives, any presentment, demand, protest or other notice of any kind, and the Holder may immediately and without expiration of any grace period enforce any and all of its rights and remedies hereunder and all other remedies available to it under applicable law. Such acceleration may be rescinded and annulled by Holder at any time prior to payment hereunder and the Holder shall have all rights as a holder of the Note until such time, if any, as the Holder receives full payment pursuant to this Section 8(b). No such rescission or annulment shall affect any subsequent Event of Default, Fundamental Transaction or impair any right consequent thereon.

Section 9. Security Interest. This Note is secured by a security interest granted to the Holder pursuant to a Security Agreement, as delivered by Borrower to Holder.

Section 10. Miscellaneous.

a) Notices. All notices, demands, requests, consents, approvals, and other communications required or permitted hereunder shall be in writing and, unless otherwise specified herein, shall be (i) personally served, (ii) deposited in the mail, registered or certified, return receipt requested, postage prepaid, (iii) delivered by reputable air courier service with charges prepaid, or (iv) transmitted by hand delivery, telegram, or facsimile, addressed as set forth below or to such other address as such party shall have specified most recently by written notice. Any notice or other communication required or permitted to be given hereunder shall be deemed effective (a) upon hand delivery or delivery by facsimile, with accurate confirmation generated by the transmitting facsimile machine, at the address or number designated below (if delivered on a business day during normal business hours where such notice is to be received), or the first business day following such delivery (if delivered other than on a business day during normal business hours where such notice is to be received) or (b) on the second business day following the date of mailing by express courier service, fully prepaid, addressed to such address, or upon actual receipt of such mailing, whichever shall first occur. The addresses for such communications shall be: (i) if to Borrower, to: MCW Energy Group Limited, 344 Mira Loma Avenue, Glendale, CA 91204, Attn: Alex Blyumkin, Executive Chairman, facsimile: 866-571-9613, with a copy by email only to (which shall not constitute notice): robbie.grossman@mcmillan.ca, and (ii) if to the Holder, to: the address and fax number indicated on the front page of this Note, with an additional copy by fax only to (which shall not constitute notice): Grushko & Mittman, P.C., 515 Rockaway Avenue, Valley Stream, New York 11581, facsimile: (212) 697-3575.

b) Absolute Obligation. Except as expressly provided herein, no provision of this Note shall alter or impair the obligation of Borrower, which is absolute and unconditional, to pay the principal of, liquidated damages and accrued interest, as applicable, on this Note at the time, place, and rate, and in the coin or currency, herein prescribed. This Note is a direct debt obligation of Borrower. This Note ranks pari passu with all other Notes now or hereafter issued under the terms set forth herein.

c) Lost or Mutilated Note. If this Note shall be mutilated, lost, stolen or destroyed, Borrower shall execute and deliver, in exchange and substitution for and upon cancellation of a mutilated Note, or in lieu of or in substitution for a lost, stolen or destroyed Note, a new Note for the principal amount of this Note so mutilated, lost, stolen or destroyed, but only upon receipt of evidence of such loss, theft or destruction of such Note, and of the ownership hereof, reasonably satisfactory to Borrower.

d) Governing Law. All questions concerning the construction, validity, enforcement and interpretation of this Note shall be governed by and construed and enforced in accordance with the internal laws of the State of New York, without regard to the principles of conflict of laws thereof. Each party agrees that all legal proceedings concerning the interpretation, enforcement and defense of the transactions contemplated by any of the Transaction Documents (whether brought against a party hereto or its respective Affiliates, directors, officers, shareholders, employees or agents) shall be commenced in the state and federal courts sitting in the City of New York, Borough of Manhattan (the "New York Courts") or solely at the election of Holder in a court of appropriate jurisdiction in the Province of Ontario, or any jurisdiction where collateral under the Loan Documents or a guarantor of this Note is situated. Each party hereto hereby irrevocably submits to the exclusive jurisdiction of the New York Courts for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein (including with respect to the enforcement of any of the Transaction Documents), and hereby irrevocably waives, and agrees not to assert in any suit, action or proceeding, any claim that it is not personally subject to the jurisdiction of such New York Courts, or such New York Courts are improper or an inconvenient venue for such proceeding. Each party hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or proceeding by mailing a copy thereof via registered or certified mail or overnight delivery (with evidence of delivery) to such party at the address in effect for notices to it under this Note and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any other manner permitted by applicable law. Each party hereto hereby irrevocably waives, to the fullest extent permitted by applicable law, any and all right to trial by jury in any legal proceeding arising out of or relating to this Note or the transactions contemplated hereby. If any party shall commence an action or proceeding to enforce any provisions of this Note, then the prevailing party in such action or proceeding shall be reimbursed by the other party for its reasonable attorneys' fees and other costs and expenses incurred in the investigation, preparation and prosecution of such action or proceeding. **This Note shall be deemed an unconditional obligation of Borrower for the payment of money and, without limitation to any other remedies of Holder, may be enforced against Borrower by summary proceeding pursuant to New York Civil Procedure Law and Rules Section 3213 or any similar rule or statute in the jurisdiction where enforcement is sought. For purposes of such rule or statute, any other document or agreement to which Holder and Borrower are parties or which Borrower delivered to Holder, which may be convenient or necessary to determine Holder's rights hereunder or Borrower's obligations to Holder are deemed a part of this Note, whether or not such other document or agreement was delivered together herewith or was executed apart from this Note.**

e) Waiver. Any waiver by Borrower or the Holder of a breach of any provision of this Note shall not operate as or be construed to be a waiver of any other breach of such provision or of any breach of any other provision of this Note. The failure of Borrower or the Holder to insist upon strict adherence to any term of this Note on one or more occasions shall not be considered a waiver or deprive that party of the right thereafter to insist upon strict adherence to that term or any other term of this Note on any other occasion. Any waiver by Borrower or the Holder must be in writing.

f) Severability. If any provision of this Note is invalid, illegal or unenforceable, the balance of this Note shall remain in effect, and if any provision is inapplicable to any Person or circumstance, it shall nevertheless remain applicable to all other Persons and circumstances.

g) Usury. If it shall be found that any interest or other amount deemed interest due hereunder violates the applicable law governing usury, the applicable rate of interest due hereunder shall automatically be lowered to equal the maximum rate of interest permitted under applicable law. Borrower covenants (to the extent that it may lawfully do so) that it shall not at any time insist upon, plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay, extension or usury law or other law which would prohibit or forgive Borrower from paying all or any portion of the principal of or interest on this Note as contemplated herein, wherever enacted, now or at any time hereafter in force, or which may affect the covenants or the performance of this Note, and Borrower (to the extent it may lawfully do so) hereby expressly waives all benefits or advantage of any such law, and covenants that it will not, by resort to any such law, hinder, delay or impede the execution of any power herein granted to the Holder, but will suffer and permit the execution of every such as though no such law has been enacted.

h) Next Business Day. Whenever any payment or other obligation hereunder shall be due on a day other than a Business Day, such payment shall be made on the next succeeding Business Day.

i) Headings. The headings contained herein are for convenience only, do not constitute a part of this Note and shall not be deemed to limit or affect any of the provisions hereof.

j) Amendment. Unless otherwise provided for hereunder, this Note may not be modified or amended or the provisions hereof waived without the written consent of Borrower and the Holder.

k) Facsimile Signature. In the event that the Borrower's signature is delivered by facsimile transmission, PDF, electronic signature or other similar electronic means, such signature shall create a valid and binding obligation of the Borrower with the same force and effect as if such signature page were an original thereof.

(Signature Pages Follow)

IN WITNESS WHEREOF, Borrower has caused this Note to be signed in its name by an authorized officer as of the 24th day of November, 2014.

MCW ENERGY GROUP LIMITED

By: /s/ Alex Blyumkin
Name: Alex Blyumkin
Title: Executive Chairman

WITNESS:

ANNEX A

NOTICE OF CONVERSION

The undersigned hereby elects to convert principal under the Convertible Note due **May 24, 2016** of MCW Energy Group Limited, a corporation amalgamated pursuant to the laws of the Province of Ontario (the "Borrower"), into shares of common stock (the "Common Stock"), of Borrower according to the conditions hereof, as of the date written below. If shares of Common Stock are to be issued in the name of a person other than the undersigned, the undersigned will pay all transfer taxes payable with respect thereto and is delivering herewith such certificates and opinions as reasonably requested by Borrower in accordance therewith. No fee will be charged to the holder for any conversion, except for such transfer taxes, if any.

The undersigned agrees to comply with the prospectus delivery requirements under the applicable securities laws in connection with any transfer of the aforesaid shares of Common Stock.

Conversion calculations:

Date to Effect Conversion: _____

Principal Amount of Note to be Converted: \$ _____

Interest Amount to be Converted: \$ _____

Number of shares of Common Stock to be issued: _____

Number of Warrants to be delivered: _____

Signature: _____

Name: _____

Address for Delivery of Common Stock Certificates: _____

Or

DWAC Instructions: _____

Broker No: _____

Account No: _____

THIS CONVERTIBLE DEBENTURE MAY NOT BE CONVERTED BY OR FOR THE ACCOUNT OR BENEFIT OF A “U.S. PERSON” OR A PERSON IN THE UNITED STATES UNLESS THE CONVERTIBLE DEBENTURE AND THE UNDERLYING SECURITIES HAVE BEEN REGISTERED UNDER THE U.S. SECURITIES ACT AND THE APPLICABLE SECURITIES LEGISLATION OF ANY SUCH STATE, OR AN EXEMPTION FROM SUCH REGISTRATION REQUIREMENTS IS AVAILABLE. “UNITED STATES” AND “U.S. PERSON” ARE AS DEFINED BY REGULATION S UNDER THE U.S. SECURITIES ACT.

THE SECURITIES REPRESENTED HEREBY AND THE SECURITIES ISSUABLE UPON CONVERSION THEREOF HAVE NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “U.S. SECURITIES ACT”), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. THE HOLDER HEREOF, BY PURCHASING SUCH SECURITIES, AGREES FOR THE BENEFIT OF THE BORROWER THAT SUCH SECURITIES MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED, DIRECTLY OR INDIRECTLY, ONLY (A) TO THE BORROWER; (B) OUTSIDE THE UNITED STATES IN ACCORDANCE WITH RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT AND IN ACCORDANCE WITH ALL LOCAL LAWS AND REGULATIONS; (C) IN ACCORDANCE WITH THE EXEMPTION FROM REGISTRATION UNDER THE U.S. SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER, IF AVAILABLE, AND IN COMPLIANCE WITH ANY APPLICABLE STATE SECURITIES LAWS; OR (D) IN A TRANSACTION THAT DOES NOT REQUIRE REGISTRATION UNDER THE U.S. SECURITIES ACT AND ANY APPLICABLE STATE SECURITIES LAWS. THE PRESENCE OF THIS LEGEND MAY IMPAIR THE ABILITY OF THE HOLDER HEREOF TO EFFECT “GOOD DELIVERY” OF THE SECURITIES REPRESENTED HEREBY ON A CANADIAN STOCK EXCHANGE.

UNLESS PERMITTED UNDER SECURITIES LEGISLATION, THE HOLDER OF THIS SECURITY MUST NOT TRADE THE SECURITY UNTIL 4 MONTHS AND 1 DAY FROM THE DATE OF THE ORIGINAL ISSUANCE.

Original Issue Date: **December 15, 2017**

Principal Amount: \$555,556

Purchase Price: \$500,000

**SECURED CONVERTIBLE NOTE
DUE JUNE 15, 2017**

THIS CONVERTIBLE NOTE is one of a series of duly authorized and validly issued Notes of MCW Energy Group Limited, a corporation amalgamated under the laws of the Province of Ontario (the “Borrower”), having its principal place of business at 10351 Santa Monica Blvd., Suite 420, Los Angeles, California, 90025, due **June 15, 2017** (this note, the “Note” and, collectively with the other notes of such series, the “Notes”).

FOR VALUE RECEIVED, Borrower promises to pay to ALPHA CAPITAL ANSTALT at Pradafant 7, 9490 Furstentums, Vaduz, Lichtenstein or its registered assigns (the “Holder”), or shall have paid pursuant to the terms hereunder, the principal sum of \$555,556 on **June 15, 2017** (the “Maturity Date”) or such earlier date as this Note is required or permitted to be repaid as provided hereunder, and to pay interest to the Holder on the aggregate unconverted and then outstanding principal amount of this Note in accordance with the provisions hereof.

This Note is subject to the following additional provisions:

Section 1. Definitions. For the purposes hereof, in addition to the terms defined elsewhere in this Note, (a) capitalized terms not otherwise defined herein shall have the meanings set forth in the Purchase Agreement and (b) the following terms shall have the following meanings:

“Alternate Consideration” shall have the meaning set forth in Section 5(d).

“Bankruptcy Event” means any of the following events: (a) Borrower commences a case or other proceeding under any bankruptcy, reorganization, arrangement, adjustment of debt, relief of debtors, dissolution, insolvency or liquidation or similar law of any jurisdiction relating to Borrower, (b) there is commenced against Borrower any such case or proceeding that is not dismissed within 60 days after commencement, (c) Borrower is adjudicated insolvent or bankrupt or any order of relief or other order approving any such case or proceeding is entered, (d) Borrower suffers any appointment of any custodian or the like for it or any substantial part of its property that is not discharged or stayed within 60 calendar days after such appointment, (e) Borrower makes a general assignment for the benefit of creditors, (f) Borrower calls a meeting of its creditors with a view to arranging a composition, adjustment or restructuring of its debts or (g) Borrower, by any act or failure to act, expressly indicates its consent to, approval of or acquiescence in any of the foregoing or takes any corporate or other action for the purpose of effecting any of the foregoing.

“Business Day” means any day except any Saturday, any Sunday, any day which is a federal legal holiday in the United States, a statutory or civil holiday in the Province of Ontario, or any day on which banking institutions in the State of New York or the Province of Ontario are authorized or required by law or other governmental action to close.

“Buy-In” shall have the meaning set forth in Section 4(c)(v).

“Conversion” shall have the meaning ascribed to such term in Section 4.

“Conversion Date” shall have the meaning set forth in Section 4(a).

“Conversion Price” shall have the meaning set forth in Section 4(b).

“Conversion Shares” means, collectively, the shares of Common Stock issuable upon conversion of this Note in accordance with the terms hereof.

“Equity Conditions” means, during the period in question, (a) Borrower shall have duly honored all conversions scheduled to occur or occurring by virtue of one or more Notices of Conversion of the applicable Holder on or prior to the dates so requested or required, if any, (b) Borrower shall have paid all liquidated damages and other amounts owing to the applicable Holder in respect of this Note and the other Transaction Documents, (c) the Common Stock is trading on a Trading Market and all of the shares issuable pursuant to the Transaction Documents are listed or quoted for trading on such Trading Market (and Borrower believes, in good faith, that trading of the Common Stock on a Trading Market will continue uninterrupted (subject to standard halts imposed by regulators or stock exchanges in the ordinary course) for as long as this Note remains outstanding, (d) there is a sufficient number of authorized, but unissued and otherwise unreserved, shares of Common Stock for the issuance of all of the shares then issuable pursuant to the Transaction Documents, (e) an Event of Default has not occurred, which is continuing or has not been cured by the Borrower or waived by the Holder, (f) to the knowledge of the Borrower, there is no existing event which, with the passage of time or the giving of notice, would constitute an Event of Default, and (g) there has been no public announcement of a pending or proposed Fundamental Transaction that has not been consummated.

“Event of Default” shall have the meaning set forth in Section 8(a).

“Fundamental Transaction” shall have the meaning set forth in Section 5(d).

“Interest Conversion Price” shall have the meaning set forth in Section 2(a).

“Interest Payment Date” shall have the meaning set forth in Section 2(a).

“Interest Share Amount” shall have the meaning set forth in Section 2(a).

“Liens” means a lien, charge, pledge, security interest, encumbrance, right of first refusal, preemptive right or other restriction.

“Mandatory Default Amount” means the sum of (a) 115% of the outstanding principal amount of this Note and (b) interest and all other amounts, costs, expenses and liquidated damages due in respect of this Note.

“New York Courts” shall have the meaning set forth in Section 10(d).

“Notice of Conversion” shall have the meaning set forth in Section 4(a).

“Optional Redemption” shall have the meaning set forth in Section 6(b).

“Optional Redemption Amount” means the sum of (i) 110% of the outstanding principal amount of this Note, and (b) interest and all other amounts, costs, expenses and liquidated damages due in respect of this Note.

“Optional Redemption Date” shall have the meaning set forth in Section 6(b).

“Optional Redemption Notice” shall have the meaning set forth in Section 6(b).

“Optional Redemption Notice Date” shall have the meaning set forth in Section 6(b).

“Original Issue Date” means the date of the first issuance of the Notes, regardless of any transfers of any Note and regardless of the number of instruments which may be issued to evidence such Notes.

“Other Holders” means holders of Other Notes.

“Other Notes” means Notes nearly identical to this Note issued to other Holders pursuant to the Purchase Agreement.

“Permitted Liens” shall have the meaning set forth in the Purchase Agreement.

“Purchase Agreement” means the Securities Purchase Agreement, dated as of December 15, 2015 among Borrower and the original Holders, as amended, modified or supplemented from time to time in accordance with its terms.

“Share Delivery Date” shall have the meaning set forth in Section 4(c)(ii).

“Successor Entity” shall have the meaning set forth in Section 5(d).

“Trading Day” means a day on which the principal Trading Market is open for trading.

“Trading Market” means any of the following markets or exchanges on which the Common Stock is listed or quoted for trading on the date in question: the Toronto Stock Exchange, the NYSE MKT, the Nasdaq Capital Market, the Nasdaq Global Market, the Nasdaq Global Select Market, the New York Stock Exchange, the OTC Bulletin Board, the OTCQB, the OTCQX, the TSXV (or any successors to any of the foregoing). As of the Initial Closing Date, the TSXV is the principal Trading Market.

“Underlying Shares” means all of the Conversion Shares and all of the Warrant Shares issuable upon exercise of the Warrants issued pursuant to the Purchase Agreement and upon conversion of this Note.

“U.S. Securities Act” means the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

“Warrants” means, collectively, the Common Stock purchase warrants to be delivered to the Holders upon conversion of the Notes in accordance with the Notes, which Warrants shall be exercisable immediately and have a term of exercise equal to five (5) years from the date of issuance of such Note and be in the form of Exhibit B attached to the Purchase Agreement.

Section 2. Interest.

a) Interest in Cash or in Kind. Holder shall be entitled to receive, and Borrower shall pay, cumulative interest on the outstanding principal amount of this Note compounded annually at the annual rate of five percent (5%) (subject to increase as set forth in this Note), payable quarterly on March 31, June 30, September 30, and December 31, beginning on the second such date after the Original Issue Date and on each Conversion Date (with respect only to Note principal being converted) (each such date, an “Interest Payment Date”) (if any Interest Payment Date is not a Business Day, the applicable payment shall be due on the next succeeding Business Day) in cash. Interest may be paid, at the option of Borrower, in cash, in duly authorized, validly issued, fully paid and non-assessable shares of Common Stock as set forth in this Section 2(a), or a combination thereof in each case as provided in the next sentence (the amount to be paid in shares of Common Stock, the “Interest Share Amount”). The Common Stock to be paid in satisfaction of the Interest Share Amount shall be valued solely for such purpose at the Discounted Market Price (as such term is defined by the TSXV) as of the close of trading on the Interest Payment Date, pursuant to a Shares for Debt application with the TSXV (the “Interest Conversion Price”). Borrower may not pay interest by delivery of Common Stock without the consent of the Holder in the event that the Equity Conditions are not in effect on each day from the tenth Trading Day preceding the relevant Interest Payment Date through the date the Interest Share Amount is delivered to the Holder. Borrower must notify the Holder not less than ten (10) Trading Days prior to an Interest Payment Date if it intends to pay interest due on such Interest Payment Date by delivery of an Interest Share Amount. If Borrower fails to provide such notice, the Holder may elect to receive the Interest Share Amount in lieu of cash by notifying Borrower any time prior to the relevant Interest Payment Date.

b) Payment Grace Period. The Borrower shall not have any grace period to pay any monetary amounts due under this Note.

c) Conversion Privileges. The Conversion Rights set forth in Section 4 shall remain in full force and effect immediately from the date hereof and until the Note is paid in full regardless of the occurrence of an Event of Default. This Note shall be payable in full on the Maturity Date, unless previously converted into Common Stock in accordance with Section 4 hereof.

d) Application of Payments. Interest on this Note shall be calculated on the basis of a 360-day year and the actual number of days elapsed. Payments made in connection with this Note shall be applied first to amounts due hereunder other than principal and interest, thereafter to interest and finally to principal.

e) Pari Passu. Except as otherwise set forth herein, all payments made on this Note and the Other Notes and all actions taken by the Borrower with respect to this Note and the Other Notes, including but not limited to Mandatory Conversion, shall be made and taken *pari passu* with respect to this Note and the Other Notes. Notwithstanding anything to the contrary contained herein or in the Transaction Documents, it shall not be considered non-*pari passu* for a Holder or Other Holder to elect to receive interest paid in shares of Common Stock or for the Borrower to actually pay interest in shares of Common Stock to such electing Holder or Other Holder.

f) Manner and Place of Payment. Principal and interest on this Note and other payments in connection with this Note shall be payable at the Holder's offices as designated above in lawful money of the United States of America in immediately available funds without set-off, deduction or counterclaim. Upon assignment of the interest of Holder in this Note, Borrower shall instead make its payment pursuant to the assignee's instructions upon receipt of written notice thereof. Except as set forth herein, this Note may not be prepaid or mandatorily converted without the consent of the Holder.

Section 3. Registration of Transfers and Exchanges.

a) Different Denominations. Subject to compliance with applicable Securities Laws, this Note is exchangeable for an equal aggregate principal amount of Notes of different authorized denominations, as requested by the Holder surrendering the same. No service charge will be payable for such registration of transfer or exchange.

b) Investment Representations. This Note has been issued subject to certain investment representations of the original Holder set forth in the Purchase Agreement and may be transferred or exchanged only in compliance with the Purchase Agreement and applicable federal and state securities laws and regulations.

c) Reliance on Books and Records. Prior to due presentment for transfer to Borrower of this Note, Borrower and any agent of Borrower may treat the Person in whose name this Note is duly registered on the books and records of the Borrower as the owner hereof for the purpose of receiving payment as herein provided and for all other purposes, whether or not this Note is overdue, and neither Borrower nor any such agent shall be affected by notice to the contrary.

Section 4. Conversion.

a) Voluntary Conversion. At any time commencing four (4) months after the Original Issue Date until this Note is no longer outstanding, this Note shall be convertible, in whole or in part, into shares of Common Stock at the option of the Holder, at any time and from time to time. The Holder shall effect conversions by delivering to Borrower a Notice of Conversion, the form of which is attached hereto as Annex A (each, a “Notice of Conversion”), specifying therein the principal amount of this Note to be converted and the date on which such conversion shall be effected (such date, the “Conversion Date”). If no Conversion Date is specified in a Notice of Conversion, the Conversion Date shall be the date that such Notice of Conversion is deemed delivered hereunder. To effect conversions hereunder, the Holder shall not be required to physically surrender this Note to Borrower unless the entire principal amount of this Note has been so converted. Conversions hereunder shall have the effect of lowering the outstanding principal amount of this Note in an amount equal to the applicable conversion. The Holder and Borrower shall maintain records showing the principal amount(s) converted and the date of such conversion(s). Borrower may deliver an objection to any Notice of Conversion within one (1) Business Day of delivery of such Notice of Conversion. In the event of any dispute or discrepancy, the records of the Holder shall be controlling and determinative in the absence of manifest error. **The Holder, and any assignee by acceptance of this Note, acknowledge and agree that, by reason of the provisions of this paragraph, following conversion of a portion of this Note, the unpaid and unconverted principal amount of this Note may be less than the amount stated on the face hereof.**

b) Conversion Price. The conversion price for the principal in connection with voluntary conversions by the Holder shall be CAD\$0.47 (equal to USD\$0.34794 based on the nominal noon exchange rate as reported by the Bank of Canada for the conversion of United States dollars into Canadian dollars on December 7, 2015), subject to adjustment herein (the “Conversion Price”).

c) Mechanics of Conversion.

i. Conversion Shares Issuable Upon Conversion of Principal Amount. The number of Conversion Shares issuable upon a conversion hereunder shall be determined by the quotient obtained by dividing (x) the outstanding principal amount of this Note to be converted by (y) the Conversion Price.

ii. Delivery of Certificate Upon Conversion. Not later than six (6) Trading Days after each Conversion Date (the “Share Delivery Date”), Borrower shall deliver, or cause to be delivered, to the Holder a certificate or certificates representing the Conversion Shares which, on or after the date that is four months and one day after the Original Issue Date, shall be free of restrictive legends and trading restrictions, representing the number of Conversion Shares being acquired upon the conversion of this Note. Contemporaneously with the delivery of the Conversion Shares certificates, the Borrower shall deliver an original Warrant certificate representing the right to acquire an amount of Warrant Shares equal to the amount of Conversion Shares required to be delivered.

iii. Failure to Deliver Certificates. If, in the case of any Notice of Conversion, such Common Stock or Warrant certificate or certificates are not delivered to or as directed by the applicable Holder by the Share Delivery Date, the Holder shall be entitled to elect by written notice to Borrower at any time on or before its receipt of such certificate or certificates, to rescind such Conversion, in which event Borrower shall promptly return to the Holder any original Note delivered to Borrower and the Holder shall promptly return to Borrower the Common Stock certificates issued to such Holder pursuant to the rescinded Conversion Notice.

iv. Obligation Absolute: Partial Liquidated Damages. Borrower's obligations to issue and deliver the Conversion Shares and Warrants upon conversion of this Note in accordance with the terms hereof are absolute and unconditional, irrespective of any action or inaction by the Holder to enforce the same, any waiver or consent with respect to any provision hereof, the recovery of any judgment against any Person or any action to enforce the same, or any setoff, counterclaim, recoupment, limitation or termination, or any breach or alleged breach by the Holder or any other Person of any obligation to Borrower or any violation or alleged violation of law by the Holder or any other Person, and irrespective of any other circumstance which might otherwise limit such obligation of Borrower to the Holder in connection with the issuance of such Conversion Shares and Warrants; provided, however, that such delivery shall not operate as a waiver by Borrower of any such action Borrower may have against the Holder. In the event the Holder of this Note shall elect to convert any or all of the outstanding principal amount hereof, Borrower may not refuse conversion based on any claim that the Holder or anyone associated or affiliated with the Holder has been engaged in any violation of law, agreement or for any other reason, unless an injunction from a court, on notice to Holder, restraining and or enjoining conversion of all or part of this Note shall have been sought and obtained, and Borrower posts a surety bond for the benefit of the Holder in the amount of 150% of the outstanding principal amount of this Note and accrued interest, which is subject to the injunction, which bond shall remain in effect until the completion of arbitration/litigation of the underlying dispute and the proceeds of which shall be payable to the Holder to the extent it obtains judgment. In the absence of such injunction, Borrower shall issue Conversion Shares and Warrants, upon a properly noticed conversion. If Borrower fails for any reason to deliver to the Holder such certificate or certificates pursuant to Section 4(c)(ii) by the Share Delivery Date, Borrower shall pay to the Holder, in cash, as liquidated damages and not as a penalty, for each \$1,000 of principal amount being converted, \$10 per Trading Day (increasing to \$20 per Trading Day on the fifth (5th) Trading Day after such liquidated damages being to accrue) for each Trading Day after such Share Delivery Date until such certificates are delivered or Holder rescinds such conversion. Nothing herein shall limit a Holder's right to pursue actual damages or declare an Event of Default pursuant to Section 8 hereof for Borrower's failure to deliver Conversion Shares or Warrants within the period specified herein and the Holder shall have the right to pursue all remedies available to it hereunder, at law or in equity including, without limitation, a decree of specific performance and/or injunctive relief. The exercise of any such rights shall not prohibit the Holder from seeking to enforce damages pursuant to any other Section hereof or under applicable law.

v. Compensation for Buy-In on Failure to Timely Deliver Certificates Upon Conversion. In addition to any other rights available to the Holder, if Borrower fails for any reason, other than delays caused by the applicable courier company retained by the Company's transfer agent, to deliver to the Holder such certificate or certificates by the Share Delivery Date pursuant to Section 4(c)(ii), and if after such Share Delivery Date the Holder is required by its brokerage firm to purchase (in an open market transaction or otherwise), or the Holder or Holder's brokerage firm otherwise purchases, shares of Common Stock to deliver in satisfaction of a sale by the Holder of the Conversion Shares or Warrant Shares which the Holder was entitled to receive upon the Note conversion or Warrant exercise relating to such Share Delivery Date (a "Buy-In"), then, Borrower shall (A) pay in cash to the Holder (in addition to any other remedies available to or elected by the Holder) the amount, if any, by which (x) the Holder's total purchase price (including any brokerage commissions) for the Common Stock so purchased exceeds (y) the product of (1) the aggregate number of shares of Common Stock that the Holder was entitled to receive from the conversion at issue multiplied by (2) the actual sale price at which the sell order giving rise to such purchase obligation was executed (including any brokerage commissions) and (B) at the option of the Holder, either reissue (if surrendered) this Note in a principal amount equal to the principal amount of the attempted conversion or relevant amount of Warrants (in which case such conversion and/or Warrant exercise shall be deemed rescinded) or, subject to TSXV approval, deliver to the Holder the number of shares of Common Stock that would have been issued if Borrower had timely complied with its delivery requirements under Section 4(c)(ii). For example, if the Holder purchases Common Stock having a total purchase price of \$11,000 to cover a Buy-In with respect to an attempted conversion of this Note with respect to which the actual sale price of the Conversion Shares (including any brokerage commissions) giving rise to such purchase obligation was a total of \$10,000 under clause (A) of the immediately preceding sentence, Borrower shall be required to pay the Holder \$1,000. The Holder shall provide Borrower written notice indicating the amounts payable to the Holder in respect of the Buy-In and, upon request of Borrower, evidence of the amount of such loss. Nothing herein shall limit a Holder's right to pursue any other remedies available to it hereunder, at law or in equity including, without limitation, a decree of specific performance and/or injunctive relief with respect to Borrower's failure to timely deliver certificates representing shares of Common Stock upon conversion of this Note as required pursuant to the terms hereof.

vi. Reservation of Shares Issuable Upon Conversion. Borrower covenants that it will at all times reserve and keep available out of its authorized and unissued shares of Common Stock for the sole purpose of issuance upon conversion of this Note as herein provided, free from preemptive rights or any other actual contingent purchase rights of Persons other than the Holder (and the other holders of the Notes), not less than such aggregate number of shares of the Common Stock as shall (subject to the terms and conditions set forth in the Purchase Agreement) be issuable (taking into account the adjustments and restrictions of Section 5) upon the conversion of the then outstanding principal amount of this Note, assuming such principal amount was not converted through the Maturity Date. Borrower covenants that all shares of Common Stock that shall be so issuable shall, upon issue, be duly authorized, validly issued, fully paid and nonassessable.

vii. Fractional Shares. No fractional shares or scrip representing fractional shares shall be issued upon the conversion of this Note. As to any fraction of a share which the Holder would otherwise be entitled to purchase upon such conversion, Borrower shall at its election, either pay a cash adjustment in respect of such final fraction in an amount equal to such fraction multiplied by the Conversion Price or round up to the next whole share.

viii. Transfer Taxes and Expenses. The issuance of certificates for shares of the Common Stock on conversion of this Note shall be made without charge to the Holder hereof for any documentary stamp or similar taxes that may be payable in respect of the issue or delivery of such certificates, provided that, Borrower shall not be required to pay any tax that may be payable in respect of any transfer involved in the issuance and delivery of any such certificate upon conversion in a name other than that of the Holder of this Note so converted and Borrower shall not be required to issue or deliver such certificates unless or until the Person or Persons requesting the issuance thereof shall have paid to Borrower the amount of such tax or shall have established to the satisfaction of Borrower that such tax has been paid. Borrower shall pay all Transfer Agent fees required for same-day processing of any Notice of Conversion.

Section 5. Certain Adjustments.

a) Stock Dividends and Stock Splits. If Borrower, at any time while this Note is outstanding: (i) pays a stock dividend or otherwise makes a distribution or distributions payable in shares of Common Stock on shares of Common Stock or any Common Stock Equivalents (which, for avoidance of doubt, shall not include any shares of Common Stock issued by Borrower upon conversion of the Notes), (ii) subdivides outstanding shares of Common Stock into a larger number of shares, (iii) combines (including by way of a reverse stock split) outstanding shares of Common Stock into a smaller number of shares or (iv) issues, in the event of a reclassification of shares of the Common Stock, any shares of capital stock of Borrower, then the Conversion Price shall be multiplied by a fraction of which the numerator shall be the number of shares of Common Stock (excluding any treasury shares of Borrower) outstanding immediately before such event, and of which the denominator shall be the number of shares of Common Stock outstanding immediately after such event. Any adjustment made pursuant to this Section shall become effective immediately after the record date for the determination of stockholders entitled to receive such dividend or distribution and shall become effective immediately after the effective date in the case of a subdivision, combination or re-classification.

b) Subsequent Rights Offerings. In addition to any adjustments pursuant to Section 5(a) above, if at any time Borrower grants, issues or sells any Common Stock Equivalents or rights to purchase stock, warrants, securities or other property pro rata to the record holders of any class of shares of Common Stock (the "Purchase Rights"), then the Holder will be entitled to acquire, upon the terms applicable to such Purchase Rights, the aggregate Purchase Rights which the Holder could have acquired if the Holder had held the number of shares of Common Stock acquirable upon complete conversion of this Note immediately before the date on which a record is taken for the grant, issuance or sale of such Purchase Rights, or, if no such record is taken, the date as of which the record holders of shares of Common Stock are to be determined for the grant, issue or sale of such Purchase Rights.

c) Pro Rata Distributions. During such time as this Note is outstanding, if Borrower shall declare or make any dividend or other distribution of its assets (or rights to acquire its assets) to holders of shares of Common Stock, by way of return of capital or otherwise (including, without limitation, any distribution of cash, stock or other securities, property or options by way of a dividend, spin off, reclassification, corporate rearrangement, scheme of arrangement or other similar transaction) (a "Distribution"), at any time after the issuance of this Note, then, in each such case, the Holder shall be entitled to participate in such Distribution to the same extent that the Holder would have participated therein if the Holder had held the number of shares of Common Stock acquirable upon complete exercise of this Note immediately before the date of which a record is taken for such Distribution, or, if no such record is taken, the date as of which the record holders of shares of Common Stock are to be determined for the participation in such Distribution.

d) Fundamental Transaction. If, at any time while this Note is outstanding, (i) Borrower, directly or indirectly, in one or more related transactions effects any merger or consolidation of Borrower with or into another Person except in the event of a three-cornered amalgamation where the Borrower is acquired by another entity and the securities of the Borrower are exchanged for securities of another entity and the shareholders of the Borrower hold at least 50% of the acquired entity's shares, (ii) Borrower, directly or indirectly, effects any sale, lease, license, assignment, transfer, conveyance or other disposition of all or substantially all of its assets in one or a series of related transactions, except for the sale of its fuels distribution business, (iii) any, direct or indirect, purchase offer, tender offer or exchange offer (whether by Borrower or another Person) is completed pursuant to which holders of Common Stock are permitted to sell, tender or exchange their shares for other securities, cash or property and has been accepted by the holders of 50% or more of the outstanding Common Stock, (iv) Borrower, directly or indirectly, in one or more related transactions effects any reclassification, reorganization or recapitalization of the Common Stock or any compulsory share exchange pursuant to which the Common Stock is effectively converted into or exchanged for other securities, cash or property except in the event of a three-cornered amalgamation where the Borrower is acquired by another entity and the securities of the Borrower are exchanged for securities of another entity and the shareholders of the Borrower hold at least 50% of the acquired entity's shares, (v) Borrower, directly or indirectly, in one or more related transactions consummates a stock or share purchase agreement or other business combination (including, without limitation, a reorganization, recapitalization, spin-off or scheme of arrangement) with another Person whereby such other Person acquires more than 50% of the outstanding shares of Common Stock (not including any shares of Common Stock held by the other Person or other Persons making or party to, or associated or affiliated with the other Persons making or party to, such stock or share purchase agreement or other business combination) (each a "Fundamental Transaction"), then, upon any subsequent conversion of this Note, the Holder shall have the right to receive, for each Conversion Share that would have been issuable upon such conversion immediately prior to the occurrence of such Fundamental Transaction, the number of shares of Common Stock of the successor or acquiring corporation or of Borrower, if it is the surviving corporation, and any additional consideration (the "Alternate Consideration") receivable as a result of such Fundamental Transaction by a holder of the number of shares of Common Stock for which this Note is convertible immediately prior to such Fundamental Transaction. For purposes of any such conversion, the determination of the Conversion Price shall be appropriately adjusted to apply to such Alternate Consideration based on the amount of Alternate Consideration issuable in respect of one (1) share of Common Stock in such Fundamental Transaction, and Borrower shall apportion the Conversion Price among the Alternate Consideration in a reasonable manner reflecting the relative value of any different components of the Alternate Consideration. If holders of Common Stock are given any choice as to the securities, cash or property to be received in a Fundamental Transaction, then the Holder shall be given the same choice as to the Alternate Consideration it receives upon any conversion of this Note following such Fundamental Transaction. Borrower shall cause any successor entity in a Fundamental Transaction in which Borrower is not the survivor (the "Successor Entity") to assume in writing all of the obligations of Borrower under this Note and the other Transaction Documents (as defined in the Purchase Agreement) in accordance with the provisions of this Section 5(d) pursuant to written agreements in form and substance reasonably satisfactory to the Holder and approved by the Holder (without unreasonable delay) prior to such Fundamental Transaction and shall, at the option of the holder of this Note, deliver to the Holder in exchange for this Note a security of the Successor Entity evidenced by a written instrument substantially similar in form and substance to this Note which is convertible for a corresponding number of shares of capital stock of such Successor Entity (or its parent entity) equivalent to the shares of Common Stock acquirable and receivable upon conversion of this Note (without regard to any limitations on the conversion of this Note) prior to such Fundamental Transaction, and with a conversion price which applies the conversion price hereunder to such shares of capital stock (but taking into account the relative value of the shares of Common Stock pursuant to such Fundamental Transaction and the value of such shares of capital stock, such number of shares of capital stock and such conversion price being for the purpose of protecting the economic value of this Note immediately prior to the consummation of such Fundamental Transaction), and which is reasonably satisfactory in form and substance to the Holder. Upon the occurrence of any such Fundamental Transaction, the Successor Entity shall succeed to, and be substituted for (so that from and after the date of such Fundamental Transaction, the provisions of this Note and the other Transaction Documents referring to the "Company" shall refer instead to the Successor Entity), and may exercise every right and power of Borrower and shall assume all of the obligations of Borrower under this Note and the other Transaction Documents with the same effect as if such Successor Entity had been named as Borrower herein.

e) Calculations. All calculations under this Section 5 shall be made to the nearest cent or the nearest 1/100th of a share, as the case may be. For purposes of this Section 5, the number of shares of Common Stock deemed to be issued and outstanding as of a given date shall be the sum of the number of shares of Common Stock (excluding any treasury shares of Borrower) issued and outstanding.

f) Notice to the Holder.

i. Adjustment to Conversion Price. Whenever the Conversion Price is adjusted pursuant to any provision of this Section 5, Borrower shall promptly deliver to each Holder a notice setting forth the Conversion Price after such adjustment and setting forth a brief statement of the facts requiring such adjustment.

ii. Notice to Allow Conversion by Holder. If (A) Borrower shall declare a dividend (or any other distribution in whatever form) on the Common Stock, (B) Borrower shall declare a special nonrecurring cash dividend on or a redemption of the Common Stock, (C) Borrower shall authorize the granting to all holders of the Common Stock of rights or warrants to subscribe for or purchase any shares of capital stock of any class or of any rights, (D) the approval of any stockholders of Borrower shall be required in connection with any reclassification of the Common Stock, any consolidation or merger to which Borrower is a party, any sale or transfer of all or substantially all of the assets of Borrower, or any compulsory share exchange whereby the Common Stock is converted into other securities, cash or property or (E) Borrower shall authorize the voluntary or involuntary dissolution, liquidation or winding up of the affairs of Borrower, then, in each case, Borrower shall cause to be filed at each office or agency maintained for the purpose of conversion of this Note, and shall cause to be delivered to the Holder at its last address as it shall appear in the books and records of Borrower, at least twenty (20) calendar days prior to the applicable record or effective date hereinafter specified, a notice stating (x) the date on which a record is to be taken for the purpose of such dividend, distribution, redemption, rights or warrants, or if a record is not to be taken, the date as of which the holders of the Common Stock of record to be entitled to such dividend, distributions, redemption, rights or warrants are to be determined or (y) the date on which such reclassification, consolidation, merger, sale, transfer or share exchange is expected to become effective or close, and the date as of which it is expected that holders of the Common Stock of record shall be entitled to exchange their shares of the Common Stock for securities, cash or other property deliverable upon such reclassification, consolidation, merger, sale, transfer or share exchange, provided that the failure to deliver such notice or any defect therein or in the delivery thereof shall not affect the validity of the corporate action required to be specified in such notice. To the extent that any notice provided hereunder constitutes, or contains, material, non-public information regarding Borrower, Borrower shall simultaneously file such notice with the TSXV. The Holder shall remain entitled to convert this Note during the 20-day period commencing on the date of such notice through the effective date of the event triggering such notice except as may otherwise be expressly set forth herein.

Section 6. Prepayment/Redemption.

a) General. Except as otherwise provided herein, the Borrower may not prepay or redeem this Note in whole or in part without the prior written consent of the Holder, and to the extent the Borrower agrees with Other Holders to prepay or redeem Other Notes in whole or in part, the Borrower shall offer such prepayment or redemption of this Note on a pro rata basis on the same terms and conditions as agreed upon by the Holder and all Other Holders for such Other Notes.

b) Optional Redemption at Election of Borrower. Following four months plus one day after the Initial Closing Date, and subject to the provisions of this Section 6 and provided that on each day of the twenty (20) Trading Days preceding the Optional Redemption Notice Date (except as waived by Holder): (i) the closing bid price for the Common Stock was above 150% of the Conversion Price, (ii) no Event of Default has occurred that has not been waived by the Purchaser, and (iii) no event which, in the reasonable estimation of the Borrower, could become an Event of Default has occurred that has not been waived by the Purchaser, the Borrower may deliver a notice to the Holder (an “Optional Redemption Notice” and the date such notice is deemed delivered hereunder, the “Optional Redemption Notice Date”) of its irrevocable election to redeem the outstanding principal amount, in whole or in part, of this Note for cash in an amount equal to the Optional Redemption Amount, on the 20th Trading Day following the Optional Redemption Notice Date (such date, the “Optional Redemption Date” and such redemption, the “Optional Redemption”). The Optional Redemption Amount is payable in full on the Optional Redemption Date. The Borrower covenants and agrees that it will honor all Notices of Conversion tendered from the Optional Redemption Notice Date through the date all amounts owing on the Optional Redemption Date are paid in full.

c) Redemption Procedure. The payment of cash pursuant to an Optional Redemption shall be payable on the Optional Redemption Date. If any portion of the payment pursuant to an Optional Redemption shall not be paid by the Borrower by the applicable due date, interest shall accrue thereon at an interest rate equal to the lesser of ten percent (10%) per annum or the maximum rate permitted by applicable law until such amount is paid in full. Notwithstanding anything herein contained to the contrary, if any portion of the Optional Redemption Amount remains unpaid after such date, the Holder may elect, by written notice to the Borrower given at any time thereafter, to invalidate such Optional Redemption with respect to any or all of the unpaid portion of the Optional Redemption Amount, and the Borrower shall have no further right to exercise such Optional Redemption and the Holder will be entitled to receive interest which may have accrued at the rate stated above and declare the failure to timely pay the Optional Redemption Amount as an Event of Default.

Section 7. Negative Covenants. As long as any portion of this Note remains outstanding, unless the holders of at least 51% in principal amount of the then outstanding Notes shall have otherwise given prior written consent, Borrower shall not, directly or indirectly:

a) other than Permitted Liens, and as may otherwise be permitted pursuant to the Purchase Agreement, enter into, create, incur, assume or suffer to exist any Liens of any kind, on or with respect to any of its Collateral (as such term is defined in the Purchase Agreement) or any interest therein or any income or profits therefrom;

b) amend its charter documents, including, without limitation, its certificate of incorporation and bylaws, in any manner that materially and adversely affects any rights of the Holder;

c) repay, repurchase or offer to repay, repurchase or otherwise acquire more than a de minimis number of shares of its Common Stock or Common Stock Equivalents other than Conversion Shares or Warrant Shares as permitted or required under the Transaction Documents;

d) pay cash dividends or distributions on any equity securities of Borrower;

e) other than with the consent of the Holder, enter into any transaction with any Affiliate of Borrower, unless such transaction is made on an arm’s-length basis and expressly approved by a majority of the disinterested directors of Borrower (even if less than a quorum otherwise required for board approval), or has been disclosed on SEDAR prior to the date hereof; or

f) enter into any agreement with respect to any of the foregoing.

Section 8. Events of Default.

a) “Event of Default” means, wherever used herein, any of the following events (whatever the reason for such event and whether such event shall be voluntary or involuntary or effected by operation of law or pursuant to any judgment, decree or order of any court, or any order, rule or regulation of any administrative or governmental body):

i. any default in the payment of (A) the principal amount or interest of any Note or (B) liquidated damages and other amounts owing to a Holder on any Note, as and when the same shall become due and payable (whether on a Conversion Date or the Maturity Date or by acceleration or otherwise) which default, solely in the case of a default under clause (B) above, is not cured within 3 Trading Days after Borrower has become or should have become aware of such default;

ii. Borrower shall fail to observe or perform any other covenant or agreement contained in the Notes (other than a breach by Borrower of its obligations to deliver shares of Common Stock to the Holder upon conversion, which breach is addressed in clause (x) below) which failure is not cured, if possible to cure, within the earlier to occur of (A) 5 Trading Days after notice of such failure sent by the Holder or by any Other Holder to Borrower and (B) 10 Trading Days after Borrower has become or should have become aware of such failure;

iii. a default or event of default (subject to any grace or cure period provided in the applicable agreement, document or instrument) shall occur under (A) any of the Transaction Documents, including but not limited to failure to strictly comply with the provisions of the Warrants, or (B) any other material agreement, lease, document or instrument to which Borrower is obligated (and not covered by clause (vi) below);

iv. any representation or warranty made in this Note, any other Transaction Documents, any written statement pursuant hereto or thereto or any other report, financial statement or certificate made or delivered to the Holder or any Other Holder shall be untrue or incorrect in any material respect as of the date when made or deemed made;

v. Borrower shall be subject to a Bankruptcy Event;

vi. Borrower shall default on any of its obligations under any mortgage, credit agreement or other facility, indenture agreement, factoring agreement or other instrument under which there may be issued, or by which there may be secured or evidenced, any indebtedness for borrowed money or money due under any long term leasing or factoring arrangement that (a) involves an obligation greater than \$100,000, whether such indebtedness now exists or shall hereafter be created, and (b) results in such indebtedness becoming or being declared due and payable prior to the date on which it would otherwise become due and payable;

vii. Borrower shall agree to sell or dispose of all or in excess of 30% of its assets in one transaction or a series of related transactions, except for the sale of its fuels distribution business;

viii. Borrower is in material default under Securities Laws or the policies of the TSXV;

ix. Borrower shall fail for any reason to deliver certificates representing Conversion Shares and Warrants to a Holder within the timeline established in Section 4(c)(ii) or Borrower shall provide at any time notice to the Holder, including by way of public announcement, of Borrower's intention to not honor requests for conversions of any Notes in accordance with the terms hereof;

x. any Person shall breach any agreement delivered to the initial Holders pursuant to Section 2.2 or 2.5 of the Purchase Agreement;

xi. any monetary judgment, writ or similar final process shall be entered or filed against Borrower, or any of its property or other assets for more than \$100,000, and such judgment, writ or similar final process shall remain unvacated, unbonded or unstayed for a period of 60 calendar days;

xii. any dissolution, liquidation or winding up by Borrower of a substantial portion of their business;

xiii. cessation of operations by Borrower;

xiv. the failure by Borrower to maintain any material intellectual property rights, personal, real property, equipment, leases or other assets which are necessary to conduct its oil sands extraction business (whether now or in the future) and such breach is not cured with twenty (20) days after written notice to the Borrower from the Holder;

xv. An event resulting in the Common Stock no longer being listed or quoted on a Trading Market, or notification from a Trading Market that the Borrower is not in compliance with the conditions for such continued quotation and such non-compliance continues for twenty (20) days following such notification;

xvi. a judicial or regulatory suspension from its principal Trading Market;

xvii. the restatement after the date hereof of any financial statements filed by the Borrower and available on SEDAR for any date or period from two years prior to the Original Issue Date and until this Note is no longer outstanding, if the result of such restatement would, by comparison to the unrestated financial statements, have constituted a Material Adverse Effect. For the avoidance of doubt, any restatement related to new accounting pronouncements shall not constitute a default under this Section;

xviii. the Borrower effectuates a reverse split of its Common Stock without ten (10) days prior written notice to the Holder;

xix. a failure by Borrower to notify Holder of any material event of which Borrower is obligated to notify Holder pursuant to the terms of this Note or any other Transaction Document which has not been waived by such Holder;

xx. a default by the Borrower of a material term, covenant, warranty or undertaking of any other agreement to which the Borrower and Holder are parties, or the occurrence of an event of default under any such other agreement to which Borrower and Holder are parties which is not cured after any required notice and/or cure period and not waived by such Holder;

xxi. the occurrence of an Event of Default under any Other Note; or

xxii. any material provision of any Transaction Document shall at any time for any reason (other than pursuant to the express terms thereof) cease to be valid and binding on or enforceable against the Borrower, or the validity or enforceability thereof shall be contested by Borrower, or a proceeding shall be commenced by Borrower or any governmental authority having jurisdiction over Borrower or Holder, seeking to establish the invalidity or unenforceability thereof, or Borrower shall deny in writing that it has any liability or obligation purported to be created under any Transaction Document.

b) Remedies Upon Event of Default and Fundamental Transaction. If any Fundamental Transaction occurs, the outstanding principal amount of this Note, liquidated damages and other amounts owing in respect thereof through the date of acceleration, shall become, at the Holder's election, immediately due and payable in cash at the Mandatory Default Amount. Commencing on the Maturity Date and also five (5) days after the occurrence of any Event of Default interest on this Note shall accrue at an interest rate equal to the lesser of ten percent (10%) per annum or the maximum rate permitted under applicable law. Upon the payment in full of the Mandatory Default Amount, or all other sums payable in connection with this Note, the Holder shall surrender this Note to or as directed by Borrower. In connection with such acceleration described herein, the Holder need not provide, and Borrower hereby waives, any presentment, demand, protest or other notice of any kind, and the Holder may immediately and without expiration of any grace period enforce any and all of its rights and remedies hereunder and all other remedies available to it under applicable law. Such acceleration may be rescinded and annulled by Holder at any time prior to payment hereunder and the Holder shall have all rights as a holder of the Note until such time, if any, as the Holder receives full payment pursuant to this Section 8(b). No such rescission or annulment shall affect any subsequent Event of Default, Fundamental Transaction or impair any right consequent thereon.

Section 9. Security Interest. This Note is secured by a security interest granted to the Holder pursuant to a Security Agreement, as delivered by Borrower to Holder.

Section 10. Miscellaneous.

a) Notices. All notices, demands, requests, consents, approvals, and other communications required or permitted hereunder shall be in writing and, unless otherwise specified herein, shall be (i) personally served, (ii) deposited in the mail, registered or certified, return receipt requested, postage prepaid, (iii) delivered by reputable air courier service with charges prepaid, or (iv) transmitted by hand delivery, telegram, or facsimile, addressed as set forth below or to such other address as such party shall have specified most recently by written notice. Any notice or other communication required or permitted to be given hereunder shall be deemed effective (a) upon hand delivery or delivery by facsimile, with accurate confirmation generated by the transmitting facsimile machine, at the address or number designated below (if delivered on a business day during normal business hours where such notice is to be received), or the first business day following such delivery (if delivered other than on a business day during normal business hours where such notice is to be received) or (b) on the second business day following the date of mailing by express courier service, fully prepaid, addressed to such address, or upon actual receipt of such mailing, whichever shall first occur. The addresses for such communications shall be: (i) if to Borrower, to: MCW Energy Group Limited, 10351 Santa Monica Blvd., Suite 420, Los Angeles, California, 90025, Attn: Aleksandr Blyumkin, Executive Chairman, facsimile: 866-571-9613, with a copy by email only to (which shall not constitute notice): robbie.grossman@mcmillan.ca, and (ii) if to the Holder, to: the address indicated on the front page of this Note, with an additional copy by fax only to (which shall not constitute notice): Grushko & Mittman, P.C., 515 Rockaway Avenue, Valley Stream, New York 11581, facsimile: (212) 697-3575.

b) Absolute Obligation. Except as expressly provided herein, no provision of this Note shall alter or impair the obligation of Borrower, which is absolute and unconditional, to pay the principal of, liquidated damages and accrued interest, as applicable, on this Note at the time, place, and rate, and in the coin or currency, herein prescribed. This Note is a direct debt obligation of Borrower. This Note ranks pari passu with all other Notes now or hereafter issued under the terms set forth herein.

c) Lost or Mutilated Note. If this Note shall be mutilated, lost, stolen or destroyed, Borrower shall execute and deliver, in exchange and substitution for and upon cancellation of a mutilated Note, or in lieu of or in substitution for a lost, stolen or destroyed Note, a new Note for the principal amount of this Note so mutilated, lost, stolen or destroyed, but only upon receipt of evidence of such loss, theft or destruction of such Note, and of the ownership hereof, reasonably satisfactory to Borrower.

d) Governing Law. All questions concerning the construction, validity, enforcement and interpretation of this Note shall be governed by and construed and enforced in accordance with the internal laws of the State of New York, without regard to the principles of conflict of laws thereof. Each party agrees that all legal proceedings concerning the interpretation, enforcement and defense of the transactions contemplated by any of the Transaction Documents (whether brought against a party hereto or its respective Affiliates, directors, officers, shareholders, employees or agents) shall be commenced in the state and federal courts sitting in the City of New York, Borough of Manhattan (the "New York Courts") or solely at the election of Holder in a court of appropriate jurisdiction in the Province of Ontario, or any jurisdiction where collateral under the Loan Documents or a guarantor of this Note is situated. Each party hereto hereby irrevocably submits to the exclusive jurisdiction of the New York Courts for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein (including with respect to the enforcement of any of the Transaction Documents), and hereby irrevocably waives, and agrees not to assert in any suit, action or proceeding, any claim that it is not personally subject to the jurisdiction of such New York Courts, or such New York Courts are improper or an inconvenient venue for such proceeding. Each party hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or proceeding by mailing a copy thereof via registered or certified mail or overnight delivery (with evidence of delivery) to such party at the address in effect for notices to it under this Note and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any other manner permitted by applicable law. Each party hereto hereby irrevocably waives, to the fullest extent permitted by applicable law, any and all right to trial by jury in any legal proceeding arising out of or relating to this Note or the transactions contemplated hereby. If any party shall commence an action or proceeding to enforce any provisions of this Note, then the prevailing party in such action or proceeding shall be reimbursed by the other party for its reasonable attorneys' fees and other costs and expenses incurred in the investigation, preparation and prosecution of such action or proceeding. **This Note shall be deemed an unconditional obligation of Borrower for the payment of money and, without limitation to any other remedies of Holder, may be enforced against Borrower by summary proceeding pursuant to New York Civil Procedure Law and Rules Section 3213 or any similar rule or statute in the jurisdiction where enforcement is sought. For purposes of such rule or statute, any other document or agreement to which Holder and Borrower are parties or which Borrower delivered to Holder, which may be convenient or necessary to determine Holder's rights hereunder or Borrower's obligations to Holder are deemed a part of this Note, whether or not such other document or agreement was delivered together herewith or was executed apart from this Note.**

e) Waiver. Any waiver by Borrower or the Holder of a breach of any provision of this Note shall not operate as or be construed to be a waiver of any other breach of such provision or of any breach of any other provision of this Note. The failure of Borrower or the Holder to insist upon strict adherence to any term of this Note on one or more occasions shall not be considered a waiver or deprive that party of the right thereafter to insist upon strict adherence to that term or any other term of this Note on any other occasion. Any waiver by Borrower or the Holder must be in writing.

f) Severability. If any provision of this Note is invalid, illegal or unenforceable, the balance of this Note shall remain in effect, and if any provision is inapplicable to any Person or circumstance, it shall nevertheless remain applicable to all other Persons and circumstances.

g) Usury. If it shall be found that any interest or other amount deemed interest due hereunder violates the applicable law governing usury, the applicable rate of interest due hereunder shall automatically be lowered to equal the maximum rate of interest permitted under applicable law. Borrower covenants (to the extent that it may lawfully do so) that it shall not at any time insist upon, plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay, extension or usury law or other law which would prohibit or forgive Borrower from paying all or any portion of the principal of or interest on this Note as contemplated herein, wherever enacted, now or at any time hereafter in force, or which may affect the covenants or the performance of this Note, and Borrower (to the extent it may lawfully do so) hereby expressly waives all benefits or advantage of any such law, and covenants that it will not, by resort to any such law, hinder, delay or impede the execution of any power herein granted to the Holder, but will suffer and permit the execution of every such as though no such law has been enacted.

h) Next Business Day. Whenever any payment or other obligation hereunder shall be due on a day other than a Business Day, such payment shall be made on the next succeeding Business Day.

i) Headings. The headings contained herein are for convenience only, do not constitute a part of this Note and shall not be deemed to limit or affect any of the provisions hereof.

j) Amendment. Unless otherwise provided for hereunder, this Note may not be modified or amended or the provisions hereof waived without the written consent of Borrower and the Holder.

k) Facsimile Signature. In the event that the Borrower's signature is delivered by facsimile transmission, PDF, electronic signature or other similar electronic means, such signature shall create a valid and binding obligation of the Borrower with the same force and effect as if such signature page were an original thereof.

(Signature Pages Follow)

IN WITNESS WHEREOF, Borrower has caused this Note to be signed in its name by an authorized officer as of the 15th day of December, 2015.

MCW ENERGY GROUP LIMITED

By: /s/ Aleksandr Blyumkin
Name: Aleksandr Blyumkin
Title: Executive Chairman

WITNESS:

/s/ Natela Shenon
Natela Shenon

ANNEX A

NOTICE OF CONVERSION

The undersigned hereby elects to convert principal under the Convertible Note due **June 15, 2017** of MCW Energy Group Limited, a corporation amalgamated pursuant to the laws of the Province of Ontario (the "Borrower"), into shares of common stock (the "Common Stock"), of Borrower according to the conditions hereof, as of the date written below. If shares of Common Stock are to be issued in the name of a person other than the undersigned, the undersigned will pay all transfer taxes payable with respect thereto and is delivering herewith such certificates and opinions as reasonably requested by Borrower in accordance therewith. No fee will be charged to the holder for any conversion, except for such transfer taxes, if any.

The undersigned agrees to comply with the prospectus delivery requirements under the applicable securities laws in connection with any transfer of the aforesaid shares of Common Stock.

Conversion calculations:

Date to Effect Conversion: _____

Principal Amount of Note to be Converted: \$ _____

Interest Amount to be Converted: \$ _____

Number of shares of Common Stock to be issued: _____

Number of Warrants to be delivered: _____

Signature: _____

Name: _____

Address for Delivery of Common Stock Certificates: _____

Or

DWAC Instructions: _____

Broker No: _____

Account No: _____

THIS CONVERTIBLE DEBENTURE MAY NOT BE CONVERTED BY OR FOR THE ACCOUNT OR BENEFIT OF A “U.S. PERSON” OR A PERSON IN THE UNITED STATES UNLESS THE CONVERTIBLE DEBENTURE AND THE UNDERLYING SECURITIES HAVE BEEN REGISTERED UNDER THE U.S. SECURITIES ACT AND THE APPLICABLE SECURITIES LEGISLATION OF ANY SUCH STATE, OR AN EXEMPTION FROM SUCH REGISTRATION REQUIREMENTS IS AVAILABLE. “UNITED STATES” AND “U.S. PERSON” ARE AS DEFINED BY REGULATION S UNDER THE U.S. SECURITIES ACT.

THE SECURITIES REPRESENTED HEREBY AND THE SECURITIES ISSUABLE UPON CONVERSION THEREOF HAVE NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “U.S. SECURITIES ACT”), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. THE HOLDER HEREOF, BY PURCHASING SUCH SECURITIES, AGREES FOR THE BENEFIT OF THE BORROWER THAT SUCH SECURITIES MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED, DIRECTLY OR INDIRECTLY, ONLY (A) TO THE BORROWER; (B) OUTSIDE THE UNITED STATES IN ACCORDANCE WITH RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT AND IN ACCORDANCE WITH ALL LOCAL LAWS AND REGULATIONS; (C) IN ACCORDANCE WITH THE EXEMPTION FROM REGISTRATION UNDER THE U.S. SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER, IF AVAILABLE, AND IN COMPLIANCE WITH ANY APPLICABLE STATE SECURITIES LAWS; OR (D) IN A TRANSACTION THAT DOES NOT REQUIRE REGISTRATION UNDER THE U.S. SECURITIES ACT AND ANY APPLICABLE STATE SECURITIES LAWS. THE PRESENCE OF THIS LEGEND MAY IMPAIR THE ABILITY OF THE HOLDER HEREOF TO EFFECT “GOOD DELIVERY” OF THE SECURITIES REPRESENTED HEREBY ON A CANADIAN STOCK EXCHANGE.

UNLESS PERMITTED UNDER SECURITIES LEGISLATION, THE HOLDER OF THIS SECURITY MUST NOT TRADE THE SECURITY BEFORE AUGUST 9, 2016.

Original Issue Date: April 8, 2016

Principal Amount: US\$600,000

Purchase Price: US\$540,000

**SECURED CONVERTIBLE NOTE
DUE OCTOBER 8, 2017**

THIS CONVERTIBLE NOTE is one of a series of duly authorized and validly issued Notes of MCW Energy Group Limited, a corporation amalgamated under the laws of the Province of Ontario (the “Borrower”), having its principal place of business at 4370 Tujunga Avenue, Suite 320, Studio City, California, 91604, due **October 8, 2017** (this note, the “Note” and, collectively with the other notes of such series, the “Notes”).

FOR VALUE RECEIVED, Borrower promises to pay to ALPHA CAPITAL ANSTALT at Pradafant 7, 9490 Furstentums, Vaduz, Lichtenstein or its registered assigns (the “Holder”), or shall have paid pursuant to the terms hereunder, the principal sum of \$600,000 on **October 8, 2017** (the “Maturity Date”) or such earlier date as this Note is required or permitted to be repaid as provided hereunder, and to pay interest to the Holder on the aggregate unconverted and then outstanding principal amount of this Note in accordance with the provisions hereof.

This Note is subject to the following additional provisions:

Section 1. Definitions. For the purposes hereof, in addition to the terms defined elsewhere in this Note, (a) capitalized terms not otherwise defined herein shall have the meanings set forth in the Purchase Agreement and (b) the following terms shall have the following meanings:

“Alternate Consideration” shall have the meaning set forth in Section 5(d).

“Bankruptcy Event” means any of the following events: (a) Borrower commences a case or other proceeding under any bankruptcy, reorganization, arrangement, adjustment of debt, relief of debtors, dissolution, insolvency or liquidation or similar law of any jurisdiction relating to Borrower, (b) there is commenced against Borrower any such case or proceeding that is not dismissed within 60 days after commencement, (c) Borrower is adjudicated insolvent or bankrupt or any order of relief or other order approving any such case or proceeding is entered, (d) Borrower suffers any appointment of any custodian or the like for it or any substantial part of its property that is not discharged or stayed within 60 calendar days after such appointment, (e) Borrower makes a general assignment for the benefit of creditors, (f) Borrower calls a meeting of its creditors with a view to arranging a composition, adjustment or restructuring of its debts or (g) Borrower, by any act or failure to act, expressly indicates its consent to, approval of or acquiescence in any of the foregoing or takes any corporate or other action for the purpose of effecting any of the foregoing.

“Business Day” means any day except any Saturday, any Sunday, any day which is a federal legal holiday in the United States, a statutory or civil holiday in the Province of Ontario, or any day on which banking institutions in the State of New York or the Province of Ontario are authorized or required by law or other governmental action to close.

“Buy-In” shall have the meaning set forth in Section 4(c)(v).

“Conversion” shall have the meaning ascribed to such term in Section 4.

“Conversion Date” shall have the meaning set forth in Section 4(a).

“Conversion Price” shall have the meaning set forth in Section 4(b).

“Conversion Shares” means, collectively, the shares of Common Stock issuable upon conversion of this Note in accordance with the terms hereof.

“Equity Conditions” means, during the period in question, (a) Borrower shall have duly honored all conversions scheduled to occur or occurring by virtue of one or more Notices of Conversion of the applicable Holder on or prior to the dates so requested or required, if any, (b) Borrower shall have paid all liquidated damages and other amounts owing to the applicable Holder in respect of this Note and the other Transaction Documents, (c) the Common Stock is trading on a Trading Market and all of the shares issuable pursuant to the Transaction Documents are listed or quoted for trading on such Trading Market (and Borrower believes, in good faith, that trading of the Common Stock on a Trading Market will continue uninterrupted (subject to standard halts imposed by regulators or stock exchanges in the ordinary course) for as long as this Note remains outstanding, (d) there is a sufficient number of authorized, but unissued and otherwise unreserved, shares of Common Stock for the issuance of all of the shares then issuable pursuant to the Transaction Documents, (e) an Event of Default has not occurred, which is continuing or has not been cured by the Borrower or waived by the Holder, (f) to the knowledge of the Borrower, there is no existing event which, with the passage of time or the giving of notice, would constitute an Event of Default, and (g) there has been no public announcement of a pending or proposed Fundamental Transaction that has not been consummated.

“Event of Default” shall have the meaning set forth in Section 8(a).

“Fundamental Transaction” shall have the meaning set forth in Section 5(d).

“Interest Conversion Price” shall have the meaning set forth in Section 2(a).

“Interest Payment Date” shall have the meaning set forth in Section 2(a).

“Interest Share Amount” shall have the meaning set forth in Section 2(a).

“Liens” means a lien, charge, pledge, security interest, encumbrance, right of first refusal, preemptive right or other restriction.

“Mandatory Default Amount” means the sum of (a) 115% of the outstanding principal amount of this Note and (b) interest and all other amounts, costs, expenses and liquidated damages due in respect of this Note.

“New York Courts” shall have the meaning set forth in Section 10(d).

“Notice of Conversion” shall have the meaning set forth in Section 4(a).

“Optional Redemption” shall have the meaning set forth in Section 6(b).

“Optional Redemption Amount” means the sum of (i) 110% of the outstanding principal amount of this Note, and (b) interest and all other amounts, costs, expenses and liquidated damages due in respect of this Note.

“Optional Redemption Date” shall have the meaning set forth in Section 6(b).

“Optional Redemption Notice” shall have the meaning set forth in Section 6(b).

“Optional Redemption Notice Date” shall have the meaning set forth in Section 6(b).

“Original Issue Date” means the date of the first issuance of the Notes, regardless of any transfers of any Note and regardless of the number of instruments which may be issued to evidence such Notes.

“Other Holders” means holders of Other Notes.

“Other Notes” means Notes nearly identical to this Note issued to other Holders pursuant to the Purchase Agreement.

“Permitted Liens” shall have the meaning set forth in the Purchase Agreement.

“Purchase Agreement” means the Securities Purchase Agreement, dated as of April 8, 2016 among Borrower and the original Holders, as amended, modified or supplemented from time to time in accordance with its terms.

“Share Delivery Date” shall have the meaning set forth in Section 4(c)(ii).

“Successor Entity” shall have the meaning set forth in Section 5(d).

“Trading Day” means a day on which the principal Trading Market is open for trading.

“Trading Market” means any of the following markets or exchanges on which the Common Stock is listed or quoted for trading on the date in question: the Toronto Stock Exchange, the NYSE MKT, the Nasdaq Capital Market, the Nasdaq Global Market, the Nasdaq Global Select Market, the New York Stock Exchange, the OTC Bulletin Board, the OTCQB, the OTCQX, the TSXV (or any successors to any of the foregoing). As of the Initial Closing Date, the TSXV is the principal Trading Market.

“Underlying Shares” means all of the Conversion Shares and all of the Warrant Shares issuable upon exercise of the Warrants issued pursuant to the Purchase Agreement and upon conversion of this Note.

“U.S. Securities Act” means the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

“Warrants” means, collectively, the Common Stock purchase warrants to be delivered to the Holders upon conversion of the Notes in accordance with the Notes, which Warrants shall be exercisable immediately and have a term of exercise equal to five (5) years from the date of issuance of such Note and be in the form of Exhibit B attached to the Purchase Agreement.

Section 2. Interest.

a) Interest in Cash or in Kind. Holder shall be entitled to receive, and Borrower shall pay, cumulative interest on the outstanding principal amount of this Note compounded annually at the annual rate of five percent (5%) (subject to increase as set forth in this Note), payable quarterly on March 31, June 30, September 30, and December 31, beginning on the first such date after the Original Issue Date and on each Conversion Date (with respect only to Note principal being converted) (each such date, an “Interest Payment Date”) (if any Interest Payment Date is not a Business Day, the applicable payment shall be due on the next succeeding Business Day) in cash. Interest may be paid, at the option of Borrower, in cash, in duly authorized, validly issued, fully paid and non-assessable shares of Common Stock as set forth in this Section 2(a), or a combination thereof in each case as provided in the next sentence (the amount to be paid in shares of Common Stock, the “Interest Share Amount”). The Common Stock to be paid in satisfaction of the Interest Share Amount shall be valued solely for such purpose at the Discounted Market Price (as such term is defined by the TSXV) as of the close of trading on the Interest Payment Date, pursuant to a Shares for Debt application with the TSXV (the “Interest Conversion Price”). Borrower may not pay interest by delivery of Common Stock without the consent of the Holder in the event that the Equity Conditions are not in effect on each day from the tenth Trading Day preceding the relevant Interest Payment Date through the date the Interest Share Amount is delivered to the Holder. Borrower must notify the Holder not less than ten (10) Trading Days prior to an Interest Payment Date if it intends to pay interest due on such Interest Payment Date by delivery of an Interest Share Amount. If Borrower fails to provide such notice, the Holder may elect to receive the Interest Share Amount in lieu of cash by notifying Borrower any time prior to the relevant Interest Payment Date.

b) Payment Grace Period. The Borrower shall not have any grace period to pay any monetary amounts due under this Note.

c) Conversion Privileges. The Conversion Rights set forth in Section 4 shall remain in full force and effect immediately from the date hereof and until the Note is paid in full regardless of the occurrence of an Event of Default. This Note shall be payable in full on the Maturity Date, unless previously converted into Common Stock in accordance with Section 4 hereof.

d) Application of Payments. Interest on this Note shall be calculated on the basis of a 360-day year and the actual number of days elapsed. Payments made in connection with this Note shall be applied first to amounts due hereunder other than principal and interest, thereafter to interest and finally to principal.

e) Pari Passu. Except as otherwise set forth herein, all payments made on this Note and the Other Notes and all actions taken by the Borrower with respect to this Note and the Other Notes, including but not limited to Mandatory Conversion, shall be made and taken *pari passu* with respect to this Note and the Other Notes. Notwithstanding anything to the contrary contained herein or in the Transaction Documents, it shall not be considered non-*pari passu* for a Holder or Other Holder to elect to receive interest paid in shares of Common Stock or for the Borrower to actually pay interest in shares of Common Stock to such electing Holder or Other Holder.

f) Manner and Place of Payment. Principal and interest on this Note and other payments in connection with this Note shall be payable at the Holder's offices as designated above in lawful money of the United States of America in immediately available funds without set-off, deduction or counterclaim. Upon assignment of the interest of Holder in this Note, Borrower shall instead make its payment pursuant to the assignee's instructions upon receipt of written notice thereof. Except as set forth herein, this Note may not be prepaid or mandatorily converted without the consent of the Holder.

Section 3. Registration of Transfers and Exchanges.

a) Different Denominations. Subject to compliance with applicable Securities Laws, this Note is exchangeable for an equal aggregate principal amount of Notes of different authorized denominations, as requested by the Holder surrendering the same. No service charge will be payable for such registration of transfer or exchange.

b) Investment Representations. This Note has been issued subject to certain investment representations of the original Holder set forth in the Purchase Agreement and may be transferred or exchanged only in compliance with the Purchase Agreement and applicable federal and state securities laws and regulations.

c) Reliance on Books and Records. Prior to due presentment for transfer to Borrower of this Note, Borrower and any agent of Borrower may treat the Person in whose name this Note is duly registered on the books and records of the Borrower as the owner hereof for the purpose of receiving payment as herein provided and for all other purposes, whether or not this Note is overdue, and neither Borrower nor any such agent shall be affected by notice to the contrary.

Section 4. Conversion.

a) Voluntary Conversion. At any time commencing four (4) months after the Original Issue Date until this Note is no longer outstanding, this Note shall be convertible, in whole or in part, into shares of Common Stock at the option of the Holder, at any time and from time to time. The Holder shall effect conversions by delivering to Borrower a Notice of Conversion, the form of which is attached hereto as Annex A (each, a “Notice of Conversion”), specifying therein the principal amount of this Note to be converted and the date on which such conversion shall be effected (such date, the “Conversion Date”). If no Conversion Date is specified in a Notice of Conversion, the Conversion Date shall be the date that such Notice of Conversion is deemed delivered hereunder. To effect conversions hereunder, the Holder shall not be required to physically surrender this Note to Borrower unless the entire principal amount of this Note has been so converted. Conversions hereunder shall have the effect of lowering the outstanding principal amount of this Note in an amount equal to the applicable conversion. The Holder and Borrower shall maintain records showing the principal amount(s) converted and the date of such conversion(s). Borrower may deliver an objection to any Notice of Conversion within one (1) Business Day of delivery of such Notice of Conversion. In the event of any dispute or discrepancy, the records of the Holder shall be controlling and determinative in the absence of manifest error. **The Holder, and any assignee by acceptance of this Note, acknowledge and agree that, by reason of the provisions of this paragraph, following conversion of a portion of this Note, the unpaid and unconverted principal amount of this Note may be less than the amount stated on the face hereof.**

b) Conversion Price. The conversion price for the principal in connection with voluntary conversions by the Holder shall be CAD\$0.15 (equal to US\$0.1156425873 based on the nominal noon exchange rate as reported by the Bank of Canada for the conversion of United States dollars into Canadian dollars on March 31, 2016), subject to adjustment herein (the “Conversion Price”).

c) Mechanics of Conversion.

i. Conversion Shares Issuable Upon Conversion of Principal Amount. The number of Conversion Shares issuable upon a conversion hereunder shall be determined by the quotient obtained by dividing (x) the outstanding principal amount of this Note to be converted by (y) the Conversion Price.

ii. Delivery of Certificate Upon Conversion. Not later than six (6) Trading Days after each Conversion Date (the “Share Delivery Date”), Borrower shall deliver, or cause to be delivered, to the Holder a certificate or certificates representing the Conversion Shares which, on or after the date that is four months and one day after the Original Issue Date, shall be free of restrictive legends and trading restrictions, representing the number of Conversion Shares being acquired upon the conversion of this Note. Contemporaneously with the delivery of the Conversion Shares certificates, the Borrower shall deliver an original Warrant certificate representing the right to acquire an amount of Warrant Shares equal to the amount of Conversion Shares required to be delivered.

iii. Failure to Deliver Certificates. If, in the case of any Notice of Conversion, such Common Stock or Warrant certificate or certificates are not delivered to or as directed by the applicable Holder by the Share Delivery Date, the Holder shall be entitled to elect by written notice to Borrower at any time on or before its receipt of such certificate or certificates, to rescind such Conversion, in which event Borrower shall promptly return to the Holder any original Note delivered to Borrower and the Holder shall promptly return to Borrower the Common Stock certificates issued to such Holder pursuant to the rescinded Conversion Notice.

iv. Obligation Absolute: Partial Liquidated Damages. Borrower's obligations to issue and deliver the Conversion Shares and Warrants upon conversion of this Note in accordance with the terms hereof are absolute and unconditional, irrespective of any action or inaction by the Holder to enforce the same, any waiver or consent with respect to any provision hereof, the recovery of any judgment against any Person or any action to enforce the same, or any setoff, counterclaim, recoupment, limitation or termination, or any breach or alleged breach by the Holder or any other Person of any obligation to Borrower or any violation or alleged violation of law by the Holder or any other Person, and irrespective of any other circumstance which might otherwise limit such obligation of Borrower to the Holder in connection with the issuance of such Conversion Shares and Warrants; provided, however, that such delivery shall not operate as a waiver by Borrower of any such action Borrower may have against the Holder. In the event the Holder of this Note shall elect to convert any or all of the outstanding principal amount hereof, Borrower may not refuse conversion based on any claim that the Holder or anyone associated or affiliated with the Holder has been engaged in any violation of law, agreement or for any other reason, unless an injunction from a court, on notice to Holder, restraining and or enjoining conversion of all or part of this Note shall have been sought and obtained, and Borrower posts a surety bond for the benefit of the Holder in the amount of 150% of the outstanding principal amount of this Note and accrued interest, which is subject to the injunction, which bond shall remain in effect until the completion of arbitration/litigation of the underlying dispute and the proceeds of which shall be payable to the Holder to the extent it obtains judgment. In the absence of such injunction, Borrower shall issue Conversion Shares and Warrants, upon a properly noticed conversion. If Borrower fails for any reason to deliver to the Holder such certificate or certificates pursuant to Section 4(c)(ii) by the Share Delivery Date, Borrower shall pay to the Holder, in cash, as liquidated damages and not as a penalty, for each \$1,000 of principal amount being converted, \$10 per Trading Day (increasing to \$20 per Trading Day on the fifth (5th) Trading Day after such liquidated damages being to accrue) for each Trading Day after such Share Delivery Date until such certificates are delivered or Holder rescinds such conversion. Nothing herein shall limit a Holder's right to pursue actual damages or declare an Event of Default pursuant to Section 8 hereof for Borrower's failure to deliver Conversion Shares or Warrants within the period specified herein and the Holder shall have the right to pursue all remedies available to it hereunder, at law or in equity including, without limitation, a decree of specific performance and/or injunctive relief. The exercise of any such rights shall not prohibit the Holder from seeking to enforce damages pursuant to any other Section hereof or under applicable law.

v. Compensation for Buy-In on Failure to Timely Deliver Certificates Upon Conversion. In addition to any other rights available to the Holder, if Borrower fails for any reason, other than delays caused by the applicable courier company retained by the Company's transfer agent, to deliver to the Holder such certificate or certificates by the Share Delivery Date pursuant to Section 4(c)(ii), and if after such Share Delivery Date the Holder is required by its brokerage firm to purchase (in an open market transaction or otherwise), or the Holder or Holder's brokerage firm otherwise purchases, shares of Common Stock to deliver in satisfaction of a sale by the Holder of the Conversion Shares or Warrant Shares which the Holder was entitled to receive upon the Note conversion or Warrant exercise relating to such Share Delivery Date (a "Buy-In"), then, Borrower shall (A) pay in cash to the Holder (in addition to any other remedies available to or elected by the Holder) the amount, if any, by which (x) the Holder's total purchase price (including any brokerage commissions) for the Common Stock so purchased exceeds (y) the product of (1) the aggregate number of shares of Common Stock that the Holder was entitled to receive from the conversion at issue multiplied by (2) the actual sale price at which the sell order giving rise to such purchase obligation was executed (including any brokerage commissions) and (B) at the option of the Holder, either reissue (if surrendered) this Note in a principal amount equal to the principal amount of the attempted conversion or relevant amount of Warrants (in which case such conversion and/or Warrant exercise shall be deemed rescinded) or, subject to TSXV approval, deliver to the Holder the number of shares of Common Stock that would have been issued if Borrower had timely complied with its delivery requirements under Section 4(c)(ii). For example, if the Holder purchases Common Stock having a total purchase price of \$11,000 to cover a Buy-In with respect to an attempted conversion of this Note with respect to which the actual sale price of the Conversion Shares (including any brokerage commissions) giving rise to such purchase obligation was a total of \$10,000 under clause (A) of the immediately preceding sentence, Borrower shall be required to pay the Holder \$1,000. The Holder shall provide Borrower written notice indicating the amounts payable to the Holder in respect of the Buy-In and, upon request of Borrower, evidence of the amount of such loss. Nothing herein shall limit a Holder's right to pursue any other remedies available to it hereunder, at law or in equity including, without limitation, a decree of specific performance and/or injunctive relief with respect to Borrower's failure to timely deliver certificates representing shares of Common Stock upon conversion of this Note as required pursuant to the terms hereof.

vi. Reservation of Shares Issuable Upon Conversion. Borrower covenants that it will at all times reserve and keep available out of its authorized and unissued shares of Common Stock for the sole purpose of issuance upon conversion of this Note as herein provided, free from preemptive rights or any other actual contingent purchase rights of Persons other than the Holder (and the other holders of the Notes), not less than such aggregate number of shares of the Common Stock as shall (subject to the terms and conditions set forth in the Purchase Agreement) be issuable (taking into account the adjustments and restrictions of Section 5) upon the conversion of the then outstanding principal amount of this Note, assuming such principal amount was not converted through the Maturity Date. Borrower covenants that all shares of Common Stock that shall be so issuable shall, upon issue, be duly authorized, validly issued, fully paid and nonassessable.

vii. Fractional Shares. No fractional shares or scrip representing fractional shares shall be issued upon the conversion of this Note. As to any fraction of a share which the Holder would otherwise be entitled to purchase upon such conversion, Borrower shall at its election, either pay a cash adjustment in respect of such final fraction in an amount equal to such fraction multiplied by the Conversion Price or round up to the next whole share.

viii. Transfer Taxes and Expenses. The issuance of certificates for shares of the Common Stock on conversion of this Note shall be made without charge to the Holder hereof for any documentary stamp or similar taxes that may be payable in respect of the issue or delivery of such certificates, provided that, Borrower shall not be required to pay any tax that may be payable in respect of any transfer involved in the issuance and delivery of any such certificate upon conversion in a name other than that of the Holder of this Note so converted and Borrower shall not be required to issue or deliver such certificates unless or until the Person or Persons requesting the issuance thereof shall have paid to Borrower the amount of such tax or shall have established to the satisfaction of Borrower that such tax has been paid. Borrower shall pay all Transfer Agent fees required for same-day processing of any Notice of Conversion.

Section 5. Certain Adjustments.

a) Stock Dividends and Stock Splits. If Borrower, at any time while this Note is outstanding: (i) pays a stock dividend or otherwise makes a distribution or distributions payable in shares of Common Stock on shares of Common Stock or any Common Stock Equivalents (which, for avoidance of doubt, shall not include any shares of Common Stock issued by Borrower upon conversion of the Notes), (ii) subdivides outstanding shares of Common Stock into a larger number of shares, (iii) combines (including by way of a reverse stock split) outstanding shares of Common Stock into a smaller number of shares or (iv) issues, in the event of a reclassification of shares of the Common Stock, any shares of capital stock of Borrower, then the Conversion Price shall be multiplied by a fraction of which the numerator shall be the number of shares of Common Stock (excluding any treasury shares of Borrower) outstanding immediately before such event, and of which the denominator shall be the number of shares of Common Stock outstanding immediately after such event. Any adjustment made pursuant to this Section shall become effective immediately after the record date for the determination of stockholders entitled to receive such dividend or distribution and shall become effective immediately after the effective date in the case of a subdivision, combination or re-classification.

b) Subsequent Rights Offerings. In addition to any adjustments pursuant to Section 5(a) above, if at any time Borrower grants, issues or sells any Common Stock Equivalents or rights to purchase stock, warrants, securities or other property pro rata to the record holders of any class of shares of Common Stock (the "Purchase Rights"), then the Holder will be entitled to acquire, upon the terms applicable to such Purchase Rights, the aggregate Purchase Rights which the Holder could have acquired if the Holder had held the number of shares of Common Stock acquirable upon complete conversion of this Note immediately before the date on which a record is taken for the grant, issuance or sale of such Purchase Rights, or, if no such record is taken, the date as of which the record holders of shares of Common Stock are to be determined for the grant, issue or sale of such Purchase Rights.

c) Pro Rata Distributions. During such time as this Note is outstanding, if Borrower shall declare or make any dividend or other distribution of its assets (or rights to acquire its assets) to holders of shares of Common Stock, by way of return of capital or otherwise (including, without limitation, any distribution of cash, stock or other securities, property or options by way of a dividend, spin off, reclassification, corporate rearrangement, scheme of arrangement or other similar transaction) (a "Distribution"), at any time after the issuance of this Note, then, in each such case, the Holder shall be entitled to participate in such Distribution to the same extent that the Holder would have participated therein if the Holder had held the number of shares of Common Stock acquirable upon complete exercise of this Note immediately before the date of which a record is taken for such Distribution, or, if no such record is taken, the date as of which the record holders of shares of Common Stock are to be determined for the participation in such Distribution.

d) Fundamental Transaction. If, at any time while this Note is outstanding, (i) Borrower, directly or indirectly, in one or more related transactions effects any merger or consolidation of Borrower with or into another Person except in the event of a three-cornered amalgamation where the Borrower is acquired by another entity and the securities of the Borrower are exchanged for securities of another entity and the shareholders of the Borrower hold at least 50% of the acquired entity's shares, (ii) Borrower, directly or indirectly, effects any sale, lease, license, assignment, transfer, conveyance or other disposition of all or substantially all of its assets in one or a series of related transactions, except for the sale of its fuels distribution business, (iii) any, direct or indirect, purchase offer, tender offer or exchange offer (whether by Borrower or another Person) is completed pursuant to which holders of Common Stock are permitted to sell, tender or exchange their shares for other securities, cash or property and has been accepted by the holders of 50% or more of the outstanding Common Stock, (iv) Borrower, directly or indirectly, in one or more related transactions effects any reclassification, reorganization or recapitalization of the Common Stock or any compulsory share exchange pursuant to which the Common Stock is effectively converted into or exchanged for other securities, cash or property except in the event of a three-cornered amalgamation where the Borrower is acquired by another entity and the securities of the Borrower are exchanged for securities of another entity and the shareholders of the Borrower hold at least 50% of the acquired entity's shares, (v) Borrower, directly or indirectly, in one or more related transactions consummates a stock or share purchase agreement or other business combination (including, without limitation, a reorganization, recapitalization, spin-off or scheme of arrangement) with another Person whereby such other Person acquires more than 50% of the outstanding shares of Common Stock (not including any shares of Common Stock held by the other Person or other Persons making or party to, or associated or affiliated with the other Persons making or party to, such stock or share purchase agreement or other business combination) (each a "Fundamental Transaction"), then, upon any subsequent conversion of this Note, the Holder shall have the right to receive, for each Conversion Share that would have been issuable upon such conversion immediately prior to the occurrence of such Fundamental Transaction, the number of shares of Common Stock of the successor or acquiring corporation or of Borrower, if it is the surviving corporation, and any additional consideration (the "Alternate Consideration") receivable as a result of such Fundamental Transaction by a holder of the number of shares of Common Stock for which this Note is convertible immediately prior to such Fundamental Transaction. For purposes of any such conversion, the determination of the Conversion Price shall be appropriately adjusted to apply to such Alternate Consideration based on the amount of Alternate Consideration issuable in respect of one (1) share of Common Stock in such Fundamental Transaction, and Borrower shall apportion the Conversion Price among the Alternate Consideration in a reasonable manner reflecting the relative value of any different components of the Alternate Consideration. If holders of Common Stock are given any choice as to the securities, cash or property to be received in a Fundamental Transaction, then the Holder shall be given the same choice as to the Alternate Consideration it receives upon any conversion of this Note following such Fundamental Transaction. Borrower shall cause any successor entity in a Fundamental Transaction in which Borrower is not the survivor (the "Successor Entity") to assume in writing all of the obligations of Borrower under this Note and the other Transaction Documents (as defined in the Purchase Agreement) in accordance with the provisions of this Section 5(d) pursuant to written agreements in form and substance reasonably satisfactory to the Holder and approved by the Holder (without unreasonable delay) prior to such Fundamental Transaction and shall, at the option of the holder of this Note, deliver to the Holder in exchange for this Note a security of the Successor Entity evidenced by a written instrument substantially similar in form and substance to this Note which is convertible for a corresponding number of shares of capital stock of such Successor Entity (or its parent entity) equivalent to the shares of Common Stock acquirable and receivable upon conversion of this Note (without regard to any limitations on the conversion of this Note) prior to such Fundamental Transaction, and with a conversion price which applies the conversion price hereunder to such shares of capital stock (but taking into account the relative value of the shares of Common Stock pursuant to such Fundamental Transaction and the value of such shares of capital stock, such number of shares of capital stock and such conversion price being for the purpose of protecting the economic value of this Note immediately prior to the consummation of such Fundamental Transaction), and which is reasonably satisfactory in form and substance to the Holder. Upon the occurrence of any such Fundamental Transaction, the Successor Entity shall succeed to, and be substituted for (so that from and after the date of such Fundamental Transaction, the provisions of this Note and the other Transaction Documents referring to the "Company" shall refer instead to the Successor Entity), and may exercise every right and power of Borrower and shall assume all of the obligations of Borrower under this Note and the other Transaction Documents with the same effect as if such Successor Entity had been named as Borrower herein.

e) Calculations. All calculations under this Section 5 shall be made to the nearest cent or the nearest 1/100th of a share, as the case may be. For purposes of this Section 5, the number of shares of Common Stock deemed to be issued and outstanding as of a given date shall be the sum of the number of shares of Common Stock (excluding any treasury shares of Borrower) issued and outstanding.

f) Notice to the Holder.

i. Adjustment to Conversion Price. Whenever the Conversion Price is adjusted pursuant to any provision of this Section 5, Borrower shall promptly deliver to each Holder a notice setting forth the Conversion Price after such adjustment and setting forth a brief statement of the facts requiring such adjustment.

ii. Notice to Allow Conversion by Holder. If (A) Borrower shall declare a dividend (or any other distribution in whatever form) on the Common Stock, (B) Borrower shall declare a special nonrecurring cash dividend on or a redemption of the Common Stock, (C) Borrower shall authorize the granting to all holders of the Common Stock of rights or warrants to subscribe for or purchase any shares of capital stock of any class or of any rights, (D) the approval of any stockholders of Borrower shall be required in connection with any reclassification of the Common Stock, any consolidation or merger to which Borrower is a party, any sale or transfer of all or substantially all of the assets of Borrower, or any compulsory share exchange whereby the Common Stock is converted into other securities, cash or property or (E) Borrower shall authorize the voluntary or involuntary dissolution, liquidation or winding up of the affairs of Borrower, then, in each case, Borrower shall cause to be filed at each office or agency maintained for the purpose of conversion of this Note, and shall cause to be delivered to the Holder at its last address as it shall appear in the books and records of Borrower, at least twenty (20) calendar days prior to the applicable record or effective date hereinafter specified, a notice stating (x) the date on which a record is to be taken for the purpose of such dividend, distribution, redemption, rights or warrants, or if a record is not to be taken, the date as of which the holders of the Common Stock of record to be entitled to such dividend, distributions, redemption, rights or warrants are to be determined or (y) the date on which such reclassification, consolidation, merger, sale, transfer or share exchange is expected to become effective or close, and the date as of which it is expected that holders of the Common Stock of record shall be entitled to exchange their shares of the Common Stock for securities, cash or other property deliverable upon such reclassification, consolidation, merger, sale, transfer or share exchange, provided that the failure to deliver such notice or any defect therein or in the delivery thereof shall not affect the validity of the corporate action required to be specified in such notice. To the extent that any notice provided hereunder constitutes, or contains, material, non-public information regarding Borrower, Borrower shall simultaneously file such notice with the TSXV. The Holder shall remain entitled to convert this Note during the 20-day period commencing on the date of such notice through the effective date of the event triggering such notice except as may otherwise be expressly set forth herein.

Section 6. Prepayment/Redemption.

a) General. Except as otherwise provided herein, the Borrower may not prepay or redeem this Note in whole or in part without the prior written consent of the Holder, and to the extent the Borrower agrees with Other Holders to prepay or redeem Other Notes in whole or in part, the Borrower shall offer such prepayment or redemption of this Note on a pro rata basis on the same terms and conditions as agreed upon by the Holder and all Other Holders for such Other Notes.

b) Optional Redemption at Election of Borrower. Following four months plus one day after the Initial Closing Date, and subject to the provisions of this Section 6 and provided that on each day of the twenty (20) Trading Days preceding the Optional Redemption Notice Date (except as waived by Holder): (i) the closing bid price for the Common Stock was above 150% of the Conversion Price, (ii) no Event of Default has occurred that has not been waived by the Purchaser, and (iii) no event which, in the reasonable estimation of the Borrower, could become an Event of Default has occurred that has not been waived by the Purchaser, the Borrower may deliver a notice to the Holder (an “Optional Redemption Notice” and the date such notice is deemed delivered hereunder, the “Optional Redemption Notice Date”) of its irrevocable election to redeem the outstanding principal amount, in whole or in part, of this Note for cash in an amount equal to the Optional Redemption Amount, on the 20th Trading Day following the Optional Redemption Notice Date (such date, the “Optional Redemption Date” and such redemption, the “Optional Redemption”). The Optional Redemption Amount is payable in full on the Optional Redemption Date. The Borrower covenants and agrees that it will honor all Notices of Conversion tendered from the Optional Redemption Notice Date through the date all amounts owing on the Optional Redemption Date are paid in full.

c) Redemption Procedure. The payment of cash pursuant to an Optional Redemption shall be payable on the Optional Redemption Date. If any portion of the payment pursuant to an Optional Redemption shall not be paid by the Borrower by the applicable due date, interest shall accrue thereon at an interest rate equal to the lesser of ten percent (10%) per annum or the maximum rate permitted by applicable law until such amount is paid in full. Notwithstanding anything herein contained to the contrary, if any portion of the Optional Redemption Amount remains unpaid after such date, the Holder may elect, by written notice to the Borrower given at any time thereafter, to invalidate such Optional Redemption with respect to any or all of the unpaid portion of the Optional Redemption Amount, and the Borrower shall have no further right to exercise such Optional Redemption and the Holder will be entitled to receive interest which may have accrued at the rate stated above and declare the failure to timely pay the Optional Redemption Amount as an Event of Default.

Section 7. Negative Covenants. As long as any portion of this Note remains outstanding, unless the holders of at least 51% in principal amount of the then outstanding Notes shall have otherwise given prior written consent, Borrower shall not, directly or indirectly:

a) other than Permitted Liens, and as may otherwise be permitted pursuant to the Purchase Agreement, enter into, create, incur, assume or suffer to exist any Liens of any kind, on or with respect to any of its Collateral (as such term is defined in the Purchase Agreement) or any interest therein or any income or profits therefrom;

b) amend its charter documents, including, without limitation, its certificate of incorporation and bylaws, in any manner that materially and adversely affects any rights of the Holder;

c) repay, repurchase or offer to repay, repurchase or otherwise acquire more than a de minimis number of shares of its Common Stock or Common Stock Equivalents other than Conversion Shares or Warrant Shares as permitted or required under the Transaction Documents;

d) pay cash dividends or distributions on any equity securities of Borrower;

e) other than with the consent of the Holder, enter into any transaction with any Affiliate of Borrower, unless such transaction is made on an arm’s-length basis and expressly approved by a majority of the disinterested directors of Borrower (even if less than a quorum otherwise required for board approval), or has been disclosed on SEDAR prior to the date hereof; or

f) enter into any agreement with respect to any of the foregoing.

Section 8. Events of Default.

a) “Event of Default” means, wherever used herein, any of the following events (whatever the reason for such event and whether such event shall be voluntary or involuntary or effected by operation of law or pursuant to any judgment, decree or order of any court, or any order, rule or regulation of any administrative or governmental body):

i. any default in the payment of (A) the principal amount or interest of any Note or (B) liquidated damages and other amounts owing to a Holder on any Note, as and when the same shall become due and payable (whether on a Conversion Date or the Maturity Date or by acceleration or otherwise) which default, solely in the case of a default under clause (B) above, is not cured within 3 Trading Days after Borrower has become or should have become aware of such default;

ii. Borrower shall fail to observe or perform any other covenant or agreement contained in the Notes (other than a breach by Borrower of its obligations to deliver shares of Common Stock to the Holder upon conversion, which breach is addressed in clause (x) below) which failure is not cured, if possible to cure, within the earlier to occur of (A) 5 Trading Days after notice of such failure sent by the Holder or by any Other Holder to Borrower and (B) 10 Trading Days after Borrower has become or should have become aware of such failure;

iii. a default or event of default (subject to any grace or cure period provided in the applicable agreement, document or instrument) shall occur under (A) any of the Transaction Documents, including but not limited to failure to strictly comply with the provisions of the Warrants, or (B) any other material agreement, lease, document or instrument to which Borrower is obligated (and not covered by clause (vi) below);

iv. any representation or warranty made in this Note, any other Transaction Documents, any written statement pursuant hereto or thereto or any other report, financial statement or certificate made or delivered to the Holder or any Other Holder shall be untrue or incorrect in any material respect as of the date when made or deemed made;

v. Borrower shall be subject to a Bankruptcy Event;

vi. Borrower shall default on any of its obligations under any mortgage, credit agreement or other facility, indenture agreement, factoring agreement or other instrument under which there may be issued, or by which there may be secured or evidenced, any indebtedness for borrowed money or money due under any long term leasing or factoring arrangement that (a) involves an obligation greater than \$100,000, whether such indebtedness now exists or shall hereafter be created, and (b) results in such indebtedness becoming or being declared due and payable prior to the date on which it would otherwise become due and payable;

vii. Borrower shall agree to sell or dispose of all or in excess of 30% of its assets in one transaction or a series of related transactions, except for the sale of its fuels distribution business;

viii. Borrower is in material default under Securities Laws or the policies of the TSXV;

ix. Borrower shall fail for any reason to deliver certificates representing Conversion Shares and Warrants to a Holder within the timeline established in Section 4(c)(ii) or Borrower shall provide at any time notice to the Holder, including by way of public announcement, of Borrower's intention to not honor requests for conversions of any Notes in accordance with the terms hereof;

x. any Person shall breach any agreement delivered to the initial Holders pursuant to Section 2.2 or 2.5 of the Purchase Agreement;

xi. any monetary judgment, writ or similar final process shall be entered or filed against Borrower, or any of its property or other assets for more than \$100,000, and such judgment, writ or similar final process shall remain unvacated, unbonded or unstayed for a period of 60 calendar days;

xii. any dissolution, liquidation or winding up by Borrower of a substantial portion of their business;

xiii. cessation of operations by Borrower;

xiv. the failure by Borrower to maintain any material intellectual property rights, personal, real property, equipment, leases or other assets which are necessary to conduct its oil sands extraction business (whether now or in the future) and such breach is not cured with twenty (20) days after written notice to the Borrower from the Holder;

xv. An event resulting in the Common Stock no longer being listed or quoted on a Trading Market, or notification from a Trading Market that the Borrower is not in compliance with the conditions for such continued quotation and such non-compliance continues for twenty (20) days following such notification;

xvi. a judicial or regulatory suspension from its principal Trading Market;

xvii. the restatement after the date hereof of any financial statements filed by the Borrower and available on SEDAR for any date or period from two years prior to the Original Issue Date and until this Note is no longer outstanding, if the result of such restatement would, by comparison to the unrestated financial statements, have constituted a Material Adverse Effect. For the avoidance of doubt, any restatement related to new accounting pronouncements shall not constitute a default under this Section;

xviii. the Borrower effectuates a reverse split of its Common Stock without ten (10) days prior written notice to the Holder;

xix. a failure by Borrower to notify Holder of any material event of which Borrower is obligated to notify Holder pursuant to the terms of this Note or any other Transaction Document which has not been waived by such Holder;

xx. a default by the Borrower of a material term, covenant, warranty or undertaking of any other agreement to which the Borrower and Holder are parties, or the occurrence of an event of default under any such other agreement to which Borrower and Holder are parties which is not cured after any required notice and/or cure period and not waived by such Holder;

xxi. the occurrence of an Event of Default under any Other Note; or

xxii. any material provision of any Transaction Document shall at any time for any reason (other than pursuant to the express terms thereof) cease to be valid and binding on or enforceable against the Borrower, or the validity or enforceability thereof shall be contested by Borrower, or a proceeding shall be commenced by Borrower or any governmental authority having jurisdiction over Borrower or Holder, seeking to establish the invalidity or unenforceability thereof, or Borrower shall deny in writing that it has any liability or obligation purported to be created under any Transaction Document.

b) Remedies Upon Event of Default and Fundamental Transaction. If any Fundamental Transaction occurs, the outstanding principal amount of this Note, liquidated damages and other amounts owing in respect thereof through the date of acceleration, shall become, at the Holder's election, immediately due and payable in cash at the Mandatory Default Amount. Commencing on the Maturity Date and also five (5) days after the occurrence of any Event of Default interest on this Note shall accrue at an interest rate equal to the lesser of ten percent (10%) per annum or the maximum rate permitted under applicable law. Upon the payment in full of the Mandatory Default Amount, or all other sums payable in connection with this Note, the Holder shall surrender this Note to or as directed by Borrower. In connection with such acceleration described herein, the Holder need not provide, and Borrower hereby waives, any presentment, demand, protest or other notice of any kind, and the Holder may immediately and without expiration of any grace period enforce any and all of its rights and remedies hereunder and all other remedies available to it under applicable law. Such acceleration may be rescinded and annulled by Holder at any time prior to payment hereunder and the Holder shall have all rights as a holder of the Note until such time, if any, as the Holder receives full payment pursuant to this Section 8(b). No such rescission or annulment shall affect any subsequent Event of Default, Fundamental Transaction or impair any right consequent thereon.

Section 9. Security Interest. This Note is secured by a security interest granted to the Holder pursuant to a Security Agreement, as delivered by Borrower to Holder.

Section 10. Miscellaneous.

a) Notices. All notices, demands, requests, consents, approvals, and other communications required or permitted hereunder shall be in writing and, unless otherwise specified herein, shall be (i) personally served, (ii) deposited in the mail, registered or certified, return receipt requested, postage prepaid, (iii) delivered by reputable air courier service with charges prepaid, or (iv) transmitted by hand delivery, telegram, or facsimile, addressed as set forth below or to such other address as such party shall have specified most recently by written notice. Any notice or other communication required or permitted to be given hereunder shall be deemed effective (a) upon hand delivery or delivery by facsimile, with accurate confirmation generated by the transmitting facsimile machine, at the address or number designated below (if delivered on a business day during normal business hours where such notice is to be received), or the first business day following such delivery (if delivered other than on a business day during normal business hours where such notice is to be received) or (b) on the second business day following the date of mailing by express courier service, fully prepaid, addressed to such address, or upon actual receipt of such mailing, whichever shall first occur. The addresses for such communications shall be: (i) if to Borrower, to: MCW Energy Group Limited, 4370 Tujunga Avenue, Suite 320, Studio City, California, 91604, Attn: Aleksandr Blyumkin, Executive Chairman, facsimile: 866-571-9613, with a copy by email only to (which shall not constitute notice): robbie.grossman@mcmillan.ca, and (ii) if to the Holder, to: the address indicated on the front page of this Note, with an additional copy by fax only to (which shall not constitute notice): Grushko & Mittman, P.C., 515 Rockaway Avenue, Valley Stream, New York 11581, facsimile: (212) 697-3575.

b) Absolute Obligation. Except as expressly provided herein, no provision of this Note shall alter or impair the obligation of Borrower, which is absolute and unconditional, to pay the principal of, liquidated damages and accrued interest, as applicable, on this Note at the time, place, and rate, and in the coin or currency, herein prescribed. This Note is a direct debt obligation of Borrower. This Note ranks pari passu with all other Notes now or hereafter issued under the terms set forth herein.

c) Lost or Mutilated Note. If this Note shall be mutilated, lost, stolen or destroyed, Borrower shall execute and deliver, in exchange and substitution for and upon cancellation of a mutilated Note, or in lieu of or in substitution for a lost, stolen or destroyed Note, a new Note for the principal amount of this Note so mutilated, lost, stolen or destroyed, but only upon receipt of evidence of such loss, theft or destruction of such Note, and of the ownership hereof, reasonably satisfactory to Borrower.

d) Governing Law. All questions concerning the construction, validity, enforcement and interpretation of this Note shall be governed by and construed and enforced in accordance with the internal laws of the State of New York, without regard to the principles of conflict of laws thereof. Each party agrees that all legal proceedings concerning the interpretation, enforcement and defense of the transactions contemplated by any of the Transaction Documents (whether brought against a party hereto or its respective Affiliates, directors, officers, shareholders, employees or agents) shall be commenced in the state and federal courts sitting in the City of New York, Borough of Manhattan (the "New York Courts") or solely at the election of Holder in a court of appropriate jurisdiction in the Province of Ontario, or any jurisdiction where collateral under the Loan Documents or a guarantor of this Note is situated. Each party hereto hereby irrevocably submits to the exclusive jurisdiction of the New York Courts for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein (including with respect to the enforcement of any of the Transaction Documents), and hereby irrevocably waives, and agrees not to assert in any suit, action or proceeding, any claim that it is not personally subject to the jurisdiction of such New York Courts, or such New York Courts are improper or an inconvenient venue for such proceeding. Each party hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or proceeding by mailing a copy thereof via registered or certified mail or overnight delivery (with evidence of delivery) to such party at the address in effect for notices to it under this Note and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any other manner permitted by applicable law. Each party hereto hereby irrevocably waives, to the fullest extent permitted by applicable law, any and all right to trial by jury in any legal proceeding arising out of or relating to this Note or the transactions contemplated hereby. If any party shall commence an action or proceeding to enforce any provisions of this Note, then the prevailing party in such action or proceeding shall be reimbursed by the other party for its reasonable attorneys' fees and other costs and expenses incurred in the investigation, preparation and prosecution of such action or proceeding. **This Note shall be deemed an unconditional obligation of Borrower for the payment of money and, without limitation to any other remedies of Holder, may be enforced against Borrower by summary proceeding pursuant to New York Civil Procedure Law and Rules Section 3213 or any similar rule or statute in the jurisdiction where enforcement is sought. For purposes of such rule or statute, any other document or agreement to which Holder and Borrower are parties or which Borrower delivered to Holder, which may be convenient or necessary to determine Holder's rights hereunder or Borrower's obligations to Holder are deemed a part of this Note, whether or not such other document or agreement was delivered together herewith or was executed apart from this Note.**

e) Waiver. Any waiver by Borrower or the Holder of a breach of any provision of this Note shall not operate as or be construed to be a waiver of any other breach of such provision or of any breach of any other provision of this Note. The failure of Borrower or the Holder to insist upon strict adherence to any term of this Note on one or more occasions shall not be considered a waiver or deprive that party of the right thereafter to insist upon strict adherence to that term or any other term of this Note on any other occasion. Any waiver by Borrower or the Holder must be in writing.

f) Severability. If any provision of this Note is invalid, illegal or unenforceable, the balance of this Note shall remain in effect, and if any provision is inapplicable to any Person or circumstance, it shall nevertheless remain applicable to all other Persons and circumstances.

g) Usury. If it shall be found that any interest or other amount deemed interest due hereunder violates the applicable law governing usury, the applicable rate of interest due hereunder shall automatically be lowered to equal the maximum rate of interest permitted under applicable law. Borrower covenants (to the extent that it may lawfully do so) that it shall not at any time insist upon, plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay, extension or usury law or other law which would prohibit or forgive Borrower from paying all or any portion of the principal of or interest on this Note as contemplated herein, wherever enacted, now or at any time hereafter in force, or which may affect the covenants or the performance of this Note, and Borrower (to the extent it may lawfully do so) hereby expressly waives all benefits or advantage of any such law, and covenants that it will not, by resort to any such law, hinder, delay or impede the execution of any power herein granted to the Holder, but will suffer and permit the execution of every such as though no such law has been enacted.

h) Next Business Day. Whenever any payment or other obligation hereunder shall be due on a day other than a Business Day, such payment shall be made on the next succeeding Business Day.

i) Headings. The headings contained herein are for convenience only, do not constitute a part of this Note and shall not be deemed to limit or affect any of the provisions hereof.

j) Amendment. Unless otherwise provided for hereunder, this Note may not be modified or amended or the provisions hereof waived without the written consent of Borrower and the Holder.

k) Facsimile Signature. In the event that the Borrower's signature is delivered by facsimile transmission, PDF, electronic signature or other similar electronic means, such signature shall create a valid and binding obligation of the Borrower with the same force and effect as if such signature page were an original thereof.

(Signature Pages Follow)

IN WITNESS WHEREOF, Borrower has caused this Note to be signed in its name by an authorized officer as of the 8th day of April, 2016.

MCW ENERGY GROUP LIMITED

By: /s/ Aleksandr Blyumkin
Name: Aleksandr Blyumkin
Title: Executive Chairman

WITNESS:

ANNEX A

NOTICE OF CONVERSION

The undersigned hereby elects to convert principal under the Convertible Note due **October 8, 2017** of MCW Energy Group Limited, a corporation amalgamated pursuant to the laws of the Province of Ontario (the "Borrower"), into shares of common stock (the "Common Stock"), of Borrower according to the conditions hereof, as of the date written below. If shares of Common Stock are to be issued in the name of a person other than the undersigned, the undersigned will pay all transfer taxes payable with respect thereto and is delivering herewith such certificates and opinions as reasonably requested by Borrower in accordance therewith. No fee will be charged to the holder for any conversion, except for such transfer taxes, if any.

The undersigned agrees to comply with the prospectus delivery requirements under the applicable securities laws in connection with any transfer of the aforesaid shares of Common Stock.

Conversion calculations:

Date to Effect Conversion: _____

Principal Amount of Note to be Converted: \$ _____

Interest Amount to be Converted: \$ _____

Number of shares of Common Stock to be issued: _____

Number of Warrants to be delivered: _____

Signature: _____

Name: _____

Address for Delivery of Common Stock Certificates: _____

Or

DWAC Instructions: _____

Broker No: _____

Account No: _____

**STOCK OPTION PLAN OF
PETROTEQ ENERGY INC.**

(November 23, 2018)

PART 1 - INTRODUCTION

1.01 Purpose

The purpose of the Plan is to secure for the Corporation and its shareholders the benefits of incentive inherent in share ownership by the directors, officers, key employees and, subject to the terms and conditions herein, consultants of the Corporation and its Affiliates who, in the judgment of the Board, will be largely responsible for its future growth and success.

1.02 Definitions

- (a) "Affiliate" has the meaning ascribed thereto in the *Business Corporations Act* (Ontario) as amended from time to time.
 - (b) "Associate" has the meaning ascribed to such term in the *Securities Act* (Ontario).
 - (c) "Blackout Period" means a period during which the Corporation prohibits Optionees from exercising their Options.
 - (d) "Board" means the board of directors of the Corporation.
 - (e) "Code" means the U.S. Internal Revenue Code of 1986, as amended.
 - (f) "Consultant" has the meaning ascribed to such term in Policy 4.4.
 - (g) "Corporation" means Petroteq Energy Inc., a corporation duly incorporated under the laws of the Province of Ontario, and its Affiliates, if any, and includes any successor or assignee entity or entities into which the Corporation may be merged, changed, or consolidated; any entity for whose securities the securities of the Corporation shall be exchanged; and any assignee of or successor to substantially all of the assets of the Corporation.
 - (h) "Market Price" has the meaning ascribed to such term in Policy 1.1.
 - (i) "Disability" or "Disabled" means permanent and total disability as defined in Section 22(e)(3) of the Code.
 - (j) "Eligible Person" shall mean an officer or director of the Corporation ("**Executive**") or an employee of the Corporation ("**Employee**") or a Management Company Employee or a Consultant.
 - (k) "Exchange" means the TSX Venture Exchange.
 - (l) "Exercise Notice" means the notice respecting the exercise of an Option, substantially in the form attached to the Option Certificate, duly executed by the Optionee.
 - (m) "Exercise Price" means the price at which an Option may be exercised as determined in accordance with section 2.03.
 - (n) "Fair Market Value" means, if the Shares are listed on any national securities exchange within the meaning of Section 409A of the Code, the closing sales price, if any, on the largest such exchange on the valuation date, or, if none, on the most recent trade date immediately prior to the valuation date provided such trade date is no more than thirty (30) days prior to the valuation date. If the Shares are not then listed on any such exchange, or there has been no trade date within such thirty (30) day period, the fair market value shall be determined in good faith by the Board.
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- (o) “Section 422 Stock Option” means an Option which is intended to qualify as an incentive stock option under Section 422 of the Code.
- (p) “Insider” means (i) an insider as defined in the *Securities Act* (Ontario), other than a person who falls within the definition solely by virtue of being a director or senior officer of a subsidiary of the Corporation, and (ii) an Associate of any person who is an insider by virtue of the preceding sub-clause (i).
- (q) “Investor Relations Activities” has the meaning ascribed to such term in Policy 1.1.
- (r) “Management Company Employee” has the meaning ascribed to such term in Policy 4.4.
- (s) “Material Information” has the meaning ascribed to such term in Policy 1.1.
- (t) “Option” shall mean an option granted under the terms of the Plan.
- (u) “Option Certificate” means the certificate, substantially in the form set out as Schedule “A” hereto, evidencing an Option.
- (v) “Option Period” shall mean the period during which an option may be exercised.
- (w) “Optionee” shall mean an Eligible Person to whom an Option has been granted under the terms of the Plan.
- (x) “Outstanding Issue” means the number of Shares outstanding on a non-diluted basis.
- (y) “Plan” means the stock option plan established and operated pursuant to Part 2 hereof.
- (z) “Policy 1.1” means the Exchange’s Policy 1.1 entitled “Interpretation” as amended from time to time.
- (aa) “Policy 4.4” means the Exchange’s Policy 4.4 entitled “Incentive Stock Options” as amended from time to time.
- (bb) “Shares” shall mean the common shares of the Corporation.

PART 2 - SHARE OPTION PLAN

2.01 Participation

Options shall be granted only to Eligible Persons.

2.02 Determination of Option Recipients

The Board shall make all necessary or desirable determinations regarding the granting of Options to Eligible Persons and may take into consideration the present and potential contributions of a particular Eligible Person to the success of the Corporation and any other factors which it may deem proper and relevant.

2.03 Price

The price at which an Optionee may purchase a Share upon the exercise of an Option shall be determined from time to time by the Board and shall be as set forth in the Option Certificate issued in respect of such Option but, in any event, shall not be less than the Market Price, and in the case of an Eligible Person employed or performing services in the United States or otherwise subject to Section 409A of the Code, shall not be less than Fair Market Value on the date of grant. If the Optionee owns directly or by reason of the applicable attribution rules more than 10% of the total combined voting power of all classes of stock of the Corporation, the Option price per share of the Shares covered by each Option which is intended to be a Section 422 Stock Option shall be not less than one hundred ten percent (110%) of the Fair Market Value on the date of the grant.

2.04 Grant of Options

The Board may at any time authorize the granting of Options to such Eligible Persons as it may select for the number of Shares that it shall designate, subject to the provisions of the Plan. The date of each grant of Options shall be determined by the Board when the grant is authorized.

In the event that Options are granted to Employees, Management Company Employees or Consultants, the Corporation represents that such Optionees shall be bona fide Employees, Management Company Employees or Consultants, as the case may be.

The Corporation may at the time of granting options hereunder provide for additional terms and conditions which are not inconsistent with Part 2 hereof including, without limitation, terms and conditions deferring or delaying the date at which an Option may be exercised in whole or in part. Such additional terms and conditions shall be as set forth in the Option Certificate issued in respect of such Option.

The Option Certificate of any Option which is intended to qualify as an Section 422 Stock Option shall contain such limitations and restrictions upon the exercise of the Option as shall be necessary in order that such Option qualifies as an "incentive stock option" within the meaning of Section 422 of the Code. Further, the Option Certificate authorized under the Plan shall be subject to such other terms and conditions including, without limitation, restrictions upon the exercise of the Option, as the Board shall deem advisable and which are not inconsistent with the requirements of Section 422 of the Code.

Notwithstanding any of the foregoing provisions, the Board may authorize the grant of an Option to a person not then in the employ of the Corporation or of an Affiliate, conditioned upon such person becoming eligible to become an Eligible Person at or prior to the execution of the Option Certificate evidencing the actual grant of such Option.

2.05 Term of Options

Unless otherwise expired pursuant to the terms of the Plan, all Options granted to an Optionee pursuant to this Plan shall expire at the close of business ten (10) years from the date of grant or such earlier date as the Board shall decide when the Option is granted, subject to earlier termination as herein provided; provided, however, that if the Option price is required under section 2.03 to be at least 110% of Fair Market Value, each such Option shall terminate not more than five (5) years from the date of the grant thereof, and shall be subject to earlier termination as herein provided.

Upon the expiration of the Option Period, the Options granted shall forthwith expire and terminate and be of no further force or effect whatsoever as to such of the Shares in respect of which the Option hereby granted has not then been exercised.

Notwithstanding the foregoing, if the expiration of the Option Period falls within a Blackout Period the expiration of the Option Period shall be automatically extended for ten (10) business days after the expiry of the Blackout Period on the condition that (i) the Blackout Period was formally imposed by the Corporation pursuant to its internal trading policies as a result of the bona fide existence of undisclosed Material Information, (ii) the Blackout Period must be deemed to have expired upon the general disclosure of the undisclosed Material Information, and (iii) the automatic extension of an Optionee's options will not be permitted where the Optionee or the Corporation is subject to a cease trade order (or similar order under applicable securities laws) in respect of the Corporation's securities.

No Optionee or his or her legal representative, legatees or distributees will be, or will be deemed to be, a holder of any Shares subject to an Option, unless and until certificates for such Shares are issued to him, her or them or a securities intermediary with whom the Optionee (or his or her legal representative, legatees or distributees) has an account, is recorded as the owner of such Shares in a book-entry system under the terms of the Plan.

2.06 Exercise of Options

Except as set forth in section 2.10, no Option may be exercised unless the Optionee is at the time of such exercise;

- (a) in the case of an Employee, in the employ of the Corporation or any Affiliate and shall have been continuously so employed since the grant of his or her Option, or have been a Consultant of the Corporation during such time thereafter, but absence on leave, having the approval of the Corporation or such Affiliate, shall not be considered an interruption of employment for any purpose of the Plan;
- (b) in the case of a Consultant, under contract with the Corporation or any Affiliate and shall have been continuously so contracted since the grant of the Option; or
- (c) in the case of an Executive, a director or officer of the Corporation or any Affiliate and shall have been such a director or officer continuously since the grant of his or her Option.

No Option may be exercised by an Optionee until the Plan has been approved by the shareholders of the Corporation.

The exercise of any Option will be contingent upon receipt by the Corporation of cash payment of the full Exercise Price of the Shares being purchased by 5:00 p.m. (EST) on the last day of the Option Period by delivering to the Corporation an Exercise Notice, the applicable Option Certificate and a certified cheque or bank draft payable to the Corporation in an amount equal to the aggregate Exercise Price of the Shares to be purchased pursuant to the exercise of the Option.

2.07 Vesting of Options

Executives, Employees, Management Company Employees and Consultants

All Options granted to an Eligible Person, other than Optionees performing Investor Relations Activities, pursuant to this Plan shall vest and become fully exercisable as determined by the Board when the Option is granted.

Optionees performing Investor Relations Activities

All Options granted to Optionees performing Investor Relations Activities, pursuant to this Plan shall vest and become full exercisable as follows or as determined by the Board when the Option is granted, but in any event such Options shall not vest any sooner:

- (a) one quarter (1/4) of the Options on the date which is three (3) months from the date said Options are granted;
- (b) one quarter (1/4) of the Options on the date which is six (6) months from the date said Options are granted;
- (c) one quarter (1/4) of the Options on the date which is nine (9) months from the date said Options are granted; and
- (d) the final one quarter (1/4) of the Options on the date which is twelve (12) months from the date said Options are granted.

2.08 Restrictions on Grant of Options

The granting of Options shall be subject to the following conditions:

- (a) not more than two (2%) percent of the Outstanding Issue may be granted to any one Consultant in any 12 month period;

- (b) not more than an aggregate of two (2%) percent of the Outstanding Issue may be granted in aggregate to Eligible Persons conducting Investor Relations Activities in any 12 month period;
- (c) unless the Corporation has obtained disinterested shareholder approval, not more than five (5%) percent of the Outstanding Issue may be issued to any one individual in any 12 month period;
- (d) unless the Corporation has obtained disinterested shareholder approval, not more than an aggregate of ten (10%) percent of the Outstanding Issue may be issued to Insiders in any 12 month period; and
- (e) unless the Corporation has obtained disinterested shareholder approval, the Corporation shall not decrease the Exercise Price of Options previously granted to Insiders.

No Options shall be granted after the expiration of ten (10) years from the earlier of the date of the adoption of the Plan by the Corporation or the approval of the Plan by the stockholders of the Corporation, and provided further, that the fair market value of the Shares (determined at the time the Option is granted) as to which Options designated as Section 422 Stock Options are exercisable for the first time by any Eligible Person during any single calendar year (under the Plan and under any other incentive stock option plan of the Corporation or an Affiliate) shall not exceed US\$100,000.

If disinterested shareholder approval is required, the proposed grant(s) or plan must be approved by a majority of the votes cast by all shareholders at the shareholders' meeting excluding votes attaching to shares beneficially owned by (i) Insiders to whom options may be granted under the stock option plan; and (ii) Associates of such Insiders. Holders of non-voting and subordinate voting shares must be given full voting rights on a resolution that requires disinterested shareholder approval.

2.09 Lapsed Options

If Options are surrendered, terminated or expire without being exercised in whole or in part, new Options may be granted covering the Shares not purchased under such lapsed Options.

2.10 Effect of Termination of Employment, Death or Disability

- (a) If an Optionee shall die while employed or retained by the Corporation, or while an Executive, any Options held by the Optionee at the date of death, which have vested pursuant to section 2.07, shall become exercisable, in whole or in part, but only by the persons or persons to whom the Optionee's rights under the Option shall pass by the Optionee's will or the laws of descent and distribution (the "**Successor Optionee**"). All such Options shall be exercisable only to the extent that the Optionee was entitled to exercise the Option at the date of his or her death and only for one (1) year after the date of death or prior to the expiration of the Option Period in respect thereof, whichever is sooner, except that in the event the expiration of the Option Period is earlier than one (1) year after the date of death, with the consent of the Exchange, the Options shall be exercisable for up to one (1) year after the date of death of the Optionee as determined by the Board. Notwithstanding the foregoing, the Board, in its discretion, may resolve that up to all of the Options held by an Optionee at the date of death which have not yet vested shall vest immediately upon death.
- (b) If the employment or engagement of an Optionee shall terminate with the Corporation due to disability while the Optionee is employed or retained by the Corporation, any Option held by the Optionee on the date the employment or engagement of the Optionee is terminated due to disability, which have vested pursuant to section 2.07, shall become exercisable, in whole or in part. All such Options shall be exercisable only to the extent that the Optionee was entitled to exercise the Option at the date of his or her termination due to disability and only for one (1) year after the date of termination or prior to the expiration of the Option Period in respect thereof, whichever is sooner, provided that Options that become exercisable due to disability shall only be exercisable by the person or persons who have the legal authority to act on behalf of the Optionee in connection with the rights of the Optionee to the Options. Notwithstanding the foregoing, the Board, in its discretion, may resolve that up to all of the Options held by an Optionee on the date the employment or engagement of the Optionee is terminated due to disability which have not yet vested shall vest immediately upon such date.

- (c) Subject to section 2.10 (d), if an Optionee ceases to be an Eligible Person (other than as provided in section 2.10 (a) or (b)), any Options held by the Optionee on the date such Optionee ceased to be an Eligible Person, which have vested pursuant to section 2.07, shall be exercisable only to the extent that the Optionee was entitled to exercise the Option at the date such Optionee ceased to be an Eligible Person and only for ninety (90) days after the date such Optionee ceased to be an Eligible Person, subject to the Board's discretion to extend such period for up to one (1) year, or prior to the expiration of the Option Period in respect thereof, whichever is sooner. Notwithstanding the foregoing, the Board, in its discretion, may resolve that up to all of the Options held by an Optionee on the date the Optionee ceased to be an Eligible Person which have not yet vested shall vest immediately upon such date.
- (d) If the employment of an Employee or Consultant is terminated for cause (as determined by the Board) no Option held by such Optionee may be exercised following the date upon which Termination occurred.

To the extent required by law, the Corporation shall make adjustments to, and interpret, the Options as required by the U.S. Uniformed Services Employment and Reemployment Rights Act.

2.11 Effect of Offer or Sale

If at any time when the Option hereby granted remains unexercised with respect to any Shares, (a) a general offer to purchase all of the issued shares of the Corporation is made by a third party or (b) the Corporation proposes to sell all or substantially all of its assets and undertaking or to merge, amalgamate or be absorbed by or into any other company (save and except for a subsidiary or subsidiaries of the Corporation) under any circumstances which involve or may involve or require the liquidation of the Corporation, a distribution of its assets among its shareholders, or the termination of its corporate existence, the Corporation shall use its reasonable best efforts to provide notice of such offer or proposal to the Optionee as soon as practicable and (i) the Corporation may, at its option, permit the Option hereby granted to be exercised, as to all or any of the Optioned Shares in respect of which such Option has not previously been exercised by the Optionee at any time up to and including (but not after) a date twenty (20) days following the date of notice of such offer, sale or other similar transaction or prior to the close of business on the expiration date of the Option Period, whichever is the later; and (ii) the Corporation may, at its option, determine that upon the expiration of such twenty (20) day period, all rights to exercise the Option shall terminate and cease to have any further force or effect.

The Corporation may, in its sole discretion and without the consent of Optionees, provide for one or more of the following: (i) the assumption of the Plan and outstanding Options by the surviving entity or its parent; (ii) the substitution by the surviving entity or its parent of Options with substantially the same terms for such outstanding Options; (iii) immediate exercisability of such outstanding Options followed by cancellation of such Options; and (iv) settlement of the intrinsic value of the outstanding vested Options in cash or cash equivalents or equity followed by the cancellation of all Options (whether or not then vested or exercisable).

2.12 Effect of Amalgamation, Consolidation or Merger

If the Corporation amalgamates, consolidates with or merges with or into another corporation, upon the exercise of an Option following such amalgamation, consolidation or merger, the Optionee shall be entitled to receive, and shall accept, in lieu of Shares, the securities, property or cash which the Optionee would have received upon such amalgamation, consolidation or merger if the Optionee had exercised his Option and held Shares immediately prior to the effective date of such amalgamation, consolidation or merger, and the number of Shares and the option price shall be adjusted appropriately by the directors of the Corporation and such adjustment shall be binding for all purposes herein.

2.13 Adjustment in Shares Subject to the Plan

If there is any change in the Shares through or by means of a declaration of stock dividends of Shares or consolidations, subdivisions or reclassification of Shares, or otherwise, the number of Shares available under the Plan, the Shares subject to any Option, and the Exercise Price thereof shall be adjusted appropriately by the Board and such adjustment shall be effective and binding for all purposes of the Plan. No such adjustment shall be made under the Plan which shall, within the meaning of Sections 424 and 409A of the Code, constitute such a modification, extension, or renewal of an Option as to cause the adjustment to be considered as the grant of a new Option.

2.14 Hold Period

All Options and any Shares issued on the exercise of Options may be subject to and legended with a four month hold period commencing on the date the Options were granted pursuant to the rules of the Exchange and applicable securities laws. Any Shares issued on the exercise of Options may be subject resale restrictions contained in National Instrument 45-102 – *Resale of Securities* which would apply to the first trade of the Shares.

2.15 Notification of Grant of Option

Following the granting of an Option by the Board, the Corporation shall notify the Optionee in writing of the Option and shall enclose with such notice the Option Certificate representing the Option so granted. Each Optionee, concurrently with the notice of the grant of an Option, shall be provided with a copy of the Plan.

2.16 Options Granted To Corporations

Except in relation to a Consultant that is a corporation, Options may only be granted to an individual or a corporation that is wholly-owned by an Eligible Person. If a corporation is an Optionee, it must provide the Exchange with a completed Form 4F – *Certification and Undertaking Required from a Corporation Granted an Incentive Stock Option*. The corporation must agree not to effect or permit any transfer of ownership or option of shares of the corporation nor to issue further shares of any class in the corporation to any other individual or entity as long as the Option remains outstanding, except with the written consent of the Exchange.

PART 3 - GENERAL

3.01 Number of Shares

The aggregate number of Shares that may be reserved for issuance, at any time, under the Plan shall not exceed 17,969,849 Shares, being 20% of the total Outstanding Issue as at the date hereof.

3.02 Transferability

All benefits, rights and options accruing to any Optionee in accordance with the terms and conditions of the Plan shall not be transferable or assignable unless specifically provided herein. During the lifetime of an Optionee, all benefits, rights and options may only be exercised by the Optionee.

3.03 Employment

Nothing contained in any Plan shall confer upon any Optionee any right with respect to employment or continuance of employment with the Corporation or any Affiliate, or interfere in any way with the right of the Corporation or any Affiliate to terminate the Optionee's employment at any time. Participation in any Plan by an Optionee is voluntary.

3.04 Approval of Plan

Options issued under the Plan shall only become exercisable after the Plan has been approved by the shareholders of the Corporation; provided, however:

- (a) unless consistent with the terms contained herein and approved by the Board, nothing contained herein shall in any way affect Options previously granted by the Corporation and currently outstanding;

- (b) the Plan must receive shareholder approval yearly, at the Corporation's annual general meeting.

The obligation of the Corporation to sell and deliver Shares in accordance with the Plan is subject to the approval of any governmental authority having jurisdiction or any stock exchanges on which the Shares are listed for trading which may be required in connection with the authorization, issuance or sale of such Shares by the Corporation. If any Shares cannot be issued to any Optionee for any reason including, without limitation, the failure to obtain such approval, then the obligation of the Corporation to issue such Shares shall terminate and any Optionee's option price paid to the Corporation shall be returned to the Optionee.

3.05 Administration of the Plan

The Board is authorized to interpret the Plan from time to time and to adopt, amend and rescind rules and regulations for carrying out the Plan. The interpretation and construction of any provision of the Plan by the Board shall be final and conclusive. Administration of the Plan shall be the responsibility of the appropriate officers of the Corporation and all costs in respect thereof shall be paid by the Corporation.

3.06 Income Taxes

As a condition of and prior to participation in the Plan, if requested by the Board, a Optionee shall authorize the Corporation in written form to withhold from any remuneration otherwise payable to such Optionee any amounts required by any taxing authority to be withheld for taxes of any kind as a consequence of such participation in the Plan.

In addition, if the Corporation is required under the *Income Tax Act* (Canada) or any other applicable law to make source deductions in respect of employee stock option benefits to the Optionee and to remit to the applicable governmental authority an amount on account of tax on the value of the taxable benefit associated with the issuance of Shares on exercise of Options, then the Optionee shall (i) pay to the Corporation, in addition to the Exercise Price for the Options, sufficient cash as is reasonably determined by the Corporation to be the amount necessary to permit the required tax remittance, (ii) authorize the Corporation, on behalf of the Optionee, to sell in the market on such terms and at such time or times as the Corporation determines a portion of the Shares being issued upon exercise of the Options to realize cash proceeds to be used to satisfy the required tax remittance, or (iii) make other arrangements acceptable to the Corporation to fund the required tax remittance.

3.07 Amendments to the Plan

The Board reserves the right to amend, modify or terminate the Plan at any time if and when it is advisable in the absolute discretion of the Board. However, any amendments of the Plan which could result, at any time, in:

- (a) a material increase in the benefits under the Plan; or
- (b) an increase in the number of Shares which would be issued under the Plan (except any increase resulting automatically from an increase in the total Outstanding Issue); or
- (c) a material modification in the requirement as to eligibility for participation in the Plan;

shall be effective only upon the approval of the shareholders of the Corporation. Any amendment to any provision of the Plan shall be subject to approval, if required, by any regulatory body having jurisdiction over the securities of the Corporation.

3.08 No Representation or Warranty

The Corporation makes no representation or warranty as the future market value of any Shares issued in accordance with the provisions of the Plan.

3.09 Interpretation

The Plan will be governed by and construed in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein.

3.10 Savings Clause

This Plan is intended to comply in all respects with applicable law and regulations, including Section 409A of the Code. In case any one or more provisions of this Plan shall be held invalid, illegal, or unenforceable in any respect under applicable law and regulation (including Section 409A of the Code), the validity, legality, and enforceability of the remaining provisions shall not in any way be affected or impaired thereby and the invalid, illegal, or unenforceable provision shall be deemed null and void; however, to the extent permitted by law, any provision that could be deemed null and void shall first be construed, interpreted, or revised retroactively to permit this Plan to be construed in compliance with all applicable law (including Section 409A of the Code) so as to foster the intent of this Plan.

3.11 Compliance with Applicable Law, etc.

If any provision of the Plan or of any Option Certificate delivered pursuant to the Plan contravenes any law or any order, policy, by-law or regulation of any regulatory body or stock exchange having authority over the Corporation or the Plan then such provision shall be deemed to be amended to the extent required to bring such provision into compliance therewith.

SCHEDULE "A"
PETROTEQ ENERGY INC.
STOCK OPTION PLAN

If issued to officers or directors or at a discount to the Market Price - WITHOUT PRIOR WRITTEN APPROVAL OF TSX VENTURE EXCHANGE AND COMPLIANCE WITH ALL APPLICABLE SECURITIES LEGISLATION, THE SECURITIES REPRESENTED BY THIS CERTIFICATE MAY NOT BE SOLD, TRANSFERRED, HYPOTHECATED OR OTHERWISE TRADED ON OR THROUGH THE FACILITIES OF TSX VENTURE EXCHANGE OR OTHERWISE IN CANADA OR TO OR FOR THE BENEFIT OF A CANADIAN RESIDENT UNTIL [INSERT DATE THAT IS FOUR MONTHS AND A DAY FROM THE GRANT DATE].

Insert the following U.S. legend if the Option is being issued to an Optionee who is in the United States or who is a U.S. person:

[THE OPTION REPRESENTED BY THIS CERTIFICATE AND THE COMMON SHARES ISSUABLE UPON EXERCISE THEREOF HAVE NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "U.S. SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. THE HOLDER HEREOF, BY ACQUIRING SUCH SECURITIES, AGREES FOR THE BENEFIT OF THE CORPORATION THAT SUCH SECURITIES MAY BE OFFERED, SOLD OR OTHERWISE TRANSFERRED ONLY (A) TO THE CORPORATION, (B) OUTSIDE THE UNITED STATES IN ACCORDANCE WITH RULE 904 OF REGULATIONS UNDER THE U.S. SECURITIES ACT AND IN COMPLIANCE WITH APPLICABLE LOCAL LAWS AND REGULATIONS, (C) PURSUANT TO THE EXEMPTION FROM REGISTRATION UNDER THE U.S. SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER, IF AVAILABLE, AND IN COMPLIANCE WITH ANY APPLICABLE STATE SECURITIES LAWS, OR (D) IN A TRANSACTION THAT DOES NOT REQUIRE REGISTRATION UNDER THE U.S. SECURITIES ACT OR ANY APPLICABLE STATE LAWS AND REGULATIONS GOVERNING THE OFFER AND SALE OF SECURITIES, AND IT HAS, IN THE CASE OF EACH OF (C) AND (D), PRIOR TO SUCH TRANSFER FURNISHED TO THE CORPORATION AN OPINION OF COUNSEL OF RECOGNIZED STANDING IN FORM AND SUBSTANCE SATISFACTORY TO THE CORPORATION TO SUCH EFFECT.]

PETROTEQ ENERGY INC.

STOCK OPTION PLAN
OPTION CERTIFICATE

This Certificate is issued pursuant to the provisions of the Petroteq Energy Inc. (the "**Corporation**") stock option plan (the "**Plan**") and evidences that _____ is the holder (the "**Optionee**") of an option (the "**Option**") to purchase up to _____ common shares (the "**Shares**") in the capital stock of the Corporation at a purchase price of CAD\$ _____ per Share (the "**Exercise Price**").

The Plan provides for the granting of stock options that either (i) are intended to qualify as "Incentive Stock Options" within the meaning of Section 422 of the United States Internal Revenue Code of 1986 ("**Section 422 Stock Options**"), as amended (the "**Code**"), or (ii) do not qualify as Section 422 Stock Options ("**Non-Qualified Stock Options**"). This Option is intended to be (select one):

- a Section 422 Stock Option; or
 - a Non-Qualified Stock Option.
-

Subject to the provisions of the Plan:

- (a) the effective date of the grant of the Option is _____, 20__;
- (b) the Option expires at 5:00 p.m. (EST) on _____, 20__; and
- (c) the Options shall vest as follows:

Date	Percent of Stock Options Vested	Number of Stock Options Vested	Aggregate Number of Stock Options Vested

The vested portion or portions of the Option may be exercised at any time and from time to time from and including the date of the grant of the Option through to 5:00 p.m. (EST) on the expiration date of the Option Period by delivering to the Corporation an Exercise Notice, in the form attached as Appendix "I" hereto, together with this Certificate and a certified cheque or bank draft payable to the Corporation in an amount equal to the aggregate of the Exercise Price of the Shares in respect of which the Option is being exercised.

All Options and any Shares issued on the exercise of Options may be subject to resale restrictions and may be subject to and legended with a four month hold period commencing on the date the Options were granted pursuant to the rules of the Exchange and applicable securities laws. The Options hereby granted are subject to the approval of the Exchange.

This Certificate and the Option evidenced hereby is not assignable, transferable or negotiable and is subject to the detailed terms and conditions contained in the Plan, the terms and conditions of which the Optionee hereby expressly agrees with the Corporation to be bound by. This Certificate is issued for convenience only and in the case of any dispute with regard to any matter in respect hereof, the provisions of the Plan and the records of the Corporation shall prevail.

If the Optionee is a U.S. person or is located in the United States, the Optionee acknowledges and agrees as follows:

- (a) The Option and the Shares (collectively, the "**Securities**") have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**U.S. Securities Act**"), or the securities laws of any state of the United States, and the Option is being granted to the Optionee in reliance on an exemption from the registration requirements of the U.S. Securities Act and applicable state securities laws.
- (b) The Securities will be "restricted securities", as defined in Rule 144 under the U.S. Securities Act, and the rules of the United States Securities and Exchange Commission provide in substance that the Optionee may dispose of the Securities only pursuant to an effective registration statement under the U.S. Securities Act or an exemption therefrom, and the Corporation has no obligation to register any of the Securities or to take action so as to permit sales pursuant to the U.S. Securities Act (including Rule 144 thereunder, if available).
- (c) If the Optionee decides to offer, sell or otherwise transfer any of the Shares, the Optionee will not offer, sell or otherwise transfer the Option directly or indirectly, unless:
 - (i) the sale is to the Corporation;
 - (ii) the sale is made outside the United States in a transaction meeting the requirements of Rule 904 of Regulation S under the U.S. Securities Act ("**Regulation S**") and in compliance with applicable local laws and regulations;

- (iii) the sale is made pursuant to the exemption from the registration requirements under the U.S. Securities Act provided by Rule 144 thereunder, if available, and in accordance with any applicable state securities or “blue sky” laws; or
- (iv) the Shares are sold in a transaction that does not require registration under the U.S. Securities Act or any applicable state laws and regulations governing the offer and sale of securities;

and, in the case of each of (iii) and (iv) it has prior to such sale furnished to the Corporation an opinion of counsel reasonably satisfactory to the Corporation stating that such transaction is exempt from registration under applicable securities laws.

- (d) The Option may not be exercised by or for the account or benefit of a person in the United States or a U.S. person unless registered under the U.S. Securities Act and any applicable state securities laws, unless an exemption from such registration requirements is available.
- (e) The certificate(s) representing the Shares will be endorsed with the following or a similar legend until such time as it is no longer required under the applicable requirements of the U.S. Securities Act or applicable state securities laws:

“THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED, (THE “U.S. SECURITIES ACT”), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. THE HOLDER HEREOF, BY PURCHASING SUCH SECURITIES, AGREES FOR THE BENEFIT OF THE CORPORATION, THAT SUCH SECURITIES MAY BE OFFERED, SOLD OR OTHERWISE TRANSFERRED ONLY (A) TO THE CORPORATION; (B) OUTSIDE THE UNITED STATES IN ACCORDANCE WITH RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT; (C) IN ACCORDANCE WITH THE EXEMPTION FROM REGISTRATION UNDER THE U.S. SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER, IF AVAILABLE, AND IN COMPLIANCE WITH ANY APPLICABLE STATE SECURITIES LAWS; OR (D) IN A TRANSACTION THAT DOES NOT REQUIRE REGISTRATION UNDER THE U.S. SECURITIES ACT AND ANY APPLICABLE STATE SECURITIES LAWS, AND, IN THE CASE OF CLAUSE (C) OR (D), THE SELLER FURNISHES TO THE CORPORATION AN OPINION OF COUNSEL OF RECOGNIZED STANDING IN FORM AND SUBSTANCE SATISFACTORY TO THE CORPORATION TO SUCH EFFECT. THE PRESENCE OF THIS LEGEND MAY IMPAIR THE ABILITY OF THE HOLDER HEREOF TO EFFECT “GOOD DELIVERY” OF THE SECURITIES REPRESENTED HEREBY ON A CANADIAN STOCK EXCHANGE.”

provided, that if the Shares are being sold outside the United States in compliance with the requirements of Rule 904 of Regulation S and such Shares were acquired at a time when the Corporation is a “foreign issuer” as defined in Regulation S, the legend set forth above may be removed by providing an executed declaration to the registrar and transfer agent of the Corporation, in substantially the form set forth as Appendix “II” hereto (or in such other form as the Corporation may prescribe from time to time) and, if requested by the Corporation or the transfer agent, an opinion of counsel of recognized standing in form and substance satisfactory to the Corporation and the transfer agent to the effect that such sale is being made in compliance with Rule 904 of Regulation S; and provided, further, that, if any Shares are being sold otherwise than in accordance with Regulation S and other than to the Corporation, the legend may be removed by delivery to the registrar and transfer agent and the Corporation of an opinion of counsel, of recognized standing reasonably satisfactory to the Corporation, that such legend is no longer required under applicable requirements of the U.S. Securities Act or state securities laws.

- (f) Rule 905 of Regulation S provides in substance that any “restricted securities” that are equity securities of a “domestic issuer” (including an issuer that no longer qualifies as a “foreign issuer”) will continue to be deemed to be restricted securities notwithstanding that they were acquired in a resale transaction pursuant to Rule 901 or 904 of Regulation S; that Rule 905 of Regulation S will apply in respect of Shares if the Corporation is not a “foreign issuer” at the time of exercise of the related Options; and that the Corporation is not obligated to remain a “foreign issuer”.

- (g) “**Domestic issuer**”, “**foreign issuer**”, “**United States**” and “**U.S. person**” are as defined in Regulation S.
- (h) If the Optionee is resident in the State of California on the effective date of the grant of the Option, then, in addition to the terms and conditions contained in the Plan and in this Certificate, the Optionee acknowledges that the Corporation, as a reporting issuer under the securities legislation in the Provinces of British Columbia, Alberta and Ontario, is required to publicly file with the securities regulators in those jurisdictions continuous disclosure documents, including audited annual financial statements and unaudited quarterly financial statements (collectively, the “**Financial Statements**”). Such filings are available on the System for Electronic Document Analysis and Retrieval (SEDAR), and documents filed on SEDAR may be viewed under the Corporation’s profile at the following website address: www.sedar.com. Copies of Financial Statements will be made available to the Optionee by the Corporation upon the Optionee’s request.

All terms not otherwise defined in this Certificate shall have the meanings given to them under the Plan.

Dated this ____ day of _____, 20__.

PETROTEQ ENERGY INC.

Per:

Authorized Signatory

**APPENDIX “I”
PETROTEQ ENERGY INC.**

**STOCK OPTION PLAN
EXERCISE NOTICE**

TO: PETROTEQ ENERGY INC. (the “Corporation”)

1. The undersigned (the “**Optionee**”), being the holder of options to purchase _____ common shares of the Corporation at the exercise price of _____ per share, hereby irrevocably gives notice, pursuant to the stock option plan of the Corporation (the “**Plan**”), of the exercise of the Option to acquire and hereby subscribes for _____ of such common shares of the Corporation.

2. The Optionee tenders herewith a certified cheque or bank draft payable to the Corporation in an amount equal to the aggregate Exercise Price of the aforesaid common shares exercised and directs the Corporation to issue a share certificate evidencing said common shares in the name of the Optionee to be mailed to the Optionee at the following address:

3. By executing this Exercise Notice, the Optionee hereby confirms that the undersigned has read the Plan and agrees to be bound by the provisions of the Plan. All terms not otherwise defined in this Exercise Notice shall have the meanings given to them under the Plan or the attached Option Certificate.

4. The Optionee is resident in _____ [name of state/province].

5. The Optionee represents, warrants and certifies as follows (please check all of the categories that apply):

- (a) the Optionee at the time of exercise of the Option is not in the United States, is not a “U.S. person” as defined in Regulation S under the United States Securities Act of 1933, as amended (the “**U.S. Securities Act**”) and is not exercising the Option on behalf of, or for the account or benefit of a U.S. person or a person in the United States and did not execute or deliver this exercise form in the United States;
 - (b) the undersigned holder is resident in the United States or is a U.S. person who is a resident of the jurisdiction referred to in the address appearing above, and is a U.S. Accredited Investor **and has completed the U.S. Accredited Investor Status Certificate in the form attached to this Exercise Notice;**
 - (c) the undersigned holder is resident in the United States or is a U.S. person who is a resident of the jurisdiction referred to in the address appearing above, and is a natural person who is either: (i) a director, officer or employee of the Corporation or of a majority-owned subsidiary of the Corporation (each, an “**Eligible Company Optionee**”), (ii) a consultant who is providing bona fide services to the Corporation or a majority-owned subsidiary of the Corporation that are not in connection with the offer or sale of securities in a capital-raising transaction, and do not directly or indirectly promote or maintain a market for the Corporation’s securities (an “**Eligible Consultant**”), or (iii) a former Eligible Company Optionee or Eligible Consultant; and/or
 - (d) if the undersigned holder is resident in the United States or is a U.S. person, the undersigned holder has delivered to the Corporation and the Corporation’s transfer agent an opinion of counsel (which will not be sufficient unless it is in form and substance satisfactory to the Corporation) or such other evidence satisfactory to the Corporation to the effect that with respect to the securities to be delivered upon exercise of the Option, the issuance of such securities has been registered under the U.S. Securities Act and applicable state securities laws or an exemption from the registration requirements of the U.S. Securities Act and applicable state securities laws is available;
-

6. “United States” and “U.S. person” are as defined in Regulation S under the U.S. Securities Act.

Note: Certificates representing Shares will not be registered or delivered to an address in the United States unless Box 5(b), (c) or (d) above is checked.

7. If the undersigned Optionee has marked Box 5(b), (c) or (d) above, the undersigned Optionee hereby represents, warrants, acknowledges and agrees that:

- (a) funds representing the subscription price for the Shares which will be advanced by the undersigned to the Corporation upon exercise of the Options will not represent proceeds of crime for the purposes of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act (the “**PATRIOT Act**”), and the undersigned acknowledges that the Corporation may in the future be required by law to disclose the undersigned’s name and other information relating to this exercise form and the undersigned’s subscription hereunder, on a confidential basis, pursuant to the PATRIOT Act. No portion of the subscription price to be provided by the undersigned (i) has been or will be derived from or related to any activity that is deemed criminal under the laws of the United States of America, or any other jurisdiction, or (ii) is being tendered on behalf of a person or entity who has not been identified to or by the undersigned, and it shall promptly notify the Corporation if the undersigned discovers that any of such representations ceases to be true and provide the Corporation with appropriate information in connection therewith;
- (b) the financial statements of the Corporation have been prepared in accordance with Canadian generally accepted accounting principles or International Financial Reporting Standards, which differ in some respects from United States generally accepted accounting principles, and thus may not be comparable to financial statements of United States companies;
- (c) there may be material tax consequences to the Optionee of an acquisition or disposition of any of the Shares. The Corporation gives no opinion and makes no representation with respect to the tax consequences to the Optionee under United States, state, local or foreign tax law of the undersigned’s acquisition or disposition of such securities. In particular, no determination has been made whether the Corporation will be a “passive foreign investment company” within the meaning of Section 1297 of the United States Internal Revenue Code of 1986, as amended; and
- (d) if the undersigned has marked Box 5(c) above, the Corporation may rely on the registration exemption in Rule 701 under the U.S. Securities Act and a state registration exemption, but only if such exemptions are available; in the event such exemptions are determined by the Corporation to be unavailable, the undersigned may be required to provide additional evidence of an available exemption, including, without limitation, the legal opinion contemplated by Box 5(d).

8. If the undersigned Optionee has marked Box 5(b) above, the undersigned represents and warrants to the Corporation that:

- (a) the Optionee has such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of an investment in the Shares, and the undersigned is able to bear the economic risk of loss of his or her entire investment;
- (b) the Corporation has provided to the undersigned the opportunity to ask questions and receive answers concerning the terms and conditions of the offering, and the undersigned has had access to such information concerning the Corporation as the Optionee has considered necessary or appropriate in connection with his or her investment decision to acquire the Shares;

- (c) the undersigned is: (i) purchasing the Shares for his or her own account or for the account of one or more U.S. Accredited Investors with respect to which the undersigned is exercising sole investment discretion, and not on behalf of any other person; and (ii) is purchasing the Shares for investment purposes only and not with a view to resale, distribution or other disposition in violation of United States federal or state securities laws; and
- (d) the undersigned has not exercised the Option as a result of any form of general solicitation or general advertising, including advertisements, articles, notices or other communications published in any newspaper, magazine or similar media or broadcast over radio, television or other form of telecommunications, or any seminar or meeting whose attendees have been invited by general solicitation or general advertising.

9. If the undersigned has indicated that the undersigned is a U.S. Accredited Investor by marking Box 5(b) above, or if the undersigned has marked Box 7(c) above on the basis that the exercise of the Option is subject to the registration exemption in Rule 701 under the U.S. Securities Act and an available state registration exemption, the undersigned also acknowledges and agrees that:

- (a) the Shares have not been and will not be registered under the U.S. Securities Act or the securities laws of any state of the United States, and the Shares will be issued as "restricted securities" (as such term is defined in Rule 144(a)(3) under the U.S. Securities Act) and may not be offered, sold, pledged, or otherwise transferred, directly or indirectly, without prior registration under the U.S. Securities Act and applicable state securities laws absent an exemption from such registration requirements; and
- (b) the certificate(s) representing the Shares will be endorsed with a U.S. restrictive legend substantially in the form set forth in the Option Certificate until such time as it is no longer required under the applicable requirements of the U.S. Securities Act or applicable state securities laws.

10 The undersigned Optionee hereby represents, warrants, acknowledges and agrees that the certificate(s) representing the Shares may be subject to and legended with a four month hold period commencing on the date the Options were granted pursuant to the rules of the Exchange and applicable securities laws.

DATED the _____ day of _____, _____.

Signature of Optionee

U.S. ACCREDITED INVESTOR STATUS CERTIFICATE

In connection with the exercise of an option to purchase common shares of **Petroteq Energy Inc.** (the “**Corporation**”) by the Optionee, the Optionee hereby represents and warrants to the Corporation that the Optionee satisfies one or more of the following categories of Accredited Investor (**please initial each category that applies**):

- (1) Any director or executive officer of the Corporation; or
 - (2) A natural person whose individual net worth, or joint net worth with that person’s spouse, at the time of purchase of the Shares contemplated by the accompanying Exercise Notice, exceeds US\$1,000,000 (for the purposes of calculating net worth: (i) the person’s primary residence shall not be included as an asset; (ii) indebtedness that is secured by the person’s primary residence, up to the estimated fair market value of the primary residence at the time of the purchase of the Shares, shall not be included as a liability (except that if the amount of such indebtedness outstanding at the time execution of the accompanying Exercise Notice exceeds the amount outstanding 60 days before such time, other than as a result of the acquisition of the primary residence, the amount of such excess shall be included as a liability); and (iii) indebtedness that is secured by the person’s primary residence in excess of the estimated fair market value of the primary residence shall be included as a liability); or
 - (3) A natural person who had an individual income in excess of US\$200,000 in each of the two most recent years or joint income with that person’s spouse in excess of US\$300,000 in each of those years and has a reasonable expectation of reaching the same income level in the current year; or
 - (4) An organization described in Section 501(c)(3) of the United States Internal Revenue Code, a corporation, a Massachusetts or similar business trust, or a partnership, not formed for the specific purpose of acquiring the Shares, with total assets in excess of US\$5,000,000; or
 - (5) An entity in which all of the equity owners meet the requirements of at least one of the above categories (if this alternative is checked, you must identify each equity owner and provide statements signed by each demonstrating how each qualifies as an Accredited Investor).
-

Affirmation by Seller's Broker-Dealer
(Required for sales pursuant to Section (b)(2)(B) above)

We have read the foregoing representations of our customer, _____ (the "**Seller**") dated _____, with regard to the sale, for such Seller's account, of _____ common shares (the "**Securities**") of the Company represented by certificate number _____. We have executed sales of the Securities pursuant to Rule 904 of Regulation S under the United States Securities Act of 1933, as amended (the "**U.S. Securities Act**"), on behalf of the Seller. In that connection, we hereby represent to you as follows:

- (1) no offer to sell Securities was made to a person in the United States;
- (2) the sale of the Securities was executed in, on or through the facilities of the Toronto Stock Exchange, the TSX Venture Exchange, the Canadian Securities Exchange or another designated offshore securities market (as defined in Rule 902(b) of Regulation S under the U.S. Securities Act), and, to the best of our knowledge, the sale was not pre-arranged with a buyer in the United States;
- (3) no "directed selling efforts" were made in the United States by the undersigned, any affiliate of the undersigned, or any person acting on behalf of the undersigned; and
- (4) we have done no more than execute the order or orders to sell the Securities as agent for the Seller and will receive no more than the usual and customary broker's commission that would be received by a person executing such transaction as agent.

For purposes of these representations: "**affiliate**" means a person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the undersigned; "**directed selling efforts**" means any activity undertaken for the purpose of, or that could reasonably be expected to have the effect of, conditioning the market in the United States for the Securities (including, but not be limited to, the solicitation of offers to purchase the Securities from persons in the United States); and "**United States**" means the United States of America, its territories or possessions, any State of the United States, and the District of Columbia.

Legal counsel to the Company shall be entitled to rely upon the representations, warranties and covenants contained herein to the same extent as if this affirmation had been addressed to them.

Dated: _____

Name of Firm

By: _____
Authorized Officer

TECHNOLOGY TRANSFER AGREEMENT

This Technology Transfer Agreement (the "Agreement") is made and effective 10/28/2011.

BETWEEN: **MCW Energy Group Limited** (the "Company"), a corporation organized and existing under the laws of the New Brunswick of Canada.

AND: **Vladimir Podlipskiy** (the "Developer"), an individual.

NOW, THEREFORE, in consideration of the promises and agreements set forth herein, the receipt and sufficiency of which are hereby acknowledged by the parties, the parties intending to be legally bound hereby, do promise and agree as follows:

1. Transfer

Developer hereby transfers and assigns to the Company all right, title and interest (choate or inchoate) throughout the world in (i) the subject matter referred in Exhibit A ("Technology"), (ii) all precursors, portions and work in progress with respect thereto and all inventions, works of authorship, mask works, technology, information, know-how, materials and tools relating thereto or to the development, support or maintenance thereof and (iii) all copyrights, patent rights, trade secret rights, trademark rights, database rights and all other intellectual and industrial property rights of any sort and all business, contract rights and goodwill in, incorporated or embodied in, used to develop, or related to any of the foregoing (collectively "Intellectual Property").

Company hereby acknowledges that Developer has assigned and transferred to the Company the entire right, title, and interest in the United States patent application identified in Exhibit A to this Agreement. A Summary of the Invention of the application identified in Exhibit A is provided herewith in Exhibit B.

Developer hereby agrees, without further consideration and without expense to Developer, to sign all lawful papers and to perform all other lawful acts which the Company may request of me to make this Transfer fully effective.

In the event of breach of this Agreement or the non-use of the Technology by the company for a period exceeding 6 months, the Company agrees to assign this technology back to Developer upon written request thereof.

2. Consideration

The Company agrees to issue on behalf of the Developer, to a foreign entity the name of which is to be provided at a later time, 100,000 (one hundred thousand) shares of common stock of the Company upon the execution of this agreement and 1,900,000 (one million nine hundred thousand) shares of common stock of the Company on the date when the Technology pilot plant is assembled and tested in Vernal, Utah.

The Company also agrees to employ Developer to oversee and operate the technology with the compensation of \$120,000.00 per year for as long as the Technology is utilized by Company.

The Company further agrees to pay Developer a royalty fee on every plant constructed using the Technology, starting with the construction of a second plant. The Royalty shall be as follows: 2% of gross sales if the price of heavy oil is below \$60.00 per barrel; 3% of gross sales if the price of heavy oil is between \$60.00 and \$69.99 per barrel; 3.5% of gross sales if the price of heavy oil is between \$70.00 and \$79.99 and 4% of gross sales if the price of heavy oil is greater than \$80.00.

In addition starting with the construction of a second plant utilizing this Technology Company agrees to pay a bonus to Developer, either as a cash payment or a payment of company stock, the amount of which is to be determined at a later time.

3. Further Assurances; Moral Rights; Competition; Marketing

Developer agrees to assist the Company in every legal way to evidence, record and perfect the Section 1 assignment and to apply for and obtain recordation of and from time to time enforce, maintain, and defend the assigned rights. If the Company is unable for any reason whatsoever to secure the Developer's signature to any document it is entitled to under this Section 3, Developer hereby irrevocably designates and appoints the Company and its duly authorized officers and agents, as his agents and attorneys-in-fact with full power of substitution to act for and on his behalf and instead of Developer, to execute and file any such document or documents and to do all other lawfully permitted acts to further the purposes of the foregoing with the same legal force and effect as if executed by Developer.

To the extent allowed by law, Section 1 includes all rights of paternity, integrity, disclosure and withdrawal and any other rights that may be known as or referred to as "moral rights," "artist's rights," "droit moral" or the like (collectively "Moral Rights"). To the extent Developer retains any such Moral Rights under applicable law, Developer hereby ratifies and consents to, and provides all necessary ratifications and consents to, any action that may be taken with respect to such Moral Rights by or authorized by Company; Developer agrees not to assert any Moral Rights with respect thereto. Developer will confirm any such ratifications, consents and agreements from time to time as requested by Company.

4. Confidential Information

Developer will not use or disclose anything assigned to the Company hereunder or any other technical or business information or plans of the Company, except to the extent Developer (i) can document that it is generally available (through no fault of Developer) for use and disclosure by the public without any charge, license or restriction. Developer recognizes and agrees that there is no adequate remedy at law for a breach of this Section 4, that such a breach would irreparably harm the Company and that the Company is entitled to equitable relief (including, without limitations, injunctions) with respect to any such breach or potential breach in addition to any other remedies.

5. Warranty

Developer represents and warrants to the Company that the Developer: (i) was the sole owner (other than the Company) of all rights, title and interest in the Intellectual Property and the Technology, (ii) has not assigned, transferred, licensed, pledged or otherwise encumbered any Intellectual Property or the Technology or agreed to do so, (iii) has full power and authority to enter into this Agreement and to make the assignment as provided in Section 1 (iv) is not aware of any violation, infringement or misappropriation of any third party's rights (or any claim thereof) by the Intellectual Property or the Technology, [(v) was not acting within the scope of employment by any third party when conceiving, creating or otherwise performing any activity with respect to anything purportedly assigned in Section 1,1 and (vi) is not aware of any questions or challenges with respect to the patentability or validity of any claims of any existing patents or patent applications relating to the Intellectual Property.

6. Notice

Any notices required or permitted to be given hereunder shall be given in writing and shall be delivered (a) in person, (b) by certified mail, postage prepaid, return receipt requested, (c) by facsimile, or (d) by a commercial overnight courier that guarantees next day delivery and provides a receipt, and such notices shall be addressed to the above-mentioned addresses or to such other address as either party may from time to time specify in writing to the other party. Any notice shall be effective only upon delivery, which for any notice given by facsimile shall mean notice which has been received by the party to whom it is sent as evidenced by confirmation slip.

7. Modification of Agreement

This Agreement may be supplemented, amended, or modified only by the mutual agreement of the parties. No supplement, amendment, or modification of this Agreement shall be binding unless it is in writing and signed by all parties.

8. Entire Agreement

This Agreement and all other agreements, exhibits, and schedules referred to in this Agreement constitute(s) the final, complete, and exclusive statement of the terms of the agreement between the parties pertaining to the subject matter of this Agreement and supersedes all prior and contemporaneous understandings or agreements of the parties. This Agreement may not be contradicted by evidence of any prior or contemporaneous statements or agreements. No party has been induced to enter into this Agreement by, nor is any party relying on, any representation, understanding, agreement, commitment or warranty outside those expressly set forth in this Agreement.

9. Severability of Agreement

If any term or provision of this Agreement is determined to be illegal, unenforceable, or invalid in whole or in part for any reason, such illegal, unenforceable, or invalid provisions or part thereof shall be stricken from this Agreement, and such provision shall not affect the legality, enforceability, or validity of the remainder of this Agreement. If any provision or part thereof of this Agreement is stricken in accordance with the provisions of this section, then this stricken provision shall be replaced, to the extent possible, with a legal, enforceable, and valid provision that is as similar in tenor to the stricken provision as is legally possible.

10. Attorney Fees Provision

In any litigation, arbitration, or other proceeding by which one party either seeks to enforce its rights under this Agreement (whether in contract, tort, or both) or seeks a declaration of any rights or obligations under this Agreement, the prevailing party shall be awarded its reasonable attorney fees, and costs and expenses incurred.

11. Governing Law

Except as qualified below, any controversy or claim arising out of or relating to this Agreement or any Schedule hereto, or the making, performance, breach or interpretation thereof, shall be settled by binding arbitration in Los Angeles County, California, in accordance with the Commercial Arbitration Rules of the American Arbitration Association (“AAA”) then existing. Any claim concerning whether a particular matter or issue is subject to arbitration in accordance herewith shall also be so determined by arbitration conducted by ADR Services, Inc. in Los Angeles, CA. The arbitration shall be held before a single arbitrator. Any award by the arbitrator shall be final and binding between the parties; and judgment on the arbitration award may be entered in any court having jurisdiction over the subject matter of the controversy. All parties may pursue discovery in accordance with California Code of Civil Procedure Section 1283.05, the provisions of which are incorporated herein by reference, with the following exceptions: (i) the parties hereto may conduct all discovery, including depositions for discovery purposes, without leave of the arbitrator; and (ii) all discovery shall be completed no later than thirty (30) calendar days before the commencement of the arbitration hearing unless upon a showing of good cause, the arbitrator extends or shortens that period. Any disputes relating to such discovery will be resolved by the arbitrator. The arbitrator may award such monetary and/or other relief as the arbitrator deems just and equitable, including attorneys’ fees and costs to the prevailing or substantially prevailing party. Either party may submit the controversy or claim to arbitration. Notwithstanding the foregoing, the parties agree that the following claims will not be subject to arbitration:

a. any action for declaratory or equitable relief, including, without limitation, seeking preliminary or permanent injunctive relief, specific performance, other relief in the nature of equity to enjoin any harm or threat of harm to such party’s tangible or intangible property, brought at any time, including without limitation, prior to or during the pendency of any arbitration proceedings initiated under this Section.

12. Mutual Indemnification

The Company and the Developer shall hold each other harmless, and indemnify the other party and its directors against any and all loss, liability, damage, or expense, including any direct, indirect or consequential loss, liability, damage, or expense, for injury or death to persons, including employees of either party, and damage to property of either party arising out of or in connection with the performance obligations incurred under this Agreement.

13. Transferability

This Agreement shall be binding upon any successor of the Company or to any successor of right, title, or interest to the patent application and technology referred to in Appendix A and Appendix B of this Agreement.

IN WITNESS WHEREOF, the parties have executed this Agreement on the dates set forth first above, with full knowledge of its content and significance and intending to be legally bound by the terms hereof.

COMPANY

/s/ David Sutton
Authorized Signature

David Sutton
Print Name and Title

DEVELOPER

/s/ Vladimir Podlipsky
Authorized Signature

Vladimir Podlipsky
Print Name and Title

Exhibit A: Description of Patent and Technology being Transferred

United States provisional patent application identified as File No. 11492.2 of the law firm of Nydegger & Associates, 348 Olive Street, San Diego, California 92103, and filed in the United States Patent and Trademark Office as Serial No. 61/545,034 on October 7, 2011.

Exhibit B: Summary of the Invention identified in Exhibit A

SUMMARY OF THE INVENTION

In accordance with the present invention, a system for extracting bitumen from oil sands includes an extractor tank having a reaction chamber. An input port is provided at the upper end of the extractor tank for the purpose of introducing oil sand into the reaction chamber. As envisioned for the present invention, the oil sand can be either so-called "oil wet" sand, or a "water wet" sand. Further, the present invention also envisions that the oil sand includes a medium (matrix) holding the bitumen, and that the medium (matrix) may be either sand, clay, shale, coal, or any other type of insoluble solid material.

A source of a liquid extractant (i.e. a solvent) is provided in the system for reaction with the oil sand in the reaction chamber. Specifically, this extractant is heated to about 60°C and it is then pumped, under high pressure, into the reaction chamber. More specifically, the extractant is injected into the reaction chamber through a plurality of jet inlets that are strategically positioned around the lower end of the extractor tank. Importantly, these jet inlets are positioned to direct extractant into the tank in order to suspend the oil sand in the extractant, as a fluidized bed inside the reaction chamber. A reaction of the extractant (i.e. solvent) with the oil sand then occurs in this fluidized bed. The result of this reaction is that an extract that contains both extractant (solvent) and bitumen, is separated from the sand.

At the lower end of the extractor tank, an outflow port is provided for removing sand from the reaction chamber after the extractant and oil sand have reacted with each other. In anticipation of there being residual extractant in the sand that is removed from the reaction chamber, a vibratory centrifuge is connected to the outflow port of the extractor tank to receive the sand. The vibratory centrifuge is then used to remove residual extractant from the sand. A device employing fluidized bed technology may also be incorporated with the vibratory centrifuge for this purpose. The recovered extractant can then be returned to the source of liquid extractant for further use in the system. On the other hand, the sand can be taken from the system for commercial use.

At the upper end of the extractor tank, an evaporator is connected in fluid communication with the reaction chamber. The purpose of this evaporator is actually two-fold. For one, it removes extract from the reaction chamber after there has been a reaction between the extractant and the oil sand. For another, it is used to evaporate extractant (solvent) from the extract, and thereby create a solvent vapor. To do this, a heater generates steam for heating the evaporator to a temperature above 100°C. Additionally, there is a distillation column that is connected to the evaporator for separating this solvent vapor from the bitumen that was in the extract. The solvent vapor is then condensed back into liquid extractant (solvent) and returned to the source of liquid extractant for subsequent use in the system. On the other hand, the bitumen is recovered for further commercial use.

A crucial element of the present invention is the extractant itself. In detail, the extractant necessarily includes a liquid hydrophobic component, and a liquid hydrophilic component. Importantly, these components are combined to create an azeotropic composition that is useful for dissolving and extracting bitumen from an oil sand. As noted above, the oil sand may be either an "oil wet" sand or a "water wet" sand. Further, the extractant will include an additive that is added to the azeotropic composition to prevent precipitation of the bitumen from the extractant during the reaction between the extractant and the oil sand in the reaction chamber. Preferably, the additive will be a solid aromatic compound, and will be either a two-cyclic compound or a three-cyclic compound. Also, the additive will preferably act as a catalyst to increase the speed of extraction of the bitumen from the oil sand.

As mentioned above, the hydrophobic component and the hydrophilic component of the extractant are combined (mixed) to create an azeotropic composition having a boiling point of approximately 65°C. To achieve this, the boiling point of the hydrophobic component can be less than 60°C, with the appreciation that the boiling point of the hydrophilic component will still be preferably less than about 80°C.

In its composition, approximately 85% of the extractant by volume is the hydrophobic component. Approximately 15% of the extractant by volume is the hydrophilic component. And the additive is in a range of approximately 0.1% to 0.5% of the extractant by volume. Preferably, the hydrophobic component is selected from a group including straight hydrocarbons and branched hydrocarbons, and the hydrophilic component is selected from a group including alcohols, esters and ketones.

**MINING AND MINERAL
LEASE AGREEMENT**

This Mining and Mineral Lease ("Lease") Agreement, made and entered into this 1st day of July, 2013 (the effective date), is by and between **ASPHALT RIDGE, INC.**, a Utah corporation with offices at 7350 Island Queen Drive, Reno, Nevada 89436 ("Lessor"), and TMC Capital, LLC ("Lessee").

RECITALS:

Lessor is the owner of certain property situated in Uintah County, Utah and more particularly described in Exhibit "A" attached hereto and made part hereof, and hereinafter referred to as the "Properties." Lessor is also the owner of Water Rights, more particularly described in Exhibit "B" attached hereto and made part hereof, and hereinafter referred to as the "Water Right."

This Lease is granted based upon the following terms:

This Lease sets forth all of the terms and conditions under which Lessor grants Lessee an exclusive lease of the Minerals (as defined below) in and under the Properties (but only down to 3,000 feet Mean Sea Level (msl)) and of the Water Right for the purposes and terms hereinafter provided.

In consideration of Lessee paying to Lessor One Hundred Thousand and no/100 (\$100,000) Dollars on or before June 10, 2013, as the initial payment which covers the 1st Quarter of the Lease, Lessor agrees to execute this Lease Agreement on or before July 1, 2013 provided other agreements have been reached between Lessee and TME/TMEAR and TMEAR's existing Lease with Asphalt Ridge, Inc. is terminated. Said payment along with other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by Lessor, and of the covenants and agreements hereinafter set forth, the parties agree as follows:

1) Grant. Lessor does hereby grant, convey and lease exclusively unto Lessee the following leasehold rights in and under the Properties (but only down to 3,000 feet Mean Sea Level (msl)) and the Water Right:

a) Leasehold Grant. Lessor does hereby lease and demise unto Lessee, upon the terms set forth herein:

Except as provided in subparagraph (b)(i) below, the exclusive right and privilege during the term of this Lease to explore for and mine by any methods now known or hereafter developed, extract and sell or otherwise dispose of, any and all asphalt, bitumen, maltha, tar sands, oil sands ("Tar Sands") and any and all other minerals of whatever kind or nature which are associated with or contained in any Tar Sands deposit, whether hydrocarbon, metalliferous, nonmetalliferous or otherwise, including, but not limited to, gold, silver, platinum, sand and clays on and in the Properties, and whether heretofore known or hereafter discovered (collectively, "Minerals"), together with the products and byproducts of the processing of the Minerals, and together with the right to use so much of the surface as may be necessary in the exercise of said rights and in furtherance of the purposes expressed herein, including ingress and egress, together with the right to construct on the Properties such improvements as may be reasonably necessary to the exploration for and the mining, extraction, removal, processing, beneficiating, sale or other disposition of the Minerals. The right to use any or all of the Water Right at any time during the term of this Lease in conducting its activities as provided for herein. Any sales to third parties shall be of such a nature that the sales price adequately represents the market value of all potential products or by-products, see also Section 4(c)(iii).

- b) Reserved Rights. Lessor does hereby reserve during the term of this Lease the rights set forth in this subparagraph (b) (collectively, the “Reserved Rights”). In exercising the Reserved Rights, Lessor agrees to abide by all relevant federal, state and local laws and regulations. Lessor also expressly agrees to hold harmless Lessee from and against any and all liability, claims and causes of action for personal injury or death, damage to, or loss or destruction of property to the extent resulting from the sole negligence of Lessor in conducting operations on the Properties or in exercising the Reserved Rights after the Effective Date. The indemnities provided for under this subparagraph 1(b) shall survive the expiration or termination of this Lease. Lessee acknowledges the rights (“Reserved Rights”) described below belonging to all pre-existing leases for Oil and Gas, telecommunication sites, and the small mining operation of Lessor which are the subject of this paragraph. Lessee further acknowledges that the Reserved Rights are active, with the rights of ingress, egress among the rights granted under and retained to and by said third parties. The Reserved Rights consist of:
- i) The right of Lessor to continue operations covering less than fifteen acres at any time under its present or any future Utah Division of Oil, Gas, and Mining, Small Mining Notice of Intent; provided, however, that if Lessee notifies Lessor that Lessee is prepared to commence actual operations on any such tract, Lessor shall promptly (within a specified timeframe but not less than ninety days) discontinue all such operations and relinquish possession and occupancy of such tract to Lessee;
 - ii) The right of Lessor to grant new and renew leases and easements that pertain to Lessor’s separate property in T4S, R20E, Section 25, and T4S, R21E, Section 30 wherein said easements, rights-of-way and access traverse the Properties, together with the right to receive and retain all revenues therefrom; and
 - iii) The right of Lessor to all oil, gas and other minerals below 3,000 feet Mean Sea Level (MSL), together with the right of ingress and egress to explore, drill and produce said oil, gas and other minerals, and together with the right to use the surface of the Properties to the extent reasonably required to explore, drill and produce said oil, gas and other minerals (collectively, the “Deep Rights”); provided, however, that in the exercise of the Deep Rights Lessor shall not unreasonably interfere with the operations of Lessee. If said Deep Rights become available for lease or re-lease, Lessor hereby grants Lessee the right of first refusal to acquire such Deep Rights from Lessor upon terms as shall be mutually agreeable.
- 2) Term. This Lease is granted for a primary term of six (6) years (the “Primary Term”) commencing on the effective date (the “Effective Date”). If at any time during the Primary Term, Lessee has not met the measure of Operations (as defined below) this Lease shall terminate unless mutually agreed in writing by both parties. If within the Primary Term, Lessee meets and maintains Operations at the specified number of barrels per day in Section 2(a), then this Lease shall continue for so long after the commencement of Operations as such specified production levels continues. Operations must continue for a minimum of 180 days annually or 600 days in any three year consecutive period at the rates specified in Section 2(a) “Definition of Operations” for this lease to remain in-force, if Operations cease for longer than 180 days annually or 600 days in any three years, this lease shall terminate on Notices properly made per Paragraphs 12 (Termination) and 14 (Notices).
- a) Definition of Operations. For purposes of this Lease, “Operations” are defined as the construction or operation of a minimum average bbl/day facility for the production of bitumen, synthetic crude oil, or its equivalent sale of bitumen products, as follows:
- End of Year One 12/31/2014 continuous Operations shall be equivalent to 250 bbls/day; End of Year Two 12/31/2015 continuous Operations shall be equivalent to 500 bbls/day; End of Year Three 12/31/2016 continuous Operations shall be equivalent to 2,000 bbls/day; End of Year Four 12/31/2017 continuous Operations shall be equivalent to 3,000 bbls/day; End of Year Five 12/31/2018 continuous Operations shall be equivalent to 4,000 bbls/day; and End of Year Six 12/31/2019 continuous Operations shall be equivalent to 5,000 bbls/day;

- b) Activities off the Properties shall constitute Operations when they are conducted in connection with an integrated mining operation involving the Properties and other properties in which Lessee holds an interest provided that during any three year period fifty (50%) percent of the ores, tar sands, or feed stock of whatever nature for the "Operations" comes from the Lessor's Properties.
 - c) Smaller Operations. Any construction or operation of a facility for the sale of bitumen or other bitumen derived products or by-products that is less than the required production levels bbl/day in Section 2(a) shall not be deemed to meet the definition of "Operations" and therefore this lease would terminate within 90 days of the end of the year in which the above criteria was not met following notification as provided for in this Lease.
- 3) Purposes/Restrictions. After the Effective Date, and subject to Lessor's Reserved Rights, the purposes of this Lease are to grant to Lessee the exclusive right to enter into and upon the Properties, for so long as this Lease remains in effect, and to explore, develop, mine, drill, pump, produce, process, treat and market the Minerals in, on or under the Properties, including existing dumps owned by Lessor, whether by drilling, surface strip, contour, quarry, bench, underground, solution, in situ or other mining methods now or hereafter developed. Production royalties have not been paid on any stockpiles, dumps, berms, or process tails existing on the Property with the exception of the stockpile referred to in Section 3(i) below. Lessee shall have the right:
- a) to temporarily store or permanently dispose of Minerals, water, waste or other materials on the Properties subject to conditions set in Paragraph 3(g) below;
 - b) to use and develop the Water Right and any and all ditches, flumes, water and water rights owned by Lessor and pertinent to the Properties. For so long as Operations are conducted for the benefit of the Properties or the Area of Mutual Interest the water right may be utilized by the Lessee;

- c) to mine, process, mill, beneficiate, concentrate, smelt, extract, refine, leach, convert, upgrade or conduct other operations to prepare for market on or off the Properties any Minerals taken from the Properties or from adjoining or nearby properties by any physical or chemical method or methods, including the right to remove Minerals to a plant or plants existing or established on the Properties or elsewhere, subject to the fact that royalties on Minerals (or products derived therefrom) that are taken off property shall be paid within 90 days of removal whether or not they have been processed and sold. Said payment shall be made upon the basis of previously developed and recognized recovery rates and established markets or upon parameters agreed to by both Lessor and Lessee. If no agreement is reached Minerals may not be removed.
- d) to use and alter so much of the surface and surface resources of the Properties as may be reasonably necessary in the exercise of said rights, or which Lessee may deem desirable or convenient, including rights of ingress and egress in connection with its operations on the Properties subject to conditions set in Paragraph 3(g) below;
- e) to mine and remove any Minerals existing on, in or under the Properties through or by means of shafts, openings or pits that may be sunk or made upon adjoining and nearby properties, and the right to store any Minerals from the Properties upon any such properties subject to conditions set in Paragraph 3(c) above;
- f) to drill for and remove any Minerals existing on, in or under the Properties through or by means of directional drilling that may be sunk or made upon adjoining or nearby properties, and the right to store any Minerals from the Properties upon any such properties (see paragraph 3c); and
- g) The right to temporarily or permanently deposit on or off the Properties tailings, waste rock, topsoil, overburden, surface stripping materials, process solutions, water, minerals and all other materials originating from the Properties or from adjoining or nearby properties owned or controlled by Lessee. Prior to the construction of any facilities, tailings, waste piles, or permanent storage areas, the Lessee shall conduct condemnation drilling to prove the non-existence of any mineral resources on the leased Properties and based upon there being no Mineral resources, the Lessee shall purchase said lands from Lessor at the fair market value for lands acquired for like purposes or reasonably comparable sales, whichever is greater, reserving all minerals to Lessor. The description of said lands shall approximate legal descriptions of 5 acres or greater.
- h) Due to the potential for conflicts in developing the potential resources on the Properties, Lessor shall be provided with copies of all applications for permits to conduct operations whether state, county or local in order to comment as to their potential for lack of compliance with this Lease. Nothing in this paragraph shall alleviate the Lessee from complying with all Lease terms, this paragraph is simply to facilitate both parties with like information. Should Lessor find a potential conflict, this paragraph is intended to facilitate comments to prevent misunderstandings.

- i) There exists a singular stockpile of designated ore that has been partially purchased by Lessee and has further been encumbered as security for funds advanced to TME/TMEAR by Incomar. Lessor waives any future royalties on said stockpile in recognition that previously paid Advance Royalties shall not be carried forward and shall terminate with the Option and Lease Agreement of July 28, 2005. Prior to conducting any mining, processing, or sales on the Property, this stockpile shall be surveyed, measured (quantity determined), and its location mapped by a third party qualified civil engineering firm engaged by Lessee. It shall be the first to be processed or sold and Lessor shall be notified of its disposition as well as the date and quantity of all sales.
- 4) Royalties and Minimum Expenditures. As part of the consideration for the granting of this Lease, Lessee agrees to pay Lessor the following advance royalties and production royalties. As used herein the term "Lease Quarter" shall mean a period of three months commencing on the Effective Date or any three-month period thereafter.
- a) Advance Royalties. Lessee agrees to make advance royalty payments to Lessor during the term of this Lease as provided in this paragraph 4)(a) ("Advance Royalties"). On or before the first day of each Lease Quarter thereafter beginning October 1, 2013, Lessee shall pay the Advance Royalty for that Lease Quarter as follows:

Lease Quarters 2 - 4 - **\$68,750** paid quarterly

Lease Quarters 5 - 24 - **\$125,000** (\$500,000 per year paid quarterly)

Thereafter, Minimum Annual Advance Royalty payments shall continue indefinitely at the rate of \$750,000 per year adjusted with the CPI beginning once the Properties are placed in and remain in continuous Operation.

During each term of this Lease the Advance Royalty shall be adjusted on each anniversary of the Effective Date by a percentage equal to the percentage change in the CPI for the prior calendar year; provided, however, that the required Advance Royalty payment amount at the beginning of the 5th Quarter and the 25th Quarter shall be the amount expressly set forth above in this paragraph 4)(a) without regard to changes in the CPI during the prior term.

As used herein, the term “CPI” shall mean the Consumer Price Index for all urban areas, U.S. City Average, published by the U.S. Department of Labor, Bureau of Labor Statistics.

b) Accrual and Credit of Advance Royalties. Advance royalty payments may accrue and be utilized to offset production royalties for a maximum of two years following the year the advance royalties have been paid. Upon any assignment, merger, or transfer of the Lease the credit for all accrued advance royalty payments shall be forfeited and will no longer be recoverable from production royalties.

c) Production Royalties. Lessee agrees to make production royalty payments to Lessor during the term of this Lease as provided in this paragraph 4)(c) (“Production Royalties”).

i) The Production Royalty during the first three (3) years of the initial six year term for “bitumen oil product” produced from Tar Sands from the properties shall be ten (10%) percent of the gross sales revenue from the sale of such bitumen oil product, less actual transportation costs incurred from the Properties to the point of sale. As used herein, “bitumen oil product” means natural occurring oil in the Tar Sands that is sold in whatever form including run-of-mine, screened, processed, or after the addition of any additives and/or the upgrading of such bitumen oil product; it being the intent of the parties hereto that in calculating Production Royalty for the bitumen oil product sold shall be determined solely by the actual number of tons, cubic yards, or barrels of bitumen oil product produced and sold from the Tar Sands deposits contained within the Properties.

A Division Order Contract may be issued by the buyer of the bitumen oil, which shall direct the buyer to disperse revenue from the sale of the bitumen oil in the proportions set forth on the Division Order Contract. The purchaser will prepare the division order after determining the basis of ownership and will then require that the owners of the bitumen oil being purchased (royalty and working interest) to execute the division order before payment.

Beginning the fourth (4th) year of the initial six year term and any subsequent terms, the Production Royalty shall be calculated as above, however, the Production Royalty base percentage (PR%) rates shall be as indicated in the following table: The table below sets out the Production Royalty percentages for Crude Oil Price ranges so that the buyer of the bitumen oil can more easily determine on a daily/weekly/monthly basis the amounts of the checks to be written to the royalty owners (Lessor)

CRUDE OIL PRICE	PRODUCTION ROYALTY
As Quoted Average Monthly West Texas Intermediate Crude (WTI)	(PR%) Percentage
\$45.00 and below	10%
\$45.01 to \$50.00	11%
\$50.01 to \$55.00	12%
\$55.01 to \$60.00	13%
\$60.01 to \$65.00	14%
\$65.01 and above	15%

ii) Lessee shall not be required to pay Production Royalties on any Minerals used or consumed by Lessee in its conduct of Operations, provided the source of Minerals is proportionally distributed among all properties where Minerals are mined.

iii) The Production Royalty for all Minerals other than bitumen oil products produced from the Properties and sold shall be five percent (5%) of the amount received by Lessee. Subject to the provisions of Section 1(a) wherein sales of products and by-products are wholly accounted for. Should sales occur wherein the third party purchaser is marketing a variety of products or by-products and payments to Lessee are measurably greater than comparable sales of what appears to be similar minerals by others (this may be due to the variety of high end by-products such as frac sands produced by the 3rd party) said payments to Lessor shall be the greater of a 5% royalty on the gross value of the product and by-products sold by the third party or 50% of the payments received by Lessee.

- iv) All Minerals shall be deemed sold at the time payment therefore is actually received by Lessee subject to the provisions of Paragraph 3c.
- v) Should oil and gas be discovered and produced using standard oil and gas recovery techniques above 3000 feet msl, Lessee shall pay Lessor a royalty of 1/6 of the gross market value.
- b) Production Royalty Payments. All payments of Production Royalty shall be made no later than forty-five (45) days after the end of each calendar month in which bitumen oil product or any byproducts or other Minerals have been sold. Such payment shall be accompanied by a royalty settlement statement which will show the mathematical calculation of how the payment amount was calculated, including the credit for Advance Royalties paid, and will be accompanied by appropriate documentation, including copies of sales records, monthly mining and processing records, actual transportation costs to third party buyers, and annual summaries. If Lessor does not give Lessee written notice objecting to the payment amount within six months of receipt of the statement, it shall be conclusively deemed correct. All royalty settlement statements shall be delivered to Lessor and payments to the designated Depository Agent.
- c) Depository Agent. All payments due under the terms of this Lease shall be made by Lessee to Wells Fargo Bank, N.A., 1200 Disc Drive, Sparks, NV 89436, ("Agent"), which Lessor hereby appoints as Lessor's agent for the receipt of such payments, or to such other organization as Lessor may from time to time designate by written notice given to Lessee. All payments made to such Agent shall be considered to have been made to Lessor, and having made payment to such Agent Lessee shall be relieved of all responsibility or liability for the disbursement thereof. In the event payments should be made to a transferee because of any transfer of Lessor's interest in this Lease or the Properties, payments tendered to Lessor's Agent shall conclusively be deemed payment to the transferee until Lessee receives notice and sufficient documentation from both the Agent and Lessor that Lessor's interest has been transferred and that payments should be made to the transferee. Documentation of payments shall be sent directly to Lessor.

- d) Commingling and Area of Mutual Interest. Lessee shall have the right to commingle Minerals removed from the Properties or products derived therefrom after treatment, with other minerals or products from other properties, before or after processing. Consequently, Lessor acknowledges that part or all of Lessee's Gross Revenue may come from minerals extracted from other properties and not from Minerals subject to this Lease.
- i) In order to determine the split of Production Royalties to be paid to Lessor and to other lessors of other properties, aerial photographic and photogrammetric techniques combined with other methods to be agreed upon by Lessor and Lessee will be used by Lessee to calculate ore volumes processed from the various properties. The Production Royalty paid to Lessor shall be based on the proportionate volume of ore calculated to have come from Lessor's Properties. Aerial photography shall be performed a minimum of once per calendar quarter and ore removal volumetric and grade calculations shall be performed monthly.
- ii) The Area of Mutual Interest is defined as that property which may be currently controlled by or subsequently acquired by either Lessor, Lessee, or their agents, affiliates, subsidiaries, divisions, or any person or entity under common control that lies within one mile of the external boundary (perimeter) of the Properties. Lessee agrees to pay Lessor a one and one half percent (1 ½%) production royalty, as defined above, on all Minerals produced from the Area of Mutual Interest.
- e) Minimum Expenditures During Years (1-3) of this lease, Lessee shall make expenditures for the benefit of the Properties of not less than \$1,000,000 per year. During each year of Years (4-6) of this Lease, Lessee shall make expenditures for the benefit of the Properties of not less than \$2,000,000 per year. Expenditures in excess of those stated above in any one calendar year may be carried forward to the next year. The term "benefit" shall mean expenditures for exploration, mapping, developing water rights (not acquisition), assaying, metallurgical testing, conducting pilot operations, permitting, preparing feasibility studies, and construction of plant and surface facilities. Lessee will provide Lessor with copies of all acquired data which shall become the sole property of the Lessor on termination for any reason including copies of expenditures made for those qualifying categories above.
- 5) Operations of Lessee. Lessee shall conduct, or cause to be conducted, all mining and other operations under this Lease in accordance with good mining practices and sound principles of conservation and in accordance with all applicable laws, rules and regulations promulgated by federal, state and local authorities, and shall obtain and maintain in full force and effect all governmental permits and approvals required for Lessee's operations on the Properties. Exhibit C outlines in general some of these practices and principals and references website where additional sources are available.

Lessee shall keep and maintain true and correct books of account and records that shall show the amount of Minerals produced and sold from the Properties and the amount of proceeds derived from the sale of all Minerals produced and sold. Said books and records shall be open for inspection and audit by Lessor or its agents twice per calendar year for as long as this Lease remains in effect, upon Lessor giving Lessee at least two (2) weeks written advance notice, and for a period of one (1) year following termination of this Lease, upon Lessor giving Lessee at least two (2) weeks written advance notice.

Lessor expressly reserves the right, at Lessor's option and expense, to maintain an agent on the Properties for the purpose of verifying production, and to check, inspect and keep account of all production from said Properties; provided that such agent and any inspections made by him/her do not interfere with Lessee's operations nor does it permit said agent to enter secured area used by Lessee in the mixing and blending of its proprietary product for use in its production process, nor the continued checking and testing of the upgraded bitumen. Lessor hereby indemnifies and agrees to hold harmless Lessee and its officers, directors, shareholders, employees, agents and affiliates from and against any injuries or damages that may occur to said agent while on the Properties.

- 6) Insurance/Bond/Indemnity. The parties specifically agree that Lessor shall not be liable to third parties or employees or agents of Lessee as a result of the activities and operations of Lessee during the term hereof. Upon execution of this Lease, Lessee shall obtain all required workmen's compensation insurance, comprehensive general liability insurance in an amount not less than Two Million Dollars (\$2,000,000), once the Lessee begins mining operations the amount shall increase to \$5,000,000, and other policies of insurance against other risks for which Lessor may reasonably be considered to have exposure as a result of Lessee's operations on or rights in the Properties. All insurance shall be maintained by Lessee at its own expense throughout the duration of this Lease, and whenever Lessor requests Lessee shall furnish to Lessor evidence that all such insurance is being maintained. Lessor shall be named as a co-insured under the general liability policy and shall contain a provision requiring not less than thirty (30) days notice to Lessor before the cancellation, termination or modification of such a policy.

During the term of this Lease, Lessee shall, prior to commencing mining operations on the Properties, obtain approval of all necessary operating and reclamation plans and execute and post with the Utah Division of Oil, Gas and Mining (or its successor agency ("DOGM")) and/or the Bureau of Land Management (BLM) a surety bond or other financial guarantee in an amount and form as set forth in *Utah Administrative Code* R649-3-1 *et seq.* in order to guarantee Lessee's performance of all reclamation requirements. The amount of the surety bond or financial guarantee shall be periodically reviewed in accordance with DOGM's regulations and, if DOGM directs, increased or otherwise modified as directed by DOGM. All refunds of bonds and financial guarantees provided by Lessee to DOGM and/or the BLM and all interest earned on such bonds shall belong solely to Lessee.

Lessee expressly agrees to indemnify and hold harmless Lessor from and against any and all liability, claims and causes of action for personal injury or death, damage to, or loss or destruction of property, and any other costs or obligations that may occur resulting from Lessee's operations on or about the Properties, and from and against all liabilities and responsibilities for environmental damages, charges, fines and penalties of any and every kind. Lessee expressly agrees to release, indemnify, defend and hold harmless Lessor, its successor and assigns, for, from and against any and all loss, damage, judgment, cost, expense, penalty, liability or fee (including, without limitation, expert witness fees, reasonable attorney's fees, litigation costs and expenses, and environmental response costs) arising, directly or indirectly, out of or attributable to this lease or to the activities or operations of Lessee or its employees, agents or contractors. The duties described in this Paragraph 6 shall apply as of the Effective Date of this Lease and survive the termination of this Lease; provided, however, that Lessee shall not be liable or responsible for any prior operations or preexisting conditions on the Properties with the exception that should Lessee alter preexisting conditions then Lessee shall be liable for all of the preexisting conditions.

If, after the Effective Date, Lessee shall conduct operations that in any way alter lands that were previously disturbed or damaged (as evidenced by inclusion in the pre-existing Site Assessment conducted by THE in 2005), then Lessee shall assume responsibility for all environmental liabilities associated with such lands as if they had not been previously disturbed or damaged. It is understood that Lessee shall acquire the small and large mining permits and shall have the existing bonds transferred to Lessee to cover TME/TMEAR's reclamation liability or have those bonds maintained through an agreement to do so with Utah Division of Oil, Gas, and Mining that were affiliated with the operations of Temple Mountain Energy/TME Asphalt Ridge, LLC on the Properties. Lessee acknowledges that with the termination of the Option and Lease Agreement of July 28, 2005 and upon reaching an agreement with DOGM regarding reclamation bonding of previous operations and proposed operations, Lessee shall have the responsibility for the reclamation associated with any and all of Temple Mountain Energy/TME Asphalt Ridge, LLC historic operations or activities on the Leased Premises.

The indemnities provided for under this paragraph 6 shall survive the expiration or termination of this Lease.

- 7) Assignment. During the term or any extension of this Lease, Lessee may not sublease, assign or otherwise transfer or encumber (collectively, the "Transaction") any rights in whole or in part under this Lease without first receiving written consent from Lessor, which consent shall not be unreasonably withheld, except for wholly owned or affiliated entities in which the Lessee owns not less than Fifty-one percent (51%) ownership interest. Lessee will inform Lessor of the purpose of and parties to the intended Transaction. Lessor shall be deemed to have consented if notice detailing any objections is not received by Lessee within thirty (30) days after the receipt of Lessee's notice that it intends to enter into the Transaction along with a written statement indicating the purpose of the Transaction and parties to the Transaction. Subject to the foregoing, the provisions of this Lease shall inure to the benefit of and be binding upon the parties and their respective successors and assigns. Upon any sublease, transfer, or assignment of this lease, the Lessee shall pay to Lessor the sum of 20% of the total consideration tendered for the assignment, sale, transfer, merger, or other form of assignment. The exception is the transfer/assignment following the termination of the existing THE Asphalt Ridge, LLC Lease which shall occur at close of escrow and the activation of this Lease.
- 8) Taxes. Lessee shall timely pay all taxes and assessments that may be levied or assessed against the Properties, Lessee's improvements, structures or personal property, or against Minerals production therefrom, except those taxes that Lessee is contesting in good faith, and except for any taxes arising from or attributable to Lessor's exercise of the Reserved Rights, and except real property taxes assessed against the Properties for the first and last lease years, which taxes shall be pro-rated between Lessee and Lessor on the fraction of the calendar year that the Lease was in force. If Lessor should receive tax bills or claims that are the responsibility of Lessee, Lessor shall promptly forward such bills or claims to Lessee for appropriate action. Lessee shall not be obligated to pay that portion of any tax based upon an assessment of improvements or structures made or placed on the Properties by Lessor after the Commencement Date. Lessee shall not be liable for any taxes levied on or measured by Lessor's income or based upon payments made to Lessor by Lessee under this Lease. Any taxes and assessments levied or accrued and unpaid prior to commencement shall be paid by Lessor.

Any subsidies, tax deductions, tax credits or other benefits that are designed to or may promote the development of the tar sands industry shall benefit the Lessor in like fashion to the Lessee provided that any grant to Lessee from any United States or State governmental department or agency for the purpose of research and further development of the use of its proprietary technology or processes in oil sands, oil shale or heavy oil (EOR) shall be used without benefit by Lessor.

- 9) Warranties and Title. Lessor makes no warranties, express or implied, as to the value or conditions of the Properties, or the existence or recoverability of Minerals therefrom, or the status of the Water Right. However, Lessor, upon reasonable request in writing by Lessee, will during the term of this Lease furnish Lessee with any and all geological, production, metallurgical and other data pertaining to the Properties that may be available to Lessor providing such information was not acquired by a third party and said data is at the time considered confidential. Lessor makes no representation as to the accuracy of or any interpretation of such data.

Lessor warrants title to the Properties and to the Water Right as against all claims, liens and encumbrances arising by, through or under Lessor subject to the lien for current real property taxes that are not yet due and payable; surface leases and easements of record or as provided in subparagraph 1(b)(ii) or as may be revealed by an inspection of the Properties; and to the rights reserved by Lessor herein.

Lessor agrees to notify Lessee at once of any claim against Lessor's interest in the Properties or the Water Right, or that affects Lessor's grant under this Lease.

Lessor further agrees that at the option of Lessee, Lessee may undertake the defense of any claim against Lessor's interest in the Properties or the Water Right or against this Lease at Lessee's expense. Upon request by Lessee, Lessor shall deliver to Lessee all evidence and information reasonably required to defend such claim, and cooperate fully in such defense.

If it is determined that Lessor owns less than 100% of the mineral interest in the Properties (*i.e.*, if Lessor's interest is the same in all of the Properties but less than 100%), then Lessor's actual interest shall be its actual percentage interest in the Properties. If Lessor's interest varies as to separate portions of the Properties, then Lessor's actual interest shall be determined on a net acreage basis by multiplying the acreage in each distinct parcel within the Properties by Lessor's fractional interest therein and then computing Lessor's interest on the net acres actually owned by Lessor as a proportion of the total acreage. In either of such events, all payments payable to Lessor hereunder other than Production Royalty payments shall be reduced accordingly. If Lessor's title to any of the Properties from which production is made is less than 100%, then the Production Royalty payable pursuant to paragraph 4(c) shall be reduced to the same proportion as the title actually owned by Lessor bears to the entire title to the portion of the Properties from which such production is made.

The parties each agree to execute, during the term of this Lease, such additional documents and agreements as the other may reasonably require in connection herewith, provided that such additional document(s) or agreement(s) would not impose additional obligations upon or impair the rights of the parties hereunder

- 10) Force Majeure. In the event that Lessee shall be prevented from operating upon the Properties or from performing its obligations hereunder by reason of acts of God, government, the Utah Legislature, or of the common enemy, insurrection, riot, labor disputes, fire, explosion, flood, earthquakes, interruption of transportation, inability to obtain permits, or other circumstances and matters that are beyond the reasonable control of Lessee, whether or not similar to those specifically enumerated herein (collectively, "Force Majeure"), Lessee shall be relieved of its obligations hereunder, but only for the duration of such disruption; provided that the event of Force Majeure shall not excuse or otherwise relieve Lessee for any obligation to remit any royalty or other sum owed Lessor which becomes due and payable under the terms of this Lease.
- 11) Termination. Lessee may at any time after the Effective Date surrender this Lease provided thirty (30) days advance written notice of termination is given to Lessor, after which all rights and obligations of Lessee hereunder shall cease, save and excepting all accrued obligations and any reclamation and similar obligations that were occasioned by Lessee's operations and Lessee's environmental obligations, which shall survive any termination. Lessee shall leave the Properties in a clean, good and safe condition and in accordance with all applicable laws and regulations. Upon termination of this Lease, Lessee shall comply with all DOGM and/or BLM reclamation requirements and shall have a continuing right to enter upon the Properties to complete required reclamation and to remove from the Properties all equipment, machinery, facilities and other items belonging to Lessee in accordance with DOGM's standards, in accordance with all relevant operating permits and reclamation plans, and to DOGM's satisfaction. Lessee's reclamation obligations hereunder shall be deemed complete upon final release by DOGM and/or the BLM of Lessee's surety bond or other financial guarantee.

In the event of Lessee's failure to comply with any material provision of this Lease, Lessor shall provide Lessee with written notice setting forth the nature of such non-compliance after receipt of which, if the non-compliance relates to the payment of money, Lessee shall within thirty (30) days of receipt of notice cure such non-compliance. If the non-compliance relates other than to the payment of money, Lessee shall within thirty (30) days of receipt of notice pursue diligently all appropriate actions to cure the non-compliance within one hundred fifty (150) days of receipt of notice. If the noncompliance is not timely cured, Lessor may thereupon terminate this Lease by giving Lessee written notice to that effect. However, should there be a dispute as to whether or not non-compliance has occurred or remained, then the provisions of paragraph 12 below shall apply.

In the event of any breach of this Lease by Lessee and the failure to cure after notice as provided above, Lessor, in addition to the other rights or remedies it may have, shall have the immediate right of reentry and may remove all persons and property from the premises; such property may be removed and stored in a public warehouse or elsewhere at the cost of, and for the account of Tenant. Should Lessor elect to reenter, as herein provided, or should it take possession pursuant to legal proceedings or pursuant to any notice provided for by law, Lessor may terminate this Lease. Should Lessor at any time terminate this Lease for any breach, in addition to any other remedy it may have, Lessor may recover from Tenant all damages incurred by reason of such breach, including the cost of recovering the premises. If lessee doesn't remove personal property, after 6 months it belongs to lessor.

In the event of termination of this lease. Lessee shall deliver to Lessor within sixty (60) days following the effective date of said termination, a written release and quit claim deed releasing all of the rights granted to and acquired by Lessee under this lease, and quit claiming to the Lessor all of the rights, title and interest of Lessee in and to the Properties and the Water Right(s).

- 12) Disputes. All claims, demands, disputes and controversies ("Disputes") in connection with this Lease that may arise between the Parties to this Lease shall first be submitted to a mutually agreed neutral third party for mediation. Any mediation shall occur within 60 days after notice given by either party to the other of the existence of a Dispute which the opposing party refutes. If mediation is not successful in resolving the Dispute or does not occur within the 60 day period, then upon notice by either party to the other, the Dispute shall be settled by arbitration administered by one neutral and independent arbitrator with expertise in the subject matter at issue in accordance with the Utah Uniform Arbitration Act, Utah Code Ann. 78B-11-101, et seq. The Parties agree that any such arbitration shall be conducted at a location in Salt Lake City, Utah and shall be governed by the substantive laws of the State of Utah. In the event of any arbitration proceeding between the Parties hereto, each party shall pay its own legal fees, and costs of witnesses testifying on its behalf and its share of the costs related to arbitration, if any.

13) Notices. Notices that are to be delivered pursuant to the terms of this Lease shall be given in writing and shall be hand-delivered or sent by certified mail, return receipt requested, to the parties at the following addresses:

Lessor: Asphalt Ridge, Inc.
7350 Island Queen Drive
Reno, NV 89436

Lessee: Boris Treyzon, Esq.
Manager
TMC Capital, LLC
c/o Treyzon & Associates
9701 Wilshire Blvd
Suite 1000
Beverly Hills, CA 90212

Notices shall be deemed effective when received. Either party may change its address for receipt of notices by sending notice of the change to the other party as provided in this paragraph 13.

14) Miscellaneous Provisions.

- a) In the event that Lessor fails to promptly pay, when due, any mortgage, judgment or other lien levied against the Properties or the Water Right and payable by Lessor, Lessee shall have the right (but not the obligation) to pay such past due amounts and, if Lessee does so, Lessee shall be subrogated to all the rights of the holders thereof and Lessor shall reimburse Lessee for all such payments and for all related costs and expenses paid or incurred by Lessee (including without limitation related attorney fees and costs) within three months after the same are paid or incurred by Lessee. Any payments due Lessor under this Lease may be credited by payments or reimbursements due Lessee under this Lease. The provisions of this paragraph shall survive termination of this Lease.
- b) With the exception of Lessee's obligations under Section 3(g), 3(h) and Section 4(f), nothing in this Lease shall impose any obligation, express or implied, upon Lessee to undertake any exploration, development or mining operations upon the Properties, it being the intent of the parties that Lessee shall have sole discretion to determine the technical and economic feasibility, timing, method, manner and rate of conducting any such operations. Only the express duties and obligations provided under this Lease shall be binding upon Lessee. Lessee acknowledges that they are responsible for the reclamation and any environmental liabilities associated with TME/TMEAR operations per Section 6 of this Lease.

- c) Nothing herein shall be deemed to constitute either party the partner, agent or legal representative of the other party, or to create any partnership, joint venture or fiduciary relationship between the parties. Each party shall have the unrestricted and independent right to engage in and receive the full benefits of any and all business endeavors of any sort outside the Properties, Area of Mutual Interest, or outside the scope of this Lease, whether or not competitive with the endeavors contemplated herein, without consulting the other or inviting or allowing the other therein.
- d) Neither Lessee nor Lessor shall, without the prior written consent of other, disclose any information concerning the terms of this Lease or operations conducted under this Lease (except information and data that is generally available to the public), nor issue any press releases concerning such information. However, if Lessor or Lessee contemplates transferring its interest to a third party, it shall have the right to disclose such information to that party if it first obtains an agreement in writing from such third party, satisfactory to Lessee or Lessor after review in advance, providing that the third party shall hold confidential the information furnished to it.
- e) Upon execution of this Lease, the parties shall also execute a short form of this Lease (the "Memorandum of the Lease Agreement"), which Lessee may record at its expense in the office of the Uintah County Recorder and/or file in the office of the Utah Division of Water Rights. The execution, recording and filing of the Memorandum shall not limit, increase or in any manner affect any of the terms of this Lease, or any rights, interests or obligations of the parties.
- f) This Lease shall be interpreted and governed by the laws of the State of Utah. If any provision of this Lease is, for any reason, declared to be invalid or unenforceable, the validity of the remaining portions shall not be affected thereby.
- g) Both parties represent and warrant that they are corporations in good standing, that all corporate actions required to authorize entering into this Lease have been properly taken, and that the person signing this Lease has proper authority to do so and to bind the party for which he signed.
- h) Failure of either party to enforce any provision hereof at any time shall not be construed as a waiver of such provision or of any other provision.

- i) This Lease supersedes any and all prior agreements between the parties relating to the Properties and/or the Water Right and constitutes the entire agreement thereof. No amendment or modification of this Lease shall be binding on either party unless in writing and duly executed by both parties.
- j) Disputes or differences between the parties shall not interrupt performance of this Lease or the continuation of operations hereunder. In the event of any dispute or difference, operations may be continued and payments may be made hereunder in the same manner as prior to such dispute or difference. In case of any suit, adverse claim, dispute or question as to the ownership of the Properties or the Water Right or Advance Royalties or Production Royalties, or any interest therein, Lessee may, in its sole discretion, deposit the payment (or the portion of the payment in dispute, if less than the whole payment is in dispute) into an escrow account and Lessee shall not be held in default in payment thereof until such suit, claim, dispute or question has been finally disposed of.
- k) In the event Lessee fails to promptly pay when due any amount payable to Lessor under this Lease, and such payment remains unpaid for more than five (5) calendar days after the day it is due, Lessee shall pay Lessor a late charge equal to 10% of the amount of the delinquent payment, and in addition said delinquent payment and late charge shall bear interest payable by Lessee to Lessor at the rate of ten percent (10%) per annum. Payment by Lessee and acceptance by Lessor of such late charge or interest payment shall in no event constitute a waiver by Lessor of Lessee's default or breach with respect to the past due payment amount, nor prevent the exercise of any of the other rights and remedies granted hereunder. Nothing herein shall modify or change in any manner the payment due dates, termination, or dispute provisions of this Lease or the 30-day cure period under Section 11 of the Lease.

IN WITNESS THEREOF the parties have caused this Lease to be executed by their duly authorized representatives on the dates set forth in the acknowledgements below, but effective as of the Commencement Date.

SIGNATURE PAGE FOLLOWS

SIGNATURE PAGE

Lessor:

ASPHALT RIDGE, INC., a Utah corporation

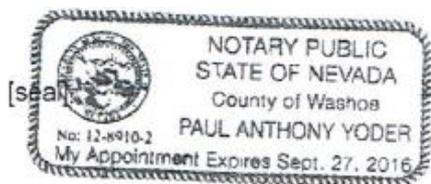
By _____
Sam S. Arentz III, President

Lessee:

By _____
TMC Capital, LLC

STATE OF Nevada)
COUNTY OF Washoe)

On this 3rd day of July, 2013, personally appeared before me, a Notary Public, Sam S. Arentz III, the President of ASPHALT RIDGE, INC., a Utah corporation, who acknowledged that he executed this instrument on behalf of said corporation.



Notary Public

My commission expires:
Sept 27, 2016

STATE OF _____)
COUNTY OF _____) ss.

On this ____ day of _____, 2013, personally appeared before me, a Notary Public, _____, who acknowledged that he executed this instrument on behalf of said corporation.

[seal]

Notary Public

My commission expires:

State of California }
 }
County of Los Angeles }

On July 1, 2013, before me, CHRISTINA PUELLO, Notary Public, personally appeared, BORIS TREYZON, who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the persons acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.



Signature _____
Signature of Notary Public

Exhibit A

PROPERTIES

Township 4 South, Range 20 East, SLM, Uintah County, Utah This property, also owned by Asphalt Ridge, Inc. and the Telecommunication sites are not included in this Lease

Section 25: Lots 1 & 2, W $\frac{1}{2}$ NE $\frac{1}{4}$
(Enterprise No. 6 patented mining claim)

Township 4 South, Range 21 East, SLM, Uintah County, Utah This property, also owned by Asphalt Ridge, Inc. and the Telecommunication sites are not included in this Lease

Section 30: Lots 1 & 2, W $\frac{1}{2}$ NE $\frac{1}{4}$ NW $\frac{1}{4}$, SE $\frac{1}{4}$ NE $\frac{1}{4}$ NW $\frac{1}{4}$, SE $\frac{1}{4}$ NW $\frac{1}{4}$
(Enterprise No. 5 patented mining claim)

Township 5 South, Range 21 East, SLM, Uintah County, Utah

Section 4: SW $\frac{1}{4}$ NW $\frac{1}{4}$, NW $\frac{1}{4}$ SW $\frac{1}{4}$, E $\frac{1}{2}$ SW $\frac{1}{4}$

Section 15: W $\frac{1}{2}$ NW $\frac{1}{4}$, SE $\frac{1}{4}$ NW $\frac{1}{4}$, SW $\frac{1}{4}$ NE $\frac{1}{4}$

Section 25: SW $\frac{1}{4}$
(Cameron No. 7 patented mining claim)

Section 25: Lots 9 & 10, W $\frac{1}{2}$ SE $\frac{1}{4}$
(Cameron No. 5 patented mining claim)

Section 25: Lots 4 & 5, S $\frac{1}{2}$ NW $\frac{1}{4}$
(Cameron No. 8 patented mining claim)

Township 5 South, Range 22 East, SLM, Uintah County, Utah

Section 31: Lot 3, SW $\frac{1}{4}$ SE $\frac{1}{4}$, E $\frac{1}{2}$ SW $\frac{1}{4}$

Section 31: N $\frac{1}{2}$ SE $\frac{1}{4}$, SE $\frac{1}{4}$ SE $\frac{1}{4}$
(Cameron No. 1 patented mining claim)

Section 32: SW $\frac{1}{4}$

(containing 1,229.82 acres, more or less)

EXHIBIT B

WATER RIGHTS

Asphalt Ridge, Inc. has a 100% interest in the following Water Rights as denoted by the Utah Division of Water Rights indicating that the Type of Right is an Adjudicated Right dating back to 1871. The Water Right identification numbers are:

45-1421
45-1426
45-1718

Each is for Equivalent Animal Unit (ELU), Equivalent Domestic Unit (EDU)

EXHIBIT C

ESTABLISHING OPEN PIT MINING OPERATIONS

The following outlines generally the issues to consider in establishing an open pit mining operation and can be used to determine the capabilities of contract mining operators. These items should be performed concurrently with the pilot phase of operations and should be in place by the time commercial operations begin.

1. Mine Design
 - a. Topographic mapping of the surface.
 - b. Core drilling to determine the overburden and ore body.
 - c. Delineation of the ore body and open pit design via use of drill hole data and open pit modeling software.
 - d. Waste and stockpile locations including condemnation drilling.
 - e. Waste water treatment to meet discharge standards.
 - f. Environmental considerations including air, water and noise pollution.
 - g. Reclamation plans during and after mining operations should include preservation of top soil, erosion and sediment control, regarding and restoration of waste and mine areas and re-vegetation of surface.
2. Production Experience with open mining and reclamation operations which include implementing the mine design along with dealing with mine safety and health (MSHA); and all other aspects of mining operations.
3. Contractor should have onsite personnel with knowledge of this operation on an ongoing basis to assure that the operation is conducted in accordance with the design and the experience to modify the operation as necessary.

The following website gives a much more comprehensive list of sources to develop more detailed programs and should be evaluated along with other sites to facilitate the design, permitting and implementation of an effective mining program:

<http://www.crcpress.com/product/isbn/9781466575127>

SECURITIES PURCHASE AGREEMENT

This Securities Purchase Agreement (this "Agreement") is dated as of November 5, 2014, between MCW Energy Group Limited, a corporation amalgamated pursuant to the laws of the Province of Ontario (the "Company"), and each purchaser identified on the signature pages hereto (each, including its successors and permitted assigns, a "Purchaser" and collectively, the "Purchasers").

WHEREAS, subject to the terms and conditions set forth in this Agreement, the Company desires to issue and sell to each Purchaser, and each Purchaser, severally and not jointly, desires to purchase from the Company, securities of the Company as more fully described in this Agreement (the "Offering").

NOW, THEREFORE, IN CONSIDERATION of the mutual covenants contained in this Agreement, and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the Company and each Purchaser agree as follows:

**ARTICLE I.
DEFINITIONS**

1.1 Definitions. In addition to the terms defined elsewhere in this Agreement: (a) capitalized terms that are not otherwise defined herein have the meanings given to such terms in the Notes (as defined herein), and (b) the following terms have the meanings set forth in this Section 1.1:

"Acquiring Person" shall have the meaning ascribed to such term in Section 4.7.

"Action" shall have the meaning ascribed to such term in Section 3.1(j).

"Additional Notes" shall have the meaning ascribed to such term in Section 2.4, which Additional Notes shall be identical to the Notes except for the issue date, principal amount and maturity date. The maturity date of the Additional Notes will be eighteen (18) months after the issue date of such Additional Notes and all time effective conditions, clauses and provisions will be similarly modified, *mutatis mutandem*.

"Affiliate" means any Person that, directly or indirectly through one or more intermediaries, controls or is controlled by or is under common control with a Person, as such terms are used in and construed under Rule 405 under the U.S. Securities Act.

"Board of Directors" means the board of directors of the Company.

"Business Day" means any day except any Saturday, any Sunday, any day which is a federal legal holiday in the United States, a statutory or civil holiday in the Province of Ontario, or any day on which banking institutions in the State of New York or the Province of Ontario are authorized or required by law or other governmental action to close.

"Closing" means the Initial Closing and Subsequent Closing, if any, of the purchase and sale of the Securities pursuant to Section 2.1 or 2.4.

"Closing Date" means each of the Initial Closing Date and the Subsequent Closing Date, if any, and is the Trading Day on which all of the Transaction Documents have been executed and delivered by the applicable parties thereto, and all conditions precedent to (i) the Purchasers' obligations to pay the Subscription Amount at such Closing and (ii) the Company's obligations to deliver the Securities to be issued and sold at such Closing, in each case, have been satisfied or waived, but in no event later than the seventh Business Day following the date hereof in the case of the Initial Closing and not later than the tenth Business Day after the Subsequent Closing Option Date in the case of the Subsequent Closing Date.

“Collateral” shall have the meaning ascribed to such term in the Security Agreement.

“Commission” means the United States Securities and Exchange Commission.

“Common Stock” means the common stock of the Company, no par value, and any other class of securities into which such securities may hereafter be reclassified or changed.

“Common Stock Equivalents” means any securities of the Company which would entitle the holder thereof to acquire at any time Common Stock, including, without limitation, any debt, preferred stock, right, option, warrant or other instrument that is at any time convertible into or exercisable or exchangeable for, or otherwise entitles the holder thereof to receive, Common Stock.

“Company Counsel” means McMillan LLP, 181 Bay Street, Suite 4400, Toronto, ON M5J 2T3, Attn: Robbie Grossman, Email: robbie.grossman@mcmillan.ca.

“Company Reports” shall have the meaning ascribed to such term in Section 3.1(h).

“Conversion Price” shall have the meaning ascribed to such term in the Notes.

“Disclosure Schedules” means the Disclosure Schedules of the Company delivered concurrently herewith.

“Environment Law” shall have the meaning ascribed to such term in Section 3.1(jj).

“Event of Default” shall have the meaning ascribed thereto in the Note.

“Exchange Act” means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

“Exempt Issuance” means the issuance of (a) shares issued pursuant to the obligations set forth on Schedule 3.1(g) and Schedule 3.1(hh), (b) securities upon the exercise or exchange of or conversion of any Securities issued hereunder, including shares paid in lieu of interest on the Notes pursuant to Section 2.a) of the Notes (subject to adjustment pursuant to Section 5.23), (c) securities issued pursuant to acquisitions or strategic transactions approved by a majority of the disinterested directors of the Company, provided that any such issuance shall only be to a Person (or to the equityholders of a Person) which is, itself or through its subsidiaries, an operating company or an owner of an asset in a business synergistic with the business of the Company, and (d) securities issued or issuable pursuant to this Agreement, or the Notes, including, without limitation, Section 4.14, or upon exercise or conversion of any such securities.

“Exercise Notice” shall have the meaning ascribed to such term in Section 2.4.

“FCPA” means the Foreign Corrupt Practices Act of 1977, as amended.

“Final Closing Date” shall mean the last Subsequent Closing Date to occur if a Subsequent Closing occurs or, if there is no Subsequent Closing, the Initial Closing Date.

“GAAP” shall have the meaning ascribed to such term in Section 3.1(h).

“G&M” shall mean Grushko & Mittman, P.C., with offices located at 515 Rockaway Avenue, Valley Stream, New York 11581, Fax: 212-697-3575.

“Hazardous Materials” shall have the meaning ascribed to such term in Section 3.1(jj).

“Indebtedness” shall have the meaning ascribed to such term in Section 3.1(hh).

“Initial Closing” shall have the meaning ascribed to such term in Section 2.1.

“Initial Closing Date” shall mean the date upon which the Initial Closing occurs.

“Initial Option Period” shall have the meaning ascribed to such term in Section 2.4.

“Intellectual Property Rights” shall have the meaning ascribed to such term in Section 3.1(o).

“Liens” means a lien, charge, pledge, security interest, encumbrance, right of first refusal, preemptive right or other restriction.

“Listing Default” shall have the meaning ascribed to such term in Section 4.11.

“Lockup Agreement” means the agreement in the form annexed hereto as Exhibit D, and in substance satisfactory to the Purchaser.

“Material Adverse Effect” shall have the meaning assigned to such term in Section 3.1(b).

“Material Permits” shall have the meaning ascribed to such term in Section 3.1(m).

“Maximum Rate” shall have the meaning ascribed to such term in Section 5.17.

“Money Laundering Laws” shall have the meaning ascribed to such term in Section 3.1(cc).

“Notes” means the convertible notes due eighteen (18) months after their respective issue dates, in the form of Exhibit A hereto. The term Notes as employed herein except for Sections 2.4, 2.5 and 2.6 and on the signature page hereto shall also include Additional Notes, mutatis mutandem.

“OFAC” shall have the meaning ascribed to such term in Section 3.1(ee).

“Participation Maximum” shall have the meaning ascribed to such term in Section 4.14(a).

“Permitted Liens” means the individual and collective reference to the following: (a) Liens for taxes, assessments and other governmental charges or levies not yet due or Liens for taxes, assessments and other governmental charges or levies being contested in good faith and by appropriate proceedings for which adequate reserves (in the good faith judgment of the management of Company) have been established in accordance with GAAP, (b) Liens imposed by law which were incurred in the ordinary course of Company’s business, such as carriers’, warehousemen’s and mechanics’ Liens, statutory landlords’ Liens, and other similar Liens arising in the ordinary course of Company’s business, and which (x) do not individually or in the aggregate materially detract from the value of such property or assets or materially impair the use thereof in the operation of the business of Company or (y) are being contested in good faith by appropriate proceedings, which proceedings have the effect of preventing for the foreseeable future the forfeiture or sale of the property or asset subject to such Lien, (c) Liens incurred in connection with any Indebtedness, including, for greater certainty, all Indebtedness listed on Schedule 3.1(hh), (d) any Lien created by, or arising under any statute or regulation or common law (in contrast with Liens voluntarily granted) in connection with, without limiting the foregoing, workers’ compensation, employment and unemployment insurance, old age pension, employers’ health tax, vacation pay or other social security or statutory obligations that secure amounts that are not yet due or which are being contested in good faith by proper proceedings diligently pursued and as to which adequate reserves have been established on the Company’s books and records and the assets in respect of such Lien are not at risk of forfeiture, (e) Liens made or incurred in the ordinary course of business to secure the performance of bids, tenders, contracts (other than for the borrowing of money), leases, statutory obligations or surety and performance bonds and deposits securing or in lieu of such bonds, (f) Liens securing appeal bonds or other similar Liens arising in connection with court proceedings (including, without limitation, surety bonds, security for costs of litigation where required by law, and letters of credit) or any other instruments serving a similar purpose, (g) attachments, judgments and other similar Liens arising in connection with court proceedings, provided such Liens are in existence for less than 30 days after their creation or a stay of enforcement of the Liens is in effect or the claims so secured are being contested in good faith by proper proceedings diligently pursued, (h) Liens given to a public utility or any applicable governmental authority where required by such utility or governmental authority in connection with the operation of the business or the ownership of the assets of Company provided that such Liens do not materially detract from the value of any real property subject thereto and do not materially impair Company’s ability to carry on its business, (i) minor imperfections in title on real property that do not materially detract from the value of the real property subject thereto and do not materially impair Company’s ability to carry on its business or any Purchaser’s rights and remedies under the Transaction Documents, (j) any purchase money Lien on specific fixed assets to secure the payment of the purchase price of those fixed assets where the amount of the obligations secured does not exceed 100% of the lesser of the cost or fair market value of the fixed assets and the amount secured by the Lien does not exceed \$250,000 in the aggregate; and extensions, renewals or replacements thereof upon the fixed assets if the amount of the obligations secured thereby is not increased, (k) restrictions, easements, rights-of-way, servitudes or other similar rights in land (including rights-of-way and servitudes for railways, sewers, drains, gas and oil pipelines, gas and water mains, electric light and power and telephone or telegraph or cable television conduits, poles, wires and cables) granted to or reserved by other Persons which in the aggregate do not materially impair the usefulness, in the operation of the business of Company, of the real property subject to the restrictions, easements, rights-of-way, servitudes or other similar rights in land granted to or reserved by other Persons and, in each case, which do not impair any Purchasers’ rights and remedies under the Transaction Documents, (l) the rights reserved to or vested in any Person by the terms of any lease, license, franchise, grant or permit held by Company or by any statutory provision, to terminate any such lease, license, franchise, grant or permit, or to require annual or periodic payments as a condition to the continuance thereof, (m) restrictive covenants affecting the use to which real property may be put, provided that the covenants are complied with and do not materially detract from the value of the real property concerned or materially impair its use in the operations of Company or impair any Purchaser’s rights and remedies under the Transaction Documents, (n) Liens created by the Transaction Documents and any other security provided to any Purchaser by Company, (o) Liens to which the majority of the Purchasers have given their consent, (p) any Liens now or hereafter arising in favor of any entity who provides financing to the Company, including any financial institution, which are subordinate in priority to any Liens granted to any Purchaser, and (q) the Senior Security.

“Person” means an individual or corporation, partnership, trust, incorporated or unincorporated association, joint venture, limited liability company, joint stock company, government (or an agency or subdivision thereof) or other entity of any kind.

“Pre-Notice” shall have the meaning ascribed to such term in Section 4.14.

“Proceeding” means an action, claim, suit, investigation or proceeding (including, without limitation, an informal investigation or partial proceeding, such as a deposition), whether commenced or threatened.

“Public Information Failure” shall have the meaning ascribed to such term in Section 4.3(b).

“Public Information Failure Payments” shall have the meaning ascribed to such term in Section 4.3(b).

“Purchaser Party” shall have the meaning ascribed to such term in Section 4.10.

“Reporting Issuer” shall have the meaning given to such term under Securities Laws.

“Required Approvals” shall have the meaning ascribed to such term in Section 3.1(e).

“Required Minimum” means, as of any date, the maximum aggregate number of shares of Common Stock then issued or potentially issuable in the future pursuant to the Transaction Documents, including any Underlying Shares issuable upon exercise in full of all Warrants or conversion in full of all Notes, and assuming that any previously unconverted Notes will be held until the third anniversary of the Final Closing Date.

“Securities” means the Notes, the Warrants, and the Underlying Shares.

“Securities Laws” means the securities laws of Canada and its provinces and the rules and regulations promulgated thereunder.

“Security Agreement” shall have the meaning ascribed to such term in Section 2.2(a)(iv).

“Senior Security” shall mean all liens, charges, pledges, hypothecs, mortgages, assignments, security interests and other encumbrances of any nature or kind, now or hereafter granted, created or assumed by the Company or any other person in or over all or any of the Collateral and held by or on behalf of (i) any affiliate or successor of the Deutsche Bank Group, or (ii) any affiliate or successor of US Capital Partners (each a “Senior Lender”, and collectively, the “Senior Lenders”), including all amendments, modifications, restatements, supplements or replacements thereof or thereto from time to time. Without limiting the generality of the foregoing, Senior Security includes all security agreements granted to any of the Senior Lenders by the Company and all security interests of any Senior Lender now or at any time in the future perfected by registration in any jurisdiction under any personal property security legislation.

“Subordinate Security” shall mean all liens, charges, pledges, hypothecs, mortgages, assignments, security interests and other encumbrances of any nature or kind, now or hereafter granted, created or assumed by the Company or any other person in or over all or any of the Collateral and held by or on behalf of any Purchaser, including all amendments, modifications, restatements, supplements or replacements thereof or thereto from time to time. Without limiting the generality of the foregoing, Subordinate Security includes all security agreements granted to any Purchaser by the Company and all security interests of any Purchaser now or at any time in the future perfected by registration in any jurisdiction under any personal property security legislation.

“Subscription Amount” means, as to each Purchaser, the aggregate amount to be paid for the Notes (including Additional Notes) and Warrants purchased hereunder as specified below such Purchaser’s name on the signature page of this Agreement and next to the heading “Subscription Amount,” in United States dollars and in immediately available funds, or such other amount with respect to the Additional Notes.

“Subsequent Closing” shall have the meaning ascribed to such term in Section 2.4.

“Subsequent Closing Date” shall have the meaning ascribed to such term in Section 2.4 hereof.

“Subsequent Closing Option Date” means the date that is six (6) months after the Initial Closing Date.

“Subsequent Financing” shall have the meaning ascribed to such term in Section 4.14.

“Subsequent Financing Notice” shall have the meaning ascribed to such term in Section 4.14.

“Subsidiary” means with respect to any entity at any date, any direct or indirect corporation, limited or general partnership, limited liability company, trust, estate, association, joint venture or other business entity of which (A) more than 30% of (i) the outstanding capital stock having (in the absence of contingencies) ordinary voting power to elect a majority of the board of directors or other managing body of such entity, (ii) in the case of a partnership or limited liability company, the interest in the capital or profits of such partnership or limited liability company or (iii) in the case of a trust, estate, association, joint venture or other entity, the beneficial interest in such trust, estate, association or other entity business is, at the time of determination, owned or controlled directly or indirectly through one or more intermediaries, by such entity, or (B) is under the actual control of the Company.

“Termination Date” shall have the meaning ascribed to such term in Section 2.1.

“Trading Day” means a day on which the principal Trading Market is open for trading.

“Trading Market” means any of the following markets or exchanges on which the Common Stock is listed or quoted for trading on the date in question: the Toronto Stock Exchange, the NYSE MKT, the Nasdaq Capital Market, the Nasdaq Global Market, the Nasdaq Global Select Market, the New York Stock Exchange, the OTC Bulletin Board, the OTCQB, the OTCQX, the TSXV (or any successors to any of the foregoing). As of the Initial Closing Date, the TSXV is the principal Trading Market.

“Transaction Documents” means this Agreement, the Notes, the Warrants, the Security Agreement, all exhibits and schedules thereto and hereto and any other documents or agreements executed in connection with the transactions contemplated hereunder.

“Transfer Agent” means Computershare Trust Company of Canada, and any successor transfer agent of the Company.

“TSXV” means the TSX Venture Exchange.

“Underlying Shares” means the Common Stock issuable in the event of conversion of the Notes, and the Warrant Shares.

“U.S. Person” shall have the meaning ascribed to such term in Rule 902(k) of Regulation S under the U.S. Securities Act.

“U.S. Securities Act” means the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

“Variable Priced Equity Linked Instruments” shall have the meaning ascribed to such term in Section 4.13.

“Variable Rate Transaction” shall have the meaning ascribed to such term in Section 4.13.

“Warrants” means, collectively, the Common Stock purchase warrants to be delivered to the Purchasers upon conversion of the Notes in accordance with the Notes, which Warrants shall be exercisable immediately and have a term of exercise equal to five (5) years from the date of issuance of such Note and be in the form of Exhibit B attached hereto.

“Warrant Shares” means the shares of Common Stock issuable upon exercise of the Warrants.

ARTICLE II. PURCHASE AND SALE

2.1 Initial Closing. On the Initial Closing Date, upon the terms and subject to the conditions set forth herein, substantially concurrent with the execution and delivery of this Agreement by the parties hereto, the Company agrees to sell, and the Purchasers, severally and not jointly, agree to purchase, an aggregate of \$555,556 principal amount of Notes representing \$1.00 of note principal for each \$0.90 of such Purchaser’s Subscription Amount as set forth on the signature page hereto executed by such Purchaser (such purchase and sale being the “Initial Closing”). Each Purchaser shall deliver to the Company such Purchaser’s Subscription Amount, and the Company shall deliver to each Purchaser its respective Note, as determined pursuant to Section 2.2(a), and the Company and each Purchaser shall deliver the other items set forth in Section 2.2 deliverable at the Closing. Upon satisfaction of the covenants and conditions set forth in Sections 2.2 and 2.3, the Initial Closing shall occur electronically or at such physical location as the parties shall mutually agree. Notwithstanding anything herein to the contrary, the Initial Closing Date shall occur on or before November 7, 2014 (“Termination Date”). If the Initial Closing is not held on or before the Termination Date, the Company shall cause all subscription documents and funds to be returned, without interest or deduction to each prospective Purchaser.

2.2 Deliveries.

(a) On or prior to the Initial Closing Date, the Company shall deliver or cause to be delivered to each Purchaser the following:

- (i) this Agreement duly executed by the Company;

(ii) a legal opinion of Company Counsel, substantially in the form of Exhibit C attached hereto and in substance satisfactory to such Purchaser;

(iii) a Note with a principal amount equal to a \$1.00 for each \$0.90 of such Purchaser's Subscription Amount registered in the name of such Purchaser;

(iv) the Security Agreement duly executed by the Company (the "Security Agreement");

(v) the Lockup Agreement executed by Aleksandr Blyumkin;

(vi) a certificate from the Company's executive chairman that all of the conditions to Closing set forth in Section 2.3(b) have occurred;

(b) On or prior to the Initial Closing Date, each Purchaser shall deliver or cause to be delivered to the Company the following:

(i) this Agreement duly executed by such Purchaser;

(ii) the Security Agreement duly executed by such Purchaser; and

(iii) such Purchaser's Subscription Amount by wire transfer or as otherwise permitted, to the Company.

2.3 Initial Closing Conditions.

(a) The obligations of the Company hereunder to effect the Initial Closing are, unless waived by the Purchaser, subject to the following conditions being met:

(i) the accuracy in all material respects (determined without regard to any materiality, Material Adverse Effect or other similar qualifiers therein) on the Initial Closing Date of the representations and warranties of the Purchasers contained herein (unless as of a specific date therein in which case they shall be accurate as of such date);

(ii) all obligations, covenants and agreements of each Purchaser required to be performed at or prior to the Initial Closing Date shall have been performed; and

(iii) the delivery by each Purchaser of the items set forth in Section 2.2(b) of this Agreement.

(b) The respective obligations of a Purchaser hereunder to effect the Initial Closing, unless waived by such Purchaser, are subject to the following conditions being met:

(i) the accuracy in all material respects (determined without regard to any materiality, Material Adverse Effect or other similar qualifiers therein) on the Initial Closing Date of the representations and warranties of the Company contained herein (unless as of a specific date therein in which case they shall be accurate as of such date);

(ii) all obligations, covenants and agreements of the Company required to be performed at or prior to the Initial Closing Date shall have been performed;

(iii) the Company shall have received executed signature pages to this Agreement with an aggregate Subscription Amount of \$540,000 prior to the Initial Closing;

(iv) the delivery by the Company of the items set forth in Section 2.2(a) of this Agreement;

(v) there shall have been no Material Adverse Effect with respect to the Company or the occurrence of an Event of Default, or an event which, to the knowledge of the Company, with the giving of notice or the passage of time could become an Event of Default (as defined in the Note) unless waived by the Purchaser with respect to an Initial Closing, since the date hereof;

(vi) the Required Approvals have been obtained; and

(vii) from the date hereof to the Initial Closing Date, trading in the Common Stock shall not have been suspended by any regulatory authority or the Company's principal Trading Market, and, at any time prior to the Initial Closing Date, trading in securities generally as reported by Bloomberg L.P. shall not have been suspended or limited, or minimum prices shall not have been established on securities whose trades are reported by such service, or on any Trading Market, nor shall a banking moratorium have been declared either by the Canadian, United States or New York State authorities nor shall there have occurred any material outbreak or escalation of hostilities or other national or international calamity of such magnitude in its effect on, or any material adverse change in, any financial market which, in each case, in the reasonable judgment of such Purchaser, makes it impracticable or inadvisable to purchase the Securities at the Initial Closing.

(viii)

2.4 Subsequent Closing Option. Subject to the TSXV written approval, during the first 45 days after the Initial Closing Date (the "Initial Option Period"), each Purchaser shall have the option to cause the Company to sell, and the Company shall sell to each Purchaser for the same relative purchase price of additional Notes ("Additional Notes") equal to 66.667% of the Note principal purchased by such Purchaser on the Initial Closing Date with a conversion price equal to the Conversion Price. After the Initial Option Period until the date that is six months from the Initial Closing Date, and subject to the TSXV written approval, each Purchaser shall have the option to cause the Company to sell, and the Company shall sell to each Purchaser for the same relative purchase price of Additional Notes equal to 67.667% of the Note principal purchased by such Purchaser on the Initial Closing Date with a conversion price equal to Market Price (as such term is defined by the TSXV) as of the time of Closing of such Additional Notes. To exercise the options provided for in this subsection 2.4, each Purchaser shall provide written notice of the exercise of such option to the Company, pro-rata to the amount of Note Principal acquired on the Initial Closing Date in the form of the completed signature page hereto (the "Exercise Notice") on or before the Subsequent Closing Option Date, which Exercise Notice shall specify the Subsequent Closing Subscription Amount for each such Purchaser. The Company shall be entitled to one closing of the purchase and sale of Additional Notes upon exercise of the option provided in this subsection 2.4 (the "Subsequent Closing"). The Subsequent Closing shall occur electronically or at such mutually acceptable physical location promptly after the date the Exercise Notice is given and upon satisfaction of all of the covenants and conditions set forth in Sections 2.5 and 2.6, but not later than ten Trading Days thereafter ("Subsequent Closing Date").

2.5 Subsequent Closing Deliveries.

(a) On or prior to the Subsequent Closing Date, the Company shall deliver or cause to be delivered to the Purchaser the following:

- (i) bring down legal opinions of Company Counsel to the legal opinion delivered at the Initial Closing;
- (ii) bring down officers' certificate of the Company as to the obligations set forth in Section 2.6(b);

(iii) an Additional Note in the principal amount equal to \$1.00 of note principal for each \$0.90 of such Purchaser's Subsequent Closing Subscription Amount registered in the name of such Purchaser with the Conversion Price therein equal to the Conversion Price then in effect with respect to the Notes issued on the Initial Closing Date;

(iii) acknowledgement from the Company of the applicability of the Security Agreement to the Additional Notes; and

(iv) a certificate from the Company's executive chairman that all of the conditions to Closing set forth in Section 2.6(b) have occurred.

(b) On or prior to the Subsequent Closing Date, each Purchaser shall deliver or cause to be delivered to the Company, the following:

- (i) such Purchaser's Subscription Amount by wire transfer to the account specified by the Company.

2.6 Subsequent Closing Conditions.

(a) The obligations of the Company hereunder in connection with the Subsequent Closing are, unless waived by the Purchaser, subject to the following conditions being met:

(i) the accuracy in all material respects (determined without regard to any materiality, Material Adverse Effect or other similar qualifiers therein) on the Subsequent Closing Date of the representations and warranties of the Purchasers contained herein (unless as of a specific date therein in which case they shall be accurate as of such date);

(ii) all obligations, covenants and agreements of each Purchaser to be performed at or prior to the Subsequent Closing Date shall have been performed;

(iii) the delivery by each Purchaser of the items set forth in Section 2.5(b) of this Agreement; and

(iv) the Company shall have received Subsequent Closing Subscription Amounts from Purchasers in good funds in the amount designated in the Exercise Notice.

(b) The respective obligations of a Purchaser hereunder in connection with the Subsequent Closing are, unless waived by such Purchaser, subject to the following conditions being met:

(i) the accuracy in all material respects (determined without regard to any materiality, Material Adverse Effect or other similar qualifiers therein) on the Subsequent Closing Date of the representations and warranties of the Company contained herein (unless as of a specific date therein in which case they shall be accurate as of such date);

(ii) all obligations, covenants and agreements of the Company under this Agreement required to be performed at or prior to the Subsequent Closing Date shall have been performed;

(iii) the delivery by the Company of the items set forth in Section 2.5(a) of this Agreement;

(iv) there shall have been no Material Adverse Effect with respect to the Company or the occurrence of an Event of Default, or an event which, to the knowledge of the Company, with the giving of notice or the passage of time could become an Event of Default (as defined in the Note) unless waived by the Purchaser with respect to a Subsequent Closing, since the date hereof;

(v) from the date hereof to the Subsequent Closing Date, trading in the Common Stock shall not have been suspended by any regulatory authority or the Company's principal Trading Market, and, at any time from the date of this Agreement and prior to the Subsequent Closing Date, trading in securities generally as reported by Bloomberg L.P. shall not have been suspended or limited, or minimum prices shall not have been established on securities whose trades are reported by such service, or on any Trading Market, nor shall a banking moratorium have been declared either by the Canadian, United States or New York State authorities nor shall there have occurred any material outbreak or escalation of hostilities or other national or international calamity of such magnitude in its effect on, or any material adverse change in, any financial market which, in each case, in the reasonable judgment of such Purchaser, makes it impracticable or inadvisable to purchase the Securities at the Subsequent Closing; and

(vi) the Company shall have received Exercise Notices and the Subscription Amounts designated on such Exercise Notices from such Purchaser in good funds.

ARTICLE III. REPRESENTATIONS AND WARRANTIES

3.1 Representations and Warranties of the Company. Except as set forth in the Company Reports or the Disclosure Schedules, which Disclosure Schedules shall be deemed a part hereof and shall qualify any representation made herein only to the extent of the disclosure contained in the corresponding section of the Disclosure Schedules, the Company hereby makes the following representations and warranties to each Purchaser:

(a) Subsidiaries. All of the material direct and indirect subsidiaries of the Company and the Company's ownership interests therein immediately prior to the date of this Agreement, as of the date of this Agreement and as of the Initial Closing Date are as follows: the Company has one wholly-owned Subsidiary, MCW Energy CA, Inc., a California corporation, which directly and indirectly holds a 100% share interest in MCW Oil Sands Recovery, LLC, a Utah limited liability corporation. All of the issued and outstanding shares of capital stock of each Subsidiary is validly issued and are fully paid, non-assessable and free of preemptive and similar rights to subscribe for or purchase securities. As of the Initial Closing Date, the Company will have acquired all equity and rights to receive equity for each Subsidiary so that each Subsidiary is fully owned by the Company.

(b) Organization and Qualification. The Company is an entity duly incorporated or otherwise organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation or organization, with the requisite power and authority to own and use its properties and assets and to carry on its business as currently conducted. Neither the Company nor any Subsidiary is in violation nor default of any of the provisions of its respective certificate or articles of incorporation, bylaws or other organizational or charter documents. The Company is duly qualified to conduct business and is in good standing as a foreign corporation or other entity in each jurisdiction in which the nature of the business conducted or property owned by it makes such qualification necessary, except where the failure to be so qualified or in good standing, as the case may be, could not have or reasonably be expected to result in: (i) a material adverse effect on the legality, validity or enforceability of any Transaction Document, (ii) a material adverse effect on the results of operations, assets, business, prospects or condition (financial or otherwise) of the Company, taken as a whole, or (iii) a material adverse effect on the Company's ability to perform in any material respect on a timely basis its obligations under any Transaction Document (any of (i), (ii) or (iii), a "Material Adverse Effect") and, no Proceeding has been instituted in any such jurisdiction revoking, limiting or curtailing or seeking to revoke, limit or curtail such power and authority or qualification.

(c) Authorization; Enforcement. The Company has the requisite corporate power and authority to enter into and to consummate the transactions contemplated by this Agreement and each of the other Transaction Documents and otherwise to carry out its obligations hereunder and thereunder. The execution and delivery of this Agreement and each of the other Transaction Documents by the Company and the consummation by it of the transactions contemplated hereby and thereby have been duly authorized by all necessary action on the part of the Company and no further action is required by the Company, the Board of Directors or the Company's stockholders in connection herewith or therewith other than in connection with the Required Approvals. This Agreement and each other Transaction Document to which it is a party has been (or upon delivery will have been) duly executed by the Company and, when delivered in accordance with the terms hereof and thereof, will constitute the valid and binding obligation of the Company enforceable against the Company in accordance with its terms, except: (i) as limited by general equitable principles and applicable bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting enforcement of creditors' rights generally, (ii) as limited by laws relating to the availability of specific performance, injunctive relief or other equitable remedies and (iii) insofar as indemnification and contribution provisions may be limited by applicable law.

(d) No Conflicts. The execution, delivery and performance by the Company of this Agreement and the other Transaction Documents, the issuance and sale of the Securities and the consummation by it of the transactions contemplated hereby and thereby to which it is a party do not and will not: (i) conflict with or violate any provision of the Company's or any Subsidiary's certificate or articles of incorporation, bylaws or other organizational or charter documents, (ii) subject to Required Approvals, conflict with, or constitute a default (or an event that, to the knowledge of the Company, with notice or lapse of time or both would become a default) under, result in the creation of any Lien (other than Permitted Liens) upon any of the properties or assets of the Company, or, to the knowledge of the Company, give to others any rights of termination, amendment, acceleration or cancellation (with or without notice, lapse of time or both) of, any agreement, credit facility, debt or other instrument (evidencing a Company debt) or other understanding to which the Company is a party or by which any property or asset of the Company is bound or affected, or (iii) subject to the Required Approvals, to the knowledge of the Company, conflict with or result in a violation of any law, rule, regulation, order, judgment, injunction, decree or other restriction of any court or governmental authority to which the Company is subject (including Securities Laws and regulations), or by which any property or asset of the Company is bound or affected; except in the case of each of clauses (ii) and (iii), such as could not have or reasonably be expected to result in a Material Adverse Effect.

(e) Filings, Consents and Approvals. The Company is not required to obtain any consent, waiver, authorization or order of, give any notice to, or make any filing or registration with, any court or other federal, state, local or other governmental authority or other Person in connection with the execution, delivery and performance by the Company of the Transaction Documents, other than: (i) the notice and/or application(s) to each applicable Trading Market for the issuance and sale of the Notes and Warrant Shares and the listing of the Underlying Shares for trading thereon in the time and manner required thereby, (ii) the consent required by the Toronto Stock Exchange, (iii) the approval by the Board of Directors of the Company and (iv) such filings as are required to be made under applicable securities laws (collectively, the “Required Approvals”).

(f) Issuance of the Securities. The Securities are duly authorized and, when issued and paid for in accordance with the applicable Transaction Documents, will be duly and validly issued, fully paid and nonassessable, free and clear of all Liens.

(g) Capitalization. The capitalization of the Company is as set forth in Schedule 3.1(g). The Company has not issued any capital stock since its most recently filed report available on SEDAR or otherwise disclosed on Schedule 3.1(g). No Person has any right of first refusal, preemptive right, right of participation, or any similar right to participate in the transactions contemplated by the Transaction Documents. Except as disclosed on Schedule 3.1(g), there are no outstanding options, warrants, scrip rights to subscribe to, calls or commitments of any character whatsoever relating to, or securities, rights or obligations convertible into or exercisable or exchangeable for, or giving any Person any right to subscribe for or acquire any shares of Common Stock, or contracts, commitments, understandings or arrangements by which the Company or any Subsidiary is or may become bound to issue additional shares of Common Stock or Common Stock Equivalents. As of the Closing, the Company has no outstanding convertible debt instruments. Except as set forth on Schedule 3.1(g), the issuance and sale of the Securities will not obligate the Company to issue shares of Common Stock or other securities to any Person (other than the Purchasers) and will not result in a right of any holder of Company securities to adjust the exercise, conversion, exchange or reset price under any of such securities. All of the outstanding shares of capital stock of the Company are duly authorized, validly issued, fully paid and nonassessable, have been issued in material compliance with all Securities Laws, and none of such outstanding shares was issued in violation of any preemptive rights or similar rights to subscribe for or purchase securities. No further approval or authorization of any stockholder or others is required for the issuance and sale of the Securities except for any approvals or authorizations from the TSXV and the Board of Directors of the Company. There are no stockholders agreements, voting agreements or other similar agreements with respect to the Company’s capital stock to which the Company is a party or, to the knowledge of the Company, between or among any of the Company’s stockholders.

(h) Company Reports: Financial Statements. The Company is a Reporting Issuer. The Company has filed all material reports, schedules, forms, statements and other documents required to be filed by the Company under the Securities Laws and pursuant to the rules of the TSXV including but not limited to all Material Information (as defined in TSXV Policy 3.3), for the two years preceding the date hereof (or such shorter period as the Company was required by law or regulation to file such material) (the foregoing materials, including the exhibits thereto and documents incorporated by reference therein, being collectively referred to herein as the “Company Reports”) on a timely basis or has received a valid extension of such time of filing and has filed any such Company Reports prior to the expiration of any such extension. As of their respective dates, the Company Reports complied in all material respects with the requirements of the Securities Laws, and none of the Company Reports, when filed, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. The financial statements of the Company included in the Company Reports comply in all material respects with applicable accounting requirements and Securities Laws with respect thereto as in effect at the time of filing. Such financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis during the periods involved (“GAAP”), except as may be otherwise specified in such financial statements or the notes thereto and except that unaudited financial statements may not contain all footnotes required by GAAP, and fairly present in all material respects the financial position of the Company as of and for the dates thereof and the results of operations and cash flows for the periods then ended, subject, in the case of unaudited statements, to normal, immaterial, year-end audit adjustments.

(i) Material Changes: Undisclosed Events, Liabilities or Developments. Since the date of the latest quarterly unaudited financial statements included within the Company Reports: (i) there has, to the knowledge of the Company, been no event, occurrence or development that has had or that could reasonably be expected to result in a Material Adverse Effect, (ii) the Company has not incurred any material liabilities (contingent or otherwise) other than (A) trade payables and accrued expenses incurred in the ordinary course of business consistent with past practice and (B) liabilities not required to be reflected in the Company’s financial statements pursuant to GAAP or disclosed in filings made with the Commission, (iii) the Company has not altered its method of accounting, (iv) the Company has not declared or made any dividend or distribution of cash or other property to its stockholders or purchased, redeemed or made any agreements to purchase or redeem any shares of its capital stock, and (v) the Company has not issued any equity securities to any officer, director or Affiliate except as set forth in the Company Reports. The Company does not have pending before any regulatory or governing body any request for confidential treatment of information. Except for the issuance of the Securities contemplated by this Agreement, no event, liability, fact, circumstance, occurrence or development has occurred or exists with respect to the Company or its business, properties, operations, assets or financial condition, that would be required to be disclosed by the Company under Securities Laws at the time this representation is made or deemed made that has not been publicly disclosed at least two Trading Days prior to the date that this representation is made.

(j) Litigation. There is no material action, suit, inquiry, notice of violation, proceeding or investigation pending or, to the knowledge of the Company, threatened against or affecting the Company or any of its properties before or by any court, arbitrator, governmental or administrative agency or regulatory authority (federal, state, county, local or foreign) (collectively, an “Action”) which (i) adversely affects or challenges the legality, validity or enforceability of any of the Transaction Documents or the Securities or (ii) could, if there were an unfavorable decision, have or reasonably be expected to result in a Material Adverse Effect. Since August 31, 2015, neither the Company, nor any director or officer thereof, is or has been the subject of any Action involving a claim of violation of or liability under Securities Laws or a claim of breach of fiduciary duty. There has not been, and to the knowledge of the Company, there is not pending or contemplated, any investigation by any governmental body or authority involving the Company or any current or former director or officer of the Company. The Company’s securities have never been subject to any stop trading order or other order suspending the effectiveness of any registration statement filed by the Company or any Subsidiary under any Securities Laws.

(k) Labor Relations. No labor dispute exists or, to the knowledge of the Company, is imminent with respect to any of the employees of the Company, which could reasonably be expected to result in a Material Adverse Effect. None of the Company's employees is a member of a union that relates to such employee's relationship with the Company, and the Company is not a party to a collective bargaining agreement. To the knowledge of the Company, no executive officer of the Company is in violation of any material term of any employment contract, confidentiality, disclosure or proprietary information agreement or non-competition agreement, or any other contract or agreement or any restrictive covenant in favor of any third party, and the continued employment of each such executive officer does not subject the Company to any liability with respect to any of the foregoing matters. To the knowledge of the Company, it is in compliance with all applicable laws and regulations relating to employment and employment practices, terms and conditions of employment and wages and hours, except where the failure to be in compliance could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

(l) Compliance. The Company: (i) is not in default under or in violation of (and no event has occurred that has not been waived that, to the knowledge of the Company, with notice or lapse of time or both, would result in a default by the Company under), nor has the Company received notice of a claim that it is in default under or that it is in violation of, any indenture, loan or credit agreement or any other agreement or instrument to which it is a party or by which it or any of its properties is bound (whether or not such default or violation has been waived), (ii) is in violation of any judgment, decree or order of any court, arbitrator or other governmental authority or (iii) is or has been in violation of any statute, rule, ordinance or regulation of any governmental authority, including without limitation all foreign, federal, state and local laws relating to taxes, environmental protection, occupational health and safety, product quality and safety and employment and labor matters, except in each case as could not have or reasonably be expected to result in a Material Adverse Effect.

(m) Regulatory Permits. The Company possesses all certificates, authorizations and permits issued by the appropriate federal, state, local or foreign regulatory authorities necessary to conduct its business as described in the Company Reports, except where the failure to possess such permits could not reasonably be expected to result in a Material Adverse Effect ("Material Permits"), and the Company has not received any notice of proceedings relating to the revocation or modification of any Material Permit.

(n) Title to Assets. The Company has good and marketable title in fee simple to all real property (if any) owned by them and good and marketable title in all personal property owned by them that is material to the business of the Company, free and clear of all Liens, except for (i) Liens as do not materially affect the value of such property and do not materially interfere with the use made and proposed to be made of such property by the Company, (ii) Liens for the payment of Canadian and United States federal, state or other taxes, for which appropriate reserves have been made in accordance with GAAP and, the payment of which is neither delinquent nor subject to penalties and (iii) Permitted Liens. Any real property and facilities held under lease by the Company is held by it under valid, subsisting and enforceable leases with which the Company is in compliance.

(o) Intellectual Property.

(i) The term "Intellectual Property Rights" includes:

1. the name of the Company, all fictional business names, trading names, registered and unregistered trademarks, service marks, and applications of the Company (collectively, "Marks");
2. all patents, patent applications, and inventions and discoveries that may be patentable of the Company (collectively, "Patents");
3. all copyrights in both published works and unpublished works of the Company (collectively, "Copyrights");
4. all rights in mask works of the Company (collectively, "Rights in Mask Works"); and
5. all know-how, trade secrets, confidential information, customer lists, software, technical information, data, process technology, plans, drawings, and blue prints (collectively, "Trade Secrets"); owned, used, or licensed by the Company as licensee or licensor.

(ii) Agreements. There are no outstanding and, to Company's knowledge, no threatened disputes or disagreements with respect to any agreements relating to any Intellectual Property Rights to which the Company is a party or by which the Company is bound.

(iii) Know-How Necessary for the Business. The Intellectual Property Rights are all those necessary for the operation of the Company's businesses as it is currently conducted or as represented, in writing, to the Purchaser to be conducted. The Company is the owner of all right, title, and interest in and to each of the Intellectual Property Rights, free and clear of all liens, security interests, charges, encumbrances, equities, and other adverse claims, except for Permitted Liens, and has the right to use all of the Intellectual Property Rights. To the Company's knowledge, no employee of the Company has entered into any contract that restricts or limits in any way the scope or type of work in which the employee may be engaged or requires the employee to transfer, assign, or disclose information concerning his work to anyone other than of the Company.

(iv) Patents. The Company is the owner of all right, title and interest in and to each of the Patents, free and clear of all Liens and other adverse claims except for Permitted Liens. All of the issued Patents are currently in compliance with formal legal requirements (including payment of filing, examination, and maintenance fees and proofs of working or use), are valid and enforceable, and are not subject to any maintenance fees or taxes or actions falling due within ninety days after the Initial Closing Date. No Patent has been or is now involved in any interference, reissue, reexamination, or opposition proceeding. To the Company's knowledge: (1) there is no potentially interfering patent or patent application of any third party, and (2) no Patent is infringed or has been challenged or threatened in any way. To the Company's knowledge, none of the products manufactured and sold, nor any process or know-how used, by the Company infringes or is alleged to infringe any patent or other proprietary right of any other Person.

(v) Trademarks. The Company is the owner of all right, title, and interest in and to each of the Marks, free and clear of all Liens and other adverse claims except for Permitted Liens. All Marks that have been registered with the United States Patent and Trademark Office are currently in compliance with all formal legal requirements (including the timely post-registration filing of affidavits of use and incontestability and renewal applications), are valid and enforceable, and are not subject to any maintenance fees or taxes or actions falling due within ninety days after the Initial Closing Date. No Mark has been or is now involved in any opposition, invalidation, or cancellation and, to the Company's knowledge, no such action is threatened with respect to any of the Marks. To the Company's knowledge: (1) there is no potentially interfering trademark or trademark application of any third party, and (2) no Mark is infringed or has been challenged or threatened in any way. To the Company's knowledge, none of the Marks used by the Company infringes or is alleged to infringe any trade name, trademark, or service mark of any third party.

(vi) Copyrights. The Company is the owner of all right, title, and interest in and to each of the Copyrights, free and clear of all Liens and other adverse claims except for Permitted Liens. All the Copyrights have been registered and are currently in compliance with formal requirements, are valid and enforceable, and are not subject to any maintenance fees or taxes or actions falling due within ninety days after the date of the Initial Closing. No Copyright is infringed or, to the Company's knowledge, has been challenged or threatened in any way. To the Company's knowledge, none of the subject matter of any of the Copyrights infringes or is alleged to infringe any copyright of any third party or is a derivative work based on the work of a third party. All works encompassed by the Copyrights have been marked with the proper copyright notice.

(vii) Trade Secrets. With respect to each Trade Secret, the documentation relating to such Trade Secret is current, accurate, and sufficient in detail and content to identify and explain it and to allow its full and proper use without reliance on the knowledge or memory of any individual. The Company has taken all reasonable precautions to protect the secrecy, confidentiality, and value of its Trade Secrets. The Company has good title and an absolute (but not necessarily exclusive) right to use the Trade Secrets, subject to Permitted Liens. The Trade Secrets are not part of the public knowledge or literature, and, to the Company's knowledge, have not been used, divulged, or appropriated either for the benefit of any Person (other the Company) or to the detriment of the Company. No Trade Secret is subject to any adverse claim or has been challenged or threatened in any way.

(p) Insurance. The Company is insured by insurers of recognized financial responsibility against such losses and risks and in such amounts as are prudent and customary in the businesses in which the Company is engaged, including, but not limited to, directors and officers insurance coverage at least equal to the aggregate Subscription Amount. The Company has no reason to believe that the Company will not be able to renew its existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to continue its business without a significant increase in cost.

(q) Transactions With Affiliates and Employees. Except as set forth in the Company Reports, none of the officers or directors of the Company and, to the knowledge of the Company, none of the employees of the Company is presently a party to any transaction with the Company (other than for services as employees, officers and directors), including any contract, agreement or other arrangement providing for the furnishing of services to or by, providing for rental of real or personal property to or from, providing for the borrowing of money from or lending of money to or otherwise requiring payments to or from any officer, director or such employee or, to the knowledge of the Company, any entity in which any officer, director, or any such employee has a substantial interest or is an officer, director, trustee, stockholder, member or partner, in each case in excess of \$100,000 other than for: (i) payment of salary or consulting fees for services rendered, (ii) reimbursement for expenses incurred on behalf of the Company and (iii) other employee benefits, including stock option agreements under any stock option plan of the Company.

(r) Compliance: Internal Accounting Controls. The Company is in material compliance with any and all applicable requirements of Securities Laws and filing and disclosure obligations with the principal Trading Market that are effective as of the date hereof, and as of the Closing Date. The Company maintains a system of internal accounting controls sufficient to provide reasonable assurance that: (i) transactions are executed in accordance with management's general or specific authorizations, (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with GAAP and to maintain asset accountability, and (iii) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

(s) Certain Fees. No brokerage, finder's fees, commissions or due diligence fees are or will be payable by the Company or any Subsidiary to any broker, financial advisor or consultant, finder, placement agent, investment banker, bank or other Person with respect to the transactions contemplated by the Transaction Documents. The Purchasers shall have no obligation with respect to any such fees or with respect to any claims made by or on behalf of any Persons for fees of a type contemplated in this Section 3.1(s) that may be due in connection with the transactions contemplated by the Transaction Documents.

(t) Reporting Company. The Company is a publicly-held company subject to reporting obligations under applicable Securities Laws and as described in the Company Reports. The Company has timely filed all material reports and other materials required to be filed by the Company thereunder during the preceding twelve months. The Company is, and has no reason to believe that it will not in the foreseeable future continue to be, in compliance with all such listing and maintenance requirements.

(u) Application of Takeover Protections. The Company and the Board of Directors will have taken as of the Closing Date all necessary action, if any, in order to render inapplicable any control share acquisition, business combination, poison pill (including any distribution under a rights agreement) or other similar anti-takeover provision under the Company's certificate of incorporation (or similar charter documents) that is or could become applicable to the Purchasers as a result of the Purchasers and the Company fulfilling their obligations or exercising their rights under the Transaction Documents, including without limitation as a result of the Company's issuance of the Securities and the Purchasers' ownership of the Securities.

(v) Disclosure. Except with respect to the material terms and conditions of the transactions contemplated by the Transaction Documents, the Company confirms that neither it nor any other Person acting on its behalf has provided any of the Purchasers or their agents or counsel with any information that it believes constitutes or might constitute material, non-public information which has not already been publicly disclosed pursuant to Securities Laws. The Company understands and confirms that the Purchasers will rely on the foregoing representation in effecting transactions in securities of the Company. All of the disclosure furnished by or on behalf of the Company to the Purchasers regarding the Company, its business and the transactions contemplated hereby, including the Disclosure Schedules to this Agreement, when taken together as a whole, is true and correct and does not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading. The public releases disseminated by the Company during the twelve months preceding the date of this Agreement taken as a whole do not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made and when made, not misleading. The Company acknowledges and agrees that no Purchaser makes or has made any representations or warranties with respect to the transactions contemplated hereby other than those specifically set forth in Section 3.2 hereof.

(w) Solvency. Based on the consolidated financial condition of the Company as of the Closing Date, and the Company's good faith estimate of the fair market value of its assets, after giving effect to the receipt by the Company of the proceeds from the sale of the Securities hereunder: (i) the fair saleable value of the Company's assets exceeds the amount that will be required to be paid on or in respect of the Company's existing debts and other liabilities (including known contingent liabilities) as they mature, (ii) the Company's assets do not constitute unreasonably small capital to carry on its business as now conducted and as proposed to be conducted including its capital needs taking into account the particular capital requirements of the business conducted by the Company, consolidated and projected capital requirements and capital availability thereof, and (iii) the current cash flow of the Company, together with the proceeds the Company would receive, were it to liquidate all of its assets, after taking into account all anticipated uses of the cash, would be sufficient to pay all amounts on or in respect of its liabilities when such amounts are required to be paid. The Company does not intend to incur debts beyond its ability to pay such debts as they mature (taking into account the timing and amounts of cash to be payable on or in respect of its debt). The Company has no knowledge of any facts or circumstances which lead it to believe that it will file for reorganization or liquidation under the bankruptcy or reorganization laws of any jurisdiction within one year from the Closing Date. As of the Initial Closing Date, the Company will have no outstanding convertible notes or convertible indebtedness.

(x) Tax Status. Except for matters that would not, individually or in the aggregate, have or reasonably be expected to result in a Material Adverse Effect, the Company (i) has made or filed all Canadian and United States federal, state and local income and all foreign income and franchise tax returns, reports and declarations required by any jurisdiction to which it is subject, (ii) has paid all taxes and other governmental assessments and charges that are material in amount, shown or determined to be due on such returns, reports and declarations and (iii) has set aside on its books provision reasonably adequate for the payment of all material taxes for periods subsequent to the periods to which such returns, reports or declarations apply. There are no unpaid taxes in any material amount claimed to be due by the taxing authority of any jurisdiction, and the officers of the Company or of any Subsidiary know of no basis for any such claim.

(y) Foreign Corrupt Practices. Neither the Company nor any Subsidiary, nor to the knowledge of the Company or any Subsidiary, any agent or other person acting on behalf of the Company or any Subsidiary, has: (i) directly or indirectly, used any funds for unlawful contributions, gifts, entertainment or other unlawful expenses related to foreign or domestic political activity, (ii) made any unlawful payment to foreign or domestic government officials or employees or to any foreign or domestic political parties or campaigns from corporate funds, (iii) failed to disclose fully any contribution made by the Company or any Subsidiary (or made by any person acting on its behalf of which the Company is aware) which is in violation of law or (iv) violated in any material respect any provision of FCPA.

(z) Accountants. The Company's accounting firm is Hay & Watson, Chartered Accountants. To the knowledge and belief of the Company, such accounting firm shall express its opinion with respect to the financial statements to be included in the Company's annual report for the fiscal year ending August 31, 2015. There are no disagreements of any kind presently existing, or reasonably anticipated by the Company to arise, between the Company and the accountants and lawyers formerly or presently employed by the Company and the Company is current with respect to any fees owed to its accountants and lawyers which could affect the Company's ability to perform any of its obligations under any of the Transaction Documents.

(aa) Acknowledgment Regarding Purchasers' Purchase of Securities. The Company acknowledges and agrees that each of the Purchasers is acting solely in the capacity of an arm's length purchaser with respect to the Transaction Documents and the transactions contemplated thereby. The Company further acknowledges that no Purchaser is acting as a financial advisor or fiduciary of the Company (or in any similar capacity) with respect to the Transaction Documents and the transactions contemplated thereby and any advice given by any Purchaser or any of their respective representatives or agents in connection with the Transaction Documents and the transactions contemplated thereby is merely incidental to the Purchasers' purchase of the Securities. The Company further represents to each Purchaser that the Company's decision to enter into this Agreement and the other Transaction Documents has been based solely on the independent evaluation of the transactions contemplated hereby by the Company and its representatives.

(bb) Acknowledgment Regarding Purchaser's Trading Activity. Anything in this Agreement or elsewhere herein to the contrary notwithstanding, it is understood and acknowledged by the Company that: (i) none of the Purchasers has been asked by the Company to agree, nor has any Purchaser agreed, to desist from purchasing or selling, long and/or short, securities of the Company, or "derivative" securities based on securities issued by the Company or to hold the Securities for any specified term, (ii) past or future open market or other transactions by any Purchaser, specifically including, without limitation, Short Sales or "derivative" transactions, before or after the closing of this or future private placement transactions, may negatively impact the market price of the Company's publicly-traded securities, (iii) any Purchaser, and counter-parties in "derivative" transactions to which any such Purchaser is a party, directly or indirectly, may presently have a "short" position in the Common Stock and (iv) each Purchaser shall not be deemed to have any affiliation with or control over any arm's length counter-party in any "derivative" transaction. The Company further understands and acknowledges that (y) one or more Purchasers may engage in hedging activities at various times during the period that the Securities are outstanding, including, without limitation, during the periods that the value of the Underlying Shares deliverable with respect to Securities are being determined, and (z) such hedging activities (if any) could reduce the value of the existing stockholders' equity interests in the Company at and after the time that the hedging activities are being conducted. The Company acknowledges that such aforementioned hedging activities do not constitute a breach of any of the Transaction Documents.

(cc) Money Laundering. The operations of the Company are and have been conducted at all times in compliance with applicable financial record-keeping and reporting requirements of the Currency and Foreign Transactions Reporting Act of 1970, as amended, applicable money laundering statutes and applicable rules and regulations thereunder (collectively, the "Money Laundering Laws"), and no action, suit or proceeding by or before any court or governmental agency, authority or body or any arbitrator involving the Company or any Subsidiary with respect to the Money Laundering Laws is pending or, to the knowledge of the Company or any Subsidiary, threatened.

(dd) Stock Option Plans. Each stock option granted by the Company under the stock option plan was granted (i) in accordance with the terms of such stock option plan and (ii) with an exercise price at least equal to the fair market value of the Common Stock on the date such stock option would be considered granted under GAAP and applicable law. No stock option granted under any stock option plan has been backdated. The Company has not knowingly granted, and there is no and has been no Company policy or practice to knowingly grant, stock options prior to, or otherwise knowingly coordinate the grant of stock options with, the release or other public announcement of material information regarding the Company or its financial results or prospects.

(ee) Office of Foreign Assets Control. Neither the Company nor any Subsidiary nor, to the Company's knowledge, any director, officer, agent, employee or affiliate of the Company is currently subject to any U.S. sanctions administered by the United States Office of Foreign Assets Control of the U.S. Treasury Department ("OFAC").

(ff) Private Placement. Assuming the accuracy of the Purchasers' representations and warranties set forth in Section 3.2, no registration under the U.S. Securities Act is required for the offer and sale of the Securities by the Company to the Purchasers as contemplated hereby. The issuance and sale of the Securities hereunder does not contravene the rules and regulations of the Trading Market.

(gg) No General Solicitation. Neither the Company nor any person acting on behalf of the Company has offered or sold any of the Securities by any form of general solicitation or general advertising.

(hh) Indebtedness and Seniority. As of March 31, 2016, all Indebtedness and Liens are as set forth on Schedule 3.1(hh). Except as set forth on Schedule 3.1(hh), as of the Closing Date, no Indebtedness or other equity of the Company is currently senior to the Notes in right of payment, whether with respect to interest or upon liquidation or dissolution, or otherwise, other than indebtedness secured by purchase money security interests (which is senior only as to underlying assets covered thereby) and capital lease obligations (which is senior only as to the property covered thereby). For the purposes of this Agreement, "Indebtedness" means (x) any liabilities for borrowed money or amounts owed in excess of \$500,000 in the aggregate (other than trade accounts payable incurred in the ordinary course of business), (y) all guaranties, endorsements and other contingent obligations in respect of indebtedness of others, whether or not the same are or should be reflected in the Company's consolidated balance sheet (or the notes thereto), except guaranties by endorsement of negotiable instruments for deposit or collection or similar transactions in the ordinary course of business; and (z) the present value of any lease payments in excess of \$500,000 due under leases required to be capitalized in accordance with GAAP. The Company is not in default with respect to any Indebtedness.

(ii) Listing and Maintenance Requirements. The Common Stock is listed on the TSXV under the symbol MCW. The Company has not, in the twenty-four (24) months preceding the date hereof, received notice from any Trading Market on which the Common Stock is or has been listed or quoted to the effect that the Company is not in compliance with the listing or maintenance requirements of such Trading Market.

(jj) Environmental and Safety Laws.

(i) The Company is, and at all times has been, in full compliance with, and has not been and is not in violation of or liable under, any Environmental Law. The Company has no basis to expect, nor has it or any other Person for whose conduct it is or may be held to be responsible received, any actual or threatened order, notice, or other communication from (i) any governmental body or private citizen acting in the public interest, or (ii) the current or prior owner or operator of any facilities, of any actual or potential violation or failure to comply with any Environmental Law, or of any actual or threatened obligation to undertake or bear the cost of any environmental, health, and safety liabilities with respect to any of the facilities or any other properties or assets (whether real, personal, or mixed) in which the Company has had an interest, or with respect to any property or facility at or to which Hazardous Materials were generated, manufactured, refined, transferred, imported, used, or processed by the Company, or any other Person for whose conduct it is or may be held responsible, or from which Hazardous Materials have been transported, treated, stored, handled, transferred, disposed, recycled, or received.

(ii) There are no pending or, to the knowledge of the Company, threatened claims, encumbrances, or other restrictions of any nature, resulting from any environmental, health, and safety liabilities or arising under or pursuant to any Environmental Law, with respect to or affecting any of the facilities or any other properties and assets (whether real, personal, or mixed) in which the Company has or had an interest.

(iii) The Company has no knowledge of any basis to expect, nor has it or any other Person for whose conduct it is or may be held responsible, received, any citation, directive, inquiry, notice, order, summons, warning, or other communication that relates to Hazardous Materials, or any alleged or actual violation or failure to comply with any Environmental Law, or of any alleged or actual obligation to undertake or bear the cost of any environmental, health, and safety liabilities with respect to any of the facilities or any other properties or assets (whether real, personal, or mixed) in which the Company had an interest, or with respect to any property or facility to which Hazardous Materials generated, manufactured, refined, transferred, imported, used, or processed by the Company, or any other Person for whose conduct it is or may be held responsible, have been transported, treated, stored, handled, transferred, disposed, recycled, or received.

(iv) Neither the Company nor any other Person for whose conduct it is or may be held responsible, had any environmental, health, and safety liabilities with respect to the facilities or, to the knowledge of the Company, with respect to any other properties and assets (whether real, personal, or mixed) in which the Company (or any predecessor), has or had an interest, or at any property geologically or hydrologically adjoining the facilities or any such other property or assets.

(v) Neither the Company nor any other Person for whose conduct it is or may be held responsible, or to the knowledge of the Company, any other Person, has permitted or conducted, or is aware of, any hazardous activity conducted with respect to the facilities or any other properties or assets (whether real, personal, or mixed) in which the Company has or had an interest except in full compliance with all applicable Environmental Laws.

(vi) There has been no release of any Hazardous Materials at or from the facilities or at any other locations where any Hazardous Materials were generated, manufactured, refined, transferred, produced, imported, used, or processed from or by the facilities, or from or by any other properties and assets (whether real, personal, or mixed) in which the Company has or had an interest, or to the knowledge of the Company any geologically or hydrologically adjoining property, whether by the Company, or any other Person that has had a Material Adverse Effect.

(vii) For the purpose of this Section, Hazardous Material shall mean (i) materials which are listed or otherwise defined as “hazardous” or “toxic” under any applicable federal, local or stated and/or foreign laws and regulations that govern the existence and/or remedy of contamination on property, the protection of the environment from contamination, the control of the hazardous wastes, or other activities involving hazardous substances, including building materials or (b) petroleum products or nuclear materials.

(viii) For the purpose of this Section 3.1(jj), “Environmental Law” shall have the following meaning:

1. advising appropriate authorities, employees, and the public intended or actual releases of pollutants or hazardous substances or material, violations of discharge limits, or other prohibitions and of the commencements of activities, such as resource extraction or construction, that could have significant impact on the environment;
2. preventing or reducing to acceptable levels the release of pollutants or hazardous substances or materials into the environment;
3. reducing the quantities, preventing the release, or minimizing the hazardous characteristics of waste that are generated;
4. assuring that products are designed, formulated, packaged, and used so that they do not present unreasonable risks to human health or the environment when used or disposed of;
5. protecting resources, species or ecological amenities;
6. reducing to acceptable levels the risk inherent in the transportation of hazardous substances, pollutants, oil or other potentially harmful substances;
7. cleaning up pollutants that have been released, preventing the threat of release or paying the costs of such clean up or prevention; or
8. making responsible parties pay private parties, or groups of them, for damages done to their health or to the environment, or permitting self appointed representatives of the public interest to recover for injuries done to public assets.

(kk) Survival. The foregoing representations and warranties shall survive the Closing Date.

3.2 Representations and Warranties of the Purchasers. Each Purchaser, for itself and for no other Purchaser, hereby represents and warrants as of the date hereof and as of the Closing Date to the Company as follows (unless as of a specific date therein):

(a) Organization; Authority. The address of the residence or principal offices of such Purchaser is set forth on the signature page hereto executed by such Purchaser and such address is not located in the Province of Ontario, Canada. Such Purchaser is either an individual or an entity duly incorporated or formed, validly existing and in good standing under the laws of the jurisdiction of its incorporation or formation with full right, corporate, partnership, limited liability company or similar power and authority to enter into and to consummate the transactions contemplated by the Transaction Documents and otherwise to carry out its obligations hereunder and thereunder. The execution and delivery of the Transaction Documents and performance by such Purchaser of the transactions contemplated by the Transaction Documents have been duly authorized by all necessary corporate, partnership, limited liability company or similar action, as applicable, on the part of such Purchaser. Each Transaction Document to which it is a party has been duly executed by such Purchaser, and when delivered by such Purchaser in accordance with the terms hereof, will constitute the valid and legally binding obligation of such Purchaser, enforceable against it in accordance with its terms, except: (i) as limited by general equitable principles and applicable bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting enforcement of creditors' rights generally, (ii) as limited by laws relating to the availability of specific performance, injunctive relief or other equitable remedies and (iii) insofar as indemnification and contribution provisions may be limited by applicable law.

(b) Understandings or Arrangements. Such Purchaser understands that the Securities are "restricted securities" and have not been registered under the U.S. Securities Act or any applicable state securities law and is acquiring the Securities as principal for its own account and not with a view to or for distributing or reselling such Securities or any part thereof in violation of the U.S. Securities Act or any applicable state securities law, has no present intention of distributing any of such Securities in violation of the U.S. Securities Act or any applicable state securities law and has no direct or indirect arrangement or understandings with any other persons to distribute or regarding the distribution of such Securities in violation of the U.S. Securities Act or any applicable state securities law (this representation and warranty not limiting such Purchaser's right to sell the Securities pursuant to a registration statement or otherwise in compliance with applicable federal and state securities laws). Such Purchaser is acquiring the Securities hereunder in the ordinary course of its business.

(c) The Purchaser is a resident, or if not an individual has its head office, in the jurisdiction set out on the signature page herein. Such address was not created and is not used solely for the purpose of acquiring the Notes and the Purchaser was not solicited to purchase the Notes in the United States.

(d) The Purchaser is purchasing as principal for its own account and has properly completed, executed and delivered to the Company, Exhibit "E" and the applicable certificate(s) and/or form(s) (dated as of the date hereof) set forth in Exhibit "E", and the information contained therein is true and correct.

(e) The information, representations, warranties and covenants contained in Exhibit "E" will be true and correct both as of the date of execution of this Agreement and as of the time of Closing.

(f) The Purchaser is neither a U.S. Person nor subscribing for the Notes for the account of a U.S. Person or for resale in the United States.

(g) The Purchaser will not offer, sell or otherwise dispose of the Notes or underlying securities in the United States or to a U.S. Person unless the Company has consented to such offer, sale or disposition and such offer, sale or distribution is made in accordance with an exemption from the registration requirements under the U.S. Securities Act and the securities laws of all applicable states of the United States or the U.S. Securities and Exchange Commission has declared effective a registration statement in respect of such securities.

(h) The Purchaser confirms that the Notes have not been offered to the Purchaser in the United States and that this Agreement has not been signed in the United States.

(i) The Purchaser was not offered the Notes as the result of any directed selling efforts, as that term is defined in Regulation S under the U.S. Securities Act.

(j) The current structure of this transaction and all transactions and activities contemplated hereunder is not a scheme to avoid the registration requirements of the U.S. Securities Act.

(k) If the Purchaser is not a person resident in Canada, the subscription for the Notes by the Purchaser does not contravene any of the applicable securities legislation in the jurisdiction in which the Purchaser resides and does not give rise to any obligation of the Company to prepare and file a prospectus or similar document or to register the Notes or underlying securities or to be registered with or to file any report or notice with any governmental or regulatory authority and the Purchaser agrees that it shall deliver to the Company such further particulars of the exemption(s) and the Purchaser's qualifications thereunder as the Company may reasonably request.

(l) If the Purchaser is a resident of a country other than Canada or the United States (an "International Jurisdiction") then in addition to the other representations and warranties contained herein, the Purchaser represents and warrants that:

- i) the Purchaser is knowledgeable of, or has been independently advised as to, the applicable securities laws of the International Jurisdiction which would apply to this Agreement, if any;
- ii) the Purchaser is purchasing the Notes pursuant to exemptions from the prospectus, financial promotion and registration requirements under the applicable securities laws of that International Jurisdiction or, if such is not applicable, the Purchaser is permitted to purchase the Notes under the applicable securities laws of the International Jurisdiction without the need to rely on an exemption;
- iii) the applicable securities laws of the International Jurisdiction do not require the Company to file a prospectus, offering memorandum or similar document or to register or qualify the distribution of the Notes or underlying securities or for the Company to be registered with or to make any filings or seek any approvals of any kind whatsoever from any governmental or regulatory authority of any kind whatsoever in the International Jurisdiction;
- iv) the delivery of this Agreement, the acceptance of it by the Company and the issuance of the Notes and underlying securities to the Purchaser complies with all applicable laws of the Purchaser's jurisdiction of residence or domicile and all other applicable laws and will not cause the Company to become subject to or comply with any continuous disclosure, prospectus or other periodic filing or reporting requirements under any such applicable laws;

- v) the Purchaser will not sell, transfer or dispose of the Notes and underlying securities except in accordance with all applicable laws, including applicable securities laws of Canada and the United States, and the Purchaser acknowledges that the Company shall have no obligation to register any such purported sale, transfer or disposition which violates applicable Canadian or United States securities laws or other securities laws;
- vi) the Purchaser shall not sell the Notes and underlying securities until all applicable hold periods have expired unless the sale is made pursuant to an exemption to applicable securities laws; and
- vii) the Purchaser has duly completed and delivered to the Company Exhibit "E" and represents and warrants as set forth therein.

(m) The execution and delivery of this Agreement, the performance and compliance with the terms hereof, the subscription for the Notes and the completion of the transactions described herein by the Purchaser, will not result in any material breach of, or be in conflict with or constitute a material default under, or create a state of facts which, after notice or lapse of time, or both, would constitute a material default under any term or provision of the constating documents, by-laws or resolutions (if applicable) of the Purchaser, the Securities Laws or any other laws applicable to the Purchaser, any agreement to which the Purchaser is a party, or any judgment, decree, order, statute, rule or regulation applicable to the Purchaser.

(n) The Purchaser is not, with respect to the Company or any of its affiliates, a Control Person (as such term is defined by Securities Laws).

(o) If required by applicable Securities Laws or the Company, the Purchaser will execute, deliver and file or assist the Company at the Company's sole cost and expense, in filing such reports, undertakings and other documents with respect to the issue of the Notes and the underlying securities as may be reasonably required by any securities commission, stock exchange or other regulatory authority.

(p) The Purchaser has been advised to consult their own legal advisors with respect to trading in the Notes and underlying securities and with respect to the resale restrictions imposed by the Securities Laws of the jurisdiction in which the Purchaser resides and other applicable securities laws, and acknowledges that no representation has been made respecting the applicable hold periods imposed by the Securities Laws or other resale restrictions applicable to such securities which restrict the ability of the Purchaser to resell such securities, that the Purchaser is solely responsible to find out what these restrictions are and the Purchaser is solely responsible (and the Company is in no way responsible) for compliance with applicable resale restrictions and the Purchaser is aware that may not be able to resell such securities except in accordance with limited exemptions under the Securities Laws and other applicable securities laws.

(q) The Purchaser has not received or been provided with a prospectus or offering memorandum, within the meaning of the Securities Laws, or any sales or advertising literature in connection with this Agreement and the Purchaser's decision to subscribe for the Notes was not based upon, and the Purchaser has not relied upon, any oral or written representations as to facts made by or on behalf of the Company. The Purchaser's decision to subscribe for the Notes was based solely upon information about the Company which is publicly available on www.sedar.com.

(r) The Purchaser is not purchasing Notes with knowledge of material information concerning the Company which has not been generally disclosed.

(s) No person has made any written or oral representations (i) that any person will resell or repurchase the Notes or underlying securities, or (ii) as to the future price or value of the Notes or underlying securities.

(t) The subscription for the Notes has not been made through or as a result of, and the distribution of the Notes is not being accompanied by any advertisement, including without limitation in printed public media, radio, television or telecommunications, including electronic display, or as part of a general solicitation.

(u) The Purchaser is not a person or entity identified in the Regulations Implementing the United Nations Resolutions on the Suppression of Terrorism, the United Nations Al-Qaida and Taliban Regulations, the Regulations Implementing the United Nations Resolution on the Democratic People's Republic of Korea, the Regulations Implementing the United Nations Resolution on Iran, the United Nations Cote d'Ivoire Regulations, the United Nations Democratic Republic of the Congo Regulations, the United Nations Liberia Regulations, the United Nations Sudan Regulations, the Special Economic Measures (Zimbabwe) Regulations or the Special Economic Measures (Burma) Regulations (collectively, the "Trade Sanctions"). The Purchaser acknowledges that the Company may in the future be required by law to disclose the name and other information of the Purchaser related to the acquisition of the Notes hereunder, on a confidential basis, pursuant to the Trade Sanctions.

(v) None of the funds being used to purchase Notes are, to the Purchaser's knowledge, proceeds obtained or derived directly or indirectly as a result of illegal activities.

(w) Experience of Such Purchaser. Such Purchaser, either alone or together with its representatives, has such knowledge, sophistication and experience in business and financial matters so as to be capable of evaluating the merits and risks of the prospective investment in the Securities, and has so evaluated the merits and risks of such investment. Such Purchaser is able to bear the economic risk of an investment in the Securities and, at the present time, is able to afford a complete loss of such investment.

(x) No Governmental Review. Such Purchaser understands that no Canadian or United States federal or state agency or any other governmental or state agency has passed on or made recommendations or endorsement of the Securities or the suitability of the investment in the Securities nor have such authorities passed upon or endorsed the merits of the offering of the Securities.

(y) No Conflicts. The execution, delivery and performance of this Agreement and performance under the other Transaction Documents and the consummation by such Purchaser of the transactions contemplated hereby and thereby or relating hereto or thereto do not and will not (i) result in a violation of such Purchaser's charter documents, bylaws or other organizational documents, if applicable, (ii) conflict with nor constitute a default (or an event which with notice or lapse of time or both would become a default) under any agreement to which such Purchaser is a party, nor (iii) result in a violation of any law, rule, or regulation, or any order, judgment or decree of any court or governmental agency applicable to such Purchaser or its properties (except for such conflicts, defaults and violations as would not, individually or in the aggregate, have a material adverse effect on such Purchaser). Such Purchaser is not required to obtain any consent, authorization or order of, or make any filing or registration with, any court or governmental agency in order for it to execute, deliver or perform any of its obligations under this Agreement or perform under the other Transaction Documents nor to purchase the Securities in accordance with the terms hereof, provided that for purposes of the representation made in this sentence, such Purchaser is assuming and relying upon the accuracy of the relevant representations and agreements of the Company herein.

(z) Money Laundering. Purchaser represents that the funds representing the Subscription Amount which will be advanced by the Purchaser hereunder will not represent proceeds of crime for the purposes of the *Proceeds of Crime (Money Laundering) Act* (Canada) and Purchaser acknowledges that the Company may in the future be required by law to disclose Purchaser's name and other information relating to this Agreement and the Purchaser's subscription hereunder, on a confidential basis, pursuant to the *Proceeds of Crime (Money Laundering) Act* (Canada) and to the best of the Purchaser's knowledge (i) none of the Subscription Amount to be provided by Purchaser (A) have been or will be derived from or related to any activity that is deemed criminal under the law of Canada or the United States, or (B) are being tendered on behalf of a person or entity who has not been identified to the Purchaser, and (ii) it shall promptly notify the Company if Purchaser discovers that any of such representations ceases to be true.

(aa) Survival. The foregoing representations and warranties shall survive the Closing Date.

The Company acknowledges and agrees that the representations contained in Section 3.2 shall not modify, amend or affect such Purchaser's right to rely on the Company's representations and warranties contained in this Agreement or any representations and warranties contained in any other Transaction Document or any other document or instrument executed and/or delivered in connection with this Agreement or the consummation of the transaction contemplated hereby.

ARTICLE IV. OTHER AGREEMENTS OF THE PARTIES

4.1 Transfer Restrictions.

(a) Resales. The Purchaser acknowledges and agrees that the Securities may only be disposed of in compliance with applicable securities laws.

(b) Legends. The Purchasers acknowledge and agree that the Notes will bear, as of the Closing Date, a legend substantially in the following form and with the necessary information inserted:

“UNLESS PERMITTED UNDER SECURITIES LEGISLATION, THE HOLDER OF THIS SECURITY MUST NOT TRADE THE SECURITY BEFORE <INSERT THE DATE THAT IS FOUR (4) MONTHS AND ONE (1) DAY AFTER THE CLOSING DATE>.”

(c) The Purchaser acknowledges and agrees that in the event of conversion of the Notes prior to the expiry of the hold period applicable to the Notes, the underlying securities will bear a legend substantially in the form of the legend set forth in 4.1(b) above, and with the necessary information inserted, which legend, if imprinted will be removed at the Purchaser's request four (4) months and one (1) day after the Closing Date.

(d) DWAC. In lieu of delivering physical certificates representing the Unlegended Shares, upon request of a Purchaser, so long as the certificates therefor do not bear a legend and the Purchaser is not obligated to return such certificate for the placement of a legend thereon, the Company shall cause its transfer agent to electronically transmit the Unlegended Shares by crediting the account of Purchaser's prime broker with the Depository Trust Company through its Deposit Withdrawal At Custodian system, provided that the Company's Common Stock is DTC eligible and the Company's transfer agent participates in the Deposit Withdrawal at Custodian system.

4.2 Acknowledgment of Dilution. The Company acknowledges that the issuance of the Securities may result in dilution of the outstanding shares of Common Stock, which dilution may be substantial under certain market conditions. The Company further acknowledges that its obligations under the Transaction Documents, including, without limitation, its obligation to issue the Underlying Shares pursuant to the Transaction Documents, are unconditional and absolute and not subject to any right of set off, counterclaim, delay or reduction, regardless of the effect of any such dilution or any claim the Company may have against any Purchaser and regardless of the dilutive effect that such issuance may have on the ownership of the other stockholders of the Company.

4.3 Furnishing of Information; Public Information.

(a) As long as the Notes or the Warrants are outstanding, the Company covenants to comply with its continuous disclosure obligations pursuant to applicable Securities Laws.

(b) At any time commencing on the Initial Closing Date and for so long as the Notes or Warrants are outstanding, if the Company shall fail for any reason to satisfy its Securities Laws filing and disclosure requirements and TSXV filing and disclosure requirements which is not rectified within 10 days of the first occurrence of such failure (a “Public Information Failure”) then, in addition to such Purchaser’s other available remedies, the Company shall pay to a Purchaser, in cash, as partial liquidated damages and not as a penalty, by reason of any such actual delay in or reduction of its ability to sell the Securities, an amount in cash equal to one percent (1.0%) of the aggregate principal amount of Notes held by such Purchaser on the day of a Public Information Failure and on every thirtieth (30th) day (pro-rated for periods totaling less than thirty days) thereafter until the earlier of (a) the date such Public Information Failure is cured and (b) such time that such public information is no longer required for the Purchasers to publicly transfer the Underlying Shares without registration or exemption. The payments to which a Purchaser shall be entitled pursuant to this Section 4.3(b) are referred to herein as “Public Information Failure Payments.” Public Information Failure Payments shall be paid on the earlier of (i) the last day of the calendar month during which such Public Information Failure Payments are incurred and (ii) the third (3rd) Business Day after the event or failure giving rise to the Public Information Failure Payments is cured. In the event the Company fails to make Public Information Failure Payments in a timely manner, such Public Information Failure Payments shall bear interest at the rate of 1.5% per month (prorated for partial months) until paid in full. Nothing herein shall limit such Purchaser’s right to pursue actual damages for the Public Information Failure, and such Purchaser shall have the right to pursue all remedies available to it at law or in equity including, without limitation, a decree of specific performance and/or injunctive relief.

4.4 Integration. The Company shall not sell, offer for sale or solicit offers to buy or otherwise negotiate in respect of any security (as defined in Section 2 of the U.S. Securities Act) that would be integrated with the offer or sale of the Securities in a manner that would require the registration under the U.S. Securities Act of the sale of the Securities or that would be integrated with the offer or sale of the Securities for purposes of the rules and regulations of any Trading Market such that it would require shareholder approval prior to the closing of such other transaction unless shareholder approval is obtained before the closing of such subsequent transaction.

4.5 Conversion and Exercise Procedures. Each of the form of Notice of Exercise included in the Warrants and the form of Notice of Conversion included in the Notes set forth the totality of the procedures required of the Purchasers in order to exercise the Warrants or convert the Notes. No additional legal opinion, other information or instructions shall be required of the Purchasers to exercise their Warrants or convert their Notes. The Company shall honor exercises of the Warrants and conversions of the Notes and shall deliver Underlying Shares in accordance with the terms, conditions and time periods set forth in the Transaction Documents.

4.6 Securities Laws Disclosure; Publicity. The Company shall immediately following each Closing Date comply with its reporting and disclosure obligations under all Securities Laws and principal Trading Market requirements in connection with this Agreement. The Company and each Purchaser shall consult with each other in issuing any press releases with respect to the transactions contemplated hereby, and neither the Company nor any Purchaser shall issue any press release nor otherwise make any such public statement without the prior consent of the Company, with respect to any press release of any Purchaser, or without the prior consent of each Purchaser, with respect to any press release of the Company, which consent shall not unreasonably be withheld or delayed, except if such disclosure is required by law or pursuant to the policies of the TSXV, in which case the disclosing party shall promptly provide the other party with prior notice of such public statement or communication. Notwithstanding the foregoing, the Company shall not publicly disclose the name of any Purchaser, or include the name of any Purchaser in any filing with the Commission or any regulatory agency or Trading Market unless the name of such Purchaser is already included in the body of the Transaction Documents, without the prior written consent of such Purchaser, except as required by Securities Laws in connection with such filing and (b) to the extent such disclosure is required by Trading Market regulations, in which case the Company shall provide the Purchasers with prior notice of such disclosure permitted under this clause (b).

4.7 Shareholder Rights Plan. No claim will be made or enforced by the Company or, with the consent of the Company, any other Person, that any Purchaser is an "Acquiring Person" under any control share acquisition, business combination, poison pill (including any distribution under a rights agreement) or similar anti-takeover plan or arrangement in effect or hereafter adopted by the Company, or that any Purchaser could be deemed to trigger the provisions of any such plan or arrangement, by virtue of receiving Securities under the Transaction Documents or under any other agreement between the Company and the Purchasers.

4.8 Non-Public Information. Except with respect to the material terms and conditions of the transactions contemplated by the Transaction Documents, the Company covenants and agrees that neither it, nor any other Person acting on its behalf, will provide any Purchaser or its agents or counsel with any information that the Company believes constitutes material non-public information, unless prior thereto such Purchaser shall have entered into a written agreement with the Company regarding the confidentiality and use of such information. The Company understands and confirms that each Purchaser shall be relying on the foregoing covenant in effecting transactions in securities of the Company.

4.9 Use of Proceeds. The Company shall use the net proceeds from the sale of the Securities hereunder for working capital purposes and shall not use such proceeds: (a) for the satisfaction of any portion of the Company's debt (other than payment of trade payables in the ordinary course of the Company's business and prior practices), (b) for the redemption of any Common Stock or Common Stock Equivalents, (c) for the settlement of any outstanding litigation or (d) in violation of FCPA or OFAC regulations.

4.10 Indemnification of Purchasers. Subject to the provisions of this Section 4.10, the Company will indemnify and hold each Purchaser and its directors, officers, shareholders, members, partners, employees and agents (and any other Persons with a functionally equivalent role of a Person holding such titles notwithstanding a lack of such title or any other title), each Person who controls such Purchaser (within the meaning of the *Securities Act* (Ontario)), and the directors, officers, shareholders, agents, members, partners or employees (and any other Persons with a functionally equivalent role of a Person holding such titles notwithstanding a lack of such title or any other title) of such controlling persons (each, a “Purchaser Party”) harmless from any and all losses, liabilities, obligations, claims, contingencies, damages, costs and expenses, including all judgments, amounts paid in settlements, court costs and reasonable attorneys’ fees and costs of investigation that any such Purchaser Party may suffer or incur as a result of or relating to (a) any breach of any of the representations, warranties, covenants or agreements made by the Company in this Agreement or in the other Transaction Documents or (b) any action instituted against Purchaser Parties in any capacity, or any of them or their respective Affiliates, by any stockholder of the Company who is not an Affiliate of such Purchaser Party, with respect to any of the transactions contemplated by the Transaction Documents. Notwithstanding anything to the contrary contained herein, the indemnity contemplated in this Section 4.10 shall not apply if such action is based upon a breach of such Purchaser Party’s representations, warranties or covenants under the Transaction Documents or any agreements or understandings such Purchaser Party may have with any such stockholder or any violations by such Purchaser Party of Securities Laws or any conduct by such Purchaser Party which constitutes fraud, gross negligence, willful misconduct or malfeasance. If any action shall be brought against any Purchaser Party in respect of which indemnity may be sought pursuant to this Agreement, such Purchaser Party shall promptly notify the Company in writing, and the Company shall have the right to assume the defense thereof with counsel of its own choosing reasonably acceptable to the Purchaser Party. Any Purchaser Party shall have the right to employ separate counsel in any such action and participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of such Purchaser Party except to the extent that (i) the employment thereof has been specifically authorized by the Company in writing, (ii) the Company has failed after a reasonable period of time to assume such defense and to employ counsel or (iii) in such action there is, in the reasonable opinion of counsel, a material conflict on any material issue between the position of the Company and the position of such Purchaser Party, in which case the Company shall be responsible for the reasonable fees and expenses of no more than one such separate counsel. The Company will not be liable to any Purchaser Party under this Agreement (y) for any settlement by a Purchaser Party effected without the Company’s prior written consent, which shall not be unreasonably withheld or delayed; or (z) to the extent, but only to the extent that a loss, claim, damage or liability is attributable to any Purchaser Party’s breach of its representations, warranties or covenants under the Transaction Documents. The indemnification required by this Section 4.10 shall be made by periodic payments of the amount thereof during the course of the investigation or defense, as and when bills are received or are incurred. The indemnity agreements contained herein shall be in addition to any cause of action or similar right of any Purchaser Party against the Company or others and any liabilities the Company may be subject to pursuant to law.

4.11 Reservation and Listing of Securities.

(a) The Company shall maintain a reserve from its duly authorized shares of Common Stock for issuance pursuant to the Transaction Documents in such amount as may then be required to fulfill its obligations in full under the Transaction Documents, but not less than the Required Minimum.

(b) If, on any date, the number of authorized but unissued (and otherwise unreserved) shares of Common Stock is less than the Required Minimum on such date, then the Board of Directors shall amend the Company’s certificate or articles of incorporation to increase the number of authorized but unissued shares of Common Stock to at least the Required Minimum at such time, as soon as possible and in any event not later than the 60th day after such date.

(c) The Company shall, if applicable: (i) in the time and manner required by the principal Trading Market, prepare and file with such Trading Market an additional shares listing application covering a number of shares of Common Stock at least equal to the Required Minimum on the date of such application, (ii) take all steps necessary to cause such shares of Common Stock to be approved for listing or quotation on such Trading Market as soon as possible thereafter, (iii) provide to the Purchasers evidence of such listing or quotation and (iv) maintain the listing or quotation of such Common Stock on any date at least equal to the Required Minimum on such date on such Trading Market or another Trading Market. The Company will then take all action necessary to continue the listing or quotation and trading of its Common Stock on a Trading Market for so long as amounts are owing under the Note or the Warrants are outstanding, and will comply in all respects with the Company's reporting, filing and other obligations under the bylaws or rules of the Trading Market at least until five years after the Final Closing Date and for so long as the Warrants are outstanding. In the event the aforescribed listing is not continuously maintained for five years after the Final Closing Date (a "Listing Default"), then in addition to any other rights the Purchasers may have hereunder or under applicable law, on the first day of a Listing Default and on each monthly anniversary of each such Listing Default date (if the applicable Listing Default shall not have been cured by such date) until the applicable Listing Default is cured, the Company shall pay to each Purchaser an amount in cash, as partial liquidated damages and not as a penalty, equal to 1% of the aggregate Subscription Amount and purchase price of Warrant Shares held by such Purchaser on the day of a Listing Default and on every thirtieth day (pro-rated for periods less than thirty days) thereafter until the date such Listing Default is cured. If the Company fails to pay any liquidated damages pursuant to this Section in a timely manner, the Company will pay interest thereon at a rate of 1.5% per month (pro-rated for partial months) to the Purchaser.

4.12 Equal Treatment of Purchasers. No consideration (including any modification of any Transaction Document) shall be offered or paid to any Person to amend or consent to a waiver or modification of any provision of any of this Agreement unless the same consideration is also offered on a ratable basis to all of the parties to this Agreement. For clarification purposes, this provision constitutes a separate right granted to each Purchaser by the Company and negotiated separately by each Purchaser, and is intended for the Company to treat the Purchasers as a class and shall not in any way be construed as the Purchasers acting in concert or as a group with respect to the purchase, disposition or voting of Securities or otherwise.

4.13 Preservation of Corporate Existence. For as long as the Notes or Warrants remain outstanding, the Company shall preserve and maintain corporate existence, rights, privileges and franchises in the jurisdictions of their incorporation, and qualify and remain qualified, as a foreign corporation in each jurisdiction in which such qualification is necessary in view of their business or operations and where the failure to qualify or remain qualified might reasonably have a Material Adverse Effect upon the financial condition, business or operations of the Company taken as a whole.

4.14 Participation in Future Financing.

(a) From the date hereof until one year after the Initial Closing Date, upon any proposed issuance by the Company of Common Stock, Common Stock Equivalents for cash consideration, Indebtedness or a combination thereof, other than (i) a rights offering to all holders of Common Stock (which may include extending such rights offering to holders of Notes) or (ii) an Exempt Issuance, (a "Subsequent Financing"), the Purchasers shall have the right to participate in up to an amount of the Subsequent Financing equal to 50% of the Subsequent Financing (the "Participation Maximum") pro rata to each other in proportion to their Subscription Amounts on the same terms, conditions and price provided for in the Subsequent Financing, unless the Subsequent Financing is an underwritten public offering, in which case the Company shall offer each Purchaser the right to participate in such public offering when it is lawful for the Company to do so, but no Purchaser shall be entitled to purchase any particular amount of such public offering.

(b) At least seven (7) Trading Days prior to the closing of the Subsequent Financing, the Company shall deliver to each Purchaser a written notice of its intention to effect a Subsequent Financing (“Pre-Notice”), which Pre-Notice shall ask such Purchaser if it wants to review the details of such financing (such additional notice, a “Subsequent Financing Notice”). Upon the request of a Purchaser, and only upon a request by such Purchaser, for a Subsequent Financing Notice, the Company shall promptly, but no later than one (1) Trading Day after such request, deliver a Subsequent Financing Notice to such Purchaser. The requesting Purchaser shall be deemed to have acknowledged that the Subsequent Financing Notice may contain material non-public information. The Subsequent Financing Notice shall describe in reasonable detail the proposed terms of such Subsequent Financing, the amount of proceeds intended to be raised thereunder and the Person or Persons through or with whom such Subsequent Financing is proposed to be effected and shall include a term sheet or similar document relating thereto as an attachment.

(c) Any Purchaser desiring to participate in such Subsequent Financing must provide written notice to the Company by not later than 5:30 p.m. (New York City time) on the fifth (5th) Trading Day after all of the Purchasers have received the Pre-Notice that the Purchaser is willing to participate in the Subsequent Financing, the amount of such Purchaser’s participation, and representing and warranting that such Purchaser has such funds ready, willing, and available for investment on the terms set forth in the Subsequent Financing Notice. If the Company receives no such notice from a Purchaser as of such fifth (5th) Trading Day, such Purchaser shall be deemed to have notified the Company that it does not elect to participate.

(d) If by 5:30 p.m. (New York City time) on the fifth (5th) Trading Day after all of the Purchasers have received the Pre-Notice, notifications by the Purchasers of their willingness to participate in the Subsequent Financing (or to cause their designees to participate) is, in the aggregate, less than the total amount of the Subsequent Financing, then the Company may affect the remaining portion of such Subsequent Financing on the terms and with the Persons set forth in the Subsequent Financing Notice.

(e) If by 5:30 p.m. (New York City time) on the fifth (5th) Trading Day after all of the Purchasers have received the Pre-Notice, the Company receives responses to a Subsequent Financing Notice from Purchasers seeking to purchase more than the aggregate amount of the Participation Maximum, each such Purchaser shall have the right to purchase its Pro Rata Portion (as defined below) of the Participation Maximum. “Pro Rata Portion” means the ratio of (x) the principal amount of Notes purchased hereunder by a Purchaser participating under this Section 4.14 and (y) the sum of the aggregate principal amounts of Notes purchased hereunder by all Purchasers participating under this Section 4.14.

(f) The Company must provide the Purchasers with a second Subsequent Financing Notice, and the Purchasers will again have the right of participation set forth above in this Section 4.14, if the Subsequent Financing subject to the initial Subsequent Financing Notice is not consummated for any reason on the terms set forth in such Subsequent Financing Notice within thirty (30) Trading Days after the date of the initial Subsequent Financing Notice.

(g) The Company and each Purchaser agree that if any Purchaser elects to participate in the Subsequent Financing, the transaction documents related to the Subsequent Financing shall not include any term or provision whereby such Purchaser shall be required to agree to any restrictions on trading as to any of the Securities purchased hereunder (for avoidance of doubt, the securities purchased in the Subsequent Financing shall not be considered securities purchased hereunder) or be required to consent to any amendment to or termination of, or grant any waiver, release or the like under or in connection with, this Agreement, without the prior written consent of such Purchaser.

(h) Notwithstanding anything to the contrary in this Section 4.14 and unless otherwise agreed to by such Purchaser, the Company shall either confirm in writing to such Purchaser that the transaction with respect to the Subsequent Financing has been abandoned or shall publicly disclose its intention to issue the securities in the Subsequent Financing, in either case in such a manner such that such Purchaser will not be in possession of any material, non-public information, by the tenth (10th) Business Day following delivery of the Subsequent Financing Notice. If by such tenth (10th) Business Day, no public disclosure regarding a transaction with respect to the Subsequent Financing has been made, and no notice regarding the abandonment of such transaction has been received by such Purchaser, such transaction shall be deemed to have been abandoned and such Purchaser shall not be deemed to be in possession of any material, non-public information with respect to the Company.

4.15 Maintenance of Property. The Company shall keep all of its property, which is necessary or useful to the conduct of its business, in good working order and condition, ordinary wear and tear excepted, except for any property that may be subject to the sale of the Company's fuels distribution business.

4.16 Subordination. Each Purchaser acknowledges and hereby agrees to postpone and subordinate the Subordinate Security in all respects to the Senior Security in, against and with respect to the Collateral. In so doing, all indebtedness due to any Senior Lender and secured by the Senior Security shall rank senior in all respects, including right of payment, to all indebtedness due to any Purchaser and secured by the Subordinate Security, and the indebtedness due to any Senior Lender and secured by the Senior Security (including, without limitation, principal, interest, fees and other amounts of any kind) shall be indefeasibly paid and satisfied in full before any Purchaser shall be entitled to be paid or receive any payments representing proceeds of the Collateral or otherwise on account of, or with respect to, the indebtedness secured by the Subordinate Security (including, without limitation, principal, interest, fees and other amounts of any kind). Without limiting the generality of the foregoing, the postponements and subordinations provided for herein shall be effective notwithstanding: (1) the respective dates of execution, delivery, attachment, registration, perfection or enforcement of the Senior Security or the Subordinate Security; (2) the date or dates of any advance or advances of the indebtedness secured by the Senior Security or the Subordinate Security and whether any such advances occur before or after the occurrence of any default or event of default and whether a Senior Lender or any Purchaser had notice of any such default or event of default at the time of making any such advance; (3) the dates of any default or event of default or the date or dates of crystallization of any floating charge under the Senior Security or the Subordinate Security; (4) the rules of priority established under applicable law; or (5) the provisions of the agreements or instruments creating the Senior Security or the Subordinate Security.

4.17 Further Instruments. Each Purchaser hereby agrees to execute and deliver, upon request by any Senior Lender or the Company, such further instruments and agreements as may be reasonably required by such Senior Lender or the Company to confirm and give effect to the provisions of this Agreement and to register and record or file notice of the subordinations and postponements of the Subordinate Security in favor of the Senior Security in any office of public record as such Senior Lender or the Company may consider necessary or desirable from time to time.

4.18 Additional Issuances. For so long as a Note is outstanding, the Company will not amend the terms of any securities or Common Stock Equivalents or of any agreement outstanding or in effect as of the date of this Agreement pursuant to which same were or may be acquired nor issue any Common Stock or Common Stock Equivalents, if such issuance or the result of such amendment would be at an effective price per share of Common Stock less than the Conversion Price in effect at the time of such lower price issuance or amendment, except pursuant to Schedule 3.1(g) and Schedule 3.1(hh).

**ARTICLE V.
MISCELLANEOUS**

5.1 Termination. This Agreement may be terminated by any Purchaser, as to such Purchaser's obligations hereunder only and without any effect whatsoever on the obligations between the Company and the other Purchasers, by written notice to the other parties, if the Initial Closing has not been consummated on or before November 12, 2014; provided, however, that such termination will not affect the right of any party to sue for any breach by any other party (or parties).

5.2 Fees and Expenses. At the Initial Closing, the Company has agreed to pay G&M for the legal fees in connection with the Initial Closing of some, but not all, of the Purchasers in the amount of \$15,000 (of which \$5,000 has been paid). Except as expressly set forth in the Transaction Documents, each party shall pay the fees and expenses of its advisers, counsel, accountants and other experts, if any, and all other expenses incurred by such party incident to the negotiation, preparation, execution, delivery and performance of this Agreement. The Company shall pay all Transfer Agent fees (including, without limitation, any fees required for same-day processing of any instruction letter delivered by the Company and any conversion or exercise notice delivered by a Purchaser), stamp taxes and other taxes and duties levied in connection with the delivery of any Securities to the Purchasers and all expenses in connection with filing and perfecting the security interest granted pursuant to the Security Agreement.

5.3 Entire Agreement. The Transaction Documents, together with the exhibits and schedules thereto, contain the entire understanding of the parties with respect to the subject matter hereof and thereof and supersede all prior agreements and understandings, oral or written, with respect to such matters, which the parties acknowledge have been merged into such documents, exhibits and schedules.

5.4 Notices. All notices, demands, requests, consents, approvals, and other communications required or permitted hereunder shall be in writing and, unless otherwise specified herein, shall be (i) personally served, (ii) deposited in the mail, registered or certified, return receipt requested, postage prepaid, (iii) delivered by reputable air courier service with charges prepaid, or (iv) transmitted by hand delivery, telegram, or facsimile, addressed as set forth below or to such other address as such party shall have specified most recently by written notice. Any notice or other communication required or permitted to be given hereunder shall be deemed effective (a) upon hand delivery or delivery by facsimile, with accurate confirmation generated by the transmitting facsimile machine, at the address or number designated below (if delivered on a business day during normal business hours where such notice is to be received), or the first business day following such delivery (if delivered other than on a business day during normal business hours where such notice is to be received) or (b) on the second business day following the date of mailing by express courier service, fully prepaid, addressed to such address, or upon actual receipt of such mailing, whichever shall first occur. The addresses for such communications shall be: (i) if to the Company, to: MCW Energy Group Limited, 4370 Tujunga Avenue, Suite 320, Studio City, California, 91604, Attn: Alex Blyumkin, Executive Chairman, facsimile: 866-571-9613, with a copy by email only to (which shall not constitute notice): robbie.grossman@mcmillan.ca, and (ii) if to the Purchasers, to: the addresses and fax numbers indicated on the signature pages hereto, with an additional copy by fax only to (which shall not constitute notice): Grushko & Mittman, P.C., 515 Rockaway Avenue, Valley Stream, New York 11581, facsimile: (212) 697-3575.

5.5 Amendments; Waivers. No provision of this Agreement may be waived, modified, supplemented or amended except in a written instrument signed, in the case of an amendment, by the Company and the Purchasers holding at least a majority in interest of the component of the affected Securities then outstanding or, in the case of a waiver, by the party against whom enforcement of any such waived provision is sought. No waiver of any default with respect to any provision, condition or requirement of this Agreement shall be deemed to be a continuing waiver in the future or a waiver of any subsequent default or a waiver of any other provision, condition or requirement hereof, nor shall any delay or omission of any party to exercise any right hereunder in any manner impair the exercise of any such right.

5.6 Headings. The headings herein are for convenience only, do not constitute a part of this Agreement and shall not be deemed to limit or affect any of the provisions hereof.

5.7 Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties and their successors and permitted assigns. The Company may not assign this Agreement or any rights or obligations hereunder without the prior written consent of each Purchaser (other than by merger). Following the Closing, any Purchaser may assign any or all of its rights under this Agreement to any Person to whom such Purchaser assigns or transfers any Securities, provided that such transferee agrees in writing to be bound, with respect to the transferred Securities, by the provisions of the Transaction Documents that apply to the "Purchasers."

5.8 No Third-Party Beneficiaries. This Agreement is intended for the benefit of the parties hereto and their respective successors and permitted assigns and is not for the benefit of, nor may any provision hereof be enforced by, any other Person, except as otherwise set forth in Section 4.10.

5.9 Governing Law. Unless otherwise stated in a Transaction Document, all questions concerning the construction, validity, enforcement and interpretation of the Transaction Documents shall be governed by and construed and enforced in accordance with the internal laws of the State of New York, without regard to the principles of conflicts of law thereof. Each party agrees that all legal proceedings concerning the interpretations, enforcement and defense of the transactions contemplated by this Agreement and any other Transaction Documents (whether brought against a party hereto or its respective affiliates, directors, officers, shareholders, partners, members, employees or agents) shall be commenced exclusively in the state and federal courts sitting in the City of New York, or such other jurisdiction elected by a Purchaser to enforce its rights in which case the Purchaser may elect to enforce any of the Transaction Documents in any other appropriate or convenient jurisdiction. Each party hereby irrevocably submits to the exclusive jurisdiction of the courts sitting in the state and federal courts sitting in the City of New York, Borough of Manhattan for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein (including with respect to the enforcement of any of the Transaction Documents), or such other jurisdiction elected by Purchaser and hereby irrevocably waives, and agrees not to assert in any action, suit or proceeding, any claim that it is not personally subject to the jurisdiction of any such court, that such suit, action or proceeding is improper or is an inconvenient venue for such proceeding. Each party hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or proceeding by mailing a copy thereof via registered or certified mail or overnight delivery (with evidence of delivery) to such party at the address in effect for notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any other manner permitted by law. If either party shall commence an action or proceeding to enforce any provisions of the Transaction Documents, then, in addition to the obligations of the Company under Section 4.10, the prevailing party in such action, suit or proceeding shall be reimbursed by the other party for its reasonable attorneys' fees and other costs and expenses incurred with the investigation, preparation and prosecution of such action or proceeding.

5.10 Survival. The representations and warranties contained herein shall survive the Closing and the delivery of the Securities.

5.11 Execution. This Agreement may be executed in two or more counterparts, all of which when taken together shall be considered one and the same agreement and shall become effective when counterparts have been signed by each party and delivered to each other party, it being understood that the parties need not sign the same counterpart. In the event that any signature is delivered by facsimile transmission or by e-mail delivery of a ".pdf" format data file, such signature shall create a valid and binding obligation of the party executing (or on whose behalf such signature is executed) with the same force and effect as if such facsimile or ".pdf" signature page were an original thereof.

5.12 Severability. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction to be invalid, illegal, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions set forth herein shall remain in full force and effect and shall in no way be affected, impaired or invalidated, and the parties hereto shall use their commercially reasonable efforts to find and employ an alternative means to achieve the same or substantially the same result as that contemplated by such term, provision, covenant or restriction. It is hereby stipulated and declared to be the intention of the parties that they would have executed the remaining terms, provisions, covenants and restrictions without including any of such that may be hereafter declared invalid, illegal, void or unenforceable.

5.13 Rescission and Withdrawal Right. Notwithstanding anything to the contrary contained in (and without limiting any similar provisions of) any of the other Transaction Documents, whenever any Purchaser exercises a right, election, demand or option under a Transaction Document and the Company does not timely perform its related obligations within the periods therein provided and such failure is not waived by the Purchaser, then such Purchaser may, at any time prior to the Company's performance of such obligations, rescind or withdraw, in its sole discretion from time to time upon written notice to the Company, any relevant notice, demand or election in whole or in part without prejudice to its future actions and rights; provided, however, that in the case of a rescission of a conversion of a Note or exercise of a Warrant, the applicable Purchaser shall be required to return any shares of Common Stock subject to any such rescinded conversion or exercise notice concurrently with the return to such Purchaser of the aggregate exercise price paid to the Company for such shares and the restoration of such Purchaser's right to acquire such shares pursuant to such Purchaser's Warrant (including, issuance of a replacement warrant certificate evidencing such restored right).

5.14 Replacement of Securities. If any certificate or instrument evidencing any Securities is mutilated, lost, stolen or destroyed, the Company shall issue or cause to be issued in exchange and substitution for and upon cancellation thereof (in the case of mutilation), or in lieu of and substitution therefor, a new certificate or instrument, but only upon receipt of evidence reasonably satisfactory to the Company of such loss, theft or destruction. The applicant for a new certificate or instrument under such circumstances shall also pay any reasonable third-party costs (including customary indemnity) associated with the issuance of such replacement Securities.

5.15 Remedies. In addition to being entitled to exercise all rights provided herein or granted by law, including recovery of damages, each of the Purchasers and the Company will be entitled to specific performance under the Transaction Documents. The parties agree that monetary damages may not be adequate compensation for any loss incurred by reason of any breach of obligations contained in the Transaction Documents and hereby agree to waive and not to assert in any action for specific performance of any such obligation the defense that a remedy at law would be adequate.

5.16 Payment Set Aside. To the extent that the Company makes a payment or payments to any Purchaser pursuant to any Transaction Document or a Purchaser enforces or exercises its rights thereunder, and such payment or payments or the proceeds of such enforcement or exercise or any part thereof are subsequently invalidated, declared to be fraudulent or preferential, set aside, recovered from, disgorged by or are required to be refunded, repaid or otherwise restored to the Company, a trustee, receiver or any other Person under any law (including, without limitation, any bankruptcy law, state or federal law, common law or equitable cause of action), then to the extent of any such restoration the obligation or part thereof originally intended to be satisfied shall be revived and continued in full force and effect as if such payment had not been made or such enforcement or setoff had not occurred.

5.17 Usury. To the extent it may lawfully do so, the Company hereby agrees not to insist upon or plead or in any manner whatsoever claim, and will resist any and all efforts to be compelled to take the benefit or advantage of, usury laws wherever enacted, now or at any time hereafter in force, in connection with any claim, action or proceeding that may be brought by any Purchaser in order to enforce any right or remedy under any Transaction Document. Notwithstanding any provision to the contrary contained in any Transaction Document, it is expressly agreed and provided that the total liability of the Company under the Transaction Documents for payments in the nature of interest shall not exceed the maximum lawful rate authorized under applicable law (the "Maximum Rate"), and, without limiting the foregoing, in no event shall any rate of interest or default interest, or both of them, when aggregated with any other sums in the nature of interest that the Company may be obligated to pay under the Transaction Documents exceed such Maximum Rate. It is agreed that if the maximum contract rate of interest allowed by law and applicable to the Transaction Documents is increased or decreased by statute or any official governmental action subsequent to the date hereof, the new maximum contract rate of interest allowed by law will be the Maximum Rate applicable to the Transaction Documents from the Closing Date thereof forward, unless such application is precluded by applicable law. If under any circumstances whatsoever, interest in excess of the Maximum Rate is paid by the Company to any Purchaser with respect to indebtedness evidenced by the Transaction Documents, such excess shall be applied by such Purchaser to the unpaid principal balance of any such indebtedness or be refunded to the Company, at such Purchaser's election.

5.18 Independent Nature of Purchasers' Obligations and Rights. The obligations of each Purchaser under any Transaction Document are several and not joint with the obligations of any other Purchaser, and no Purchaser shall be responsible in any way for the performance or non-performance of the obligations of any other Purchaser under any Transaction Document. Nothing contained herein or in any other Transaction Document, and no action taken by any Purchaser pursuant hereto or thereto, shall be deemed to constitute the Purchasers as a partnership, an association, a joint venture or any other kind of entity, or create a presumption that the Purchasers are in any way acting in concert or as a group with respect to such obligations or the transactions contemplated by the Transaction Documents. Each Purchaser shall be entitled to independently protect and enforce its rights, including, without limitation, the rights arising out of this Agreement or out of the other Transaction Documents, and it shall not be necessary for any other Purchaser to be joined as an additional party in any proceeding for such purpose. Each Purchaser has been represented by its own separate legal counsel in its review and negotiation of the Transaction Documents. For reasons of administrative convenience only, each Purchaser and its respective counsel have chosen to communicate with the Company through G&M. The Company has elected to provide all Purchasers with the same terms and Transaction Documents for the convenience of the Company and not because it was required or requested to do so by any of the Purchasers. It is expressly understood and agreed that each provision contained in this Agreement and in each other Transaction Document is between the Company and a Purchaser, solely, and not between the Company and the Purchasers collectively and not between and among the Purchasers.

5.19 Liquidated Damages. The Company's obligations to pay any partial liquidated damages or other amounts owing under the Transaction Documents is a continuing obligation of the Company and shall not terminate until all unpaid partial liquidated damages and other amounts have been paid notwithstanding the fact that the instrument or security pursuant to which such partial liquidated damages or other amounts are due and payable shall have been canceled.

5.20 Saturdays, Sundays, Holidays, etc. If the last or appointed day for the taking of any action or the expiration of any right required or granted herein shall not be a Business Day, then such action may be taken or such right may be exercised on the next succeeding Business Day.

5.21 Construction. The parties agree that each of them and/or their respective counsel have reviewed and had an opportunity to revise the Transaction Documents and, therefore, the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of the Transaction Documents or any amendments thereto. In addition, each and every reference to share prices and shares of Common Stock in any Transaction Document shall be subject to adjustment for reverse and forward stock splits, stock dividends, stock combinations and other similar transactions of the Common Stock that occur after the date of this Agreement.

5.22 WAIVER OF JURY TRIAL. IN ANY ACTION, SUIT, OR PROCEEDING IN ANY JURISDICTION BROUGHT BY ANY PARTY AGAINST ANY OTHER PARTY, THE PARTIES EACH KNOWINGLY AND INTENTIONALLY, TO THE GREATEST EXTENT PERMITTED BY APPLICABLE LAW, HEREBY ABSOLUTELY, UNCONDITIONALLY, IRREVOCABLY AND EXPRESSLY WAIVES FOREVER TRIAL BY JURY.

5.23 Equitable Adjustment. Trading volume amounts, price/volume amounts and similar figures in the Transaction Documents shall be equitably adjusted (but without duplication) to offset the effect of stock splits, similar events and as otherwise described in this Agreement and Warrants.

5.24 Currency. Unless otherwise stated, all references to currency shall mean United States Dollars.

5.25 Paramountcy. If there is any conflict or inconsistency between the provisions of this Agreement and the provisions of any Note, the provisions of this Agreement shall govern and prevail, to the extent necessary to resolve such conflict or inconsistency.

(Signature Pages Follow)

IN WITNESS WHEREOF, the parties hereto have caused this Securities Purchase Agreement to be duly executed by their respective authorized signatories as of the date first indicated above.

MCW ENERGY GROUP LIMITED

Address for Notice:

4370 Tujunga Avenue, Suite 320,
Studio City, California, 91604
Fax: 818-358-3148

By: /s/ Alex Blyumkin
Name: Alex Blyumkin
Title: Executive Chairman

With a copy to (which shall not constitute notice):

McMillan LLP
181 Bay Street, Suite 4400
Toronto, ON M5J 2T3
Attn: Robbie Grossman
Email: robbie.grossman@mcmillan.ca

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK
SIGNATURE PAGE FOR PURCHASER FOLLOWS]

[PURCHASER SIGNATURE PAGE TO MCW ENERGY GROUP LIMITED
SECURITIES PURCHASE AGREEMENT]

IN WITNESS WHEREOF, the undersigned have caused this Securities Purchase Agreement to be duly executed by their respective authorized signatories as of the date first indicated above.

Name of Purchaser: ALPHA CAPITAL ANSTALT

Signature of Authorized Signatory of Purchaser: _

Name of Authorized Signatory: _____

Title of Authorized Signatory: _____

Email Address of Authorized Signatory: _____

Facsimile Number of Authorized Signatory: _____

Address for Notice to Purchaser: Pradafant 7
9490 Furstentums
Vaduz, Lichtenstein
Fax: 01141714773504

Address for Delivery of Securities to Purchaser (if not same as address for notice):

c/o LH Financial Services Corp.
510 Madison Avenue, #1400
New York, NY 10022

Initial Closing Cash: US\$

Initial Closing Note principal amount:

EIN Number, if applicable, will be provided under separate cover: _____

Date: _____

[SIGNATURE PAGES CONTINUE]

EXHIBIT “E”

FOREIGN PURCHASER’S CERTIFICATE

Capitalized terms not specifically defined in this Exhibit “E” have the meanings ascribed to them in the Agreement to which this “Exhibit E” is attached.

TO: MCW ENERGY GROUP LIMITED (the “Company”)

The undersigned Purchaser, a resident of a jurisdiction other than Canada or the United States, hereby represents and warrants to the Company, and acknowledges as an integral part of the attached Agreement, as follows:

1. The Purchaser is, and each beneficial purchaser for whom the Purchaser may be acting as trustee or agent is, a resident of a country (an “**International Jurisdiction**”) other than Canada or the United States and the decision to acquire the Notes was taken in such International Jurisdiction.
2. The execution of the Agreement and the issuance of the Notes to the Purchaser, or any beneficial purchaser, complies with all laws applicable to the Purchaser and such beneficial purchaser, including the laws of such purchaser’s jurisdiction of residence, and all other applicable laws, and will not require the Company to register the Securities nor will it cause the Company to become subject to, or require it to comply with, any disclosure, prospectus, filing or reporting requirements under any applicable laws of the International Jurisdiction or seek any approvals of any kind whatsoever from any regulatory authority of any kind whatsoever in the International Jurisdiction.
3. If the undersigned Purchaser, or any other purchaser for whom it is acting hereunder, is resident in or otherwise subject to applicable securities laws of the United Kingdom:
 - (a) the Purchaser is either: (i) purchasing the Notes as principal for its own account, (ii) acting as agent for a disclosed beneficial purchaser who has been disclosed to the Company and who is purchasing the Notes as principal for its own account; or (iii) purchasing the Notes on behalf of discretionary client(s) in circumstances where section 86(2) of the *Financial Services and Markets Act 2000* (“**FSMA**”) applies;
 - (b) the Purchaser (and if the undersigned Purchaser is purchasing as agent for a disclosed beneficial purchaser, the disclosed beneficial purchaser): (i) is such a person as is referred to in Article 19 (investment professionals); Article 49 (high net worth companies, unincorporated associations, etc.) or Article 50 (sophisticated investors) of the *Financial Services and Markets Act 2000 (Financial Promotion) Order 2005* (the “**FPO**”); and (ii) has complied with and undertakes to comply with all applicable provisions of the FSMA and other applicable securities laws with respect to anything done by it in relation to the Note and the underlying securities in, from or otherwise involving the United Kingdom;
 - (c) the Purchaser acknowledges that the offer detailed in the Agreement is only directed in the United Kingdom at the following persons (such that such offer is not available in the United Kingdom to any other persons and such that no other persons should rely on the contents of the Agreement):
 - (i) (in the case of investment professionals as referred to in Article 19 of the FPO) persons having professional experience in matters relating to investments; and
 - (ii) (in the case of high net worth companies, etc. as referred to in Article 49 of the FPO) high net worth companies, unincorporated associations or partnerships or trustees of high value trusts which: (A) in the case of a company, has, or is a member of the same group as an undertaking that has, a called up share capital or net assets of not less than £500,000 (for companies with more than 20 members or subsidiary undertakings of an undertaking with more than 20 members) or net assets of not less than £5,000,000 in any other case; or (B) in the case of an unincorporated association or partnership, has net assets of not less than £5,000,000; or (C) in the case of a trustee of a high value trust, has cash and investments forming part of the trust's assets (before the deduction of liabilities) with an aggregate value of not less than £10,000,000 (or which has had an aggregate value of not less than £10,000,000 during the year immediately preceding the date of receipt of the Agreement); and

(iii) (in the case of certified sophisticated investors as referred to in Article 50(1) of the FPO) a person that this communication is directed who:

- (A) has a current certificate in writing or other legible form signed by an authorised person to the effect that he is sufficiently knowledgeable to understand the risks associated with investments in shares and other securities issued by companies listed or quoted on an investment exchange, whether in the United Kingdom or elsewhere, and
- (B) has signed, within the period of twelve months ending with the day on which the communication was made, a statement in the following terms:

“I,, make this statement so that I am able to receive promotions which are exempt from the restrictions on financial promotion in the Financial Services and Markets Act 2000 (as amended). The exemption relates to certified sophisticated investors and I declare that I qualify as such in relation to investments in shares and other securities issued by private companies and by companies listed or quoted on an investment exchange, whether in the United Kingdom or elsewhere.

I accept that the contents of promotions and other material that I receive may not have been approved by an authorised person and that their content may not therefore be subject to controls which would apply if the promotion were made or approved by an authorised person. I am aware that it is open to me to seek advice from someone who specialises in advising on this kind of investment.”

(d) it confirms that, to the extent applicable to it, it is aware of, has complied and will comply with its obligations in connection with the *Criminal Justice Act 1993*, the *Proceeds of Crime Act 2002* and Part VIII of the FSMA, it has identified its clients in accordance with the Money Laundering Regulations 2003 (the “**Regulations**”) and has complied fully with its obligations pursuant to the Regulations and will, as a condition precedent of any acceptance of this subscription, provide all such information and documents as may be required in relation to it (or any person on whose behalf it is acting as agent) that may be required by the Company or any agent or person acting for it in order to discharge any obligations under the Regulations.

- 4. The Purchaser, and each beneficial purchaser, is knowledgeable of, or has been independently advised as to, the application or jurisdiction of the securities laws of the International Jurisdiction which would apply to the transactions contemplated by the Agreement (other than the securities laws of Canada and the United States).
- 5. The Purchaser, and each beneficial purchaser, is purchasing the Notes pursuant to exemptions from the prospectus and registration requirements (or their equivalent) under the applicable securities laws of that International Jurisdiction or, if such is not applicable, each is permitted to purchase the Notes under the applicable securities laws of the International Jurisdiction without the need to rely on an exemption.
- 6. The Purchaser, and each beneficial purchaser, will not sell, transfer or dispose of the Notes and the underlying securities except in accordance with all applicable laws, including applicable securities laws of Canada and the United States, and the Purchaser, and each beneficial purchaser, acknowledges that the Company shall have no obligation to register any such purported sale, transfer or disposition which violates applicable Canadian or United States securities laws or other securities laws.
- 7. The Purchaser, and each beneficial purchaser, shall not sell the Notes and the underlying securities until all applicable hold periods have expired unless the sale is made pursuant to an exemption to applicable securities laws.

The foregoing representations and warranties contained in this Exhibit “E” are true and accurate as of the date of this Exhibit “E” and will be true and accurate as of the time of Closing. If any such representations or warranties shall not be true and accurate prior to the time of Closing, the undersigned shall give immediate written notice of such fact to the Company prior to the time of Closing.

Dated: _____ Signed: _____

Witness (If Purchaser is an Individual)

Print the name of Purchaser

Print Name of Witness

If Purchaser is a corporation, print name and title of Authorized Signing Officer

References in this Exhibit “E” to “£” are to United Kingdom pounds.

SCHEDULE 3.1(g)

Capitalization

Issued and outstanding shares = 49,935,355

Shares issuable pursuant to incentive stock options = 1,340,000

Shares issuable pursuant to common share purchase warrants = 2,000,000

Shares issuable to developer pursuant to Restricted Stock Agreement = 500,000

Shares issuable to CFO pursuant to Independent Contractor Agreement = 60,000

Shares issuable pursuant to contractual commitments = 10,000,000

SCHEDULE 3.1(hh)
Existing Indebtedness

MCW Energy Group Limited
Loan Summary Schedule
As of October 31, 2014

Vendor	Amount	Term
B&N Bank	3,000,000.00	18-Sep-15
BK Peterson	100,000.00	15-Oct-17
Donald Cameron	1,100,000.00	15-Oct-17
Rocky Romano	376,250.00	12-Dec-15
MCW Fuels, Inc.	1,301,796.00	15-Nov-14
	<u>5,878,046.00</u>	

SECURITIES PURCHASE AGREEMENT

This Securities Purchase Agreement (this "Agreement") is dated as of November 24, 2014, between MCW Energy Group Limited, a corporation amalgamated pursuant to the laws of the Province of Ontario (the "Company"), and each purchaser identified on the signature pages hereto (each, including its successors and permitted assigns, a "Purchaser" and collectively, the "Purchasers").

WHEREAS, subject to the terms and conditions set forth in this Agreement, the Company desires to issue and sell to each Purchaser, and each Purchaser, severally and not jointly, desires to purchase from the Company, securities of the Company as more fully described in this Agreement (the "Offering").

NOW, THEREFORE, IN CONSIDERATION of the mutual covenants contained in this Agreement, and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the Company and each Purchaser agree as follows:

**ARTICLE I.
DEFINITIONS**

1.1 Definitions. In addition to the terms defined elsewhere in this Agreement: (a) capitalized terms that are not otherwise defined herein have the meanings given to such terms in the Notes (as defined herein), and (b) the following terms have the meanings set forth in this Section 1.1:

"Acquiring Person" shall have the meaning ascribed to such term in Section 4.7.

"Action" shall have the meaning ascribed to such term in Section 3.1(j).

"Additional Notes" shall have the meaning ascribed to such term in Section 2.4, which Additional Notes shall be identical to the Notes except for the issue date, principal amount and maturity date. The maturity date of the Additional Notes will be eighteen (18) months after the issue date of such Additional Notes and all time effective conditions, clauses and provisions will be similarly modified, *mutatis mutandem*.

"Affiliate" means any Person that, directly or indirectly through one or more intermediaries, controls or is controlled by or is under common control with a Person, as such terms are used in and construed under Rule 405 under the U.S. Securities Act.

"Board of Directors" means the board of directors of the Company.

"Business Day" means any day except any Saturday, any Sunday, any day which is a federal legal holiday in the United States, a statutory or civil holiday in the Province of Ontario, or any day on which banking institutions in the State of New York or the Province of Ontario are authorized or required by law or other governmental action to close.

"Closing" means the Initial Closing and Subsequent Closing, if any, of the purchase and sale of the Securities pursuant to Section 2.1 or 2.4.

"Closing Date" means each of the Initial Closing Date and the Subsequent Closing Date, if any, and is the Trading Day on which all of the Transaction Documents have been executed and delivered by the applicable parties thereto, and all conditions precedent to (i) the Purchasers' obligations to pay the Subscription Amount at such Closing and (ii) the Company's obligations to deliver the Securities to be issued and sold at such Closing, in each case, have been satisfied or waived, but in no event later than the seventh Business Day following the date hereof in the case of the Initial Closing and not later than the tenth Business Day after the Subsequent Closing Option Date in the case of the Subsequent Closing Date.

“Collateral” shall have the meaning ascribed to such term in the Security Agreement.

“Commission” means the United States Securities and Exchange Commission.

“Common Stock” means the common stock of the Company, no par value, and any other class of securities into which such securities may hereafter be reclassified or changed.

“Common Stock Equivalents” means any securities of the Company which would entitle the holder thereof to acquire at any time Common Stock, including, without limitation, any debt, preferred stock, right, option, warrant or other instrument that is at any time convertible into or exercisable or exchangeable for, or otherwise entitles the holder thereof to receive, Common Stock.

“Company Counsel” means McMillan LLP, 181 Bay Street, Suite 4400, Toronto, ON M5J 2T3, Attn: Robbie Grossman, Email: robbie.grossman@mcmillan.ca.

“Company Reports” shall have the meaning ascribed to such term in Section 3.1(h).

“Conversion Price” shall have the meaning ascribed to such term in the Notes.

“Disclosure Schedules” means the Disclosure Schedules of the Company delivered concurrently herewith.

“Environment Law” shall have the meaning ascribed to such term in Section 3.1(jj).

“Event of Default” shall have the meaning ascribed thereto in the Note.

“Exchange Act” means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

“Exempt Issuance” means the issuance of (a) shares issued pursuant to the obligations set forth on Schedule 3.1(g) and Schedule 3.1(hh), (b) securities upon the exercise or exchange of or conversion of any Securities issued hereunder, including shares paid in lieu of interest on the Notes pursuant to Section 2.a) of the Notes (subject to adjustment pursuant to Section 5.23), (c) securities issued pursuant to acquisitions or strategic transactions approved by a majority of the disinterested directors of the Company, provided that any such issuance shall only be to a Person (or to the equityholders of a Person) which is, itself or through its subsidiaries, an operating company or an owner of an asset in a business synergistic with the business of the Company, and (d) securities issued or issuable pursuant to this Agreement, or the Notes, including, without limitation, Section 4.14, or upon exercise or conversion of any such securities.

“Exercise Notice” shall have the meaning ascribed to such term in Section 2.4.

“FCPA” means the Foreign Corrupt Practices Act of 1977, as amended.

“Final Closing Date” shall mean the last Subsequent Closing Date to occur if a Subsequent Closing occurs or, if there is no Subsequent Closing, the Initial Closing Date.

“GAAP” shall have the meaning ascribed to such term in Section 3.1(h).

“G&M” shall mean Grushko & Mittman, P.C., with offices located at 515 Rockaway Avenue, Valley Stream, New York 11581, Fax: 212-697-3575.

“Hazardous Materials” shall have the meaning ascribed to such term in Section 3.1(jj).

“Indebtedness” shall have the meaning ascribed to such term in Section 3.1(hh).

“Initial Closing” shall have the meaning ascribed to such term in Section 2.1.

“Initial Closing Date” shall mean the date upon which the Initial Closing occurs.

“Initial Option Period” shall have the meaning ascribed to such term in Section 2.4.

“Intellectual Property Rights” shall have the meaning ascribed to such term in Section 3.1(o).

“Liens” means a lien, charge, pledge, security interest, encumbrance, right of first refusal, preemptive right or other restriction.

“Listing Default” shall have the meaning ascribed to such term in Section 4.11.

“Lockup Agreement” means the agreement in the form annexed hereto as Exhibit D, and in substance satisfactory to the Purchaser.

“Material Adverse Effect” shall have the meaning assigned to such term in Section 3.1(b).

“Material Permits” shall have the meaning ascribed to such term in Section 3.1(m).

“Maximum Rate” shall have the meaning ascribed to such term in Section 5.17.

“Money Laundering Laws” shall have the meaning ascribed to such term in Section 3.1(cc).

“Notes” means the convertible notes due eighteen (18) months after their respective issue dates, in the form of Exhibit A hereto. The term Notes as employed herein except for Sections 2.4, 2.5 and 2.6 and on the signature page hereto shall also include Additional Notes, mutatis mutandem.

“OFAC” shall have the meaning ascribed to such term in Section 3.1(ee).

“Participation Maximum” shall have the meaning ascribed to such term in Section 4.14(a).

“Permitted Liens” means the individual and collective reference to the following: (a) Liens for taxes, assessments and other governmental charges or levies not yet due or Liens for taxes, assessments and other governmental charges or levies being contested in good faith and by appropriate proceedings for which adequate reserves (in the good faith judgment of the management of Company) have been established in accordance with GAAP, (b) Liens imposed by law which were incurred in the ordinary course of Company’s business, such as carriers’, warehousemen’s and mechanics’ Liens, statutory landlords’ Liens, and other similar Liens arising in the ordinary course of Company’s business, and which (x) do not individually or in the aggregate materially detract from the value of such property or assets or materially impair the use thereof in the operation of the business of Company or (y) are being contested in good faith by appropriate proceedings, which proceedings have the effect of preventing for the foreseeable future the forfeiture or sale of the property or asset subject to such Lien, (c) Liens incurred in connection with any Indebtedness, including, for greater certainty, all Indebtedness listed on Schedule 3.1(hh), (d) any Lien created by, or arising under any statute or regulation or common law (in contrast with Liens voluntarily granted) in connection with, without limiting the foregoing, workers’ compensation, employment and unemployment insurance, old age pension, employers’ health tax, vacation pay or other social security or statutory obligations that secure amounts that are not yet due or which are being contested in good faith by proper proceedings diligently pursued and as to which adequate reserves have been established on the Company’s books and records and the assets in respect of such Lien are not at risk of forfeiture, (e) Liens made or incurred in the ordinary course of business to secure the performance of bids, tenders, contracts (other than for the borrowing of money), leases, statutory obligations or surety and performance bonds and deposits securing or in lieu of such bonds, (f) Liens securing appeal bonds or other similar Liens arising in connection with court proceedings (including, without limitation, surety bonds, security for costs of litigation where required by law, and letters of credit) or any other instruments serving a similar purpose, (g) attachments, judgments and other similar Liens arising in connection with court proceedings, provided such Liens are in existence for less than 30 days after their creation or a stay of enforcement of the Liens is in effect or the claims so secured are being contested in good faith by proper proceedings diligently pursued, (h) Liens given to a public utility or any applicable governmental authority where required by such utility or governmental authority in connection with the operation of the business or the ownership of the assets of Company provided that such Liens do not materially detract from the value of any real property subject thereto and do not materially impair Company’s ability to carry on its business, (i) minor imperfections in title on real property that do not materially detract from the value of the real property subject thereto and do not materially impair Company’s ability to carry on its business or any Purchaser’s rights and remedies under the Transaction Documents, (j) any purchase money Lien on specific fixed assets to secure the payment of the purchase price of those fixed assets where the amount of the obligations secured does not exceed 100% of the lesser of the cost or fair market value of the fixed assets and the amount secured by the Lien does not exceed \$250,000 in the aggregate; and extensions, renewals or replacements thereof upon the fixed assets if the amount of the obligations secured thereby is not increased, (k) restrictions, easements, rights-of-way, servitudes or other similar rights in land (including rights-of-way and servitudes for railways, sewers, drains, gas and oil pipelines, gas and water mains, electric light and power and telephone or telegraph or cable television conduits, poles, wires and cables) granted to or reserved by other Persons which in the aggregate do not materially impair the usefulness, in the operation of the business of Company, of the real property subject to the restrictions, easements, rights-of-way, servitudes or other similar rights in land granted to or reserved by other Persons and, in each case, which do not impair any Purchasers’ rights and remedies under the Transaction Documents, (l) the rights reserved to or vested in any Person by the terms of any lease, license, franchise, grant or permit held by Company or by any statutory provision, to terminate any such lease, license, franchise, grant or permit, or to require annual or periodic payments as a condition to the continuance thereof, (m) restrictive covenants affecting the use to which real property may be put, provided that the covenants are complied with and do not materially detract from the value of the real property concerned or materially impair its use in the operations of Company or impair any Purchaser’s rights and remedies under the Transaction Documents, (n) Liens created by the Transaction Documents and any other security provided to any Purchaser by Company, (o) Liens to which the majority of the Purchasers have given their consent, (p) any Liens now or hereafter arising in favor of any entity who provides financing to the Company, including any financial institution, which are subordinate in priority to any Liens granted to any Purchaser, and (q) the Senior Security.

“Person” means an individual or corporation, partnership, trust, incorporated or unincorporated association, joint venture, limited liability company, joint stock company, government (or an agency or subdivision thereof) or other entity of any kind.

“Pre-Notice” shall have the meaning ascribed to such term in Section 4.14.

“Proceeding” means an action, claim, suit, investigation or proceeding (including, without limitation, an informal investigation or partial proceeding, such as a deposition), whether commenced or threatened.

“Public Information Failure” shall have the meaning ascribed to such term in Section 4.3(b).

“Public Information Failure Payments” shall have the meaning ascribed to such term in Section 4.3(b).

“Purchaser Party” shall have the meaning ascribed to such term in Section 4.10.

“Reporting Issuer” shall have the meaning given to such term under Securities Laws.

“Required Approvals” shall have the meaning ascribed to such term in Section 3.1(e).

“Required Minimum” means, as of any date, the maximum aggregate number of shares of Common Stock then issued or potentially issuable in the future pursuant to the Transaction Documents, including any Underlying Shares issuable upon exercise in full of all Warrants or conversion in full of all Notes, and assuming that any previously unconverted Notes will be held until the third anniversary of the Final Closing Date.

“Securities” means the Notes, the Warrants, and the Underlying Shares.

“Securities Laws” means the securities laws of Canada and its provinces and the rules and regulations promulgated thereunder.

“Security Agreement” shall have the meaning ascribed to such term in Section 2.2(a)(iv).

“Senior Security” shall mean all liens, charges, pledges, hypothecs, mortgages, assignments, security interests and other encumbrances of any nature or kind, now or hereafter granted, created or assumed by the Company or any other person in or over all or any of the Collateral and held by or on behalf of (i) any affiliate or successor of the Deutsche Bank Group, or (ii) any affiliate or successor of US Capital Partners (each a “Senior Lender”, and collectively, the “Senior Lenders”), including all amendments, modifications, restatements, supplements or replacements thereof or thereto from time to time. Without limiting the generality of the foregoing, Senior Security includes all security agreements granted to any of the Senior Lenders by the Company and all security interests of any Senior Lender now or at any time in the future perfected by registration in any jurisdiction under any personal property security legislation.

“Subordinate Security” shall mean all liens, charges, pledges, hypothecs, mortgages, assignments, security interests and other encumbrances of any nature or kind, now or hereafter granted, created or assumed by the Company or any other person in or over all or any of the Collateral and held by or on behalf of any Purchaser, including all amendments, modifications, restatements, supplements or replacements thereof or thereto from time to time. Without limiting the generality of the foregoing, Subordinate Security includes all security agreements granted to any Purchaser by the Company and all security interests of any Purchaser now or at any time in the future perfected by registration in any jurisdiction under any personal property security legislation.

“Subscription Amount” means, as to each Purchaser, the aggregate amount to be paid for the Notes (including Additional Notes) and Warrants purchased hereunder as specified below such Purchaser’s name on the signature page of this Agreement and next to the heading “Subscription Amount,” in United States dollars and in immediately available funds, or such other amount with respect to the Additional Notes.

“Subsequent Closing” shall have the meaning ascribed to such term in Section 2.4.

“Subsequent Closing Date” shall have the meaning ascribed to such term in Section 2.4 hereof.

“Subsequent Closing Option Date” means the date that is six (6) months after the Initial Closing Date.

“Subsequent Financing” shall have the meaning ascribed to such term in Section 4.14.

“Subsequent Financing Notice” shall have the meaning ascribed to such term in Section 4.14.

“Subsidiary” means with respect to any entity at any date, any direct or indirect corporation, limited or general partnership, limited liability company, trust, estate, association, joint venture or other business entity of which (A) more than 30% of (i) the outstanding capital stock having (in the absence of contingencies) ordinary voting power to elect a majority of the board of directors or other managing body of such entity, (ii) in the case of a partnership or limited liability company, the interest in the capital or profits of such partnership or limited liability company or (iii) in the case of a trust, estate, association, joint venture or other entity, the beneficial interest in such trust, estate, association or other entity business is, at the time of determination, owned or controlled directly or indirectly through one or more intermediaries, by such entity, or (B) is under the actual control of the Company.

“Termination Date” shall have the meaning ascribed to such term in Section 2.1.

“Trading Day” means a day on which the principal Trading Market is open for trading.

“Trading Market” means any of the following markets or exchanges on which the Common Stock is listed or quoted for trading on the date in question: the Toronto Stock Exchange, the NYSE MKT, the Nasdaq Capital Market, the Nasdaq Global Market, the Nasdaq Global Select Market, the New York Stock Exchange, the OTC Bulletin Board, the OTCQB, the OTCQX, the TSXV (or any successors to any of the foregoing). As of the Initial Closing Date, the TSXV is the principal Trading Market.

“Transaction Documents” means this Agreement, the Notes, the Warrants, the Security Agreement, all exhibits and schedules thereto and hereto and any other documents or agreements executed in connection with the transactions contemplated hereunder.

“Transfer Agent” means Computershare Trust Company of Canada, and any successor transfer agent of the Company.

“TSXV” means the TSX Venture Exchange.

“Underlying Shares” means the Common Stock issuable in the event of conversion of the Notes, and the Warrant Shares.

“U.S. Person” shall have the meaning ascribed to such term in Rule 902(k) of Regulation S under the U.S. Securities Act.

“U.S. Securities Act” means the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

“Variable Priced Equity Linked Instruments” shall have the meaning ascribed to such term in Section 4.13.

“Variable Rate Transaction” shall have the meaning ascribed to such term in Section 4.13.

“Warrants” means, collectively, the Common Stock purchase warrants to be delivered to the Purchasers upon conversion of the Notes in accordance with the Notes, which Warrants shall be exercisable immediately and have a term of exercise equal to five (5) years from the date of issuance of such Note and be in the form of Exhibit B attached hereto.

“Warrant Shares” means the shares of Common Stock issuable upon exercise of the Warrants.

ARTICLE II. PURCHASE AND SALE

2.1 Initial Closing. On the Initial Closing Date, upon the terms and subject to the conditions set forth herein, substantially concurrent with the execution and delivery of this Agreement by the parties hereto, the Company agrees to sell, and the Purchasers, severally and not jointly, agree to purchase, an aggregate of \$555,556 principal amount of Notes representing \$1.00 of note principal for each \$0.90 of such Purchaser’s Subscription Amount as set forth on the signature page hereto executed by such Purchaser (such purchase and sale being the “Initial Closing”). Each Purchaser shall deliver to the Company such Purchaser’s Subscription Amount, and the Company shall deliver to each Purchaser its respective Note, as determined pursuant to Section 2.2(a), and the Company and each Purchaser shall deliver the other items set forth in Section 2.2 deliverable at the Closing. Upon satisfaction of the covenants and conditions set forth in Sections 2.2 and 2.3, the Initial Closing shall occur electronically or at such physical location as the parties shall mutually agree. Notwithstanding anything herein to the contrary, the Initial Closing Date shall occur on or before November 7, 2014 (“Termination Date”). If the Initial Closing is not held on or before the Termination Date, the Company shall cause all subscription documents and funds to be returned, without interest or deduction to each prospective Purchaser.

2.2 Deliveries.

(a) On or prior to the Initial Closing Date, the Company shall deliver or cause to be delivered to each Purchaser the following:

- (i) this Agreement duly executed by the Company;

(ii) a legal opinion of Company Counsel, substantially in the form of Exhibit C attached hereto and in substance satisfactory to such Purchaser;

(iii) a Note with a principal amount equal to a \$1.00 for each \$0.90 of such Purchaser's Subscription Amount registered in the name of such Purchaser;

(iv) the Security Agreement duly executed by the Company (the "Security Agreement");

(v) the Lockup Agreement executed by Aleksandr Blyumkin;

(vi) a certificate from the Company's executive chairman that all of the conditions to Closing set forth in Section 2.3(b) have occurred;

(b) On or prior to the Initial Closing Date, each Purchaser shall deliver or cause to be delivered to the Company the following:

(i) this Agreement duly executed by such Purchaser;

(ii) the Security Agreement duly executed by such Purchaser; and

(iii) such Purchaser's Subscription Amount by wire transfer or as otherwise permitted, to the Company.

2.3 Initial Closing Conditions.

(a) The obligations of the Company hereunder to effect the Initial Closing are, unless waived by the Purchaser, subject to the following conditions being met:

(i) the accuracy in all material respects (determined without regard to any materiality, Material Adverse Effect or other similar qualifiers therein) on the Initial Closing Date of the representations and warranties of the Purchasers contained herein (unless as of a specific date therein in which case they shall be accurate as of such date);

(ii) all obligations, covenants and agreements of each Purchaser required to be performed at or prior to the Initial Closing Date shall have been performed; and

(iii) the delivery by each Purchaser of the items set forth in Section 2.2(b) of this Agreement.

(b) The respective obligations of a Purchaser hereunder to effect the Initial Closing, unless waived by such Purchaser, are subject to the following conditions being met:

(i) the accuracy in all material respects (determined without regard to any materiality, Material Adverse Effect or other similar qualifiers therein) on the Initial Closing Date of the representations and warranties of the Company contained herein (unless as of a specific date therein in which case they shall be accurate as of such date);

(ii) all obligations, covenants and agreements of the Company required to be performed at or prior to the Initial Closing Date shall have been performed;

(iii) the Company shall have received executed signature pages to this Agreement with an aggregate Subscription Amount of \$540,000 prior to the Initial Closing;

(iv) the delivery by the Company of the items set forth in Section 2.2(a) of this Agreement;

(v) there shall have been no Material Adverse Effect with respect to the Company or the occurrence of an Event of Default, or an event which, to the knowledge of the Company, with the giving of notice or the passage of time could become an Event of Default (as defined in the Note) unless waived by the Purchaser with respect to an Initial Closing, since the date hereof;

(vi) the Required Approvals have been obtained; and

(vii) from the date hereof to the Initial Closing Date, trading in the Common Stock shall not have been suspended by any regulatory authority or the Company's principal Trading Market, and, at any time prior to the Initial Closing Date, trading in securities generally as reported by Bloomberg L.P. shall not have been suspended or limited, or minimum prices shall not have been established on securities whose trades are reported by such service, or on any Trading Market, nor shall a banking moratorium have been declared either by the Canadian, United States or New York State authorities nor shall there have occurred any material outbreak or escalation of hostilities or other national or international calamity of such magnitude in its effect on, or any material adverse change in, any financial market which, in each case, in the reasonable judgment of such Purchaser, makes it impracticable or inadvisable to purchase the Securities at the Initial Closing.

(viii)

2.4 Subsequent Closing Option. Subject to the TSXV written approval, during the first 45 days after the Initial Closing Date (the "Initial Option Period"), each Purchaser shall have the option to cause the Company to sell, and the Company shall sell to each Purchaser for the same relative purchase price of additional Notes ("Additional Notes") equal to 66.667% of the Note principal purchased by such Purchaser on the Initial Closing Date with a conversion price equal to the Conversion Price. After the Initial Option Period until the date that is six months from the Initial Closing Date, and subject to the TSXV written approval, each Purchaser shall have the option to cause the Company to sell, and the Company shall sell to each Purchaser for the same relative purchase price of Additional Notes equal to 67.667% of the Note principal purchased by such Purchaser on the Initial Closing Date with a conversion price equal to Market Price (as such term is defined by the TSXV) as of the time of Closing of such Additional Notes. To exercise the options provided for in this subsection 2.4, each Purchaser shall provide written notice of the exercise of such option to the Company, pro-rata to the amount of Note Principal acquired on the Initial Closing Date in the form of the completed signature page hereto (the "Exercise Notice") on or before the Subsequent Closing Option Date, which Exercise Notice shall specify the Subsequent Closing Subscription Amount for each such Purchaser. The Company shall be entitled to one closing of the purchase and sale of Additional Notes upon exercise of the option provided in this subsection 2.4 (the "Subsequent Closing"). The Subsequent Closing shall occur electronically or at such mutually acceptable physical location promptly after the date the Exercise Notice is given and upon satisfaction of all of the covenants and conditions set forth in Sections 2.5 and 2.6, but not later than ten Trading Days thereafter ("Subsequent Closing Date").

2.5 Subsequent Closing Deliveries.

(a) On or prior to the Subsequent Closing Date, the Company shall deliver or cause to be delivered to the Purchaser the following:

(i) bring down legal opinions of Company Counsel to the legal opinion delivered at the Initial Closing;

(ii) bring down officers' certificate of the Company as to the obligations set forth in Section 2.6(b);

(iii) an Additional Note in the principal amount equal to \$1.00 of note principal for each \$0.90 of such Purchaser's Subsequent Closing Subscription Amount registered in the name of such Purchaser with the Conversion Price therein equal to the Conversion Price then in effect with respect to the Notes issued on the Initial Closing Date;

(iii) acknowledgement from the Company of the applicability of the Security Agreement to the Additional Notes; and

(iv) a certificate from the Company's executive chairman that all of the conditions to Closing set forth in Section 2.6(b) have occurred.

(b) On or prior to the Subsequent Closing Date, each Purchaser shall deliver or cause to be delivered to the Company, the following:

(i) such Purchaser's Subscription Amount by wire transfer to the account specified by the Company.

2.6 Subsequent Closing Conditions.

(a) The obligations of the Company hereunder in connection with the Subsequent Closing are, unless waived by the Purchaser, subject to the following conditions being met:

(i) the accuracy in all material respects (determined without regard to any materiality, Material Adverse Effect or other similar qualifiers therein) on the Subsequent Closing Date of the representations and warranties of the Purchasers contained herein (unless as of a specific date therein in which case they shall be accurate as of such date);

(ii) all obligations, covenants and agreements of each Purchaser to be performed at or prior to the Subsequent Closing Date shall have been performed;

(iii) the delivery by each Purchaser of the items set forth in Section 2.5(b) of this Agreement; and

(iv) the Company shall have received Subsequent Closing Subscription Amounts from Purchasers in good funds in the amount designated in the Exercise Notice.

(b) The respective obligations of a Purchaser hereunder in connection with the Subsequent Closing are, unless waived by such Purchaser, subject to the following conditions being met:

(i) the accuracy in all material respects (determined without regard to any materiality, Material Adverse Effect or other similar qualifiers therein) on the Subsequent Closing Date of the representations and warranties of the Company contained herein (unless as of a specific date therein in which case they shall be accurate as of such date);

(ii) all obligations, covenants and agreements of the Company under this Agreement required to be performed at or prior to the Subsequent Closing Date shall have been performed;

(iii) the delivery by the Company of the items set forth in Section 2.5(a) of this Agreement;

(iv) there shall have been no Material Adverse Effect with respect to the Company or the occurrence of an Event of Default, or an event which, to the knowledge of the Company, with the giving of notice or the passage of time could become an Event of Default (as defined in the Note) unless waived by the Purchaser with respect to a Subsequent Closing, since the date hereof;

(v) from the date hereof to the Subsequent Closing Date, trading in the Common Stock shall not have been suspended by any regulatory authority or the Company's principal Trading Market, and, at any time from the date of this Agreement and prior to the Subsequent Closing Date, trading in securities generally as reported by Bloomberg L.P. shall not have been suspended or limited, or minimum prices shall not have been established on securities whose trades are reported by such service, or on any Trading Market, nor shall a banking moratorium have been declared either by the Canadian, United States or New York State authorities nor shall there have occurred any material outbreak or escalation of hostilities or other national or international calamity of such magnitude in its effect on, or any material adverse change in, any financial market which, in each case, in the reasonable judgment of such Purchaser, makes it impracticable or inadvisable to purchase the Securities at the Subsequent Closing; and

(vi) the Company shall have received Exercise Notices and the Subscription Amounts designated on such Exercise Notices from such Purchaser in good funds.

ARTICLE III. REPRESENTATIONS AND WARRANTIES

3.1 Representations and Warranties of the Company. Except as set forth in the Company Reports or the Disclosure Schedules, which Disclosure Schedules shall be deemed a part hereof and shall qualify any representation made herein only to the extent of the disclosure contained in the corresponding section of the Disclosure Schedules, the Company hereby makes the following representations and warranties to each Purchaser:

(a) Subsidiaries. All of the material direct and indirect subsidiaries of the Company and the Company's ownership interests therein immediately prior to the date of this Agreement, as of the date of this Agreement and as of the Initial Closing Date are as follows: the Company has one wholly-owned Subsidiary, MCW Energy CA, Inc., a California corporation, which directly and indirectly holds a 100% share interest in MCW Oil Sands Recovery, LLC, a Utah limited liability corporation. All of the issued and outstanding shares of capital stock of each Subsidiary is validly issued and are fully paid, non-assessable and free of preemptive and similar rights to subscribe for or purchase securities. As of the Initial Closing Date, the Company will have acquired all equity and rights to receive equity for each Subsidiary so that each Subsidiary is fully owned by the Company.

(b) Organization and Qualification. The Company is an entity duly incorporated or otherwise organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation or organization, with the requisite power and authority to own and use its properties and assets and to carry on its business as currently conducted. Neither the Company nor any Subsidiary is in violation nor default of any of the provisions of its respective certificate or articles of incorporation, bylaws or other organizational or charter documents. The Company is duly qualified to conduct business and is in good standing as a foreign corporation or other entity in each jurisdiction in which the nature of the business conducted or property owned by it makes such qualification necessary, except where the failure to be so qualified or in good standing, as the case may be, could not have or reasonably be expected to result in: (i) a material adverse effect on the legality, validity or enforceability of any Transaction Document, (ii) a material adverse effect on the results of operations, assets, business, prospects or condition (financial or otherwise) of the Company, taken as a whole, or (iii) a material adverse effect on the Company's ability to perform in any material respect on a timely basis its obligations under any Transaction Document (any of (i), (ii) or (iii), a "Material Adverse Effect") and, no Proceeding has been instituted in any such jurisdiction revoking, limiting or curtailing or seeking to revoke, limit or curtail such power and authority or qualification.

(c) Authorization; Enforcement. The Company has the requisite corporate power and authority to enter into and to consummate the transactions contemplated by this Agreement and each of the other Transaction Documents and otherwise to carry out its obligations hereunder and thereunder. The execution and delivery of this Agreement and each of the other Transaction Documents by the Company and the consummation by it of the transactions contemplated hereby and thereby have been duly authorized by all necessary action on the part of the Company and no further action is required by the Company, the Board of Directors or the Company's stockholders in connection herewith or therewith other than in connection with the Required Approvals. This Agreement and each other Transaction Document to which it is a party has been (or upon delivery will have been) duly executed by the Company and, when delivered in accordance with the terms hereof and thereof, will constitute the valid and binding obligation of the Company enforceable against the Company in accordance with its terms, except: (i) as limited by general equitable principles and applicable bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting enforcement of creditors' rights generally, (ii) as limited by laws relating to the availability of specific performance, injunctive relief or other equitable remedies and (iii) insofar as indemnification and contribution provisions may be limited by applicable law.

(d) No Conflicts. The execution, delivery and performance by the Company of this Agreement and the other Transaction Documents, the issuance and sale of the Securities and the consummation by it of the transactions contemplated hereby and thereby to which it is a party do not and will not: (i) conflict with or violate any provision of the Company's or any Subsidiary's certificate or articles of incorporation, bylaws or other organizational or charter documents, (ii) subject to Required Approvals, conflict with, or constitute a default (or an event that, to the knowledge of the Company, with notice or lapse of time or both would become a default) under, result in the creation of any Lien (other than Permitted Liens) upon any of the properties or assets of the Company, or, to the knowledge of the Company, give to others any rights of termination, amendment, acceleration or cancellation (with or without notice, lapse of time or both) of, any agreement, credit facility, debt or other instrument (evidencing a Company debt) or other understanding to which the Company is a party or by which any property or asset of the Company is bound or affected, or (iii) subject to the Required Approvals, to the knowledge of the Company, conflict with or result in a violation of any law, rule, regulation, order, judgment, injunction, decree or other restriction of any court or governmental authority to which the Company is subject (including Securities Laws and regulations), or by which any property or asset of the Company is bound or affected; except in the case of each of clauses (ii) and (iii), such as could not have or reasonably be expected to result in a Material Adverse Effect.

(e) Filings, Consents and Approvals. The Company is not required to obtain any consent, waiver, authorization or order of, give any notice to, or make any filing or registration with, any court or other federal, state, local or other governmental authority or other Person in connection with the execution, delivery and performance by the Company of the Transaction Documents, other than: (i) the notice and/or application(s) to each applicable Trading Market for the issuance and sale of the Notes and Warrant Shares and the listing of the Underlying Shares for trading thereon in the time and manner required thereby, (ii) the consent required by the Toronto Stock Exchange, (iii) the approval by the Board of Directors of the Company and (iv) such filings as are required to be made under applicable securities laws (collectively, the “Required Approvals”).

(f) Issuance of the Securities. The Securities are duly authorized and, when issued and paid for in accordance with the applicable Transaction Documents, will be duly and validly issued, fully paid and nonassessable, free and clear of all Liens.

(g) Capitalization. The capitalization of the Company is as set forth in Schedule 3.1(g). The Company has not issued any capital stock since its most recently filed report available on SEDAR or otherwise disclosed on Schedule 3.1(g). No Person has any right of first refusal, preemptive right, right of participation, or any similar right to participate in the transactions contemplated by the Transaction Documents. Except as disclosed on Schedule 3.1(g), there are no outstanding options, warrants, scrip rights to subscribe to, calls or commitments of any character whatsoever relating to, or securities, rights or obligations convertible into or exercisable or exchangeable for, or giving any Person any right to subscribe for or acquire any shares of Common Stock, or contracts, commitments, understandings or arrangements by which the Company or any Subsidiary is or may become bound to issue additional shares of Common Stock or Common Stock Equivalents. As of the Closing, the Company has no outstanding convertible debt instruments. Except as set forth on Schedule 3.1(g), the issuance and sale of the Securities will not obligate the Company to issue shares of Common Stock or other securities to any Person (other than the Purchasers) and will not result in a right of any holder of Company securities to adjust the exercise, conversion, exchange or reset price under any of such securities. All of the outstanding shares of capital stock of the Company are duly authorized, validly issued, fully paid and nonassessable, have been issued in material compliance with all Securities Laws, and none of such outstanding shares was issued in violation of any preemptive rights or similar rights to subscribe for or purchase securities. No further approval or authorization of any stockholder or others is required for the issuance and sale of the Securities except for any approvals or authorizations from the TSXV and the Board of Directors of the Company. There are no stockholders agreements, voting agreements or other similar agreements with respect to the Company’s capital stock to which the Company is a party or, to the knowledge of the Company, between or among any of the Company’s stockholders.

(h) Company Reports; Financial Statements. The Company is a Reporting Issuer. The Company has filed all material reports, schedules, forms, statements and other documents required to be filed by the Company under the Securities Laws and pursuant to the rules of the TSXV including but not limited to all Material Information (as defined in TSXV Policy 3.3), for the two years preceding the date hereof (or such shorter period as the Company was required by law or regulation to file such material) (the foregoing materials, including the exhibits thereto and documents incorporated by reference therein, being collectively referred to herein as the “Company Reports”) on a timely basis or has received a valid extension of such time of filing and has filed any such Company Reports prior to the expiration of any such extension. As of their respective dates, the Company Reports complied in all material respects with the requirements of the Securities Laws, and none of the Company Reports, when filed, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. The financial statements of the Company included in the Company Reports comply in all material respects with applicable accounting requirements and Securities Laws with respect thereto as in effect at the time of filing. Such financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis during the periods involved (“GAAP”), except as may be otherwise specified in such financial statements or the notes thereto and except that unaudited financial statements may not contain all footnotes required by GAAP, and fairly present in all material respects the financial position of the Company as of and for the dates thereof and the results of operations and cash flows for the periods then ended, subject, in the case of unaudited statements, to normal, immaterial, year-end audit adjustments.

(i) Material Changes; Undisclosed Events, Liabilities or Developments. Since the date of the latest quarterly unaudited financial statements included within the Company Reports: (i) there has, to the knowledge of the Company, been no event, occurrence or development that has had or that could reasonably be expected to result in a Material Adverse Effect, (ii) the Company has not incurred any material liabilities (contingent or otherwise) other than (A) trade payables and accrued expenses incurred in the ordinary course of business consistent with past practice and (B) liabilities not required to be reflected in the Company’s financial statements pursuant to GAAP or disclosed in filings made with the Commission, (iii) the Company has not altered its method of accounting, (iv) the Company has not declared or made any dividend or distribution of cash or other property to its stockholders or purchased, redeemed or made any agreements to purchase or redeem any shares of its capital stock, and (v) the Company has not issued any equity securities to any officer, director or Affiliate except as set forth in the Company Reports. The Company does not have pending before any regulatory or governing body any request for confidential treatment of information. Except for the issuance of the Securities contemplated by this Agreement, no event, liability, fact, circumstance, occurrence or development has occurred or exists with respect to the Company or its business, properties, operations, assets or financial condition, that would be required to be disclosed by the Company under Securities Laws at the time this representation is made or deemed made that has not been publicly disclosed at least two Trading Days prior to the date that this representation is made.

(j) Litigation. There is no material action, suit, inquiry, notice of violation, proceeding or investigation pending or, to the knowledge of the Company, threatened against or affecting the Company or any of its properties before or by any court, arbitrator, governmental or administrative agency or regulatory authority (federal, state, county, local or foreign) (collectively, an “Action”) which (i) adversely affects or challenges the legality, validity or enforceability of any of the Transaction Documents or the Securities or (ii) could, if there were an unfavorable decision, have or reasonably be expected to result in a Material Adverse Effect. Since August 31, 2015, neither the Company, nor any director or officer thereof, is or has been the subject of any Action involving a claim of violation of or liability under Securities Laws or a claim of breach of fiduciary duty. There has not been, and to the knowledge of the Company, there is not pending or contemplated, any investigation by any governmental body or authority involving the Company or any current or former director or officer of the Company. The Company’s securities have never been subject to any stop trading order or other order suspending the effectiveness of any registration statement filed by the Company or any Subsidiary under any Securities Laws.

(k) Labor Relations. No labor dispute exists or, to the knowledge of the Company, is imminent with respect to any of the employees of the Company, which could reasonably be expected to result in a Material Adverse Effect. None of the Company's employees is a member of a union that relates to such employee's relationship with the Company, and the Company is not a party to a collective bargaining agreement. To the knowledge of the Company, no executive officer of the Company is in violation of any material term of any employment contract, confidentiality, disclosure or proprietary information agreement or non-competition agreement, or any other contract or agreement or any restrictive covenant in favor of any third party, and the continued employment of each such executive officer does not subject the Company to any liability with respect to any of the foregoing matters. To the knowledge of the Company, it is in compliance with all applicable laws and regulations relating to employment and employment practices, terms and conditions of employment and wages and hours, except where the failure to be in compliance could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

(l) Compliance. The Company: (i) is not in default under or in violation of (and no event has occurred that has not been waived that, to the knowledge of the Company, with notice or lapse of time or both, would result in a default by the Company under), nor has the Company received notice of a claim that it is in default under or that it is in violation of, any indenture, loan or credit agreement or any other agreement or instrument to which it is a party or by which it or any of its properties is bound (whether or not such default or violation has been waived), (ii) is in violation of any judgment, decree or order of any court, arbitrator or other governmental authority or (iii) is or has been in violation of any statute, rule, ordinance or regulation of any governmental authority, including without limitation all foreign, federal, state and local laws relating to taxes, environmental protection, occupational health and safety, product quality and safety and employment and labor matters, except in each case as could not have or reasonably be expected to result in a Material Adverse Effect.

(m) Regulatory Permits. The Company possesses all certificates, authorizations and permits issued by the appropriate federal, state, local or foreign regulatory authorities necessary to conduct its business as described in the Company Reports, except where the failure to possess such permits could not reasonably be expected to result in a Material Adverse Effect ("Material Permits"), and the Company has not received any notice of proceedings relating to the revocation or modification of any Material Permit.

(n) Title to Assets. The Company has good and marketable title in fee simple to all real property (if any) owned by them and good and marketable title in all personal property owned by them that is material to the business of the Company, free and clear of all Liens, except for (i) Liens as do not materially affect the value of such property and do not materially interfere with the use made and proposed to be made of such property by the Company, (ii) Liens for the payment of Canadian and United States federal, state or other taxes, for which appropriate reserves have been made in accordance with GAAP and, the payment of which is neither delinquent nor subject to penalties and (iii) Permitted Liens. Any real property and facilities held under lease by the Company is held by it under valid, subsisting and enforceable leases with which the Company is in compliance.

(o) Intellectual Property.

(i) The term “Intellectual Property Rights” includes:

1. the name of the Company, all fictional business names, trading names, registered and unregistered trademarks, service marks, and applications of the Company (collectively, “Marks”);
2. all patents, patent applications, and inventions and discoveries that may be patentable of the Company (collectively, “Patents”);
3. all copyrights in both published works and unpublished works of the Company (collectively, “Copyrights”);
4. all rights in mask works of the Company (collectively, “Rights in Mask Works”); and
5. all know-how, trade secrets, confidential information, customer lists, software, technical information, data, process technology, plans, drawings, and blue prints (collectively, “Trade Secrets”); owned, used, or licensed by the Company as licensee or licensor.

(ii) Agreements. There are no outstanding and, to Company’s knowledge, no threatened disputes or disagreements with respect to any agreements relating to any Intellectual Property Rights to which the Company is a party or by which the Company is bound.

(iii) Know-How Necessary for the Business. The Intellectual Property Rights are all those necessary for the operation of the Company’s businesses as it is currently conducted or as represented, in writing, to the Purchaser to be conducted. The Company is the owner of all right, title, and interest in and to each of the Intellectual Property Rights, free and clear of all liens, security interests, charges, encumbrances, equities, and other adverse claims, except for Permitted Liens, and has the right to use all of the Intellectual Property Rights. To the Company’s knowledge, no employee of the Company has entered into any contract that restricts or limits in any way the scope or type of work in which the employee may be engaged or requires the employee to transfer, assign, or disclose information concerning his work to anyone other than of the Company.

(iv) Patents. The Company is the owner of all right, title and interest in and to each of the Patents, free and clear of all Liens and other adverse claims except for Permitted Liens. All of the issued Patents are currently in compliance with formal legal requirements (including payment of filing, examination, and maintenance fees and proofs of working or use), are valid and enforceable, and are not subject to any maintenance fees or taxes or actions falling due within ninety days after the Initial Closing Date. No Patent has been or is now involved in any interference, reissue, reexamination, or opposition proceeding. To the Company’s knowledge: (1) there is no potentially interfering patent or patent application of any third party, and (2) no Patent is infringed or has been challenged or threatened in any way. To the Company’s knowledge, none of the products manufactured and sold, nor any process or know-how used, by the Company infringes or is alleged to infringe any patent or other proprietary right of any other Person.

(v) Trademarks. The Company is the owner of all right, title, and interest in and to each of the Marks, free and clear of all Liens and other adverse claims except for Permitted Liens. All Marks that have been registered with the United States Patent and Trademark Office are currently in compliance with all formal legal requirements (including the timely post-registration filing of affidavits of use and incontestability and renewal applications), are valid and enforceable, and are not subject to any maintenance fees or taxes or actions falling due within ninety days after the Initial Closing Date. No Mark has been or is now involved in any opposition, invalidation, or cancellation and, to the Company's knowledge, no such action is threatened with respect to any of the Marks. To the Company's knowledge: (1) there is no potentially interfering trademark or trademark application of any third party, and (2) no Mark is infringed or has been challenged or threatened in any way. To the Company's knowledge, none of the Marks used by the Company infringes or is alleged to infringe any trade name, trademark, or service mark of any third party.

(vi) Copyrights. The Company is the owner of all right, title, and interest in and to each of the Copyrights, free and clear of all Liens and other adverse claims except for Permitted Liens. All the Copyrights have been registered and are currently in compliance with formal requirements, are valid and enforceable, and are not subject to any maintenance fees or taxes or actions falling due within ninety days after the date of the Initial Closing. No Copyright is infringed or, to the Company's knowledge, has been challenged or threatened in any way. To the Company's knowledge, none of the subject matter of any of the Copyrights infringes or is alleged to infringe any copyright of any third party or is a derivative work based on the work of a third party. All works encompassed by the Copyrights have been marked with the proper copyright notice.

(vii) Trade Secrets. With respect to each Trade Secret, the documentation relating to such Trade Secret is current, accurate, and sufficient in detail and content to identify and explain it and to allow its full and proper use without reliance on the knowledge or memory of any individual. The Company has taken all reasonable precautions to protect the secrecy, confidentiality, and value of its Trade Secrets. The Company has good title and an absolute (but not necessarily exclusive) right to use the Trade Secrets, subject to Permitted Liens. The Trade Secrets are not part of the public knowledge or literature, and, to the Company's knowledge, have not been used, divulged, or appropriated either for the benefit of any Person (other the Company) or to the detriment of the Company. No Trade Secret is subject to any adverse claim or has been challenged or threatened in any way.

(p) Insurance. The Company is insured by insurers of recognized financial responsibility against such losses and risks and in such amounts as are prudent and customary in the businesses in which the Company is engaged, including, but not limited to, directors and officers insurance coverage at least equal to the aggregate Subscription Amount. The Company has no reason to believe that the Company will not be able to renew its existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to continue its business without a significant increase in cost.

(q) Transactions With Affiliates and Employees. Except as set forth in the Company Reports, none of the officers or directors of the Company and, to the knowledge of the Company, none of the employees of the Company is presently a party to any transaction with the Company (other than for services as employees, officers and directors), including any contract, agreement or other arrangement providing for the furnishing of services to or by, providing for rental of real or personal property to or from, providing for the borrowing of money from or lending of money to or otherwise requiring payments to or from any officer, director or such employee or, to the knowledge of the Company, any entity in which any officer, director, or any such employee has a substantial interest or is an officer, director, trustee, stockholder, member or partner, in each case in excess of \$100,000 other than for: (i) payment of salary or consulting fees for services rendered, (ii) reimbursement for expenses incurred on behalf of the Company and (iii) other employee benefits, including stock option agreements under any stock option plan of the Company.

(r) Compliance; Internal Accounting Controls. The Company is in material compliance with any and all applicable requirements of Securities Laws and filing and disclosure obligations with the principal Trading Market that are effective as of the date hereof, and as of the Closing Date. The Company maintains a system of internal accounting controls sufficient to provide reasonable assurance that: (i) transactions are executed in accordance with management's general or specific authorizations, (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with GAAP and to maintain asset accountability, and (iii) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

(s) Certain Fees. No brokerage, finder's fees, commissions or due diligence fees are or will be payable by the Company or any Subsidiary to any broker, financial advisor or consultant, finder, placement agent, investment banker, bank or other Person with respect to the transactions contemplated by the Transaction Documents. The Purchasers shall have no obligation with respect to any such fees or with respect to any claims made by or on behalf of any Persons for fees of a type contemplated in this Section 3.1(s) that may be due in connection with the transactions contemplated by the Transaction Documents.

(t) Reporting Company. The Company is a publicly-held company subject to reporting obligations under applicable Securities Laws and as described in the Company Reports. The Company has timely filed all material reports and other materials required to be filed by the Company thereunder during the preceding twelve months. The Company is, and has no reason to believe that it will not in the foreseeable future continue to be, in compliance with all such listing and maintenance requirements.

(u) Application of Takeover Protections. The Company and the Board of Directors will have taken as of the Closing Date all necessary action, if any, in order to render inapplicable any control share acquisition, business combination, poison pill (including any distribution under a rights agreement) or other similar anti-takeover provision under the Company's certificate of incorporation (or similar charter documents) that is or could become applicable to the Purchasers as a result of the Purchasers and the Company fulfilling their obligations or exercising their rights under the Transaction Documents, including without limitation as a result of the Company's issuance of the Securities and the Purchasers' ownership of the Securities.

(v) Disclosure. Except with respect to the material terms and conditions of the transactions contemplated by the Transaction Documents, the Company confirms that neither it nor any other Person acting on its behalf has provided any of the Purchasers or their agents or counsel with any information that it believes constitutes or might constitute material, non-public information which has not already been publicly disclosed pursuant to Securities Laws. The Company understands and confirms that the Purchasers will rely on the foregoing representation in effecting transactions in securities of the Company. All of the disclosure furnished by or on behalf of the Company to the Purchasers regarding the Company, its business and the transactions contemplated hereby, including the Disclosure Schedules to this Agreement, when taken together as a whole, is true and correct and does not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading. The public releases disseminated by the Company during the twelve months preceding the date of this Agreement taken as a whole do not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made and when made, not misleading. The Company acknowledges and agrees that no Purchaser makes or has made any representations or warranties with respect to the transactions contemplated hereby other than those specifically set forth in Section 3.2 hereof.

(w) Solvency. Based on the consolidated financial condition of the Company as of the Closing Date, and the Company's good faith estimate of the fair market value of its assets, after giving effect to the receipt by the Company of the proceeds from the sale of the Securities hereunder: (i) the fair saleable value of the Company's assets exceeds the amount that will be required to be paid on or in respect of the Company's existing debts and other liabilities (including known contingent liabilities) as they mature, (ii) the Company's assets do not constitute unreasonably small capital to carry on its business as now conducted and as proposed to be conducted including its capital needs taking into account the particular capital requirements of the business conducted by the Company, consolidated and projected capital requirements and capital availability thereof, and (iii) the current cash flow of the Company, together with the proceeds the Company would receive, were it to liquidate all of its assets, after taking into account all anticipated uses of the cash, would be sufficient to pay all amounts on or in respect of its liabilities when such amounts are required to be paid. The Company does not intend to incur debts beyond its ability to pay such debts as they mature (taking into account the timing and amounts of cash to be payable on or in respect of its debt). The Company has no knowledge of any facts or circumstances which lead it to believe that it will file for reorganization or liquidation under the bankruptcy or reorganization laws of any jurisdiction within one year from the Closing Date. As of the Initial Closing Date, the Company will have no outstanding convertible notes or convertible indebtedness.

(x) Tax Status. Except for matters that would not, individually or in the aggregate, have or reasonably be expected to result in a Material Adverse Effect, the Company (i) has made or filed all Canadian and United States federal, state and local income and all foreign income and franchise tax returns, reports and declarations required by any jurisdiction to which it is subject, (ii) has paid all taxes and other governmental assessments and charges that are material in amount, shown or determined to be due on such returns, reports and declarations and (iii) has set aside on its books provision reasonably adequate for the payment of all material taxes for periods subsequent to the periods to which such returns, reports or declarations apply. There are no unpaid taxes in any material amount claimed to be due by the taxing authority of any jurisdiction, and the officers of the Company or of any Subsidiary know of no basis for any such claim.

(y) Foreign Corrupt Practices. Neither the Company nor any Subsidiary, nor to the knowledge of the Company or any Subsidiary, any agent or other person acting on behalf of the Company or any Subsidiary, has: (i) directly or indirectly, used any funds for unlawful contributions, gifts, entertainment or other unlawful expenses related to foreign or domestic political activity, (ii) made any unlawful payment to foreign or domestic government officials or employees or to any foreign or domestic political parties or campaigns from corporate funds, (iii) failed to disclose fully any contribution made by the Company or any Subsidiary (or made by any person acting on its behalf of which the Company is aware) which is in violation of law or (iv) violated in any material respect any provision of FCPA.

(z) Accountants. The Company's accounting firm is Hay & Watson, Chartered Accountants. To the knowledge and belief of the Company, such accounting firm shall express its opinion with respect to the financial statements to be included in the Company's annual report for the fiscal year ending August 31, 2015. There are no disagreements of any kind presently existing, or reasonably anticipated by the Company to arise, between the Company and the accountants and lawyers formerly or presently employed by the Company and the Company is current with respect to any fees owed to its accountants and lawyers which could affect the Company's ability to perform any of its obligations under any of the Transaction Documents.

(aa) Acknowledgment Regarding Purchasers' Purchase of Securities. The Company acknowledges and agrees that each of the Purchasers is acting solely in the capacity of an arm's length purchaser with respect to the Transaction Documents and the transactions contemplated thereby. The Company further acknowledges that no Purchaser is acting as a financial advisor or fiduciary of the Company (or in any similar capacity) with respect to the Transaction Documents and the transactions contemplated thereby and any advice given by any Purchaser or any of their respective representatives or agents in connection with the Transaction Documents and the transactions contemplated thereby is merely incidental to the Purchasers' purchase of the Securities. The Company further represents to each Purchaser that the Company's decision to enter into this Agreement and the other Transaction Documents has been based solely on the independent evaluation of the transactions contemplated hereby by the Company and its representatives.

(bb) Acknowledgment Regarding Purchaser's Trading Activity. Anything in this Agreement or elsewhere herein to the contrary notwithstanding, it is understood and acknowledged by the Company that: (i) none of the Purchasers has been asked by the Company to agree, nor has any Purchaser agreed, to desist from purchasing or selling, long and/or short, securities of the Company, or "derivative" securities based on securities issued by the Company or to hold the Securities for any specified term, (ii) past or future open market or other transactions by any Purchaser, specifically including, without limitation, Short Sales or "derivative" transactions, before or after the closing of this or future private placement transactions, may negatively impact the market price of the Company's publicly-traded securities, (iii) any Purchaser, and counter-parties in "derivative" transactions to which any such Purchaser is a party, directly or indirectly, may presently have a "short" position in the Common Stock and (iv) each Purchaser shall not be deemed to have any affiliation with or control over any arm's length counter-party in any "derivative" transaction. The Company further understands and acknowledges that (y) one or more Purchasers may engage in hedging activities at various times during the period that the Securities are outstanding, including, without limitation, during the periods that the value of the Underlying Shares deliverable with respect to Securities are being determined, and (z) such hedging activities (if any) could reduce the value of the existing stockholders' equity interests in the Company at and after the time that the hedging activities are being conducted. The Company acknowledges that such aforementioned hedging activities do not constitute a breach of any of the Transaction Documents.

(cc) Money Laundering. The operations of the Company are and have been conducted at all times in compliance with applicable financial record-keeping and reporting requirements of the Currency and Foreign Transactions Reporting Act of 1970, as amended, applicable money laundering statutes and applicable rules and regulations thereunder (collectively, the "Money Laundering Laws"), and no action, suit or proceeding by or before any court or governmental agency, authority or body or any arbitrator involving the Company or any Subsidiary with respect to the Money Laundering Laws is pending or, to the knowledge of the Company or any Subsidiary, threatened.

(dd) Stock Option Plans. Each stock option granted by the Company under the stock option plan was granted (i) in accordance with the terms of such stock option plan and (ii) with an exercise price at least equal to the fair market value of the Common Stock on the date such stock option would be considered granted under GAAP and applicable law. No stock option granted under any stock option plan has been backdated. The Company has not knowingly granted, and there is no and has been no Company policy or practice to knowingly grant, stock options prior to, or otherwise knowingly coordinate the grant of stock options with, the release or other public announcement of material information regarding the Company or its financial results or prospects.

(ee) Office of Foreign Assets Control. Neither the Company nor any Subsidiary nor, to the Company's knowledge, any director, officer, agent, employee or affiliate of the Company is currently subject to any U.S. sanctions administered by the United States Office of Foreign Assets Control of the U.S. Treasury Department ("OFAC").

(ff) Private Placement. Assuming the accuracy of the Purchasers' representations and warranties set forth in Section 3.2, no registration under the U.S. Securities Act is required for the offer and sale of the Securities by the Company to the Purchasers as contemplated hereby. The issuance and sale of the Securities hereunder does not contravene the rules and regulations of the Trading Market.

(gg) No General Solicitation. Neither the Company nor any person acting on behalf of the Company has offered or sold any of the Securities by any form of general solicitation or general advertising.

(hh) Indebtedness and Seniority. As of March 31, 2016, all Indebtedness and Liens are as set forth on Schedule 3.1(hh). Except as set forth on Schedule 3.1(hh), as of the Closing Date, no Indebtedness or other equity of the Company is currently senior to the Notes in right of payment, whether with respect to interest or upon liquidation or dissolution, or otherwise, other than indebtedness secured by purchase money security interests (which is senior only as to underlying assets covered thereby) and capital lease obligations (which is senior only as to the property covered thereby). For the purposes of this Agreement, "Indebtedness" means (x) any liabilities for borrowed money or amounts owed in excess of \$500,000 in the aggregate (other than trade accounts payable incurred in the ordinary course of business), (y) all guaranties, endorsements and other contingent obligations in respect of indebtedness of others, whether or not the same are or should be reflected in the Company's consolidated balance sheet (or the notes thereto), except guaranties by endorsement of negotiable instruments for deposit or collection or similar transactions in the ordinary course of business; and (z) the present value of any lease payments in excess of \$500,000 due under leases required to be capitalized in accordance with GAAP. The Company is not in default with respect to any Indebtedness.

(ii) Listing and Maintenance Requirements. The Common Stock is listed on the TSXV under the symbol MCW. The Company has not, in the twenty-four (24) months preceding the date hereof, received notice from any Trading Market on which the Common Stock is or has been listed or quoted to the effect that the Company is not in compliance with the listing or maintenance requirements of such Trading Market.

(jj) Environmental and Safety Laws.

(i) The Company is, and at all times has been, in full compliance with, and has not been and is not in violation of or liable under, any Environmental Law. The Company has no basis to expect, nor has it or any other Person for whose conduct it is or may be held to be responsible received, any actual or threatened order, notice, or other communication from (i) any governmental body or private citizen acting in the public interest, or (ii) the current or prior owner or operator of any facilities, of any actual or potential violation or failure to comply with any Environmental Law, or of any actual or threatened obligation to undertake or bear the cost of any environmental, health, and safety liabilities with respect to any of the facilities or any other properties or assets (whether real, personal, or mixed) in which the Company has had an interest, or with respect to any property or facility at or to which Hazardous Materials were generated, manufactured, refined, transferred, imported, used, or processed by the Company, or any other Person for whose conduct it is or may be held responsible, or from which Hazardous Materials have been transported, treated, stored, handled, transferred, disposed, recycled, or received.

(ii) There are no pending or, to the knowledge of the Company, threatened claims, encumbrances, or other restrictions of any nature, resulting from any environmental, health, and safety liabilities or arising under or pursuant to any Environmental Law, with respect to or affecting any of the facilities or any other properties and assets (whether real, personal, or mixed) in which the Company has or had an interest.

(iii) The Company has no knowledge of any basis to expect, nor has it or any other Person for whose conduct it is or may be held responsible, received, any citation, directive, inquiry, notice, order, summons, warning, or other communication that relates to Hazardous Materials, or any alleged or actual violation or failure to comply with any Environmental Law, or of any alleged or actual obligation to undertake or bear the cost of any environmental, health, and safety liabilities with respect to any of the facilities or any other properties or assets (whether real, personal, or mixed) in which the Company had an interest, or with respect to any property or facility to which Hazardous Materials generated, manufactured, refined, transferred, imported, used, or processed by the Company, or any other Person for whose conduct it is or may be held responsible, have been transported, treated, stored, handled, transferred, disposed, recycled, or received.

(iv) Neither the Company nor any other Person for whose conduct it is or may be held responsible, had any environmental, health, and safety liabilities with respect to the facilities or, to the knowledge of the Company, with respect to any other properties and assets (whether real, personal, or mixed) in which the Company (or any predecessor), has or had an interest, or at any property geologically or hydrologically adjoining the facilities or any such other property or assets.

(v) Neither the Company nor any other Person for whose conduct it is or may be held responsible, or to the knowledge of the Company, any other Person, has permitted or conducted, or is aware of, any hazardous activity conducted with respect to the facilities or any other properties or assets (whether real, personal, or mixed) in which the Company has or had an interest except in full compliance with all applicable Environmental Laws.

(vi) There has been no release of any Hazardous Materials at or from the facilities or at any other locations where any Hazardous Materials were generated, manufactured, refined, transferred, produced, imported, used, or processed from or by the facilities, or from or by any other properties and assets (whether real, personal, or mixed) in which the Company has or had an interest, or to the knowledge of the Company any geologically or hydrologically adjoining property, whether by the Company, or any other Person that has had a Material Adverse Effect.

(vii) For the purpose of this Section, Hazardous Material shall mean (i) materials which are listed or otherwise defined as “hazardous” or “toxic” under any applicable federal, local or stated and/or foreign laws and regulations that govern the existence and/or remedy of contamination on property, the protection of the environment from contamination, the control of the hazardous wastes, or other activities involving hazardous substances, including building materials or (b) petroleum products or nuclear materials.

(viii) For the purpose of this Section 3.1(jj), “Environmental Law” shall have the following meaning:

1. advising appropriate authorities, employees, and the public intended or actual releases of pollutants or hazardous substances or material, violations of discharge limits, or other prohibitions and of the commencements of activities, such as resource extraction or construction, that could have significant impact on the environment;
2. preventing or reducing to acceptable levels the release of pollutants or hazardous substances or materials into the environment;
3. reducing the quantities, preventing the release, or minimizing the hazardous characteristics of waste that are generated;
4. assuring that products are designed, formulated, packaged, and used so that they do not present unreasonable risks to human health or the environment when used or disposed of;
5. protecting resources, species or ecological amenities;
6. reducing to acceptable levels the risk inherent in the transportation of hazardous substances, pollutants, oil or other potentially harmful substances;
7. cleaning up pollutants that have been released, preventing the threat of release or paying the costs of such clean up or prevention; or
8. making responsible parties pay private parties, or groups of them, for damages done to their health or to the environment, or permitting self appointed representatives of the public interest to recover for injuries done to public assets.

(kk) Survival. The foregoing representations and warranties shall survive the Closing Date.

3.2 Representations and Warranties of the Purchasers. Each Purchaser, for itself and for no other Purchaser, hereby represents and warrants as of the date hereof and as of the Closing Date to the Company as follows (unless as of a specific date therein):

(a) Organization; Authority. The address of the residence or principal offices of such Purchaser is set forth on the signature page hereto executed by such Purchaser and such address is not located in the Province of Ontario, Canada. Such Purchaser is either an individual or an entity duly incorporated or formed, validly existing and in good standing under the laws of the jurisdiction of its incorporation or formation with full right, corporate, partnership, limited liability company or similar power and authority to enter into and to consummate the transactions contemplated by the Transaction Documents and otherwise to carry out its obligations hereunder and thereunder. The execution and delivery of the Transaction Documents and performance by such Purchaser of the transactions contemplated by the Transaction Documents have been duly authorized by all necessary corporate, partnership, limited liability company or similar action, as applicable, on the part of such Purchaser. Each Transaction Document to which it is a party has been duly executed by such Purchaser, and when delivered by such Purchaser in accordance with the terms hereof, will constitute the valid and legally binding obligation of such Purchaser, enforceable against it in accordance with its terms, except: (i) as limited by general equitable principles and applicable bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting enforcement of creditors' rights generally, (ii) as limited by laws relating to the availability of specific performance, injunctive relief or other equitable remedies and (iii) insofar as indemnification and contribution provisions may be limited by applicable law.

(b) Understandings or Arrangements. Such Purchaser understands that the Securities are "restricted securities" and have not been registered under the U.S. Securities Act or any applicable state securities law and is acquiring the Securities as principal for its own account and not with a view to or for distributing or reselling such Securities or any part thereof in violation of the U.S. Securities Act or any applicable state securities law, has no present intention of distributing any of such Securities in violation of the U.S. Securities Act or any applicable state securities law and has no direct or indirect arrangement or understandings with any other persons to distribute or regarding the distribution of such Securities in violation of the U.S. Securities Act or any applicable state securities law (this representation and warranty not limiting such Purchaser's right to sell the Securities pursuant to a registration statement or otherwise in compliance with applicable federal and state securities laws). Such Purchaser is acquiring the Securities hereunder in the ordinary course of its business.

(c) The Purchaser is a resident, or if not an individual has its head office, in the jurisdiction set out on the signature page herein. Such address was not created and is not used solely for the purpose of acquiring the Notes and the Purchaser was not solicited to purchase the Notes in the United States.

(d) The Purchaser is purchasing as principal for its own account and has properly completed, executed and delivered to the Company, Exhibit "E" and the applicable certificate(s) and/or form(s) (dated as of the date hereof) set forth in Exhibit "E", and the information contained therein is true and correct.

(e) The information, representations, warranties and covenants contained in Exhibit "E" will be true and correct both as of the date of execution of this Agreement and as of the time of Closing.

(f) The Purchaser is neither a U.S. Person nor subscribing for the Notes for the account of a U.S. Person or for resale in the United States.

(g) The Purchaser will not offer, sell or otherwise dispose of the Notes or underlying securities in the United States or to a U.S. Person unless the Company has consented to such offer, sale or disposition and such offer, sale or distribution is made in accordance with an exemption from the registration requirements under the U.S. Securities Act and the securities laws of all applicable states of the United States or the U.S. Securities and Exchange Commission has declared effective a registration statement in respect of such securities.

(h) The Purchaser confirms that the Notes have not been offered to the Purchaser in the United States and that this Agreement has not been signed in the United States.

(i) The Purchaser was not offered the Notes as the result of any directed selling efforts, as that term is defined in Regulation S under the U.S. Securities Act.

(j) The current structure of this transaction and all transactions and activities contemplated hereunder is not a scheme to avoid the registration requirements of the U.S. Securities Act.

(k) If the Purchaser is not a person resident in Canada, the subscription for the Notes by the Purchaser does not contravene any of the applicable securities legislation in the jurisdiction in which the Purchaser resides and does not give rise to any obligation of the Company to prepare and file a prospectus or similar document or to register the Notes or underlying securities or to be registered with or to file any report or notice with any governmental or regulatory authority and the Purchaser agrees that it shall deliver to the Company such further particulars of the exemption(s) and the Purchaser's qualifications thereunder as the Company may reasonably request.

(l) If the Purchaser is a resident of a country other than Canada or the United States (an "International Jurisdiction") then in addition to the other representations and warranties contained herein, the Purchaser represents and warrants that:

- i) the Purchaser is knowledgeable of, or has been independently advised as to, the applicable securities laws of the International Jurisdiction which would apply to this Agreement, if any;
- ii) the Purchaser is purchasing the Notes pursuant to exemptions from the prospectus, financial promotion and registration requirements under the applicable securities laws of that International Jurisdiction or, if such is not applicable, the Purchaser is permitted to purchase the Notes under the applicable securities laws of the International Jurisdiction without the need to rely on an exemption;
- iii) the applicable securities laws of the International Jurisdiction do not require the Company to file a prospectus, offering memorandum or similar document or to register or qualify the distribution of the Notes or underlying securities or for the Company to be registered with or to make any filings or seek any approvals of any kind whatsoever from any governmental or regulatory authority of any kind whatsoever in the International Jurisdiction;
- iv) the delivery of this Agreement, the acceptance of it by the Company and the issuance of the Notes and underlying securities to the Purchaser complies with all applicable laws of the Purchaser's jurisdiction of residence or domicile and all other applicable laws and will not cause the Company to become subject to or comply with any continuous disclosure, prospectus or other periodic filing or reporting requirements under any such applicable laws;

- v) the Purchaser will not sell, transfer or dispose of the Notes and underlying securities except in accordance with all applicable laws, including applicable securities laws of Canada and the United States, and the Purchaser acknowledges that the Company shall have no obligation to register any such purported sale, transfer or disposition which violates applicable Canadian or United States securities laws or other securities laws;
- vi) the Purchaser shall not sell the Notes and underlying securities until all applicable hold periods have expired unless the sale is made pursuant to an exemption to applicable securities laws; and
- vii) the Purchaser has duly completed and delivered to the Company Exhibit "E" and represents and warrants as set forth therein.

(m) The execution and delivery of this Agreement, the performance and compliance with the terms hereof, the subscription for the Notes and the completion of the transactions described herein by the Purchaser, will not result in any material breach of, or be in conflict with or constitute a material default under, or create a state of facts which, after notice or lapse of time, or both, would constitute a material default under any term or provision of the constating documents, by-laws or resolutions (if applicable) of the Purchaser, the Securities Laws or any other laws applicable to the Purchaser, any agreement to which the Purchaser is a party, or any judgment, decree, order, statute, rule or regulation applicable to the Purchaser.

(n) The Purchaser is not, with respect to the Company or any of its affiliates, a Control Person (as such term is defined by Securities Laws).

(o) If required by applicable Securities Laws or the Company, the Purchaser will execute, deliver and file or assist the Company at the Company's sole cost and expense, in filing such reports, undertakings and other documents with respect to the issue of the Notes and the underlying securities as may be reasonably required by any securities commission, stock exchange or other regulatory authority.

(p) The Purchaser has been advised to consult their own legal advisors with respect to trading in the Notes and underlying securities and with respect to the resale restrictions imposed by the Securities Laws of the jurisdiction in which the Purchaser resides and other applicable securities laws, and acknowledges that no representation has been made respecting the applicable hold periods imposed by the Securities Laws or other resale restrictions applicable to such securities which restrict the ability of the Purchaser to resell such securities, that the Purchaser is solely responsible to find out what these restrictions are and the Purchaser is solely responsible (and the Company is in no way responsible) for compliance with applicable resale restrictions and the Purchaser is aware that may not be able to resell such securities except in accordance with limited exemptions under the Securities Laws and other applicable securities laws.

(q) The Purchaser has not received or been provided with a prospectus or offering memorandum, within the meaning of the Securities Laws, or any sales or advertising literature in connection with this Agreement and the Purchaser's decision to subscribe for the Notes was not based upon, and the Purchaser has not relied upon, any oral or written representations as to facts made by or on behalf of the Company. The Purchaser's decision to subscribe for the Notes was based solely upon information about the Company which is publicly available on www.sedar.com.

(r) The Purchaser is not purchasing Notes with knowledge of material information concerning the Company which has not been generally disclosed.

(s) No person has made any written or oral representations (i) that any person will resell or repurchase the Notes or underlying securities, or (ii) as to the future price or value of the Notes or underlying securities.

(t) The subscription for the Notes has not been made through or as a result of, and the distribution of the Notes is not being accompanied by any advertisement, including without limitation in printed public media, radio, television or telecommunications, including electronic display, or as part of a general solicitation.

(u) The Purchaser is not a person or entity identified in the Regulations Implementing the United Nations Resolutions on the Suppression of Terrorism, the United Nations Al-Qaida and Taliban Regulations, the Regulations Implementing the United Nations Resolution on the Democratic People's Republic of Korea, the Regulations Implementing the United Nations Resolution on Iran, the United Nations Cote d'Ivoire Regulations, the United Nations Democratic Republic of the Congo Regulations, the United Nations Liberia Regulations, the United Nations Sudan Regulations, the Special Economic Measures (Zimbabwe) Regulations or the Special Economic Measures (Burma) Regulations (collectively, the "Trade Sanctions"). The Purchaser acknowledges that the Company may in the future be required by law to disclose the name and other information of the Purchaser related to the acquisition of the Notes hereunder, on a confidential basis, pursuant to the Trade Sanctions.

(v) None of the funds being used to purchase Notes are, to the Purchaser's knowledge, proceeds obtained or derived directly or indirectly as a result of illegal activities.

(w) Experience of Such Purchaser. Such Purchaser, either alone or together with its representatives, has such knowledge, sophistication and experience in business and financial matters so as to be capable of evaluating the merits and risks of the prospective investment in the Securities, and has so evaluated the merits and risks of such investment. Such Purchaser is able to bear the economic risk of an investment in the Securities and, at the present time, is able to afford a complete loss of such investment.

(x) No Governmental Review. Such Purchaser understands that no Canadian or United States federal or state agency or any other governmental or state agency has passed on or made recommendations or endorsement of the Securities or the suitability of the investment in the Securities nor have such authorities passed upon or endorsed the merits of the offering of the Securities.

(y) No Conflicts. The execution, delivery and performance of this Agreement and performance under the other Transaction Documents and the consummation by such Purchaser of the transactions contemplated hereby and thereby or relating hereto or thereto do not and will not (i) result in a violation of such Purchaser's charter documents, bylaws or other organizational documents, if applicable, (ii) conflict with nor constitute a default (or an event which with notice or lapse of time or both would become a default) under any agreement to which such Purchaser is a party, nor (iii) result in a violation of any law, rule, or regulation, or any order, judgment or decree of any court or governmental agency applicable to such Purchaser or its properties (except for such conflicts, defaults and violations as would not, individually or in the aggregate, have a material adverse effect on such Purchaser). Such Purchaser is not required to obtain any consent, authorization or order of, or make any filing or registration with, any court or governmental agency in order for it to execute, deliver or perform any of its obligations under this Agreement or perform under the other Transaction Documents nor to purchase the Securities in accordance with the terms hereof, provided that for purposes of the representation made in this sentence, such Purchaser is assuming and relying upon the accuracy of the relevant representations and agreements of the Company herein.

(z) Money Laundering. Purchaser represents that the funds representing the Subscription Amount which will be advanced by the Purchaser hereunder will not represent proceeds of crime for the purposes of the *Proceeds of Crime (Money Laundering) Act* (Canada) and Purchaser acknowledges that the Company may in the future be required by law to disclose Purchaser's name and other information relating to this Agreement and the Purchaser's subscription hereunder, on a confidential basis, pursuant to the *Proceeds of Crime (Money Laundering) Act* (Canada) and to the best of the Purchaser's knowledge (i) none of the Subscription Amount to be provided by Purchaser (A) have been or will be derived from or related to any activity that is deemed criminal under the law of Canada or the United States, or (B) are being tendered on behalf of a person or entity who has not been identified to the Purchaser, and (ii) it shall promptly notify the Company if Purchaser discovers that any of such representations ceases to be true.

(aa) Survival. The foregoing representations and warranties shall survive the Closing Date.

The Company acknowledges and agrees that the representations contained in Section 3.2 shall not modify, amend or affect such Purchaser's right to rely on the Company's representations and warranties contained in this Agreement or any representations and warranties contained in any other Transaction Document or any other document or instrument executed and/or delivered in connection with this Agreement or the consummation of the transaction contemplated hereby.

ARTICLE IV. OTHER AGREEMENTS OF THE PARTIES

4.1 Transfer Restrictions.

(a) Resales. The Purchaser acknowledges and agrees that the Securities may only be disposed of in compliance with applicable securities laws.

(b) Legends. The Purchasers acknowledge and agree that the Notes will bear, as of the Closing Date, a legend substantially in the following form and with the necessary information inserted:

“UNLESS PERMITTED UNDER SECURITIES LEGISLATION, THE HOLDER OF THIS SECURITY MUST NOT TRADE THE SECURITY BEFORE <INSERT THE DATE THAT IS FOUR (4) MONTHS AND ONE (1) DAY AFTER THE CLOSING DATE>.”

(c) The Purchaser acknowledges and agrees that in the event of conversion of the Notes prior to the expiry of the hold period applicable to the Notes, the underlying securities will bear a legend substantially in the form of the legend set forth in 4.1(b) above, and with the necessary information inserted, which legend, if imprinted will be removed at the Purchaser's request four (4) months and one (1) day after the Closing Date.

(d) DWAC. In lieu of delivering physical certificates representing the Unlegended Shares, upon request of a Purchaser, so long as the certificates therefor do not bear a legend and the Purchaser is not obligated to return such certificate for the placement of a legend thereon, the Company shall cause its transfer agent to electronically transmit the Unlegended Shares by crediting the account of Purchaser's prime broker with the Depository Trust Company through its Deposit Withdrawal At Custodian system, provided that the Company's Common Stock is DTC eligible and the Company's transfer agent participates in the Deposit Withdrawal at Custodian system.

4.2 Acknowledgment of Dilution. The Company acknowledges that the issuance of the Securities may result in dilution of the outstanding shares of Common Stock, which dilution may be substantial under certain market conditions. The Company further acknowledges that its obligations under the Transaction Documents, including, without limitation, its obligation to issue the Underlying Shares pursuant to the Transaction Documents, are unconditional and absolute and not subject to any right of set off, counterclaim, delay or reduction, regardless of the effect of any such dilution or any claim the Company may have against any Purchaser and regardless of the dilutive effect that such issuance may have on the ownership of the other stockholders of the Company.

4.3 Furnishing of Information; Public Information.

(a) As long as the Notes or the Warrants are outstanding, the Company covenants to comply with its continuous disclosure obligations pursuant to applicable Securities Laws.

(b) At any time commencing on the Initial Closing Date and for so long as the Notes or Warrants are outstanding, if the Company shall fail for any reason to satisfy its Securities Laws filing and disclosure requirements and TSXV filing and disclosure requirements which is not rectified within 10 days of the first occurrence of such failure (a “Public Information Failure”) then, in addition to such Purchaser’s other available remedies, the Company shall pay to a Purchaser, in cash, as partial liquidated damages and not as a penalty, by reason of any such actual delay in or reduction of its ability to sell the Securities, an amount in cash equal to one percent (1.0%) of the aggregate principal amount of Notes held by such Purchaser on the day of a Public Information Failure and on every thirtieth (30th) day (pro-rated for periods totaling less than thirty days) thereafter until the earlier of (a) the date such Public Information Failure is cured and (b) such time that such public information is no longer required for the Purchasers to publicly transfer the Underlying Shares without registration or exemption. The payments to which a Purchaser shall be entitled pursuant to this Section 4.3(b) are referred to herein as “Public Information Failure Payments.” Public Information Failure Payments shall be paid on the earlier of (i) the last day of the calendar month during which such Public Information Failure Payments are incurred and (ii) the third (3rd) Business Day after the event or failure giving rise to the Public Information Failure Payments is cured. In the event the Company fails to make Public Information Failure Payments in a timely manner, such Public Information Failure Payments shall bear interest at the rate of 1.5% per month (prorated for partial months) until paid in full. Nothing herein shall limit such Purchaser’s right to pursue actual damages for the Public Information Failure, and such Purchaser shall have the right to pursue all remedies available to it at law or in equity including, without limitation, a decree of specific performance and/or injunctive relief.

4.4 Integration. The Company shall not sell, offer for sale or solicit offers to buy or otherwise negotiate in respect of any security (as defined in Section 2 of the U.S. Securities Act) that would be integrated with the offer or sale of the Securities in a manner that would require the registration under the U.S. Securities Act of the sale of the Securities or that would be integrated with the offer or sale of the Securities for purposes of the rules and regulations of any Trading Market such that it would require shareholder approval prior to the closing of such other transaction unless shareholder approval is obtained before the closing of such subsequent transaction.

4.5 Conversion and Exercise Procedures. Each of the form of Notice of Exercise included in the Warrants and the form of Notice of Conversion included in the Notes set forth the totality of the procedures required of the Purchasers in order to exercise the Warrants or convert the Notes. No additional legal opinion, other information or instructions shall be required of the Purchasers to exercise their Warrants or convert their Notes. The Company shall honor exercises of the Warrants and conversions of the Notes and shall deliver Underlying Shares in accordance with the terms, conditions and time periods set forth in the Transaction Documents.

4.6 Securities Laws Disclosure; Publicity. The Company shall immediately following each Closing Date comply with its reporting and disclosure obligations under all Securities Laws and principal Trading Market requirements in connection with this Agreement. The Company and each Purchaser shall consult with each other in issuing any press releases with respect to the transactions contemplated hereby, and neither the Company nor any Purchaser shall issue any press release nor otherwise make any such public statement without the prior consent of the Company, with respect to any press release of any Purchaser, or without the prior consent of each Purchaser, with respect to any press release of the Company, which consent shall not unreasonably be withheld or delayed, except if such disclosure is required by law or pursuant to the policies of the TSXV, in which case the disclosing party shall promptly provide the other party with prior notice of such public statement or communication. Notwithstanding the foregoing, the Company shall not publicly disclose the name of any Purchaser, or include the name of any Purchaser in any filing with the Commission or any regulatory agency or Trading Market unless the name of such Purchaser is already included in the body of the Transaction Documents, without the prior written consent of such Purchaser, except as required by Securities Laws in connection with such filing and (b) to the extent such disclosure is required by Trading Market regulations, in which case the Company shall provide the Purchasers with prior notice of such disclosure permitted under this clause (b).

4.7 Shareholder Rights Plan. No claim will be made or enforced by the Company or, with the consent of the Company, any other Person, that any Purchaser is an "Acquiring Person" under any control share acquisition, business combination, poison pill (including any distribution under a rights agreement) or similar anti-takeover plan or arrangement in effect or hereafter adopted by the Company, or that any Purchaser could be deemed to trigger the provisions of any such plan or arrangement, by virtue of receiving Securities under the Transaction Documents or under any other agreement between the Company and the Purchasers.

4.8 Non-Public Information. Except with respect to the material terms and conditions of the transactions contemplated by the Transaction Documents, the Company covenants and agrees that neither it, nor any other Person acting on its behalf, will provide any Purchaser or its agents or counsel with any information that the Company believes constitutes material non-public information, unless prior thereto such Purchaser shall have entered into a written agreement with the Company regarding the confidentiality and use of such information. The Company understands and confirms that each Purchaser shall be relying on the foregoing covenant in effecting transactions in securities of the Company.

4.9 Use of Proceeds. The Company shall use the net proceeds from the sale of the Securities hereunder for working capital purposes and shall not use such proceeds: (a) for the satisfaction of any portion of the Company's debt (other than payment of trade payables in the ordinary course of the Company's business and prior practices), (b) for the redemption of any Common Stock or Common Stock Equivalents, (c) for the settlement of any outstanding litigation or (d) in violation of FCPA or OFAC regulations.

4.10 Indemnification of Purchasers. Subject to the provisions of this Section 4.10, the Company will indemnify and hold each Purchaser and its directors, officers, shareholders, members, partners, employees and agents (and any other Persons with a functionally equivalent role of a Person holding such titles notwithstanding a lack of such title or any other title), each Person who controls such Purchaser (within the meaning of the *Securities Act* (Ontario)), and the directors, officers, shareholders, agents, members, partners or employees (and any other Persons with a functionally equivalent role of a Person holding such titles notwithstanding a lack of such title or any other title) of such controlling persons (each, a "Purchaser Party") harmless from any and all losses, liabilities, obligations, claims, contingencies, damages, costs and expenses, including all judgments, amounts paid in settlements, court costs and reasonable attorneys' fees and costs of investigation that any such Purchaser Party may suffer or incur as a result of or relating to (a) any breach of any of the representations, warranties, covenants or agreements made by the Company in this Agreement or in the other Transaction Documents or (b) any action instituted against Purchaser Parties in any capacity, or any of them or their respective Affiliates, by any stockholder of the Company who is not an Affiliate of such Purchaser Party, with respect to any of the transactions contemplated by the Transaction Documents. Notwithstanding anything to the contrary contained herein, the indemnity contemplated in this Section 4.10 shall not apply if such action is based upon a breach of such Purchaser Party's representations, warranties or covenants under the Transaction Documents or any agreements or understandings such Purchaser Party may have with any such stockholder or any violations by such Purchaser Party of Securities Laws or any conduct by such Purchaser Party which constitutes fraud, gross negligence, willful misconduct or malfeasance. If any action shall be brought against any Purchaser Party in respect of which indemnity may be sought pursuant to this Agreement, such Purchaser Party shall promptly notify the Company in writing, and the Company shall have the right to assume the defense thereof with counsel of its own choosing reasonably acceptable to the Purchaser Party. Any Purchaser Party shall have the right to employ separate counsel in any such action and participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of such Purchaser Party except to the extent that (i) the employment thereof has been specifically authorized by the Company in writing, (ii) the Company has failed after a reasonable period of time to assume such defense and to employ counsel or (iii) in such action there is, in the reasonable opinion of counsel, a material conflict on any material issue between the position of the Company and the position of such Purchaser Party, in which case the Company shall be responsible for the reasonable fees and expenses of no more than one such separate counsel. The Company will not be liable to any Purchaser Party under this Agreement (y) for any settlement by a Purchaser Party effected without the Company's prior written consent, which shall not be unreasonably withheld or delayed; or (z) to the extent, but only to the extent that a loss, claim, damage or liability is attributable to any Purchaser Party's breach of its representations, warranties or covenants under the Transaction Documents. The indemnification required by this Section 4.10 shall be made by periodic payments of the amount thereof during the course of the investigation or defense, as and when bills are received or are incurred. The indemnity agreements contained herein shall be in addition to any cause of action or similar right of any Purchaser Party against the Company or others and any liabilities the Company may be subject to pursuant to law.

4.11 Reservation and Listing of Securities.

(a) The Company shall maintain a reserve from its duly authorized shares of Common Stock for issuance pursuant to the Transaction Documents in such amount as may then be required to fulfill its obligations in full under the Transaction Documents, but not less than the Required Minimum.

(b) If, on any date, the number of authorized but unissued (and otherwise unreserved) shares of Common Stock is less than the Required Minimum on such date, then the Board of Directors shall amend the Company's certificate or articles of incorporation to increase the number of authorized but unissued shares of Common Stock to at least the Required Minimum at such time, as soon as possible and in any event not later than the 60th day after such date.

(c) The Company shall, if applicable: (i) in the time and manner required by the principal Trading Market, prepare and file with such Trading Market an additional shares listing application covering a number of shares of Common Stock at least equal to the Required Minimum on the date of such application, (ii) take all steps necessary to cause such shares of Common Stock to be approved for listing or quotation on such Trading Market as soon as possible thereafter, (iii) provide to the Purchasers evidence of such listing or quotation and (iv) maintain the listing or quotation of such Common Stock on any date at least equal to the Required Minimum on such date on such Trading Market or another Trading Market. The Company will then take all action necessary to continue the listing or quotation and trading of its Common Stock on a Trading Market for so long as amounts are owing under the Note or the Warrants are outstanding, and will comply in all respects with the Company's reporting, filing and other obligations under the bylaws or rules of the Trading Market at least until five years after the Final Closing Date and for so long as the Warrants are outstanding. In the event the aforescribed listing is not continuously maintained for five years after the Final Closing Date (a "Listing Default"), then in addition to any other rights the Purchasers may have hereunder or under applicable law, on the first day of a Listing Default and on each monthly anniversary of each such Listing Default date (if the applicable Listing Default shall not have been cured by such date) until the applicable Listing Default is cured, the Company shall pay to each Purchaser an amount in cash, as partial liquidated damages and not as a penalty, equal to 1% of the aggregate Subscription Amount and purchase price of Warrant Shares held by such Purchaser on the day of a Listing Default and on every thirtieth day (pro-rated for periods less than thirty days) thereafter until the date such Listing Default is cured. If the Company fails to pay any liquidated damages pursuant to this Section in a timely manner, the Company will pay interest thereon at a rate of 1.5% per month (pro-rated for partial months) to the Purchaser.

4.12 Equal Treatment of Purchasers. No consideration (including any modification of any Transaction Document) shall be offered or paid to any Person to amend or consent to a waiver or modification of any provision of any of this Agreement unless the same consideration is also offered on a ratable basis to all of the parties to this Agreement. For clarification purposes, this provision constitutes a separate right granted to each Purchaser by the Company and negotiated separately by each Purchaser, and is intended for the Company to treat the Purchasers as a class and shall not in any way be construed as the Purchasers acting in concert or as a group with respect to the purchase, disposition or voting of Securities or otherwise.

4.13 Preservation of Corporate Existence. For as long as the Notes or Warrants remain outstanding, the Company shall preserve and maintain corporate existence, rights, privileges and franchises in the jurisdictions of their incorporation, and qualify and remain qualified, as a foreign corporation in each jurisdiction in which such qualification is necessary in view of their business or operations and where the failure to qualify or remain qualified might reasonably have a Material Adverse Effect upon the financial condition, business or operations of the Company taken as a whole.

4.14 Participation in Future Financing

(a) From the date hereof until one year after the Initial Closing Date, upon any proposed issuance by the Company of Common Stock, Common Stock Equivalents for cash consideration, Indebtedness or a combination thereof, other than (i) a rights offering to all holders of Common Stock (which may include extending such rights offering to holders of Notes) or (ii) an Exempt Issuance, (a "Subsequent Financing"), the Purchasers shall have the right to participate in up to an amount of the Subsequent Financing equal to 50% of the Subsequent Financing (the "Participation Maximum") pro rata to each other in proportion to their Subscription Amounts on the same terms, conditions and price provided for in the Subsequent Financing, unless the Subsequent Financing is an underwritten public offering, in which case the Company shall offer each Purchaser the right to participate in such public offering when it is lawful for the Company to do so, but no Purchaser shall be entitled to purchase any particular amount of such public offering.

(b) At least seven (7) Trading Days prior to the closing of the Subsequent Financing, the Company shall deliver to each Purchaser a written notice of its intention to effect a Subsequent Financing (“Pre-Notice”), which Pre-Notice shall ask such Purchaser if it wants to review the details of such financing (such additional notice, a “Subsequent Financing Notice”). Upon the request of a Purchaser, and only upon a request by such Purchaser, for a Subsequent Financing Notice, the Company shall promptly, but no later than one (1) Trading Day after such request, deliver a Subsequent Financing Notice to such Purchaser. The requesting Purchaser shall be deemed to have acknowledged that the Subsequent Financing Notice may contain material non-public information. The Subsequent Financing Notice shall describe in reasonable detail the proposed terms of such Subsequent Financing, the amount of proceeds intended to be raised thereunder and the Person or Persons through or with whom such Subsequent Financing is proposed to be effected and shall include a term sheet or similar document relating thereto as an attachment.

(c) Any Purchaser desiring to participate in such Subsequent Financing must provide written notice to the Company by not later than 5:30 p.m. (New York City time) on the fifth (5th) Trading Day after all of the Purchasers have received the Pre-Notice that the Purchaser is willing to participate in the Subsequent Financing, the amount of such Purchaser’s participation, and representing and warranting that such Purchaser has such funds ready, willing, and available for investment on the terms set forth in the Subsequent Financing Notice. If the Company receives no such notice from a Purchaser as of such fifth (5th) Trading Day, such Purchaser shall be deemed to have notified the Company that it does not elect to participate.

(d) If by 5:30 p.m. (New York City time) on the fifth (5th) Trading Day after all of the Purchasers have received the Pre-Notice, notifications by the Purchasers of their willingness to participate in the Subsequent Financing (or to cause their designees to participate) is, in the aggregate, less than the total amount of the Subsequent Financing, then the Company may affect the remaining portion of such Subsequent Financing on the terms and with the Persons set forth in the Subsequent Financing Notice.

(e) If by 5:30 p.m. (New York City time) on the fifth (5th) Trading Day after all of the Purchasers have received the Pre-Notice, the Company receives responses to a Subsequent Financing Notice from Purchasers seeking to purchase more than the aggregate amount of the Participation Maximum, each such Purchaser shall have the right to purchase its Pro Rata Portion (as defined below) of the Participation Maximum. “Pro Rata Portion” means the ratio of (x) the principal amount of Notes purchased hereunder by a Purchaser participating under this Section 4.14 and (y) the sum of the aggregate principal amounts of Notes purchased hereunder by all Purchasers participating under this Section 4.14.

(f) The Company must provide the Purchasers with a second Subsequent Financing Notice, and the Purchasers will again have the right of participation set forth above in this Section 4.14, if the Subsequent Financing subject to the initial Subsequent Financing Notice is not consummated for any reason on the terms set forth in such Subsequent Financing Notice within thirty (30) Trading Days after the date of the initial Subsequent Financing Notice.

(g) The Company and each Purchaser agree that if any Purchaser elects to participate in the Subsequent Financing, the transaction documents related to the Subsequent Financing shall not include any term or provision whereby such Purchaser shall be required to agree to any restrictions on trading as to any of the Securities purchased hereunder (for avoidance of doubt, the securities purchased in the Subsequent Financing shall not be considered securities purchased hereunder) or be required to consent to any amendment to or termination of, or grant any waiver, release or the like under or in connection with, this Agreement, without the prior written consent of such Purchaser.

(h) Notwithstanding anything to the contrary in this Section 4.14 and unless otherwise agreed to by such Purchaser, the Company shall either confirm in writing to such Purchaser that the transaction with respect to the Subsequent Financing has been abandoned or shall publicly disclose its intention to issue the securities in the Subsequent Financing, in either case in such a manner such that such Purchaser will not be in possession of any material, non-public information, by the tenth (10th) Business Day following delivery of the Subsequent Financing Notice. If by such tenth (10th) Business Day, no public disclosure regarding a transaction with respect to the Subsequent Financing has been made, and no notice regarding the abandonment of such transaction has been received by such Purchaser, such transaction shall be deemed to have been abandoned and such Purchaser shall not be deemed to be in possession of any material, non-public information with respect to the Company.

4.15 Maintenance of Property. The Company shall keep all of its property, which is necessary or useful to the conduct of its business, in good working order and condition, ordinary wear and tear excepted, except for any property that may be subject to the sale of the Company's fuels distribution business.

4.16 Subordination. Each Purchaser acknowledges and hereby agrees to postpone and subordinate the Subordinate Security in all respects to the Senior Security in, against and with respect to the Collateral. In so doing, all indebtedness due to any Senior Lender and secured by the Senior Security shall rank senior in all respects, including right of payment, to all indebtedness due to any Purchaser and secured by the Subordinate Security, and the indebtedness due to any Senior Lender and secured by the Senior Security (including, without limitation, principal, interest, fees and other amounts of any kind) shall be indefeasibly paid and satisfied in full before any Purchaser shall be entitled to be paid or receive any payments representing proceeds of the Collateral or otherwise on account of, or with respect to, the indebtedness secured by the Subordinate Security (including, without limitation, principal, interest, fees and other amounts of any kind). Without limiting the generality of the foregoing, the postponements and subordinations provided for herein shall be effective notwithstanding: (1) the respective dates of execution, delivery, attachment, registration, perfection or enforcement of the Senior Security or the Subordinate Security; (2) the date or dates of any advance or advances of the indebtedness secured by the Senior Security or the Subordinate Security and whether any such advances occur before or after the occurrence of any default or event of default and whether a Senior Lender or any Purchaser had notice of any such default or event of default at the time of making any such advance; (3) the dates of any default or event of default or the date or dates of crystallization of any floating charge under the Senior Security or the Subordinate Security; (4) the rules of priority established under applicable law; or (5) the provisions of the agreements or instruments creating the Senior Security or the Subordinate Security.

4.17 Further Instruments. Each Purchaser hereby agrees to execute and deliver, upon request by any Senior Lender or the Company, such further instruments and agreements as may be reasonably required by such Senior Lender or the Company to confirm and give effect to the provisions of this Agreement and to register and record or file notice of the subordinations and postponements of the Subordinate Security in favor of the Senior Security in any office of public record as such Senior Lender or the Company may consider necessary or desirable from time to time.

4.18 Additional Issuances. For so long as a Note is outstanding, the Company will not amend the terms of any securities or Common Stock Equivalents or of any agreement outstanding or in effect as of the date of this Agreement pursuant to which same were or may be acquired nor issue any Common Stock or Common Stock Equivalents, if such issuance or the result of such amendment would be at an effective price per share of Common Stock less than the Conversion Price in effect at the time of such lower price issuance or amendment, except pursuant to Schedule 3.1(g) and Schedule 3.1(hh).

**ARTICLE V.
MISCELLANEOUS**

5.1 Termination. This Agreement may be terminated by any Purchaser, as to such Purchaser's obligations hereunder only and without any effect whatsoever on the obligations between the Company and the other Purchasers, by written notice to the other parties, if the Initial Closing has not been consummated on or before November 12, 2014; provided, however, that such termination will not affect the right of any party to sue for any breach by any other party (or parties).

5.2 Fees and Expenses. At the Initial Closing, the Company has agreed to pay G&M for the legal fees in connection with the Initial Closing of some, but not all, of the Purchasers in the amount of \$15,000 (of which \$5,000 has been paid). Except as expressly set forth in the Transaction Documents, each party shall pay the fees and expenses of its advisers, counsel, accountants and other experts, if any, and all other expenses incurred by such party incident to the negotiation, preparation, execution, delivery and performance of this Agreement. The Company shall pay all Transfer Agent fees (including, without limitation, any fees required for same-day processing of any instruction letter delivered by the Company and any conversion or exercise notice delivered by a Purchaser), stamp taxes and other taxes and duties levied in connection with the delivery of any Securities to the Purchasers and all expenses in connection with filing and perfecting the security interest granted pursuant to the Security Agreement.

5.3 Entire Agreement. The Transaction Documents, together with the exhibits and schedules thereto, contain the entire understanding of the parties with respect to the subject matter hereof and thereof and supersede all prior agreements and understandings, oral or written, with respect to such matters, which the parties acknowledge have been merged into such documents, exhibits and schedules.

5.4 Notices. All notices, demands, requests, consents, approvals, and other communications required or permitted hereunder shall be in writing and, unless otherwise specified herein, shall be (i) personally served, (ii) deposited in the mail, registered or certified, return receipt requested, postage prepaid, (iii) delivered by reputable air courier service with charges prepaid, or (iv) transmitted by hand delivery, telegram, or facsimile, addressed as set forth below or to such other address as such party shall have specified most recently by written notice. Any notice or other communication required or permitted to be given hereunder shall be deemed effective (a) upon hand delivery or delivery by facsimile, with accurate confirmation generated by the transmitting facsimile machine, at the address or number designated below (if delivered on a business day during normal business hours where such notice is to be received), or the first business day following such delivery (if delivered other than on a business day during normal business hours where such notice is to be received) or (b) on the second business day following the date of mailing by express courier service, fully prepaid, addressed to such address, or upon actual receipt of such mailing, whichever shall first occur. The addresses for such communications shall be: (i) if to the Company, to: MCW Energy Group Limited, 4370 Tujunga Avenue, Suite 320, Studio City, California, 91604, Attn: Alex Blyumkin, Executive Chairman, facsimile: 866-571-9613, with a copy by email only to (which shall not constitute notice): robbie.grossman@mcmillan.ca, and (ii) if to the Purchasers, to: the addresses and fax numbers indicated on the signature pages hereto, with an additional copy by fax only to (which shall not constitute notice): Grushko & Mittman, P.C., 515 Rockaway Avenue, Valley Stream, New York 11581, facsimile: (212) 697-3575.

5.5 Amendments; Waivers. No provision of this Agreement may be waived, modified, supplemented or amended except in a written instrument signed, in the case of an amendment, by the Company and the Purchasers holding at least a majority in interest of the component of the affected Securities then outstanding or, in the case of a waiver, by the party against whom enforcement of any such waived provision is sought. No waiver of any default with respect to any provision, condition or requirement of this Agreement shall be deemed to be a continuing waiver in the future or a waiver of any subsequent default or a waiver of any other provision, condition or requirement hereof, nor shall any delay or omission of any party to exercise any right hereunder in any manner impair the exercise of any such right.

5.6 Headings. The headings herein are for convenience only, do not constitute a part of this Agreement and shall not be deemed to limit or affect any of the provisions hereof.

5.7 Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties and their successors and permitted assigns. The Company may not assign this Agreement or any rights or obligations hereunder without the prior written consent of each Purchaser (other than by merger). Following the Closing, any Purchaser may assign any or all of its rights under this Agreement to any Person to whom such Purchaser assigns or transfers any Securities, provided that such transferee agrees in writing to be bound, with respect to the transferred Securities, by the provisions of the Transaction Documents that apply to the "Purchasers."

5.8 No Third-Party Beneficiaries. This Agreement is intended for the benefit of the parties hereto and their respective successors and permitted assigns and is not for the benefit of, nor may any provision hereof be enforced by, any other Person, except as otherwise set forth in Section 4.10.

5.9 Governing Law. Unless otherwise stated in a Transaction Document, all questions concerning the construction, validity, enforcement and interpretation of the Transaction Documents shall be governed by and construed and enforced in accordance with the internal laws of the State of New York, without regard to the principles of conflicts of law thereof. Each party agrees that all legal proceedings concerning the interpretations, enforcement and defense of the transactions contemplated by this Agreement and any other Transaction Documents (whether brought against a party hereto or its respective affiliates, directors, officers, shareholders, partners, members, employees or agents) shall be commenced exclusively in the state and federal courts sitting in the City of New York, or such other jurisdiction elected by a Purchaser to enforce its rights in which case the Purchaser may elect to enforce any of the Transaction Documents in any other appropriate or convenient jurisdiction. Each party hereby irrevocably submits to the exclusive jurisdiction of the courts sitting in the state and federal courts sitting in the City of New York, Borough of Manhattan for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein (including with respect to the enforcement of any of the Transaction Documents), or such other jurisdiction elected by Purchaser and hereby irrevocably waives, and agrees not to assert in any action, suit or proceeding, any claim that it is not personally subject to the jurisdiction of any such court, that such suit, action or proceeding is improper or is an inconvenient venue for such proceeding. Each party hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or proceeding by mailing a copy thereof via registered or certified mail or overnight delivery (with evidence of delivery) to such party at the address in effect for notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any other manner permitted by law. If either party shall commence an action or proceeding to enforce any provisions of the Transaction Documents, then, in addition to the obligations of the Company under Section 4.10, the prevailing party in such action, suit or proceeding shall be reimbursed by the other party for its reasonable attorneys' fees and other costs and expenses incurred with the investigation, preparation and prosecution of such action or proceeding.

5.10 Survival. The representations and warranties contained herein shall survive the Closing and the delivery of the Securities.

5.11 Execution. This Agreement may be executed in two or more counterparts, all of which when taken together shall be considered one and the same agreement and shall become effective when counterparts have been signed by each party and delivered to each other party, it being understood that the parties need not sign the same counterpart. In the event that any signature is delivered by facsimile transmission or by e-mail delivery of a ".pdf" format data file, such signature shall create a valid and binding obligation of the party executing (or on whose behalf such signature is executed) with the same force and effect as if such facsimile or ".pdf" signature page were an original thereof.

5.12 Severability. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction to be invalid, illegal, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions set forth herein shall remain in full force and effect and shall in no way be affected, impaired or invalidated, and the parties hereto shall use their commercially reasonable efforts to find and employ an alternative means to achieve the same or substantially the same result as that contemplated by such term, provision, covenant or restriction. It is hereby stipulated and declared to be the intention of the parties that they would have executed the remaining terms, provisions, covenants and restrictions without including any of such that may be hereafter declared invalid, illegal, void or unenforceable.

5.13 Rescission and Withdrawal Right. Notwithstanding anything to the contrary contained in (and without limiting any similar provisions of) any of the other Transaction Documents, whenever any Purchaser exercises a right, election, demand or option under a Transaction Document and the Company does not timely perform its related obligations within the periods therein provided and such failure is not waived by the Purchaser, then such Purchaser may, at any time prior to the Company's performance of such obligations, rescind or withdraw, in its sole discretion from time to time upon written notice to the Company, any relevant notice, demand or election in whole or in part without prejudice to its future actions and rights; provided, however, that in the case of a rescission of a conversion of a Note or exercise of a Warrant, the applicable Purchaser shall be required to return any shares of Common Stock subject to any such rescinded conversion or exercise notice concurrently with the return to such Purchaser of the aggregate exercise price paid to the Company for such shares and the restoration of such Purchaser's right to acquire such shares pursuant to such Purchaser's Warrant (including, issuance of a replacement warrant certificate evidencing such restored right).

5.14 Replacement of Securities. If any certificate or instrument evidencing any Securities is mutilated, lost, stolen or destroyed, the Company shall issue or cause to be issued in exchange and substitution for and upon cancellation thereof (in the case of mutilation), or in lieu of and substitution therefor, a new certificate or instrument, but only upon receipt of evidence reasonably satisfactory to the Company of such loss, theft or destruction. The applicant for a new certificate or instrument under such circumstances shall also pay any reasonable third-party costs (including customary indemnity) associated with the issuance of such replacement Securities.

5.15 Remedies. In addition to being entitled to exercise all rights provided herein or granted by law, including recovery of damages, each of the Purchasers and the Company will be entitled to specific performance under the Transaction Documents. The parties agree that monetary damages may not be adequate compensation for any loss incurred by reason of any breach of obligations contained in the Transaction Documents and hereby agree to waive and not to assert in any action for specific performance of any such obligation the defense that a remedy at law would be adequate.

5.16 Payment Set Aside. To the extent that the Company makes a payment or payments to any Purchaser pursuant to any Transaction Document or a Purchaser enforces or exercises its rights thereunder, and such payment or payments or the proceeds of such enforcement or exercise or any part thereof are subsequently invalidated, declared to be fraudulent or preferential, set aside, recovered from, disgorged by or are required to be refunded, repaid or otherwise restored to the Company, a trustee, receiver or any other Person under any law (including, without limitation, any bankruptcy law, state or federal law, common law or equitable cause of action), then to the extent of any such restoration the obligation or part thereof originally intended to be satisfied shall be revived and continued in full force and effect as if such payment had not been made or such enforcement or setoff had not occurred.

5.17 Usury. To the extent it may lawfully do so, the Company hereby agrees not to insist upon or plead or in any manner whatsoever claim, and will resist any and all efforts to be compelled to take the benefit or advantage of, usury laws wherever enacted, now or at any time hereafter in force, in connection with any claim, action or proceeding that may be brought by any Purchaser in order to enforce any right or remedy under any Transaction Document. Notwithstanding any provision to the contrary contained in any Transaction Document, it is expressly agreed and provided that the total liability of the Company under the Transaction Documents for payments in the nature of interest shall not exceed the maximum lawful rate authorized under applicable law (the "Maximum Rate"), and, without limiting the foregoing, in no event shall any rate of interest or default interest, or both of them, when aggregated with any other sums in the nature of interest that the Company may be obligated to pay under the Transaction Documents exceed such Maximum Rate. It is agreed that if the maximum contract rate of interest allowed by law and applicable to the Transaction Documents is increased or decreased by statute or any official governmental action subsequent to the date hereof, the new maximum contract rate of interest allowed by law will be the Maximum Rate applicable to the Transaction Documents from the Closing Date thereof forward, unless such application is precluded by applicable law. If under any circumstances whatsoever, interest in excess of the Maximum Rate is paid by the Company to any Purchaser with respect to indebtedness evidenced by the Transaction Documents, such excess shall be applied by such Purchaser to the unpaid principal balance of any such indebtedness or be refunded to the Company, at such Purchaser's election.

5.18 Independent Nature of Purchasers' Obligations and Rights. The obligations of each Purchaser under any Transaction Document are several and not joint with the obligations of any other Purchaser, and no Purchaser shall be responsible in any way for the performance or non-performance of the obligations of any other Purchaser under any Transaction Document. Nothing contained herein or in any other Transaction Document, and no action taken by any Purchaser pursuant hereto or thereto, shall be deemed to constitute the Purchasers as a partnership, an association, a joint venture or any other kind of entity, or create a presumption that the Purchasers are in any way acting in concert or as a group with respect to such obligations or the transactions contemplated by the Transaction Documents. Each Purchaser shall be entitled to independently protect and enforce its rights, including, without limitation, the rights arising out of this Agreement or out of the other Transaction Documents, and it shall not be necessary for any other Purchaser to be joined as an additional party in any proceeding for such purpose. Each Purchaser has been represented by its own separate legal counsel in its review and negotiation of the Transaction Documents. For reasons of administrative convenience only, each Purchaser and its respective counsel have chosen to communicate with the Company through G&M. The Company has elected to provide all Purchasers with the same terms and Transaction Documents for the convenience of the Company and not because it was required or requested to do so by any of the Purchasers. It is expressly understood and agreed that each provision contained in this Agreement and in each other Transaction Document is between the Company and a Purchaser, solely, and not between the Company and the Purchasers collectively and not between and among the Purchasers.

5.19 Liquidated Damages. The Company's obligations to pay any partial liquidated damages or other amounts owing under the Transaction Documents is a continuing obligation of the Company and shall not terminate until all unpaid partial liquidated damages and other amounts have been paid notwithstanding the fact that the instrument or security pursuant to which such partial liquidated damages or other amounts are due and payable shall have been canceled.

5.20 Saturdays, Sundays, Holidays, etc. If the last or appointed day for the taking of any action or the expiration of any right required or granted herein shall not be a Business Day, then such action may be taken or such right may be exercised on the next succeeding Business Day.

5.21 Construction. The parties agree that each of them and/or their respective counsel have reviewed and had an opportunity to revise the Transaction Documents and, therefore, the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of the Transaction Documents or any amendments thereto. In addition, each and every reference to share prices and shares of Common Stock in any Transaction Document shall be subject to adjustment for reverse and forward stock splits, stock dividends, stock combinations and other similar transactions of the Common Stock that occur after the date of this Agreement.

5.22 WAIVER OF JURY TRIAL. IN ANY ACTION, SUIT, OR PROCEEDING IN ANY JURISDICTION BROUGHT BY ANY PARTY AGAINST ANY OTHER PARTY, THE PARTIES EACH KNOWINGLY AND INTENTIONALLY, TO THE GREATEST EXTENT PERMITTED BY APPLICABLE LAW, HEREBY ABSOLUTELY, UNCONDITIONALLY, IRREVOCABLY AND EXPRESSLY WAIVES FOREVER TRIAL BY JURY.

5.23 Equitable Adjustment. Trading volume amounts, price/volume amounts and similar figures in the Transaction Documents shall be equitably adjusted (but without duplication) to offset the effect of stock splits, similar events and as otherwise described in this Agreement and Warrants.

5.24 Currency. Unless otherwise stated, all references to currency shall mean United States Dollars.

5.25 Paramountcy. If there is any conflict or inconsistency between the provisions of this Agreement and the provisions of any Note, the provisions of this Agreement shall govern and prevail, to the extent necessary to resolve such conflict or inconsistency.

(Signature Pages Follow)

IN WITNESS WHEREOF, the parties hereto have caused this Securities Purchase Agreement to be duly executed by their respective authorized signatories as of the date first indicated above.

MCW ENERGY GROUP LIMITED

Address for Notice:

4370 Tujunga Avenue, Suite 320,
Studio City, California, 91604
Fax: 818-358-3148

By: /s/ Alex Blyumkin

Name: Alex Blyumkin

Title: Executive Chairman

With a copy to (which shall not constitute notice):

McMillan LLP
181 Bay Street, Suite 4400
Toronto, ON M5J 2T3
Attn: Robbie Grossman
Email: robbie.grossman@mcmillan.ca

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK
SIGNATURE PAGE FOR PURCHASER FOLLOWS]

[PURCHASER SIGNATURE PAGE TO MCW ENERGY GROUP LIMITED
SECURITIES PURCHASE AGREEMENT]

IN WITNESS WHEREOF, the undersigned have caused this Securities Purchase Agreement to be duly executed by their respective authorized signatories as of the date first indicated above.

Name of Purchaser: ALPHA CAPITAL ANSTALT

Signature of Authorized Signatory of Purchaser: _____

Name of Authorized Signatory: _____

Title of Authorized Signatory: _____

Email Address of Authorized Signatory: _____

Facsimile Number of Authorized Signatory: _____

Address for Notice to Purchaser: Pradafant 7
9490 Furstentums
Vaduz, Lichtenstein
Fax: 01141714773504

Address for Delivery of Securities to Purchaser (if not same as address for notice):

c/o LH Financial Services Corp.
510 Madison Avenue, #1400
New York, NY 10022

Initial Closing Cash: US\$

Initial Closing Note principal amount:

EIN Number, if applicable, will be provided under separate cover: _____

Date: _____

[SIGNATURE PAGES CONTINUE]

EXHIBIT “E”

FOREIGN PURCHASER’S CERTIFICATE

Capitalized terms not specifically defined in this Exhibit “E” have the meanings ascribed to them in the Agreement to which this “Exhibit E” is attached.

TO: MCW ENERGY GROUP LIMITED (the “Company”)

The undersigned Purchaser, a resident of a jurisdiction other than Canada or the United States, hereby represents and warrants to the Company, and acknowledges as an integral part of the attached Agreement, as follows:

1. The Purchaser is, and each beneficial purchaser for whom the Purchaser may be acting as trustee or agent is, a resident of a country (an “**International Jurisdiction**”) other than Canada or the United States and the decision to acquire the Notes was taken in such International Jurisdiction.
2. The execution of the Agreement and the issuance of the Notes to the Purchaser, or any beneficial purchaser, complies with all laws applicable to the Purchaser and such beneficial purchaser, including the laws of such purchaser’s jurisdiction of residence, and all other applicable laws, and will not require the Company to register the Securities nor will it cause the Company to become subject to, or require it to comply with, any disclosure, prospectus, filing or reporting requirements under any applicable laws of the International Jurisdiction or seek any approvals of any kind whatsoever from any regulatory authority of any kind whatsoever in the International Jurisdiction.
3. If the undersigned Purchaser, or any other purchaser for whom it is acting hereunder, is resident in or otherwise subject to applicable securities laws of the United Kingdom:
 - (a) the Purchaser is either: (i) purchasing the Notes as principal for its own account, (ii) acting as agent for a disclosed beneficial purchaser who has been disclosed to the Company and who is purchasing the Notes as principal for its own account; or (iii) purchasing the Notes on behalf of discretionary client(s) in circumstances where section 86(2) of the *Financial Services and Markets Act 2000* (“**FSMA**”) applies;
 - (b) the Purchaser (and if the undersigned Purchaser is purchasing as agent for a disclosed beneficial purchaser, the disclosed beneficial purchaser): (i) is such a person as is referred to in Article 19 (investment professionals); Article 49 (high net worth companies, unincorporated associations, etc.) or Article 50 (sophisticated investors) of the *Financial Services and Markets Act 2000 (Financial Promotion) Order 2005* (the “**FPO**”); and (ii) has complied with and undertakes to comply with all applicable provisions of the FSMA and other applicable securities laws with respect to anything done by it in relation to the Note and the underlying securities in, from or otherwise involving the United Kingdom;
 - (c) the Purchaser acknowledges that the offer detailed in the Agreement is only directed in the United Kingdom at the following persons (such that such offer is not available in the United Kingdom to any other persons and such that no other persons should rely on the contents of the Agreement):
 - (i) (in the case of investment professionals as referred to in Article 19 of the FPO) persons having professional experience in matters relating to investments; and

(ii) (in the case of high net worth companies, etc. as referred to in Article 49 of the FPO) high net worth companies, unincorporated associations or partnerships or trustees of high value trusts which: (A) in the case of a company, has, or is a member of the same group as an undertaking that has, a called up share capital or net assets of not less than £500,000 (for companies with more than 20 members or subsidiary undertakings of an undertaking with more than 20 members) or net assets of not less than £5,000,000 in any other case; or (B) in the case of an unincorporated association or partnership, has net assets of not less than £5,000,000; or (C) in the case of a trustee of a high value trust, has cash and investments forming part of the trust's assets (before the deduction of liabilities) with an aggregate value of not less than £10,000,000 (or which has had an aggregate value of not less than £10,000,000 during the year immediately preceding the date of receipt of the Agreement); and

(iii) (in the case of certified sophisticated investors as referred to in Article 50(1) of the FPO) a person that this communication is directed who:

(A) has a current certificate in writing or other legible form signed by an authorised person to the effect that he is sufficiently knowledgeable to understand the risks associated with investments in shares and other securities issued by companies listed or quoted on an investment exchange, whether in the United Kingdom or elsewhere, and

(B) has signed, within the period of twelve months ending with the day on which the communication was made, a statement in the following terms:

“I,, make this statement so that I am able to receive promotions which are exempt from the restrictions on financial promotion in the Financial Services and Markets Act 2000 (as amended). The exemption relates to certified sophisticated investors and I declare that I qualify as such in relation to investments in shares and other securities issued by private companies and by companies listed or quoted on an investment exchange, whether in the United Kingdom or elsewhere.

I accept that the contents of promotions and other material that I receive may not have been approved by an authorised person and that their content may not therefore be subject to controls which would apply if the promotion were made or approved by an authorised person. I am aware that it is open to me to seek advice from someone who specialises in advising on this kind of investment.”

(d) it confirms that, to the extent applicable to it, it is aware of, has complied and will comply with its obligations in connection with the *Criminal Justice Act 1993*, the *Proceeds of Crime Act 2002* and Part VIII of the FSMA, it has identified its clients in accordance with the Money Laundering Regulations 2003 (the “**Regulations**”) and has complied fully with its obligations pursuant to the Regulations and will, as a condition precedent of any acceptance of this subscription, provide all such information and documents as may be required in relation to it (or any person on whose behalf it is acting as agent) that may be required by the Company or any agent or person acting for it in order to discharge any obligations under the Regulations.

4. The Purchaser, and each beneficial purchaser, is knowledgeable of, or has been independently advised as to, the application or jurisdiction of the securities laws of the International Jurisdiction which would apply to the transactions contemplated by the Agreement (other than the securities laws of Canada and the United States).

5. The Purchaser, and each beneficial purchaser, is purchasing the Notes pursuant to exemptions from the prospectus and registration requirements (or their equivalent) under the applicable securities laws of that International Jurisdiction or, if such is not applicable, each is permitted to purchase the Notes under the applicable securities laws of the International Jurisdiction without the need to rely on an exemption.

6. The Purchaser, and each beneficial purchaser, will not sell, transfer or dispose of the Notes and the underlying securities except in accordance with all applicable laws, including applicable securities laws of Canada and the United States, and the Purchaser, and each beneficial purchaser, acknowledges that the Company shall have no obligation to register any such purported sale, transfer or disposition which violates applicable Canadian or United States securities laws or other securities laws.
7. The Purchaser, and each beneficial purchaser, shall not sell the Notes and the underlying securities until all applicable hold periods have expired unless the sale is made pursuant to an exemption to applicable securities laws.

The foregoing representations and warranties contained in this Exhibit "E" are true and accurate as of the date of this Exhibit "E" and will be true and accurate as of the time of Closing. If any such representations or warranties shall not be true and accurate prior to the time of Closing, the undersigned shall give immediate written notice of such fact to the Company prior to the time of Closing.

Dated: _____

Signed: _____

 Witness (If Purchaser is an Individual)

 Print the name of Purchaser

 Print Name of Witness

 If Purchaser is a corporation, print name and title of Authorized Signing Officer

References in this Exhibit "E" to "£" are to United Kingdom pounds.

SCHEDULE 3.1(g)
Capitalization

Issued and outstanding shares = 49,935,355

Shares issuable pursuant to incentive stock options = 1,340,000

Shares issuable pursuant to common share purchase warrants = 2,000,000

Shares issuable to developer pursuant to Restricted Stock Agreement = 500,000

Shares issuable to CFO pursuant to Independent Contractor Agreement = 60,000

Shares issuable pursuant to contractual commitments = 10,000,000

SCHEDULE 3.1(hh)
Existing Indebtedness

MCW Energy Group Limited
Loan Summary Schedule
As of October 31, 2014

Vendor	Amount	Term
B&N Bank	3,000,000.00	18-Sep-15
BK Peterson	100,000.00	15-Oct-17
Donald Cameron	1,100,000.00	15-Oct-17
Rocky Romano	376,250.00	12-Dec-15
Regular Trade Payables	<u>1,301,796.00</u>	15-Nov-14
	<u>5,878,046.00</u>	

LOAN AGREEMENT

THIS AGREEMENT is made on the 9th day of February, 2015 (“**Execution Date**”)

BETWEEN:

(1) **ALTLANDS OVERSEAS CORP**, a company incorporated under the laws of Belize, having its registered office at Office 101, ½ Miles Northern Highway, Belize City, Belize, as a lender (the “**Lender**”),

and

(2) **MCW Energy CA, Inc.**, a company incorporated under the laws of the United States of America, having its registered office at 10100 Santa Monica Blvd., Suite 300, Century City, CA 90067, USA as a borrower (the “**Borrower**”),

hereinafter each separately referred to as the “**Party**” and jointly as the “**Parties**”.

IT IS HEREBY AGREED as follows:

1. INTERPRETATION

1.1 Definitions. Wherever used in this Agreement or the schedules hereto, unless the context requires otherwise, the following terms shall have the following meaning:

“**Borrower’s Account**” means US Dollars bank account of the Borrower, opened and maintained with Wells Fargo Bank, 420 Montgomery St., San Francisco, CA 94104 Acct No. 5028652310 SWIFT: WFBIUS6S or any other account of the Borrower as shall be notified by the Borrower;

“**Borrower’s Share**” means 100% of the total Borrower’s participation interest in MCW Oil Sands, Recovery, LLC, a California limited liability company, having its registered office at: 10100 Santa Monica Blvd., Suite 300, Century City, CA 90067 in whatever form it may exist, including but not limited to the member’s equity interest, economic interest, the right to vote, to participate in the management and affairs of MCW Oil Sands Recovery, LLC, and any other interest and right that a member of MCW Oil Sands Recovery, LLC may exercise as approved and permitted by the Toronto Venture Stock Exchange.

“**Business Day**” means a day (other than a Saturday or Sunday) on which banks and foreign exchange markets are generally open for business in San Francisco, USA and Tallin, Estonia;

“**Event of Default**” means any event or circumstance specified as such in Clause 10.1;

“**Interest**” means Interest accrued on the Loan after the Execution date under the Clause 4;

“**Lender’s Account**” means US Dollars bank account of the Lender opened and maintained with Danske Bank A/S Estonia Branch, Tallinn, Estonia, IBAN: EE823300333442430002, Bank: Danske Bank A/S Narva manatee 11, 15015 Tallinn, Estonia, SWIFT: FORE EE 2X, or any other bank account as notified by the Lender;

“**Loan**” means the aggregate principal amount of the loan specified in Clause 3.1 of this Agreement or such other portion of the loan which has been extended to the Borrower under this Agreement and remains outstanding;

“**Repayment Date**” means the 9th day of February, 2016;

“**Subsidiary**” means any of the following company MCW Oil Sands, Recovery, LLC, a Utah limited liability company, having its registered office at: 10100 Santa Monica Blvd., Suite 30D, Century City, CA 90067 hereinafter (“Oil Sands”); and MCW Fuels, LLC, a California limited liability company, having its registered office at 344 Mira Loma Avenue, Glendale, California 91204 (“MCW Fuels”) and/or any other entity treated as a subsidiary of the Borrower under applicable laws.

1.2 Construction. In this Agreement, unless the context requires otherwise, any reference to:

“**person**” includes any individual, company, body corporate or unincorporated or other juridical person, partnership, firm, joint venture or trust or any federation, state or subdivision thereof or any government or agency of any of the foregoing;

“**tax**” includes any tax, levy, duty, charge, value added tax, impost, fee, deduction or withholding of any nature now or hereafter imposed, levied, collected, withheld or assessed by any taxing or other authority and includes any interest, penalty or other charge payable or claimed in respect thereof, and “**taxation**” shall be construed accordingly; and

“**winding-up**” includes any winding-up, liquidation, dissolution or comparable process in any jurisdiction.

1.3 Successors and Assigns. The expressions “**Borrower**” and “**Lender**” shall, where the context permits, include their respective successors and permitted assigns and any persons deriving title under them.

1.4 Miscellaneous. In this Agreement, unless the context requires otherwise:

(a) Construction: words importing the singular include the plural and *vice versa* and words importing a gender include every gender;

(b) Clauses, Etc.: references to Clauses and Schedules are to clauses of and schedules to this Agreement and references to this Agreement include its Schedules;

(c) Headings: clause headings are inserted for reference only and shall be ignored in construing this Agreement.

2. REPRESENTATIONS AND WARRANTIES

2.1 Representations and Warranties. The Borrower represents and warrants to the Lender that:

(a) Consent Required: the Borrower is entitled to enter into this Agreement subject to the consent of its Board;

(b) Corporate Existence: the Borrower is duly organized as a California Corporation and validly existing under the laws of the state of its incorporation, and has full power, authority and legal right to own its assets and to carry on its business;

(c) Capacity: the Borrower has full power, authority and legal right, and all necessary corporate action has been taken in order to authorize the Borrower, to enter into and to exercise its rights and perform its obligations under this Agreement.

- (d) Authorizations: all authorizations and consents required from any governmental or other authority or required to be obtained by the Borrower from any of its participants or creditors or any other person or any of the Borrower's governing bodies for or in connection with the execution, validity, performance and enforceability of this Agreement have been obtained and are maintained in full force and effect;
- (f) Obligations Permitted: the execution by the Borrower of this Agreement and the performance by the Borrower of any of its obligations and/or the exercise by the Borrower of any of its rights under this Agreement will not:
 - (i) conflict with or result in a breach of any law, regulation, judgment, order, authorization, agreement or obligation applicable to it; or
 - (ii) cause any limitation placed on it (other than the limitations stipulated by this Agreement) or the power of any of its governing bodies to be exceeded; or
 - (iii) result in the creation of or oblige the Borrower to create an encumbrance over any of its assets;
- (g) No Breach of Law: the Borrower is not in default under any law, regulation, judgment, order, authorization, agreement or obligation applicable to it or any of its assets, the consequences of which default could have a material adverse effect on:
 - (i) the business or financial condition or prospects of the Borrower; or
 - (ii) the ability of the Borrower to perform its obligations under this Agreement;
- (h) No Immunity: the Borrower is generally subject to civil law and to legal proceedings and neither the Borrower nor any of its assets is entitled to any immunity or privilege from any set-off, judgment, execution, attachment or other legal process;
- (i) No action: No action, proceedings, litigation or dispute, which might have a material adverse effect on Borrower's ability to perform its obligations under this Agreement, is taking place or pending, or, to its best knowledge, threatened, against it;
- (j) No default: The Borrower is not in material default under any agreement to which it is a party or by which it (or any of its assets) is bound and no other event or circumstance is outstanding which constitutes (or with the expiry of a grace period, the giving of notice, the making of any determination or the satisfaction of any other applicable condition will constitute) a default or termination event (however described) under any other agreement which is binding on it or any of its assets to an extent or in a manner which could reasonably be expected to have a material adverse effect on its ability to perform its obligations under the Loan Agreement.

2.2 Acknowledgement of Reliance. The Borrower acknowledges that the Lender has entered into this Agreement in reliance upon the representations and warranties contained in this Clause 2.

3. THE LOAN

- 3.1 Amount. Subject to the provisions of this Agreement, the aggregate principal amount of the Loan available to the Borrower is **USD 2,000,000** (Two million US Dollars).
- 3.2 Delivery. The Loan shall be extended to the Borrower in a lump sum or by several tranches as the Parties hereto may agree.

- 3.3. Purpose. The Borrower shall use the proceeds of the Loan for the purposes of Oil Sands commencing commercial operation of 250 Barrels Per Day Production Plant as described in Annex 1 hereto (production of not less than 250 barrels of oil per day from the oil sands at a processing site located at NW Y4 of Section 24, Township 4 South, Range 20 East, Salt Lake Base and Meridian) within not more than 45 (forty five) calendar days following the date when the loan proceeds are credited into the account of the Borrower and the Borrower shall procure that such operation commences as stated above.
- 3.4. Disbursement of the Loan. The Lender shall grant the Loan by effecting a transfer of funds to the Borrower's Account on or before the second (2nd) Business Day after receiving of a duly issued notice of drawing and subject to Clause 3.5 hereof.
- 3.5. Discretion of the Lender to decline. For the avoidance of doubt, notwithstanding anything mentioned in this Agreement, the Lender in its sole and absolute discretion may decline any notice of drawing and shall not be obliged to disburse any portion of the Loan requested by the Borrower.

4. INTEREST

- 4.1. Interest. The Borrower shall pay interest on the outstanding portion of the Loan in accordance with the provisions of this Clause 4.
- 4.2. Interest Rate. The interest applicable to the Loan shall be at a rate of 6% per annum.
- 4.3. Calculation of Interest. The Interest on the Loan shall accrue on outstanding part of the Loan and for actual number of days elapsed in a three hundred and sixty four (364) day year, excepting for the day of disbursement of the Loan and the day of its repayment in full.
- 4.4. Interest Payment Date. If otherwise is not agreed by the parties in writing, any outstanding interest accrued on the Loan shall be paid along with repayment of the principle amount of the Loan, but in any case by no later than a Repayment Date.

5. REPAYMENT

- 5.1. Repayment. The Borrower shall repay the Loan together with all outstanding Interest and other amounts (if any) due from the Borrower to the Lender under the terms of this Agreement in a lump sum on the Repayment Date, subject to Clause 10 hereof, or any other day as may be requested by the Borrower and agreed to in writing by the Lender. The Lender in its sole discretion may agree to extend the Repayment Date for repayment of the Loan (or any portion thereof) for an additional period or periods. Upon Lender's request, subject to TSXV approval, the Loan shall be repaid by transfer of a certain percentage of Borrower's Share, as agreed to by the Parties at future time, to the Lender ("**Transfer**"), so that the Lender becomes a new member of Oil Sands as set out in Clause 11.2 of the **AMENDED AND RESTATED OPERATING AGREEMENT OF MCW OIL SANDS RECOVERY, LLC** as attached in **Annex 2** hereto ("**Operating Agreement**"). Upon such Transfer, the Borrower shall procure that the Operating Agreement be amended to provide for governance of a multi-member limited liability company and shall pay all reasonable costs and expenses in connection with the admission of the Lender as the new member at its own expense. The Borrower shall further procure that all authorizations and consents required from any governmental or other authority or required to be obtained by the Borrower from any of its members or creditors or any other person or any of the Borrower's governing bodies for or in connection with the said Transfer be duly and timely obtained.

5.2 Repayment upon Lender's Request and Repayment at Borrower's Discretion. The Borrower shall be entitled to repay the Loan partially or in full only upon Lender's written consent.

6. TAXES AND OTHER DEDUCTIONS

6.1 No Deductions or Withholdings. All sums payable by the Borrower under this Agreement shall be paid in full without set-off or counterclaim or any restriction or condition, with the exclusion of the repatriation taxes, which shall be deducted or withheld from the above mentioned sums for the account of the Lender.

7. FEES AND EXPENSES

7.1 Enforcement Costs. The Borrower shall within 30 days after written demand to pay reimburse to the Lender all reasonable costs, charges and expenses (including legal and other fees on a full indemnity basis and all other out-of-pocket expenses and any applicable value added tax or similar tax) incurred by the Lender in determining whether an Event of Default has occurred, in suing for or seeking to recover any sums due or otherwise preserving or enforcing its rights, powers and remedies under this Agreement, or in connection with any amendment or waiver of any provision of this Agreement following an Event of Default.

8. PAYMENTS AND EVIDENCE OF DEBT

8.1 Payments by Borrower. All payments by the Borrower under this Agreement shall be made to the Lender net of any withholdings or deductions in immediately available US Dollars to the Lender's Account, or to such other account of the Lender which has been notified by the Lender to the Borrower in writing not less than five (5) Business Days in advance of the respective payment date.

8.2 Allocation of Receipts. Without prejudice to forgoing if any amount received by the Lender in respect of sums due from the Borrower hereunder is less than the full amount due, such amount shall be allocated towards firstly expenses and/or other sums (if any) due from the Borrower to the Lender under this Agreement, secondly the interest, thirdly the principal unless the parties otherwise agree in writing.

8.3 Business Days. If any sum would otherwise become due for payment hereunder on a day which is not a Business Day, that sum shall become due on the next following Business Day.

9. UNDERTAKINGS

9.1 Positive Covenants of the Borrower. So long as any portion of the Loan and/or Interest shall remain unpaid, Borrower hereby covenants and agrees as follows:

- (a) Maintenance of Existence. Borrower shall preserve and maintain its valid legal existence in accordance with the laws of Utah, the USA.
- (b) Notification: Borrower shall promptly inform the Lender of:
 - i. the occurrence of any Event of Default,
 - ii. any litigation, arbitration or administrative proceeding or other dispute which may have an adverse effect on the ability of the Borrower to perform its obligations under this Agreement;
 - iii. any other event or circumstance which could have a material adverse effect on the business or financial condition of the Borrower or on the ability of the Borrower to perform its obligations under this Agreement; and/or

iv. any change in the representations and warranties made under or in connection with this Agreement.

(c) **Loan Proceeds:** Borrower shall use the proceeds of the Loan exclusively for the purposes specified in Clause 3.3.

9.2. **No Limits of Liability.** The Borrower shall be liable for its obligations under this Agreement with all its tangible and intangible assets which may be subject to recovery under the applicable legislation.

9.3 **Negative Covenants of the Borrower.** So long as any portion of the Loan and/or the interest shall remain unpaid, the Borrower shall not, and shall procure that neither Subsidiary shall, except in so far as may be necessary to give effect to this Agreement or to comply with obligations relating to the administration of the Borrower or any Subsidiary (such as payment of rent, salaries, tax), without the prior written consent of the Lender, which consent may not be unreasonably withheld or delayed;

(a) declare, pay or make any dividend, or declare or make any other distribution of its assets;

(b) enter into any capital transaction or any commitment for the same;

(c) borrow any sum in excess of USD250,000;

(d) dispose of any assets with a value in excess of USD100,000;

(e) create or enter into, *or* agree to *create* or enter into, any encumbrance over any of its assets, property or undertaking with a value in excess of USD1,000,000;

(f) enter into, terminate or modify, or agree to enter into, terminate or modify, any contract with a value in excess of USD100,000;

(g) enter into any contract for lease, hire or rent, lease purchase, hire purchase, credit sale or conditional sale with a value in excess of USD100,000 or which otherwise involves periodical payment in excess of USD100,000;

10. EVENTS OF DEFAULT

10.1 **Events of Default.** Each of the following events and circumstances shall be an Event of Default:

(a) **Failure to Pay:** the Borrower fails to pay any sum payable under this Agreement within three Business Days of the date on which it is due;

(b) **Insolvency Proceedings:** the Borrower applies for or consents to the appointment of any external manager, liquidator, receiver, trustee or administrator for all or a substantial part of its assets, or any external manager, liquidator, receiver, trustee or administrator is appointed for the Borrower; or any action is taken by the Borrower or any third party (including, without limitation, a state authority) with a view of instituting a reorganization, liquidation, bankruptcy or similar proceedings against the Borrower; or the Borrower enters into negotiations with any of its creditors for the purposes of reaching an amicable settlement of any of the Borrower's debts;

- (c) Expropriation: any governmental or other authority (whether *de Jure or de facto*) nationalizes, compulsorily acquires, expropriates or seizes all or any substantial part of the business or tangible or intangible assets of the Borrower;
- (d) Enforceability of Obligations:
 - (i) any law, regulation or order, or any change in any law or regulation varies, suspends, terminates or excuses performance by the Borrower of any of its obligations under this Agreement;
 - (ii) this Agreement or any provision thereof ceases for any reason to be in full force and effect or becomes unenforceable;
 - (iii) the Borrower disputes the validity of or purports to terminate or repudiates this Agreement.
- (e) Misrepresentation: any representation or warranty made by the Borrower or in any document or certificate furnished to the Lender in connection herewith or pursuant hereto (including without limitation financial statements) was incorrect, inaccurate or misleading in any material respect when made or repeated;
- (f) Cross Default: the Borrower and/or Subsidiary fails to comply with its obligations under any other agreements between the Borrower and/or any Subsidiary on one hand and the Lender and/or its affiliated persons on the other hand.

10.2 Remedy. If an Event of Default has occurred and remains uncured for more than 5 Business days upon the Default Notice served by the Lender to the Borrower, the Lender shall be entitled to take any one or more of the following actions:

- (a) by notice to the Borrower to declare the outstanding principal and all other amounts payable under this Agreement to be immediately due and payable, whereupon all such amounts shall become immediately due and payable, without presentment, demand, protest or further notice of any kind, all of which are hereby expressly waived by the Borrower;
- (b) to enforce its rights by arbitration, legal or other proceedings, whether for the specific performance (to the extent permitted by law) of any covenant or agreement contained in this Agreement.

Any dispute as to whether an Event of Default has occurred shall be determined in accordance with the dispute resolution procedure set forth in Article 17 hereof. The remedies set forth above are cumulative, and the Lender shall be entitled to take one or more of such remedies, from time to time, and in any order or combination that the Lender may choose.

11. INDEMNITIES

11.1 General Indemnity. The Borrower shall indemnify the Lender against all losses, liabilities, damages, reasonable costs and expenses which the Lender has actually incurred as a consequence of any Event of Default or any other breach by the Borrower of any of its obligations under this Agreement. This indemnity shall be an obligation of the Borrower independent of and in addition to its other obligations under this Agreement.

12. AMENDMENT AND WAIVER

- 12.1 Amendment. Any amendment of any provision of this Agreement shall only be effective if made in writing and signed by the Lender and the Borrower, and any waiver of any default under this Agreement shall only be effective if made in writing and signed by the Lender.
- 12.2 Waiver. Time is of the essence of the Borrower's obligations under this Agreement but no failure or delay by the Lender in exercising any right, power or remedy hereunder shall impair such right, power or remedy or operate as a waiver thereof, nor shall any single or partial exercise of any right, power or remedy preclude any further exercise thereof or the exercise of any other right, power or remedy. The rights, powers and remedies provided in this Agreement are cumulative and do not exclude any other rights, powers and remedies provided by law.

13. ASSIGNMENT

- 13.1 Assignment. Any assignment of rights or obligations under this Agreement by the Borrower shall be performed only by prior written consent of the Lender.

14. MISCELLANEOUS

- 14.1 Execution. This Agreement may be executed in any number of counterparts and by the different Parties on separate counterparts, but shall not take effect until each Party has executed and delivered at least one counterpart. Each counterpart when executed and delivered shall constitute an original, but all the counterparts shall together constitute one and the same instrument.
- 14.2 Language of Agreement. This Agreement shall be executed in English.

15. NOTICES

- 15.1 Delivery. Each notice, demand or other communication to be given or made under this Agreement shall be in writing, signed by authorized representatives of the respective Party and delivered by hand, by internationally recognized express mail courier or by fax to the relevant party at its address or fax number.
- 15.2 Deemed Delivery. Any notice, demand or other communication addressed to any relevant party in accordance with Clause 15.1 shall be deemed to have been delivered:
- (a) if delivered by hand, at the time of delivery; or
 - (b) if sent using an internationally recognised courier company, on the second Business Day after it was despatched in a properly addressed envelope; or
 - (c) if sent by fax, on the date of transmission shown on a transmission report produced by the fax machine of the sender (or its agent) which indicates that the entire notice was transmitted successfully, and always subject it was on the same day repeated by the delivering by hand or by using an internationally recognised courier company.

provided that a communication which is received after 5 p.m. on a working day or on a day which is not a full working day in the place of receipt shall be deemed to be delivered on the next full working **day** in that place.

- 15.3 Language. Each notice or other communication under this Agreement shall be in English.

- 15.4 Authorized representatives of the Parties. For the purposes of this Agreement all the notices including the one for drawing, other communications, amendments, variations and other related documents shall be deemed effective and binding if duly signed by the authorized officers or representatives on behalf of the respective Party.

16. CONFIDENTIALITY

- 16.1 This Article 16 applies to the terms and existence of this Agreement, and all information concerning the business, operations or affairs of one party or other information confidential to that party disclosed (directly or indirectly) by one party to one of the other parties whether before or after the date of this Agreement or which one of the other parties learns as a result of the relationship between the parties pursuant to this Agreement, and whether in oral, visual, electronic or any other medium, form or format whatsoever (together “Confidential Information”).
- 16.2 In this Article 16 in relation to a particular item of Confidential Information:
- (a) the “disclosing party” means the party by whom (or on whose behalf) that Confidential Information is disclosed or (where there is no such disclosure) the party to whom the Confidential Information relates, or to whom the Confidential Information is proprietary; and
 - (b) a “receiving party” means a party which receives or otherwise becomes aware of the Confidential Information relating to the disclosing party.
- 16.3 During the term of this Agreement and one year after termination of this Agreement (for any reason whatsoever), each receiving party shall with respect to any and all Confidential Information:
- keep the Confidential Information secret and confidential;
 - not disclose the Confidential Information to any other person other than pursuant to clause 16.4 below or with the prior written consent of the disclosing party; and
 - not use the Confidential Information for any purpose other than the performance of its obligations and the exercise of its rights under this Agreement.
- 16.4 The receiving party may disclose Confidential Information to the following persons (each, a “recipient”) but only on a need to know basis:
- (i) its officers and senior employees; and
 - (ii) its professional advisers; and
 - (iii) where disclosure is required by reason of any law or regulation, or by the order of any court of competent jurisdiction or other governmental or regulatory body, in which case the receiving party shall promptly notify the disclosing party giving full details of the circumstances and Confidential Information to be disclosed, and shall co-operate with the disclosing party and take such steps as the disclosing party may reasonably require in relation to such disclosure, and shall confine any disclosure to the minimum necessary for compliance with the relevant law, regulation or order,
- and provided that the receiving party ensures that in each case the recipient is made aware of and (with regard to paragraph (iii) above, so far as practicable) complies with all the receiving party’s obligations of confidentiality under this Agreement as if the recipient was a party to this Agreement.

16.5 Article 16 shall not apply to any Confidential Information which:

(i) is now or subsequently becomes part of the public domain other than as a result of disclosure by or other default of the receiving party, or any recipient to which it has disclosed Confidential Information, in either case in breach by the receiving party of the provisions of this Article 16;

(ii) the receiving party can demonstrate, by documentary evidence, was lawfully in its possession prior to the date of this Agreement and was not subject to any duty of confidentiality; or

(iii) is disclosed to the receiving party on a non-confidential basis by a person which is not connected to, and does not owe any duty of confidentiality to, the disclosing party.

17. GOVERNING LAW AND DISPUTE RESOLUTION

17.1 This Loan Agreement is governed by and construed in accordance with the laws of England and Wales.

17.2 Without prejudice to the Lender's rights to take legal actions in other courts for interim relief or otherwise in respect of this Agreement as set forth herein below, any dispute arising out of or in connection with this Loan Agreement, including any question regarding its existence, validity or termination, may be referred to London Court of International Arbitration ("LCIA") and finally resolved by arbitration under the LCIA Rules, which rules are deemed to be incorporated by reference into this clause.

17.2.1 The number of arbitrators shall be three and the seat, or legal place, of arbitration shall be London. The Borrower and the Lender shall nominate one arbitrator each and the third arbitrator, who shall be the Chairman of the tribunal, shall be appointed by the LCIA. The Arbitrators will aim to issue the Award within 30 days of their appointment.

17.2.2. The language to be used in the arbitral proceedings shall be English.

17.2.3. The Lender may apply to the arbitrator seeking injunctive or other interim relief until the arbitration award is rendered or the controversy is otherwise resolved. The Lender may also, without waiving any remedy under this Agreement, seek from any competent court having jurisdiction any injunctive, interim or provisional relief that is necessary to protect the rights of the Lender pending the establishment of the arbitral tribunal (or pending the arbitral tribunal's determination of the merits of the controversy).

17.2.4 Upon the request of any Party, within 90 days of its appointment the arbitral tribunal may consolidate the proceedings before it with any other arbitration proceedings involving any of the Parties provided that:

- common issues of law or fact are such that consolidation would be more efficient;

- no material prejudice would be caused for any reason to any party to the proceedings sought to be consolidated; and

- if different tribunals make different rulings on consolidation there shall be no consolidation in the absence of agreement by all the parties to the various proceedings sought to be consolidated.

IN WITNESS whereof this Agreement has been executed by the Parties to it on the date stated at the beginning of this Agreement.

THE LENDER

THE LENDER

**SIGNED for and on behalf of
ALTLANDS OVERSEAS CORP**

Sign: 
Name: Ms. Lorraine Torres
Title: Director.



THE BORROWER

**SIGNED for and on behalf of
MCW Energy CA, Inc.**

Sign: 
Name: Aleksandr Blyumkin
Title : Director

250 Barrels Per Day Oil Production Plant

MCW has developed and patented environmentally-friendly, closed loop, continuous flow, highly scalable State-of-the-Art technology to produce oil/bitumen from the oil sands. This unique process can be effectively applied to both “water-wet” deposits (such as the oil sands projects in Alberta, Canada), and/or “oil-wet” deposits (such as the resources typically found in Utah, USA). Based on this technology the first oil from oil sands commercial production plant has been built and successfully started oil production in Asphalt Ridge, Utah in October 2014.

Plant utilizes no water in the process, produces no greenhouse gas, requires no high temperature and/or pressure, extracts over 99% of all hydrocarbon content and recycles over 99% of the solvents. Patented solvent composition consists of hydrophobic, hydrophilic and polycyclic hydrocarbons. It is capable to dissolve over 99% of heavy bitumen/asphalt and other lighter hydrocarbons from the oil sands and prevents their precipitation during the extraction process. Solvents used in this composition form an *azeotropic* mixture that has low boiling point of 70 — 75 degrees C and allows recycling over 99% of the solvent. These features make possible to perform oil extraction from the oil sands at mild temperatures of 50 — 60 degrees C with no vacuum or/and pressure applied that leads to high energy and economic efficiency of the extraction.

Next key element of MCW plant is design and manufacturing of the new efficient extractor based on proprietary/patented “liquid fluidized bed” solvent extraction system for the bitumen/oil from oil sands extraction. This is the most important design improvement over all other existing/competing oil from oil sands extraction processes. A “liquid fluidized bed” style reactor is used to provide continuous mixing of the (liquid) solvent and the solid ore particles. It allows continuous flow process with optimal material/mass/energy balances. This principle has been successfully utilized on a commercial scale in the coal burning and chemical industries for decades. Below are schematics of “fluidized bed” system that shows how that principle works.

“Fluidized Bed” System

MCW team has developed, engineered and build a “fluidized bed” solvent extraction system to extract oil from oil sands. This is the essence of the process and along with the solvent composition/system the most important design improvement over competing oil sands extraction processes. A “fluidized bed” style reactor is used to provide continuous mixing of the (liquid) solvent and the solid ore particles. It allows continuous flow process and optimal material/mass/energy balances. This principle has been successfully utilized on a commercial scale in the coal burning industry and chemical industry for decades.

In the production process in the “fluidized bed extractor” solvent is heated to near its boiling point, and injected through numerous precisely aimed/designed/calculated nozzles positioned throughout the reactor vessel. The solvent flows around and up the reactor towards the top. The crushed ore particles entering the top are carried downwards through the fluid stream by gravity, and are washed of 99.9% of the contained hydrocarbon as they make their way to the bottom of the reactor. The most important feature of this design is it allows for efficient mixing and separation of the solvent (liquid) phase with/from the solid phases, with no moving mechanical parts. Below is the oil production process description by stages from the native oil sands ore.

Production process description

Preparatory Stage: Mining and crushing of the oil sands ore to prepare for processing,

Stage 1: Crushed ore delivered into patented fluidized bed extractor. Extraction process is performed at temperatures between 50-60 C degrees.

Stage 2: Patented solvent composition with extracted oil/bitumen is delivered from extraction column to the evaporator and then to distillation column.

Stage 3: Hydrocarbons (oil/bitumen) are extracted from the solvent in the distillation column and pumped into the storage tank and/or delivery truck.

Stage 4: Solvent is recycled, warmed up and returned back to the extractor within the continuous flow, closed-loop system. Over 99% of the solvent is recycled.

Stage 5: Purified sands leave extractor and go through the drying process.

After 3rd stage, the extracted crude oil is free of sand and solvents. It is then pumped out of the system and into a storage tank. The sand exits the extraction system as clean, dry sands, which can either be sold or replaced back into the environment. Any heat generated during this process may also be recycled. The crude oil produced is low in sulfur content (reducing refinery costs for added processing) and the average API range for Utah oil sands is 12 - 14 API.

Plant Energy Efficiency

The fundamental innovations in solvent composition and fluidized bed reactor gives MCW technology powerful ability to liquefy heavy hydrocarbon ends and extract liquid fuels for sale. In contrast, the only other available technology that could be considered comparable for the production of mined oil sands is the traditional Clark Hot Water approach. This process utilizes heat and the mechanical motion of slurry to liberate bitumen, and has Energy Returned Over Energy Invested (EROEI) of approximately 5 or 6 in terms of the caloric energy of the liquid output products compared to the energy required to process the crushed ore. The process developed by MCW has EROEI closer to 40 to 1, using conservative estimates of the input energy requirements. In addition, the hot water process is not really applicable to "oil-wet" oil sands deposits. As such, MCW process would be able to access crushed ore that has little other commercial demand.

THE LENDER

SIGNED for and on behalf of
ALTLANDS OVERSEAS CORP

Sign

Name: Ms Lorraine Torres

Title: Director.



THE BORROWER

SIGNED for and on behalf of
MCW Energy CA, Inc.

Sign

Name

Title

[Handwritten Signature]
ALEXANDER BLYURKIN
Chairman of the
Board

AMENDED AND RESTATED OPERATING AGREEMENT OF *MON* OIL SANDS RECOVERY, LLC

[follows on 5 pages]

LOAN AGREEMENT AMENDMENT NO. 1

July 21st, 2015

Altlands Overseas Corp.
CAMBRA LA DUKE (BELIZE) LTD
New Horizon Building, Ground Floor 3 ½ Miles Philip S.W. Goldson Highway
Belize City, Belize

We refer to the loan agreement dated February 9, 2015 between Altlands Overseas Corp. and MCW Energy CA, Inc. (the “**Agreement**”). For good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the Parties have agreed to amend the Agreement as follows (the “**Amending Agreement**”). Capitalized terms not otherwise defined shall have the same meaning ascribed to them in the Agreement.

1. Section 3.1 is deleted and replaced with the following:

“3.1 Amount. Subject to the provisions of this Agreement, the aggregate principal amount of the Loan available to the Borrower is \$3,500,000 (Three million and Five Hundred US Dollars).

The Loan shall be delivered in two tranches: the first tranche amounting to \$2,000,000 (Two million US Dollars) (the “**First Tranche**”) and the second tranche amounting to \$1,500,000 (One million Five Hundred US Dollars) (the “**Second Tranche**”).

2. Section 3.3 is deleted and replaced with the following:

“3.3 Purpose. The Borrower shall use the proceeds of the First Tranche for the purposes of Oil Sands commencing commercial operation of 250 Barrels Per Day Production Plant (i.e. production of not less than 250 barrels of oil per day from the oil sands at a processing site located at NW ¼ of Section 24, Township 4 South, Range 20 East, Salt Lake Base and Meridian) within not more than **45** (forty five) calendar days following the date when the proceeds of the First Tranche are credited into the account of the Borrower and the Borrower shall procure that such operation commences as stated above.

The Borrower shall use the proceeds of the Second Tranche for the purposes of Oil Sands commencing commercial operation of 500 Barrels Per Day Production Plant (i.e. production of not less than 500 barrels of oil per day from the oil sands at a processing site located at NW ¼ of Section 24, Township 4 South, Range 20 East, Salt Lake Base and Meridian) within not more than 6 (six) months following the date when the proceeds of the Second Tranche are credited into the account of the Borrower and the Borrower shall procure that such operation commences as stated above”.

3. Section 3.4 is deleted and replaced with the following:

“3.4. Disbursement of the Loan. The Lender shall grant the First Tranche by effecting a transfer of funds of the First Tranche to the Borrower’s Account on or before the second (2nd) Business Day after receiving of a duly issued notice of drawing and subject to Clause 3.5 hereof. The Lender shall grant the Second Tranche by effecting a transfer of funds of the Second Tranche to the Borrower’s Account on or before the fifth (5th) Business Day after receiving of a duly issued notice of drawing and subject to Clause 3.5 hereof”.

4. Section 5.1 is deleted and replaced with the following:

“Repayment. The Borrower shall repay the Loan together with all outstanding Interest and other amounts (if any) due from the Borrower to the Lender under the terms of this Agreement in a lump sum on the Repayment Date, subject to Clause 10 hereof, or any other day as may be requested by the Borrower and agreed to in writing by the Lender. The Lender in its sole discretion may agree to extend the Repayment Date for repayment of the Loan (or any portion thereof) for an additional period or periods.

Upon Lender’s written request, subject to all necessary approvals, including but not limited to the approvals of TSXV, Directors and Shareholders (the **“Approvals”**), the Loan together with all outstanding Interest and other amounts (if any) due from the Borrower to the Lender under the terms of this Agreement shall be repaid by transfer of 49,9% of the Borrower’s member’s interest, including the 49,9% of the voting rights, in MCW Oil Sands Recovery, LLC to the Lender or any other person as may be instructed and directed by the Lender (**“Transfer”**), so that the Lender or any other person as may be instructed and directed by the Lender becomes a new member of MCW Oil Sands Recovery, LLC as set out in Clause 11.2 of the **AMENDED AND RESTATED OPERATING AGREEMENT OF MCW OIL SANDS RECOVERY, LLC** as attached in **Annex 2** hereto (**“Operating Agreement”**).

The Borrower shall use all reasonable efforts to procure that the Approvals be granted to the Transfer 4s soon as possible. Should any of the Approvals not be granted for any reason whatsoever within 4 (four) months following the date of this Amending Agreement given above, the Loan together with all outstanding Interest and other amounts (if any) due from the Borrower to the Lender under the terms of this Agreement shall become immediately due from the Borrower to the Lender and shall be paid by the Borrower to the Lender within five (5) Business days following the written request of the Borrower on such repayment (**the “New Repayment Date”**). Any amount remaining outstanding from the Borrower to the Lender following the New Repayment Date shall bear annual interest at the rate of 12%.

Should the Lender elect to proceed with the Transfer and subject to all necessary approvals, including but not limited to the approvals of TSXV, Directors and Shareholders the Borrower shall procure that the Operating Agreement be amended in due course to provide for governance of a multi-member limited liability company and shall pay all reasonable costs and expenses in connection with the admission of the Lender as the new member at its own expense. The Borrower shall further procure that all authorizations and consents required from any governmental or other authority or required to be obtained by the Borrower from any of its members or creditors or any other person or any of the Borrower’s governing bodies for or in connection with the said Transfer be duly and timely obtained.”

5. All other terms of the Agreement not contradicting with the provisions of this Amending Agreement shall continue in full force and effect.
6. This Amending Agreement may be executed in two or more counterparts, each of which is deemed to be an original and all of which will constitute one agreement, effective as of the date given above

If you are in agreement with the terms and conditions of this Amending Agreement, please sign below and return one copy to our attention.

Yours truly,

MCW ENERGY CA, INC.

Per: /s/ Aleksandr Blyumkin
Name: Aleksandr Blyumkin
Title Director

AGREED AND ACCEPTED this day ___ of July, 2015.

ATLANDS OVERSEAS CORP.

Per: /s Lorraine Torres
Name: Lorraine Torres
Title: Director

**FIRST AMENDMENT TO
MINING & MINERAL LEASE AGREEMENT**

This AMENDMENT TO MINING & MINERAL LEASE AGREEMENT ("Lease Amendment"), dated and made effective as of October 1, 2015 ("Amendment Date"), is made and entered into by and between ASPHALT RIDGE, INC., a Utah corporation having offices at 6083 Carriage House Way, Reno, NV 89519 ("Lessor"), and TMC CAPITAL, LLC, a Utah limited liability company having offices at 18653 Ventura Bvvd #158 Los Angeles, California 91356 ("Lessee") (the parties sometimes referred to individually as a "Party" or collectively as the "Parties").

RECITALS

A. Lessor is the owner of certain property situated in Uintah County , Utah and more particularly described in Exhibit A attached hereto and made part hereof (hereinafter the "Properties"), and owns the Water Rights as more particularly described in Exhibit B hereto (hereinafter the "Water Rights");

B. Under the terms of that certain "Mining and Mineral Lease Agreement" dated as of July 1, 2013 (the "Lease"), between Lessor and Lessee, Lessor granted to Lessee an exclusive right to explore for, mine, produce, extract and sell or otherwise dispose of Tar Sands and any Minerals which are associated with or contained in any Tar Sands (as defined in the Lease), subject to a depth limitation of above 3,000 feet above Mean Sea Level (MSL), located in and under the Properties and to use the Water Right in connection therewith; and

C. Lessor and Lessee desire to amend and modify the Lease with respect to certain rights, obligations and provisions, in each case becoming effective as of the Amendment Date, as set forth in this Lease Amendment and pursuant to the terms set forth hereinafter.

NOW, THEREFORE, in consideration of the covenants, promises and obligations contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

1.0 AMENDMENTS TO PARAGRAPH 2 OF LEASE.

Paragraph 2 of the Lease is hereby deleted in its entirety and replaced with the following:

2) Term. This Lease is granted for a primary term of six (6) years (the "Primary Term") commencing July 1, 2013 (the "Effective Date"). If at any time during the Primary Term, Lessee fails to achieve (or exceed) the requirements of Continuous Operations (as defined below), this Lease shall terminate unless mutually agreed in writing by both Parties. If within the Primary Term, Lessee meets or exceeds the applicable requirements of Continuous Operations, then this Lease shall continue after the Primary Term for so long as such requirements continue to be met or maintained. If, at any time following the Primary Term, the operations conducted by Lessee cease for longer than 180 days during any Lease Year or 600 days in any three consecutive Lease Years, Lessor shall be entitled, upon complying with the provisions contained in Paragraphs 12 (Termination) and 14 (Notices), respectively, to terminate this Lease.

a) Definition of "Continuous Operations". For purposes of this Lease, the term "Continuous Operations" means:

(i) the construction or operation of one or more facilities having the capacity to produce, from bituminous ores, sands and compounds mined or extracted from the Properties, an average daily quantity ("ADQ") of bitumen, synthetic crude oil and/or bitumen products (excluding blending agents and dilutants) that, in the aggregate, equals or exceeds the following:

By 07-01-2016, an ADQ of 100 bbls/day;

By 07-01-2018, an ADQ of 1,500 bbls/day; and

By 07-01-2020 and thereafter during the remainder of this Lease, an ADQ of 3,000 bbls/day; and

(ii) from and after 07-01-2016, the continuation of operations for a minimum period of 180 days during each Lease Year or 600 days in any period of three consecutive Lease Years at (or in excess of) the applicable ADQ specified hereinabove.

b) Offsite Operations. Operations conducted by Lessee off the Properties shall be included in determining whether the applicable requirements of Continuous Operations have been met if they are conducted in connection with an integrated mining operation involving the Properties and other properties in which Lessee holds an interest, provided that, during any period of three (3) Lease Years, at least fifty percent (50%) percent of the ores, tar sands, or fee stock of whatever nature mined or otherwise extracted from or in the integrated mining operation comes from the Properties.

c) Smaller Operations. In the event that the operation of any facility or facility constructed or deployed by Lessee to produce bitumen, synthetic crude oil and/or bitumen products from the Properties fails to achieve (or exceed) the requirements for Continuous Operations in or for any Lease Year (or any period of three consecutive Lease Years), Lessor shall be entitled, upon complying with the provisions contained in Paragraphs 12 (Termination) and 14 (Notices), respectively, to terminate this Lease.

2.0 AMENDMENTS TO PARAGRAPH 4 OF THE LEASE.

Paragraph 4 of the Lease is hereby deleted in its entirety and replaced with the following:

a) Advance Royalties. Lessee agrees to make advance royalty payments to Lessor during the term of this Lease as provided in this Paragraph 4(a) ("Advance Royalties").

(i) Lessor and Lessee each acknowledge and agree that all Advance Royalties payable to Lessor under this Lease from and after the Effective Date through September 30, 2015 have been paid in full.*

(ii) Effective as of October 1, 2015, Lessee shall pay Advance Royalties to Lessor as follows:

For the Lease Quarter beginning 10-01-2015 and each of the next ensuing seven (7) successive Lease Quarters (ending 09-30-2017)

Advance Royalty of \$60,000 shall be paid quarterly, with payment made on or before the first day of each such Lease Quarter

For the Lease Quarter beginning 10-01-2017 and each of the next ensuing ten (10) successive Lease Quarters (ending 06-30-2020)

Advance Royalty of \$100,000 shall be paid quarterly, with payment made on or before the first day of each such Lease Quarter

For the Lease Quarter commencing 07-01-2020 and each ensuing successive Lease Quarter during the remaining term of this Lease

Advance Royalty of \$150,000 shall be paid quarterly, subject to a CPI Adjustment as provided below, with payment made within 30 days after the end of each such Lease Year

(iii) The Advance Royalty payable to Lessor for the Lease Year commencing on July 1, 2020 and for each successive Lease Year thereafter shall be adjusted on each anniversary of the Effective Date (7-1-2013) by a percentage equal to the percentage change in the Consumer Price Index (all Urban Areas), U.S. City Average, published by the U.S. Department of Labor, for and during the prior calendar year (the "CPI Adjustment"). Any Advance Royalty payable to Lessor under this Lease prior to the Lease Year commencing on July 1, 2020 shall not be subject to the CPI Adjustment.

b) Accrual and Credit of Advance Royalties. Payments of Advance Royalties may accrue and be utilized as a credit against (and a reduction of) Production Royalties for a maximum of two years following the year for which the Advance Royalties have been paid. Upon any assignment, merger, or transfer of the Lease the credit for all accrued Advance Royalty payments shall be forfeited and will no longer be recoverable from Production Royalties.

* An extension of time for payment of the Advance Royalty payment due on October 1, 2015 is hereby granted by Lessor on the condition that the payment is made on or before November 1, 2015.

c) Production Royalties. Lessee agrees to make production royalty payments to Lessor during the term of this Lease as provided in this paragraph 4(c) ("Production Royalties").

(i) From and after the Effective Date through the Lease Year ending June 30, 2020, the Production Royalty for Bitumen Oil Product produced from Tar Sands mined or otherwise extracted from the Properties shall be seven (7%) percent of the gross sales revenue received by Lessee from the sale of such Bitumen Oil Product, less actual transportation costs incurred post-processing to the point of sale to a third party unrelated to and unaffiliated with Lessee. As used herein, the term "Bitumen Oil Product" means natural occurring oil in the Tar Sands that is sold in whatever form, including run-of-mine, screened or processed, or after the addition of any additives and/or the upgrading of, Bitumen Oil Product; it being the intent of the parties hereto that calculation of Production Royalty for the Bitumen Oil Product sold shall be determined solely by the actual number of tons, cubic yards, or barrels of Bitumen Oil Product produced and sold from the Tar Sands deposits contained within the Properties.

It is the intention of the Parties that the Production Royalty payable to Lessor on any Bitumen Oil Product, or other products or by-products (see paragraph 4 c) (iii)) that have been generated, processed or extracted from deposits of Tar Sands mined or otherwise extracted from the Properties shall be based upon the gross sales price. Adjustments for diluent shall be made if properly accounted for and verified to Lessor. No deduction may be made for any process chemicals, including but not limited to the 15% condensate component. Example: If 80% of the "Bitumen Oil Product" sold is diluent (condensate or other blending agent), 65% (80% -15%) shall be deductible from the gross sales price. Likewise, if 40% is diluent, 25% (40%-15%) shall be deductible from the gross sales price.

A division order or similar agreement or contract may be entered into from time to time by (i) Lessor, Lessee and other future owners of working interests or royalty interests under other leases, and (ii) the buyer of Bitumen Oil Product or an independent person or entity retained by Lessee for the purpose of calculating the payment of Production Royalties hereunder, in each case for the purpose of directing the buyer or such independent person or entity, as the case may be, to (A) calculate Production Royalties in accordance with the provisions hereof based on information and data provided by Lessee and reviewed by Lessors and such other future owners of interests, and then (B) disburse Production Royalties to all persons entitled thereto.

Effective with the Lease Year commencing July 1, 2020 and for each successive Lease Year thereafter, the rate for determining Production Royalties payable under this Paragraph 4(c)(i) shall be subject to adjustment based on changes in the average monthly "spot" price for West Texas Intermediate Crude Oil as specified in Table 1 below. In each case and for each such royalty payment period, the royalty rate used in determining or calculating Production Royalties for such period shall be the applicable percentage rate specified in Table 1.

TABLE 1

CRUDE OIL PRICE Quoted Average Monthly West Texas Intermediate Crude (WTI) [†]	PRODUCTION ROYALTY (PR%) Percentage
\$60.00 and below	7%
\$65.01 to \$70.00	8%
\$70.01 to \$75.00	9%
\$75.01 to \$80.00	10%
\$80.01 to \$85.00	11%
\$85.01 to \$90.00	12%
\$90.01 to \$95.00	13%
\$95.01 to \$100.00	14%
\$100.01 and above	15%

(ii) Lessee shall be required to pay Production Royalties on any Minerals used or consumed by Lessee in the conduct of its operations, provided the source of Minerals is proportionally distributed among all properties where Minerals are mined. The purchase price shall be based upon the market price for screened cold asphalt road mix.

(iii) The Production Royalty for all other Minerals produced from the Bitumen Oil Products taken from the Properties and sold shall be five percent (5%) of the amount received by Lessee. Subject to the provisions of Paragraph 1(a) wherein sales of products and by-products are wholly accounted for, should sales occur to a third party purchaser that is engaged in marketing a variety of products or by-products and payments to Lessee are measurably greater than comparable sales by others (this may be due to the variety of high end by-products such as frac sands produced by the third party), the Production Royalty to Lessor shall be the greater of a 5% royalty on the gross value of the product and by-products sold by the third party or 50% of the gross revenue received by the Lessee from the sale of such products or byproducts, as the case may be.

(iv) Subject to the provisions contained in Paragraph 3(c), all Minerals shall be deemed sold at the time payment is actually received by Lessee.

[†] The average monthly WTI "Spot Price", FOB Cushing, OK (in U.S. Dollars per barrel) as reported by the U.S. Energy Information Administration.

(v) Should oil and gas be discovered and subject to being produced using standard oil and gas recovery techniques within and above 3000 feet above Mean Seal Level (MSL), Lessee shall have the exclusive right during the Term of this Lease (which right may not be assigned without prior written consent of Lessor) to produce, market and sell all such oil and gas existing or discovered within the Lease boundaries upon the condition that the Production Royalty payable to Lessor for all such oil and gas produced, saved and sold shall be 1/6 of the gross market value thereof.

(vi) In order to avoid potential conflicts, unnecessary or burdensome calculations and misunderstandings, Lessee shall not assign, convey or otherwise transfer to any third person or entity, whether by assignment, sublease, merger or otherwise, any right, title or interest in and to the Leases, place a burden on any potential third party, sublessee, merger party, or any other form of assignment of Lessee's interest in this Lease wherein the actual retained interest of whatever nature exceeds 3.5% gross royalty/overriding royalty during the period when any third party is recovering their capital, thereafter, the burden shall not exceed a 5% gross royalty. This interest of whatever nature will be subject to the split (80% Lessee and 20% Lessor) as provided for in Paragraph 7 — Assignment of the Lease.

d) Production Royalty Payments. All payments of Production Royalty shall be made no later than forty-five (45) days after the end of each calendar month in which Bitumen Oil Product or any byproducts or other Minerals have been sold. Such payment shall be accompanied by a royalty settlement statement that will show the mathematical calculation of how the payment amount was calculated, including the credit for Advance Royalties paid, and will be accompanied by appropriate documentation, including copies of sales records, monthly mining and processing records, actual transportation costs to third party buyers, and annual summaries. If Lessor does not give Lessee written notice objecting to any Production Payment within six months of receipt of the statement, it shall be conclusively deemed correct. All royalty settlement statements shall be delivered to Lessor and payments to the designated Depository Agent.

e) Depository Agent. All payments due under the terms of this Lease shall be made by Lessee to Wells Fargo Bank, NA, 1200 Disc Drive, Sparks, NV 89436, ("Agent"), which Lessor hereby appoints as Lessor's agent for the receipt of such payments, or to such other organization as Lessor may from time to time designate by written notice to Lessee. All payments made to Agent shall be considered to have been made to Lessor and, upon making payment to such Agent, Lessee shall be relieved of all responsibility or liability for the disbursement thereof. In the event that payments should be made to a transferee because of any transfer of Lessor's interest in this Lease or the Properties, payments tendered to the Agent shall conclusively be deemed payment to such transferee until Lessee receives notice and sufficient documentation from both Agent and Lessor that Lessor's interest has been transferred and that payments should be made to any such transferee. Documentation of payments shall be sent directly to Lessor.

f) commingling and Area of Mutual Interest. Lessee shall have the right to commingle Minerals removed from the Properties or products derived therefrom after treatment, with other minerals or products from other properties, before or after processing. Consequently, Lessor acknowledges that part or all of Lessee's Gross Revenue may come from minerals extracted from other properties and not from Minerals subject to this Lease.

(i) In order to determine the split of Production Royalties to be paid to Lessor and to other lessors of other properties, aerial photographic and photogrammetric techniques combined with other methods to be agreed upon by Lessor and Lessee will be used by Lessee to calculate ore volumes processed from the various properties. The Production Royalty paid to Lessor shall be based on the proportionate volume of ore calculated to have come from Lessor's Properties. Aerial photography shall be performed a minimum of once per calendar quarter and ore removal volumetric and grade calculations shall be performed monthly. The use of photogrammetry is useful and recognized as a method to measure quantities (not quality) of material mined, stockpiled, and removed from the Properties as a secondary and supportive measure. The recent use of drones may meet this criteria and is being investigated.

There is no adequate measure of the resources (minerals) removed from the Properties. Immediate measures must be taken to satisfactorily quantify the tonnage and grade of all minerals removed from the Property. The Lessee shall provide a summary of current and future techniques to accomplish this goal within the next 30 days and notify Lessor of any changes thereafter to any established and approved protocol. Additionally, the Lessee shall engage an independent third party to further validate an accurate measurement of all minerals/resources so removed.

(ii) The Area of Mutual Interest is defined as that property which may be currently controlled by or subsequently acquired by either Lessor, Lessee, or their agents, affiliates, subsidiaries, divisions, or any person or entity under common control that lies within one mile of the external boundary (perimeter) of the Properties. Lessee agrees to pay Lessor a one and one half percent (1 1/2%) production royalty, as defined above, on all Minerals produced from the Area of Mutual Interest. Lessor's properties described in Exhibit A that are excluded from the Lease are also excluded from the "Area of Mutual Interest".

g) Minimum Expenditures. From and after the Amendment Date through the Lease Year ending June 30, 2020, Lessee shall make expenditures for the benefit of the Properties of not less than \$1,000,000 per year. During the Lease Year commencing July 1, 2020 and each year thereafter in which Lessee fails to achieve (or exceed) an ADQ of at least 3,000 bbls/day during a 180-day period, Lessee shall make expenditures (which shall include operational costs but shall not include depreciation or corporate overhead) for the benefit of the Properties of not less than \$2,000,000 per year. Expenditures in excess of those stated above in or during any Lease Year may be carried forward to the next Lease Year. The term "benefit" shall mean expenditures for exploration, mapping, developing or acquiring water rights (any acquisition of water rights shall be made in the name of the Lessor with Lessee's right to utilize said water rights during the Term of the Lease.), assaying, metallurgical testing, permitting, preparing feasibility studies, and construction of plant and surface facilities, including facilities constructed and/or operated on property located near the Properties. Lessee will provide Lessor with copies of all acquired data relating to such expenditures, other than data considered proprietary to Lessee or that are or include the trade secrets of Lessee, which shall become the sole property of the Lessor on termination for any reason including copies of expenditures made for those qualifying categories above.

3.0 AMENDMENTS TO PARAGRAPH 7 OF THE LEASE.

Paragraph 7 of the Lease is hereby amended to add the following new and additional paragraph at the end thereof:

“Each Party agrees to hold harmless the other Party(ies) should any claims against Lessor or Lessees/Sublessee caused by action of either Lessor or Lessee/Sublessee, and, in this event, it will subject the party responsible for creating the problem to the attorney fees, if litigation is involved, and damages that ensue to the otherwise adversely affected Parties.”

4.0 AMENDMENTS TO PARAGRAPH 11 OF THE LEASE.

Paragraph II of the Lease is hereby amended to add, as a new third paragraph thereto, the following:

“Lessee fully understands and agrees that this Lease shall be subject to termination upon the occurrence of any of the following events:

(1) If a written letter from an institution or individual capable of and committed to funding the proposed 3,000 barrel/day processing facility to be constructed for the benefit of the Properties is not obtained or secured on or before March 1, 2016, this Lease shall automatically terminate without notice;

(2) If the technology, techniques or process deployed by Lessee in the development of the Lease prove to be uneconomic and operations cease due to increased operating costs or decreased marketability, this Lease shall automatically terminate if operations are not resumed at capacity within six (6) months of any such cessation, and

(3) If the proposed 3,000 barrel/day processing facility to be constructed for the benefit of the Properties fails to produce at a minimum of 80% of its rated capacity for at least 180 calendar days during the Lease Year commencing July 1, 2020 or any successive Lease Year, this Lease shall terminate within thirty (30) days after Lessee receives a written notice of termination from Lessor. The 3,000 barrel/day rated capacity is determined solely by the quantity of ore processed from the Property to produce 3,000 barrels/day prior to being diluted by condensate or any other dilutant.”

5.0 AMENDMENTS TO PARAGRAPH 13 OF THE LEASE.

Paragraph 13 of the Lease is deleted in its entirety and replace by the following:

(13) Notices. Notices that are to be delivered pursuant to the terms of this Lease shall be given in writing and shall be hand-delivered, delivered by private courier services having the ability to track deliveries (e.g. Federal Express and United Parcel Service), or sent by certified mail, return receipt requested, to the Parties at the following addresses:

Lessor: Asphalt Ridge, Inc.
Attn: Sam Arentz III, President
6083 Carriage House Way
Reno, NV 89519

Lessee: TMC Capital, LLC
Attn: Alex Blyumkin, Manager
18653 Ventura Blvd, Ste 158
Tarzana CA 91356

Notices shall be deemed effective when received. Either party may change its address for receipt of notices by sending notice of the change to the other party as provided in this Paragraph 13.

6.0 AMENDMENTS TO PARAGRAPH 14 OF THE LEASE.

Paragraph 14(e) of the Lease is hereby amended to add, as a new and additional paragraph thereto, the following:

“Lessee shall, within thirty (30) days after execution of this Amendment, execute a document entitled “Release of Lease” in a form that is acceptable to each of the Parties and is in recordable form, it being agreed and understood that such document will not, and shall not be construed as, having any legal effect on the existence, validity or term of the Lease, until such time as it is recorded, and is intended only as a recordable instrument that signifies, by its recording at some future date, that effective upon the date of recording of the Release of Lease, (i) the Lease has expired or terminated, (ii) Lessee has surrendered its rights thereunder as provided in this Lease, and (iii) Lessee has quitclaimed to Lessor any all right, title and interest in and to the Properties and the Water Right. The Release of Lease shall be delivered into escrow and shall be held by the escrow agent until such time as the Lease is terminated pursuant to the terms of the Lease and at that time, shall be duly recorded in the records of the County Clerk of Uintah County, Utah. The escrow agent and the terms of escrow with respect to the Release of Lease shall be mutually agreed upon by the Parties.”

Except as otherwise amended, modified and restated in this Lease Amendment, the terms of the Lease, as amended herein, shall continue in full force and effect in accordance with the terms thereof.

IN WITNESS WHEREOF, the Parties have executed this Lease Amendment as of the date(s) written below.

ASPHALT RIDGE, INC.

By: /s/ Sam Arentz, III

Name: Sam Arentz, III

Title: President

Date: November 12, 2015

TMC CAPITAL, LLC

By: /s/ Aleksandr Blyumkin
Name: Aleksandr Blyumkin
Title: Manager
Date: November 4, 2015

ACKNOWLEDGEMENTS

STATE OF COLORADO)
) SS
COUNTY OF DENVER)

The foregoing instrument was acknowledged before me on the 17 day of November, 2015, by Sam S. Arentz, III, the President of Asphalt Ridge, Inc., a Utah corporation.



Jessica McDonough
Notary Public

STATE OF CALIFORNIA)
) SS
COUNTY OF LOS ANGELES)

On November 4, 2015, before me, Ninel Faktorovich, personally appeared ALEKSANDR BLYUMKIN, who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.



/s/ Ninel Faktorovich
Notary Public's Name:
Notary Public, State of California
My Commission expires on July 12, 2019

SECURITIES PURCHASE AGREEMENT

This Securities Purchase Agreement (this "Agreement") is dated as of December 15, 2015, between MCW Energy Group Limited, a corporation amalgamated pursuant to the laws of the Province of Ontario (the "Company"), and each purchaser identified on the signature pages hereto (each, including its successors and permitted assigns, a "Purchaser" and collectively, the "Purchasers").

WHEREAS, subject to the terms and conditions set forth in this Agreement, the Company desires to issue and sell to each Purchaser, and each Purchaser, severally and not jointly, desires to purchase from the Company, securities of the Company as more fully described in this Agreement (the "Offering").

NOW, THEREFORE, IN CONSIDERATION of the mutual covenants contained in this Agreement, and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the Company and each Purchaser agree as follows:

**ARTICLE I.
DEFINITIONS**

1.1 Definitions. In addition to the terms defined elsewhere in this Agreement: (a) capitalized terms that are not otherwise defined herein have the meanings given to such terms in the Notes (as defined herein), and (b) the following terms have the meanings set forth in this Section 1.1:

"Acquiring Person" shall have the meaning ascribed to such term in Section 4.7.

"Action" shall have the meaning ascribed to such term in Section 3.1(j).

"Additional Notes" shall have the meaning ascribed to such term in Section 2.4, which Additional Notes shall be identical to the Notes except for the issue date, principal amount and maturity date. The maturity date of the Additional Notes will be eighteen (18) months after the issue date of such Additional Notes and all time effective conditions, clauses and provisions will be similarly modified, *mutatis mutandem*.

"Affiliate" means any Person that, directly or indirectly through one or more intermediaries, controls or is controlled by or is under common control with a Person, as such terms are used in and construed under Rule 405 under the U.S. Securities Act.

"Board of Directors" means the board of directors of the Company.

"Business Day" means any day except any Saturday, any Sunday, any day which is a federal legal holiday in the United States, a statutory or civil holiday in the Province of Ontario, or any day on which banking institutions in the State of New York or the Province of Ontario are authorized or required by law or other governmental action to close.

"Closing" means the Initial Closing and Subsequent Closing, if any, of the purchase and sale of the Securities pursuant to Section 2.1 or 2.4.

"Closing Date" means each of the Initial Closing Date and the Subsequent Closing Date, if any, and is the Trading Day on which all of the Transaction Documents have been executed and delivered by the applicable parties thereto, and all conditions precedent to (i) the Purchasers' obligations to pay the Subscription Amount at such Closing and (ii) the Company's obligations to deliver the Securities to be issued and sold at such Closing, in each case, have been satisfied or waived, but in no event later than the seventh Business Day following the date hereof in the case of the Initial Closing and not later than the tenth Business Day after the Subsequent Closing Option Date in the case of the Subsequent Closing Date.

“Collateral” shall have the meaning ascribed to such term in the Security Agreement.

“Commission” means the United States Securities and Exchange Commission.

“Common Stock” means the common stock of the Company, no par value, and any other class of securities into which such securities may hereafter be reclassified or changed.

“Common Stock Equivalents” means any securities of the Company which would entitle the holder thereof to acquire at any time Common Stock, including, without limitation, any debt, preferred stock, right, option, warrant or other instrument that is at any time convertible into or exercisable or exchangeable for, or otherwise entitles the holder thereof to receive, Common Stock.

“Company Counsel” means McMillan LLP, 181 Bay Street, Suite 4400, Toronto, ON M5J 2T3, Attn: Robbie Grossman, Email: robbie.grossman@mcmillan.ca.

“Company Reports” shall have the meaning ascribed to such term in Section 3.1(h).

“Conversion Price” shall have the meaning ascribed to such term in the Notes.

“Disclosure Schedules” means the Disclosure Schedules of the Company delivered concurrently herewith.

“Environment Law” shall have the meaning ascribed to such term in Section 3.1(jj).

“Event of Default” shall have the meaning ascribed thereto in the Note.

“Exchange Act” means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

“Exempt Issuance” means the issuance of (a) shares issued pursuant to the obligations set forth on Schedule 3.1(g) and Schedule 3.1(hh), (b) securities upon the exercise or exchange of or conversion of any Securities issued hereunder, including shares paid in lieu of interest on the Notes pursuant to Section 2.a) of the Notes (subject to adjustment pursuant to Section 5.23), (c) securities issued pursuant to acquisitions or strategic transactions approved by a majority of the disinterested directors of the Company, provided that any such issuance shall only be to a Person (or to the equityholders of a Person) which is, itself or through its subsidiaries, an operating company or an owner of an asset in a business synergistic with the business of the Company, and (d) securities issued or issuable pursuant to this Agreement, or the Notes, including, without limitation, Section 4.14, or upon exercise or conversion of any such securities.

“Exercise Notice” shall have the meaning ascribed to such term in Section 2.4.

“FCPA” means the Foreign Corrupt Practices Act of 1977, as amended.

“Final Closing Date” shall mean the last Subsequent Closing Date to occur if a Subsequent Closing occurs or, if there is no Subsequent Closing, the Initial Closing Date.

“GAAP” shall have the meaning ascribed to such term in Section 3.1(h).

“G&M” shall mean Grushko & Mittman, P.C., with offices located at 515 Rockaway Avenue, Valley Stream, New York 11581, Fax: 212-697-3575.

“Hazardous Materials” shall have the meaning ascribed to such term in Section 3.1(jj).

“Indebtedness” shall have the meaning ascribed to such term in Section 3.1(hh).

“Initial Closing” shall have the meaning ascribed to such term in Section 2.1.

“Initial Closing Date” shall mean the date upon which the Initial Closing occurs.

“Initial Option Period” shall have the meaning ascribed to such term in Section 2.4.

“Intellectual Property Rights” shall have the meaning ascribed to such term in Section 3.1(o).

“Liens” means a lien, charge, pledge, security interest, encumbrance, right of first refusal, preemptive right or other restriction.

“Listing Default” shall have the meaning ascribed to such term in Section 4.11.

“Lockup Agreement” means the agreement in the form annexed hereto as Exhibit D, and in substance satisfactory to the Purchaser.

“Material Adverse Effect” shall have the meaning assigned to such term in Section 3.1(b).

“Material Permits” shall have the meaning ascribed to such term in Section 3.1(m).

“Maximum Rate” shall have the meaning ascribed to such term in Section 5.17.

“Money Laundering Laws” shall have the meaning ascribed to such term in Section 3.1(cc).

“Notes” means the convertible notes due eighteen (18) months after their respective issue dates, in the form of Exhibit A hereto. The term Notes as employed herein except for Sections 2.4, 2.5 and 2.6 and on the signature page hereto shall also include Additional Notes, mutatis mutandem.

“OFAC” shall have the meaning ascribed to such term in Section 3.1(ee).

“Participation Maximum” shall have the meaning ascribed to such term in Section 4.14(a).

“Permitted Liens” means the individual and collective reference to the following: (a) Liens for taxes, assessments and other governmental charges or levies not yet due or Liens for taxes, assessments and other governmental charges or levies being contested in good faith and by appropriate proceedings for which adequate reserves (in the good faith judgment of the management of Company) have been established in accordance with GAAP, (b) Liens imposed by law which were incurred in the ordinary course of Company’s business, such as carriers’, warehousemen’s and mechanics’ Liens, statutory landlords’ Liens, and other similar Liens arising in the ordinary course of Company’s business, and which (x) do not individually or in the aggregate materially detract from the value of such property or assets or materially impair the use thereof in the operation of the business of Company or (y) are being contested in good faith by appropriate proceedings, which proceedings have the effect of preventing for the foreseeable future the forfeiture or sale of the property or asset subject to such Lien, (c) Liens incurred in connection with any Indebtedness, including, for greater certainty, all Indebtedness listed on Schedule 3.1(hh), (d) any Lien created by, or arising under any statute or regulation or common law (in contrast with Liens voluntarily granted) in connection with, without limiting the foregoing, workers’ compensation, employment and unemployment insurance, old age pension, employers’ health tax, vacation pay or other social security or statutory obligations that secure amounts that are not yet due or which are being contested in good faith by proper proceedings diligently pursued and as to which adequate reserves have been established on the Company’s books and records and the assets in respect of such Lien are not at risk of forfeiture, (e) Liens made or incurred in the ordinary course of business to secure the performance of bids, tenders, contracts (other than for the borrowing of money), leases, statutory obligations or surety and performance bonds and deposits securing or in lieu of such bonds, (f) Liens securing appeal bonds or other similar Liens arising in connection with court proceedings (including, without limitation, surety bonds, security for costs of litigation where required by law, and letters of credit) or any other instruments serving a similar purpose, (g) attachments, judgments and other similar Liens arising in connection with court proceedings, provided such Liens are in existence for less than 30 days after their creation or a stay of enforcement of the Liens is in effect or the claims so secured are being contested in good faith by proper proceedings diligently pursued, (h) Liens given to a public utility or any applicable governmental authority where required by such utility or governmental authority in connection with the operation of the business or the ownership of the assets of Company provided that such Liens do not materially detract from the value of any real property subject thereto and do not materially impair Company’s ability to carry on its business, (i) minor imperfections in title on real property that do not materially detract from the value of the real property subject thereto and do not materially impair Company’s ability to carry on its business or any Purchaser’s rights and remedies under the Transaction Documents, (j) any purchase money Lien on specific fixed assets to secure the payment of the purchase price of those fixed assets where the amount of the obligations secured does not exceed 100% of the lesser of the cost or fair market value of the fixed assets and the amount secured by the Lien does not exceed \$250,000 in the aggregate; and extensions, renewals or replacements thereof upon the fixed assets if the amount of the obligations secured thereby is not increased, (k) restrictions, easements, rights-of-way, servitudes or other similar rights in land (including rights-of-way and servitudes for railways, sewers, drains, gas and oil pipelines, gas and water mains, electric light and power and telephone or telegraph or cable television conduits, poles, wires and cables) granted to or reserved by other Persons which in the aggregate do not materially impair the usefulness, in the operation of the business of Company, of the real property subject to the restrictions, easements, rights-of-way, servitudes or other similar rights in land granted to or reserved by other Persons and, in each case, which do not impair any Purchasers’ rights and remedies under the Transaction Documents, (l) the rights reserved to or vested in any Person by the terms of any lease, license, franchise, grant or permit held by Company or by any statutory provision, to terminate any such lease, license, franchise, grant or permit, or to require annual or periodic payments as a condition to the continuance thereof, (m) restrictive covenants affecting the use to which real property may be put, provided that the covenants are complied with and do not materially detract from the value of the real property concerned or materially impair its use in the operations of Company or impair any Purchaser’s rights and remedies under the Transaction Documents, (n) Liens created by the Transaction Documents and any other security provided to any Purchaser by Company, (o) Liens to which the majority of the Purchasers have given their consent, (p) any Liens now or hereafter arising in favor of any entity who provides financing to the Company, including any financial institution, which are subordinate in priority to any Liens granted to any Purchaser, and (q) the Senior Security.

“Person” means an individual or corporation, partnership, trust, incorporated or unincorporated association, joint venture, limited liability company, joint stock company, government (or an agency or subdivision thereof) or other entity of any kind.

“Pre-Notice” shall have the meaning ascribed to such term in Section 4.14.

“Proceeding” means an action, claim, suit, investigation or proceeding (including, without limitation, an informal investigation or partial proceeding, such as a deposition), whether commenced or threatened.

“Public Information Failure” shall have the meaning ascribed to such term in Section 4.3(b).

“Public Information Failure Payments” shall have the meaning ascribed to such term in Section 4.3(b).

“Purchaser Party” shall have the meaning ascribed to such term in Section 4.10.

“Reporting Issuer” shall have the meaning given to such term under Securities Laws.

“Required Approvals” shall have the meaning ascribed to such term in Section 3.1(e).

“Required Minimum” means, as of any date, the maximum aggregate number of shares of Common Stock then issued or potentially issuable in the future pursuant to the Transaction Documents, including any Underlying Shares issuable upon exercise in full of all Warrants or conversion in full of all Notes, and assuming that any previously unconverted Notes will be held until the third anniversary of the Final Closing Date.

“Securities” means the Notes, the Warrants, and the Underlying Shares.

“Securities Laws” means the securities laws of Canada and its provinces and the rules and regulations promulgated thereunder.

“Security Agreement” shall have the meaning ascribed to such term in Section 2.2(a)(iv).

“Senior Security” shall mean all liens, charges, pledges, hypothecs, mortgages, assignments, security interests and other encumbrances of any nature or kind, now or hereafter granted, created or assumed by the Company or any other person in or over all or any of the Collateral and held by or on behalf of (i) any affiliate or successor of the Deutsche Bank Group, or (ii) any affiliate or successor of US Capital Partners (each a “Senior Lender”, and collectively, the “Senior Lenders”), including all amendments, modifications, restatements, supplements or replacements thereof or thereto from time to time. Without limiting the generality of the foregoing, Senior Security includes all security agreements granted to any of the Senior Lenders by the Company and all security interests of any Senior Lender now or at any time in the future perfected by registration in any jurisdiction under any personal property security legislation.

“Subordinate Security” shall mean all liens, charges, pledges, hypothecs, mortgages, assignments, security interests and other encumbrances of any nature or kind, now or hereafter granted, created or assumed by the Company or any other person in or over all or any of the Collateral and held by or on behalf of any Purchaser, including all amendments, modifications, restatements, supplements or replacements thereof or thereto from time to time. Without limiting the generality of the foregoing, Subordinate Security includes all security agreements granted to any Purchaser by the Company and all security interests of any Purchaser now or at any time in the future perfected by registration in any jurisdiction under any personal property security legislation.

“Subscription Amount” means, as to each Purchaser, the aggregate amount to be paid for the Notes (including Additional Notes) and Warrants purchased hereunder as specified below such Purchaser’s name on the signature page of this Agreement and next to the heading “Subscription Amount,” in United States dollars and in immediately available funds, or such other amount with respect to the Additional Notes.

“Subsequent Closing” shall have the meaning ascribed to such term in Section 2.4.

“Subsequent Closing Date” shall have the meaning ascribed to such term in Section 2.4 hereof.

“Subsequent Closing Option Date” means the date that is six (6) months after the Initial Closing Date.

“Subsequent Financing” shall have the meaning ascribed to such term in Section 4.14.

“Subsequent Financing Notice” shall have the meaning ascribed to such term in Section 4.14.

“Subsidiary” means with respect to any entity at any date, any direct or indirect corporation, limited or general partnership, limited liability company, trust, estate, association, joint venture or other business entity of which (A) more than 30% of (i) the outstanding capital stock having (in the absence of contingencies) ordinary voting power to elect a majority of the board of directors or other managing body of such entity, (ii) in the case of a partnership or limited liability company, the interest in the capital or profits of such partnership or limited liability company or (iii) in the case of a trust, estate, association, joint venture or other entity, the beneficial interest in such trust, estate, association or other entity business is, at the time of determination, owned or controlled directly or indirectly through one or more intermediaries, by such entity, or (B) is under the actual control of the Company.

“Termination Date” shall have the meaning ascribed to such term in Section 2.1.

“Trading Day” means a day on which the principal Trading Market is open for trading.

“Trading Market” means any of the following markets or exchanges on which the Common Stock is listed or quoted for trading on the date in question: the Toronto Stock Exchange, the NYSE MKT, the Nasdaq Capital Market, the Nasdaq Global Market, the Nasdaq Global Select Market, the New York Stock Exchange, the OTC Bulletin Board, the OTCQB, the OTCQX, the TSXV (or any successors to any of the foregoing). As of the Initial Closing Date, the TSXV is the principal Trading Market.

“Transaction Documents” means this Agreement, the Notes, the Warrants, the Security Agreement, all exhibits and schedules thereto and hereto and any other documents or agreements executed in connection with the transactions contemplated hereunder.

“Transfer Agent” means Computershare Trust Company of Canada, and any successor transfer agent of the Company.

“TSXV” means the TSX Venture Exchange.

“Underlying Shares” means the Common Stock issuable in the event of conversion of the Notes, and the Warrant Shares.

“U.S. Person” shall have the meaning ascribed to such term in Rule 902(k) of Regulation S under the U.S. Securities Act.

“U.S. Securities Act” means the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

“Variable Priced Equity Linked Instruments” shall have the meaning ascribed to such term in Section 4.13.

“Variable Rate Transaction” shall have the meaning ascribed to such term in Section 4.13.

“Warrants” means, collectively, the Common Stock purchase warrants to be delivered to the Purchasers upon conversion of the Notes in accordance with the Notes, which Warrants shall be exercisable immediately and have a term of exercise equal to five (5) years from the date of issuance of such Note and be in the form of Exhibit B attached hereto.

“Warrant Shares” means the shares of Common Stock issuable upon exercise of the Warrants.

ARTICLE II. PURCHASE AND SALE

2.1 Initial Closing. On the Initial Closing Date, upon the terms and subject to the conditions set forth herein, substantially concurrent with the execution and delivery of this Agreement by the parties hereto, the Company agrees to sell, and the Purchasers, severally and not jointly, agree to purchase, an aggregate of \$555,556 principal amount of Notes representing \$1.00 of note principal for each \$0.90 of such Purchaser’s Subscription Amount as set forth on the signature page hereto executed by such Purchaser (such purchase and sale being the “Initial Closing”). Each Purchaser shall deliver to the Company such Purchaser’s Subscription Amount, and the Company shall deliver to each Purchaser its respective Note, as determined pursuant to Section 2.2(a), and the Company and each Purchaser shall deliver the other items set forth in Section 2.2 deliverable at the Closing. Upon satisfaction of the covenants and conditions set forth in Sections 2.2 and 2.3, the Initial Closing shall occur electronically or at such physical location as the parties shall mutually agree. Notwithstanding anything herein to the contrary, the Initial Closing Date shall occur on or before December 18, 2015 (“Termination Date”). If the Initial Closing is not held on or before the Termination Date, the Company shall cause all subscription documents and funds to be returned, without interest or deduction to each prospective Purchaser.

2.2 Deliveries.

(a) On or prior to the Initial Closing Date, the Company shall deliver or cause to be delivered to each Purchaser the following:

- (i) this Agreement duly executed by the Company;

(ii) a legal opinion of Company Counsel, substantially in the form of Exhibit C attached hereto and in substance satisfactory to such Purchaser;

(iii) a Note with a principal amount equal to a \$1.00 for each \$0.90 of such Purchaser's Subscription Amount registered in the name of such Purchaser;

(iv) the Security Agreement duly executed by the Company (the "Security Agreement");

(v) the Lockup Agreement executed by Aleksandr Blyumkin;

(vi) a certificate from the Company's executive chairman that all of the conditions to Closing set forth in Section 2.3(b) have occurred;

(b) On or prior to the Initial Closing Date, each Purchaser shall deliver or cause to be delivered to the Company the following:

(i) this Agreement duly executed by such Purchaser;

(ii) the Security Agreement duly executed by such Purchaser; and

(iii) such Purchaser's Subscription Amount by wire transfer or as otherwise permitted, to the Company.

2.3 Closing Conditions.

(a) The obligations of the Company hereunder to effect the Initial Closing are, unless waived by the Purchaser, subject to the following conditions being met:

(i) the accuracy in all material respects (determined without regard to any materiality, Material Adverse Effect or other similar qualifiers therein) on the Initial Closing Date of the representations and warranties of the Purchasers contained herein (unless as of a specific date therein in which case they shall be accurate as of such date);

(ii) all obligations, covenants and agreements of each Purchaser required to be performed at or prior to the Initial Closing Date shall have been performed; and

(iii) the delivery by each Purchaser of the items set forth in Section 2.2(b) of this Agreement.

(b) The respective obligations of a Purchaser hereunder to effect the Initial Closing, unless waived by such Purchaser, are subject to the following conditions being met:

(i) the accuracy in all material respects (determined without regard to any materiality, Material Adverse Effect or other similar qualifiers therein) on the Initial Closing Date of the representations and warranties of the Company contained herein (unless as of a specific date therein in which case they shall be accurate as of such date);

(ii) all obligations, covenants and agreements of the Company required to be performed at or prior to the Initial Closing Date shall have been performed;

(iii) the Company shall have received executed signature pages to this Agreement with an aggregate Subscription Amount of \$540,000 prior to the Initial Closing;

(iv) the delivery by the Company of the items set forth in Section 2.2(a) of this Agreement;

(v) there shall have been no Material Adverse Effect with respect to the Company or the occurrence of an Event of Default, or an event which, to the knowledge of the Company, with the giving of notice or the passage of time could become an Event of Default (as defined in the Note) unless waived by the Purchaser with respect to an Initial Closing, since the date hereof;

(vi) the Required Approvals have been obtained; and

(vii) from the date hereof to the Initial Closing Date, trading in the Common Stock shall not have been suspended by any regulatory authority or the Company's principal Trading Market, and, at any time prior to the Initial Closing Date, trading in securities generally as reported by Bloomberg L.P. shall not have been suspended or limited, or minimum prices shall not have been established on securities whose trades are reported by such service, or on any Trading Market, nor shall a banking moratorium have been declared either by the Canadian, United States or New York State authorities nor shall there have occurred any material outbreak or escalation of hostilities or other national or international calamity of such magnitude in its effect on, or any material adverse change in, any financial market which, in each case, in the reasonable judgment of such Purchaser, makes it impracticable or inadvisable to purchase the Securities at the Initial Closing.

ARTICLE III. REPRESENTATIONS AND WARRANTIES

3.1 Representations and Warranties of the Company. Except as set forth in the Company Reports or the Disclosure Schedules, which Disclosure Schedules shall be deemed a part hereof and shall qualify any representation made herein only to the extent of the disclosure contained in the corresponding section of the Disclosure Schedules, the Company hereby makes the following representations and warranties to each Purchaser:

(a) Subsidiaries. All of the material direct and indirect subsidiaries of the Company and the Company's ownership interests therein immediately prior to the date of this Agreement, as of the date of this Agreement and as of the Initial Closing Date are as follows: the Company has one wholly-owned Subsidiary, MCW Energy CA, Inc., a California corporation, which directly and indirectly holds a 100% share interest in MCW Oil Sands Recovery, LLC, a Utah limited liability corporation. All of the issued and outstanding shares of capital stock of each Subsidiary is validly issued and are fully paid, non-assessable and free of preemptive and similar rights to subscribe for or purchase securities. As of the Initial Closing Date, the Company will have acquired all equity and rights to receive equity for each Subsidiary so that each Subsidiary is fully owned by the Company.

(b) Organization and Qualification. The Company is an entity duly incorporated or otherwise organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation or organization, with the requisite power and authority to own and use its properties and assets and to carry on its business as currently conducted. Neither the Company nor any Subsidiary is in violation nor default of any of the provisions of its respective certificate or articles of incorporation, bylaws or other organizational or charter documents. The Company is duly qualified to conduct business and is in good standing as a foreign corporation or other entity in each jurisdiction in which the nature of the business conducted or property owned by it makes such qualification necessary, except where the failure to be so qualified or in good standing, as the case may be, could not have or reasonably be expected to result in: (i) a material adverse effect on the legality, validity or enforceability of any Transaction Document, (ii) a material adverse effect on the results of operations, assets, business, prospects or condition (financial or otherwise) of the Company, taken as a whole, or (iii) a material adverse effect on the Company's ability to perform in any material respect on a timely basis its obligations under any Transaction Document (any of (i), (ii) or (iii), a "Material Adverse Effect") and, no Proceeding has been instituted in any such jurisdiction revoking, limiting or curtailing or seeking to revoke, limit or curtail such power and authority or qualification.

(c) Authorization; Enforcement. The Company has the requisite corporate power and authority to enter into and to consummate the transactions contemplated by this Agreement and each of the other Transaction Documents and otherwise to carry out its obligations hereunder and thereunder. The execution and delivery of this Agreement and each of the other Transaction Documents by the Company and the consummation by it of the transactions contemplated hereby and thereby have been duly authorized by all necessary action on the part of the Company and no further action is required by the Company, the Board of Directors or the Company's stockholders in connection herewith or therewith other than in connection with the Required Approvals. This Agreement and each other Transaction Document to which it is a party has been (or upon delivery will have been) duly executed by the Company and, when delivered in accordance with the terms hereof and thereof, will constitute the valid and binding obligation of the Company enforceable against the Company in accordance with its terms, except: (i) as limited by general equitable principles and applicable bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting enforcement of creditors' rights generally, (ii) as limited by laws relating to the availability of specific performance, injunctive relief or other equitable remedies and (iii) insofar as indemnification and contribution provisions may be limited by applicable law.

(d) No Conflicts. The execution, delivery and performance by the Company of this Agreement and the other Transaction Documents, the issuance and sale of the Securities and the consummation by it of the transactions contemplated hereby and thereby to which it is a party do not and will not: (i) conflict with or violate any provision of the Company's or any Subsidiary's certificate or articles of incorporation, bylaws or other organizational or charter documents, (ii) subject to Required Approvals, conflict with, or constitute a default (or an event that, to the knowledge of the Company, with notice or lapse of time or both would become a default) under, result in the creation of any Lien (other than Permitted Liens) upon any of the properties or assets of the Company, or, to the knowledge of the Company, give to others any rights of termination, amendment, acceleration or cancellation (with or without notice, lapse of time or both) of, any agreement, credit facility, debt or other instrument (evidencing a Company debt) or other understanding to which the Company is a party or by which any property or asset of the Company is bound or affected, or (iii) subject to the Required Approvals, to the knowledge of the Company, conflict with or result in a violation of any law, rule, regulation, order, judgment, injunction, decree or other restriction of any court or governmental authority to which the Company is subject (including Securities Laws and regulations), or by which any property or asset of the Company is bound or affected; except in the case of each of clauses (ii) and (iii), such as could not have or reasonably be expected to result in a Material Adverse Effect.

(e) Filings, Consents and Approvals. The Company is not required to obtain any consent, waiver, authorization or order of, give any notice to, or make any filing or registration with, any court or other federal, state, local or other governmental authority or other Person in connection with the execution, delivery and performance by the Company of the Transaction Documents, other than: (i) the notice and/or application(s) to each applicable Trading Market for the issuance and sale of the Notes and Warrant Shares and the listing of the Underlying Shares for trading thereon in the time and manner required thereby, (ii) the consent required by the Toronto Stock Exchange, (iii) the approval by the Board of Directors of the Company and (iv) such filings as are required to be made under applicable securities laws (collectively, the “Required Approvals”).

(f) Issuance of the Securities. The Securities are duly authorized and, when issued and paid for in accordance with the applicable Transaction Documents, will be duly and validly issued, fully paid and nonassessable, free and clear of all Liens.

(g) Capitalization. The capitalization of the Company is as set forth in Schedule 3.1(g). The Company has not issued any capital stock since its most recently filed report available on SEDAR or otherwise disclosed on Schedule 3.1(g). No Person has any right of first refusal, preemptive right, right of participation, or any similar right to participate in the transactions contemplated by the Transaction Documents. Except as disclosed on Schedule 3.1(g), there are no outstanding options, warrants, scrip rights to subscribe to, calls or commitments of any character whatsoever relating to, or securities, rights or obligations convertible into or exercisable or exchangeable for, or giving any Person any right to subscribe for or acquire any shares of Common Stock, or contracts, commitments, understandings or arrangements by which the Company or any Subsidiary is or may become bound to issue additional shares of Common Stock or Common Stock Equivalents. As of the Closing, the Company has no outstanding convertible debt instruments. Except as set forth on Schedule 3.1(g), the issuance and sale of the Securities will not obligate the Company to issue shares of Common Stock or other securities to any Person (other than the Purchasers) and will not result in a right of any holder of Company securities to adjust the exercise, conversion, exchange or reset price under any of such securities. All of the outstanding shares of capital stock of the Company are duly authorized, validly issued, fully paid and nonassessable, have been issued in material compliance with all Securities Laws, and none of such outstanding shares was issued in violation of any preemptive rights or similar rights to subscribe for or purchase securities. No further approval or authorization of any stockholder or others is required for the issuance and sale of the Securities except for any approvals or authorizations from the TSXV and the Board of Directors of the Company. There are no stockholders agreements, voting agreements or other similar agreements with respect to the Company’s capital stock to which the Company is a party or, to the knowledge of the Company, between or among any of the Company’s stockholders.

(h) Company Reports: Financial Statements. The Company is a Reporting Issuer. The Company has filed all material reports, schedules, forms, statements and other documents required to be filed by the Company under the Securities Laws and pursuant to the rules of the TSXV including but not limited to all Material Information (as defined in TSXV Policy 3.3), for the two years preceding the date hereof (or such shorter period as the Company was required by law or regulation to file such material) (the foregoing materials, including the exhibits thereto and documents incorporated by reference therein, being collectively referred to herein as the “Company Reports”) on a timely basis or has received a valid extension of such time of filing and has filed any such Company Reports prior to the expiration of any such extension. As of their respective dates, the Company Reports complied in all material respects with the requirements of the Securities Laws, and none of the Company Reports, when filed, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. The financial statements of the Company included in the Company Reports comply in all material respects with applicable accounting requirements and Securities Laws with respect thereto as in effect at the time of filing. Such financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis during the periods involved (“GAAP”), except as may be otherwise specified in such financial statements or the notes thereto and except that unaudited financial statements may not contain all footnotes required by GAAP, and fairly present in all material respects the financial position of the Company as of and for the dates thereof and the results of operations and cash flows for the periods then ended, subject, in the case of unaudited statements, to normal, immaterial, year-end audit adjustments.

(i) Material Changes: Undisclosed Events, Liabilities or Developments. Since the date of the latest quarterly unaudited financial statements included within the Company Reports: (i) there has, to the knowledge of the Company, been no event, occurrence or development that has had or that could reasonably be expected to result in a Material Adverse Effect, (ii) the Company has not incurred any material liabilities (contingent or otherwise) other than (A) trade payables and accrued expenses incurred in the ordinary course of business consistent with past practice and (B) liabilities not required to be reflected in the Company's financial statements pursuant to GAAP or disclosed in filings made with the Commission, (iii) the Company has not altered its method of accounting, (iv) the Company has not declared or made any dividend or distribution of cash or other property to its stockholders or purchased, redeemed or made any agreements to purchase or redeem any shares of its capital stock, and (v) the Company has not issued any equity securities to any officer, director or Affiliate except as set forth in the Company Reports. The Company does not have pending before any regulatory or governing body any request for confidential treatment of information. Except for the issuance of the Securities contemplated by this Agreement, no event, liability, fact, circumstance, occurrence or development has occurred or exists with respect to the Company or its business, properties, operations, assets or financial condition, that would be required to be disclosed by the Company under Securities Laws at the time this representation is made or deemed made that has not been publicly disclosed at least two Trading Days prior to the date that this representation is made.

(j) Litigation. There is no material action, suit, inquiry, notice of violation, proceeding or investigation pending or, to the knowledge of the Company, threatened against or affecting the Company or any of its properties before or by any court, arbitrator, governmental or administrative agency or regulatory authority (federal, state, county, local or foreign) (collectively, an "Action") which (i) adversely affects or challenges the legality, validity or enforceability of any of the Transaction Documents or the Securities or (ii) could, if there were an unfavorable decision, have or reasonably be expected to result in a Material Adverse Effect. Since August 31, 2015, neither the Company, nor any director or officer thereof, is or has been the subject of any Action involving a claim of violation of or liability under Securities Laws or a claim of breach of fiduciary duty. There has not been, and to the knowledge of the Company, there is not pending or contemplated, any investigation by any governmental body or authority involving the Company or any current or former director or officer of the Company. The Company's securities have never been subject to any stop trading order or other order suspending the effectiveness of any registration statement filed by the Company or any Subsidiary under any Securities Laws.

(k) Labor Relations. No labor dispute exists or, to the knowledge of the Company, is imminent with respect to any of the employees of the Company, which could reasonably be expected to result in a Material Adverse Effect. None of the Company's employees is a member of a union that relates to such employee's relationship with the Company, and the Company is not a party to a collective bargaining agreement. To the knowledge of the Company, no executive officer of the Company is in violation of any material term of any employment contract, confidentiality, disclosure or proprietary information agreement or non-competition agreement, or any other contract or agreement or any restrictive covenant in favor of any third party, and the continued employment of each such executive officer does not subject the Company to any liability with respect to any of the foregoing matters. To the knowledge of the Company, it is in compliance with all applicable laws and regulations relating to employment and employment practices, terms and conditions of employment and wages and hours, except where the failure to be in compliance could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

(l) Compliance. The Company: (i) is not in default under or in violation of (and no event has occurred that has not been waived that, to the knowledge of the Company, with notice or lapse of time or both, would result in a default by the Company under), nor has the Company received notice of a claim that it is in default under or that it is in violation of, any indenture, loan or credit agreement or any other agreement or instrument to which it is a party or by which it or any of its properties is bound (whether or not such default or violation has been waived), (ii) is in violation of any judgment, decree or order of any court, arbitrator or other governmental authority or (iii) is or has been in violation of any statute, rule, ordinance or regulation of any governmental authority, including without limitation all foreign, federal, state and local laws relating to taxes, environmental protection, occupational health and safety, product quality and safety and employment and labor matters, except in each case as could not have or reasonably be expected to result in a Material Adverse Effect.

(m) Regulatory Permits. The Company possesses all certificates, authorizations and permits issued by the appropriate federal, state, local or foreign regulatory authorities necessary to conduct its business as described in the Company Reports, except where the failure to possess such permits could not reasonably be expected to result in a Material Adverse Effect ("Material Permits"), and the Company has not received any notice of proceedings relating to the revocation or modification of any Material Permit.

(n) Title to Assets. The Company has good and marketable title in fee simple to all real property (if any) owned by them and good and marketable title in all personal property owned by them that is material to the business of the Company, free and clear of all Liens, except for (i) Liens as do not materially affect the value of such property and do not materially interfere with the use made and proposed to be made of such property by the Company, (ii) Liens for the payment of Canadian and United States federal, state or other taxes, for which appropriate reserves have been made in accordance with GAAP and, the payment of which is neither delinquent nor subject to penalties and (iii) Permitted Liens. Any real property and facilities held under lease by the Company is held by it under valid, subsisting and enforceable leases with which the Company is in compliance.

(o) Intellectual Property.

(i) The term "Intellectual Property Rights" includes:

1. the name of the Company, all fictional business names, trading names, registered and unregistered trademarks, service marks, and applications of the Company (collectively, "Marks");

2. all patents, patent applications, and inventions and discoveries that may be patentable of the Company (collectively, "Patents");
3. all copyrights in both published works and unpublished works of the Company (collectively, "Copyrights");
4. all rights in mask works of the Company (collectively, "Rights in Mask Works"); and
5. all know-how, trade secrets, confidential information, customer lists, software, technical information, data, process technology, plans, drawings, and blue prints (collectively, "Trade Secrets"); owned, used, or licensed by the Company as licensee or licensor.

(ii) Agreements. There are no outstanding and, to Company's knowledge, no threatened disputes or disagreements with respect to any agreements relating to any Intellectual Property Rights to which the Company is a party or by which the Company is bound.

(iii) Know-How Necessary for the Business. The Intellectual Property Rights are all those necessary for the operation of the Company's businesses as it is currently conducted or as represented, in writing, to the Purchaser to be conducted. The Company is the owner of all right, title, and interest in and to each of the Intellectual Property Rights, free and clear of all liens, security interests, charges, encumbrances, equities, and other adverse claims, except for Permitted Liens, and has the right to use all of the Intellectual Property Rights. To the Company's knowledge, no employee of the Company has entered into any contract that restricts or limits in any way the scope or type of work in which the employee may be engaged or requires the employee to transfer, assign, or disclose information concerning his work to anyone other than of the Company.

(iv) Patents. The Company is the owner of all right, title and interest in and to each of the Patents, free and clear of all Liens and other adverse claims except for Permitted Liens. All of the issued Patents are currently in compliance with formal legal requirements (including payment of filing, examination, and maintenance fees and proofs of working or use), are valid and enforceable, and are not subject to any maintenance fees or taxes or actions falling due within ninety days after the Initial Closing Date. No Patent has been or is now involved in any interference, reissue, reexamination, or opposition proceeding. To the Company's knowledge: (1) there is no potentially interfering patent or patent application of any third party, and (2) no Patent is infringed or has been challenged or threatened in any way. To the Company's knowledge, none of the products manufactured and sold, nor any process or know-how used, by the Company infringes or is alleged to infringe any patent or other proprietary right of any other Person.

(v) Trademarks. The Company is the owner of all right, title, and interest in and to each of the Marks, free and clear of all Liens and other adverse claims except for Permitted Liens. All Marks that have been registered with the United States Patent and Trademark Office are currently in compliance with all formal legal requirements (including the timely post-registration filing of affidavits of use and incontestability and renewal applications), are valid and enforceable, and are not subject to any maintenance fees or taxes or actions falling due within ninety days after the Initial Closing Date. No Mark has been or is now involved in any opposition, invalidation, or cancellation and, to the Company's knowledge, no such action is threatened with respect to any of the Marks. To the Company's knowledge: (1) there is no potentially interfering trademark or trademark application of any third party, and (2) no Mark is infringed or has been challenged or threatened in any way. To the Company's knowledge, none of the Marks used by the Company infringes or is alleged to infringe any trade name, trademark, or service mark of any third party.

(vi) Copyrights. The Company is the owner of all right, title, and interest in and to each of the Copyrights, free and clear of all Liens and other adverse claims except for Permitted Liens. All the Copyrights have been registered and are currently in compliance with formal requirements, are valid and enforceable, and are not subject to any maintenance fees or taxes or actions falling due within ninety days after the date of the Initial Closing. No Copyright is infringed or, to the Company's knowledge, has been challenged or threatened in any way. To the Company's knowledge, none of the subject matter of any of the Copyrights infringes or is alleged to infringe any copyright of any third party or is a derivative work based on the work of a third party. All works encompassed by the Copyrights have been marked with the proper copyright notice.

(vii) Trade Secrets. With respect to each Trade Secret, the documentation relating to such Trade Secret is current, accurate, and sufficient in detail and content to identify and explain it and to allow its full and proper use without reliance on the knowledge or memory of any individual. The Company has taken all reasonable precautions to protect the secrecy, confidentiality, and value of its Trade Secrets. The Company has good title and an absolute (but not necessarily exclusive) right to use the Trade Secrets, subject to Permitted Liens. The Trade Secrets are not part of the public knowledge or literature, and, to the Company's knowledge, have not been used, divulged, or appropriated either for the benefit of any Person (other the Company) or to the detriment of the Company. No Trade Secret is subject to any adverse claim or has been challenged or threatened in any way.

(p) Insurance. The Company is insured by insurers of recognized financial responsibility against such losses and risks and in such amounts as are prudent and customary in the businesses in which the Company is engaged, including, but not limited to, directors and officers insurance coverage at least equal to the aggregate Subscription Amount. The Company has no reason to believe that the Company will not be able to renew its existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to continue its business without a significant increase in cost.

(q) Transactions With Affiliates and Employees. Except as set forth in the Company Reports, none of the officers or directors of the Company and, to the knowledge of the Company, none of the employees of the Company is presently a party to any transaction with the Company (other than for services as employees, officers and directors), including any contract, agreement or other arrangement providing for the furnishing of services to or by, providing for rental of real or personal property to or from, providing for the borrowing of money from or lending of money to or otherwise requiring payments to or from any officer, director or such employee or, to the knowledge of the Company, any entity in which any officer, director, or any such employee has a substantial interest or is an officer, director, trustee, stockholder, member or partner, in each case in excess of \$100,000 other than for: (i) payment of salary or consulting fees for services rendered, (ii) reimbursement for expenses incurred on behalf of the Company and (iii) other employee benefits, including stock option agreements under any stock option plan of the Company.

(r) Compliance; Internal Accounting Controls. The Company is in material compliance with any and all applicable requirements of Securities Laws and filing and disclosure obligations with the principal Trading Market that are effective as of the date hereof, and as of the Closing Date. The Company maintains a system of internal accounting controls sufficient to provide reasonable assurance that: (i) transactions are executed in accordance with management's general or specific authorizations, (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with GAAP and to maintain asset accountability, and (iii) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

(s) Certain Fees. No brokerage, finder's fees, commissions or due diligence fees are or will be payable by the Company or any Subsidiary to any broker, financial advisor or consultant, finder, placement agent, investment banker, bank or other Person with respect to the transactions contemplated by the Transaction Documents. The Purchasers shall have no obligation with respect to any such fees or with respect to any claims made by or on behalf of any Persons for fees of a type contemplated in this Section 3.1(s) that may be due in connection with the transactions contemplated by the Transaction Documents.

(t) Reporting Company. The Company is a publicly-held company subject to reporting obligations under applicable Securities Laws and as described in the Company Reports. The Company has timely filed all material reports and other materials required to be filed by the Company thereunder during the preceding twelve months. The Company is, and has no reason to believe that it will not in the foreseeable future continue to be, in compliance with all such listing and maintenance requirements.

(u) Application of Takeover Protections. The Company and the Board of Directors will have taken as of the Closing Date all necessary action, if any, in order to render inapplicable any control share acquisition, business combination, poison pill (including any distribution under a rights agreement) or other similar anti-takeover provision under the Company's certificate of incorporation (or similar charter documents) that is or could become applicable to the Purchasers as a result of the Purchasers and the Company fulfilling their obligations or exercising their rights under the Transaction Documents, including without limitation as a result of the Company's issuance of the Securities and the Purchasers' ownership of the Securities.

(v) Disclosure. Except with respect to the material terms and conditions of the transactions contemplated by the Transaction Documents, the Company confirms that neither it nor any other Person acting on its behalf has provided any of the Purchasers or their agents or counsel with any information that it believes constitutes or might constitute material, non-public information which has not already been publicly disclosed pursuant to Securities Laws. The Company understands and confirms that the Purchasers will rely on the foregoing representation in effecting transactions in securities of the Company. All of the disclosure furnished by or on behalf of the Company to the Purchasers regarding the Company, its business and the transactions contemplated hereby, including the Disclosure Schedules to this Agreement, when taken together as a whole, is true and correct and does not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading. The public releases disseminated by the Company during the twelve months preceding the date of this Agreement taken as a whole do not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made and when made, not misleading. The Company acknowledges and agrees that no Purchaser makes or has made any representations or warranties with respect to the transactions contemplated hereby other than those specifically set forth in Section 3.2 hereof.

(w) Solvency. Based on the consolidated financial condition of the Company as of the Closing Date, and the Company's good faith estimate of the fair market value of its assets, after giving effect to the receipt by the Company of the proceeds from the sale of the Securities hereunder: (i) the fair saleable value of the Company's assets exceeds the amount that will be required to be paid on or in respect of the Company's existing debts and other liabilities (including known contingent liabilities) as they mature, (ii) the Company's assets do not constitute unreasonably small capital to carry on its business as now conducted and as proposed to be conducted including its capital needs taking into account the particular capital requirements of the business conducted by the Company, consolidated and projected capital requirements and capital availability thereof, and (iii) the current cash flow of the Company, together with the proceeds the Company would receive, were it to liquidate all of its assets, after taking into account all anticipated uses of the cash, would be sufficient to pay all amounts on or in respect of its liabilities when such amounts are required to be paid. The Company does not intend to incur debts beyond its ability to pay such debts as they mature (taking into account the timing and amounts of cash to be payable on or in respect of its debt). The Company has no knowledge of any facts or circumstances which lead it to believe that it will file for reorganization or liquidation under the bankruptcy or reorganization laws of any jurisdiction within one year from the Closing Date. As of the Initial Closing Date, the Company will have no outstanding convertible notes or convertible indebtedness.

(x) Tax Status. Except for matters that would not, individually or in the aggregate, have or reasonably be expected to result in a Material Adverse Effect, the Company (i) has made or filed all Canadian and United States federal, state and local income and all foreign income and franchise tax returns, reports and declarations required by any jurisdiction to which it is subject, (ii) has paid all taxes and other governmental assessments and charges that are material in amount, shown or determined to be due on such returns, reports and declarations and (iii) has set aside on its books provision reasonably adequate for the payment of all material taxes for periods subsequent to the periods to which such returns, reports or declarations apply. There are no unpaid taxes in any material amount claimed to be due by the taxing authority of any jurisdiction, and the officers of the Company or of any Subsidiary know of no basis for any such claim.

(y) Foreign Corrupt Practices. Neither the Company nor any Subsidiary, nor to the knowledge of the Company or any Subsidiary, any agent or other person acting on behalf of the Company or any Subsidiary, has: (i) directly or indirectly, used any funds for unlawful contributions, gifts, entertainment or other unlawful expenses related to foreign or domestic political activity, (ii) made any unlawful payment to foreign or domestic government officials or employees or to any foreign or domestic political parties or campaigns from corporate funds, (iii) failed to disclose fully any contribution made by the Company or any Subsidiary (or made by any person acting on its behalf of which the Company is aware) which is in violation of law or (iv) violated in any material respect any provision of FCPA.

(z) Accountants. The Company's accounting firm is Hay & Watson, Chartered Accountants. To the knowledge and belief of the Company, such accounting firm shall express its opinion with respect to the financial statements to be included in the Company's annual report for the fiscal year ending August 31, 2015. There are no disagreements of any kind presently existing, or reasonably anticipated by the Company to arise, between the Company and the accountants and lawyers formerly or presently employed by the Company and the Company is current with respect to any fees owed to its accountants and lawyers which could affect the Company's ability to perform any of its obligations under any of the Transaction Documents.

(aa) Acknowledgment Regarding Purchasers' Purchase of Securities. The Company acknowledges and agrees that each of the Purchasers is acting solely in the capacity of an arm's length purchaser with respect to the Transaction Documents and the transactions contemplated thereby. The Company further acknowledges that no Purchaser is acting as a financial advisor or fiduciary of the Company (or in any similar capacity) with respect to the Transaction Documents and the transactions contemplated thereby and any advice given by any Purchaser or any of their respective representatives or agents in connection with the Transaction Documents and the transactions contemplated thereby is merely incidental to the Purchasers' purchase of the Securities. The Company further represents to each Purchaser that the Company's decision to enter into this Agreement and the other Transaction Documents has been based solely on the independent evaluation of the transactions contemplated hereby by the Company and its representatives.

(bb) Acknowledgment Regarding Purchaser's Trading Activity. Anything in this Agreement or elsewhere herein to the contrary notwithstanding, it is understood and acknowledged by the Company that: (i) none of the Purchasers has been asked by the Company to agree, nor has any Purchaser agreed, to desist from purchasing or selling, long and/or short, securities of the Company, or "derivative" securities based on securities issued by the Company or to hold the Securities for any specified term, (ii) past or future open market or other transactions by any Purchaser, specifically including, without limitation, Short Sales or "derivative" transactions, before or after the closing of this or future private placement transactions, may negatively impact the market price of the Company's publicly-traded securities, (iii) any Purchaser, and counter-parties in "derivative" transactions to which any such Purchaser is a party, directly or indirectly, may presently have a "short" position in the Common Stock and (iv) each Purchaser shall not be deemed to have any affiliation with or control over any arm's length counter-party in any "derivative" transaction. The Company further understands and acknowledges that (y) one or more Purchasers may engage in hedging activities at various times during the period that the Securities are outstanding, including, without limitation, during the periods that the value of the Underlying Shares deliverable with respect to Securities are being determined, and (z) such hedging activities (if any) could reduce the value of the existing stockholders' equity interests in the Company at and after the time that the hedging activities are being conducted. The Company acknowledges that such aforementioned hedging activities do not constitute a breach of any of the Transaction Documents.

(cc) Money Laundering. The operations of the Company are and have been conducted at all times in compliance with applicable financial record-keeping and reporting requirements of the Currency and Foreign Transactions Reporting Act of 1970, as amended, applicable money laundering statutes and applicable rules and regulations thereunder (collectively, the "Money Laundering Laws"), and no action, suit or proceeding by or before any court or governmental agency, authority or body or any arbitrator involving the Company or any Subsidiary with respect to the Money Laundering Laws is pending or, to the knowledge of the Company or any Subsidiary, threatened.

(dd) Stock Option Plans. Each stock option granted by the Company under the stock option plan was granted (i) in accordance with the terms of such stock option plan and (ii) with an exercise price at least equal to the fair market value of the Common Stock on the date such stock option would be considered granted under GAAP and applicable law. No stock option granted under any stock option plan has been backdated. The Company has not knowingly granted, and there is no and has been no Company policy or practice to knowingly grant, stock options prior to, or otherwise knowingly coordinate the grant of stock options with, the release or other public announcement of material information regarding the Company or its financial results or prospects.

(ee) Office of Foreign Assets Control. Neither the Company nor any Subsidiary nor, to the Company's knowledge, any director, officer, agent, employee or affiliate of the Company is currently subject to any U.S. sanctions administered by the United States Office of Foreign Assets Control of the U.S. Treasury Department (“OFAC”).

(ff) Private Placement. Assuming the accuracy of the Purchasers’ representations and warranties set forth in Section 3.2, no registration under the U.S. Securities Act is required for the offer and sale of the Securities by the Company to the Purchasers as contemplated hereby. The issuance and sale of the Securities hereunder does not contravene the rules and regulations of the Trading Market.

(gg) No General Solicitation. Neither the Company nor any person acting on behalf of the Company has offered or sold any of the Securities by any form of general solicitation or general advertising.

(hh) Indebtedness and Seniority. As of March 31, 2016, all Indebtedness and Liens are as set forth on Schedule 3.1(hh). Except as set forth on Schedule 3.1(hh), as of the Closing Date, no Indebtedness or other equity of the Company is currently senior to the Notes in right of payment, whether with respect to interest or upon liquidation or dissolution, or otherwise, other than indebtedness secured by purchase money security interests (which is senior only as to underlying assets covered thereby) and capital lease obligations (which is senior only as to the property covered thereby). For the purposes of this Agreement, “Indebtedness” means (x) any liabilities for borrowed money or amounts owed in excess of \$500,000 in the aggregate (other than trade accounts payable incurred in the ordinary course of business), (y) all guaranties, endorsements and other contingent obligations in respect of indebtedness of others, whether or not the same are or should be reflected in the Company’s consolidated balance sheet (or the notes thereto), except guaranties by endorsement of negotiable instruments for deposit or collection or similar transactions in the ordinary course of business; and (z) the present value of any lease payments in excess of \$500,000 due under leases required to be capitalized in accordance with GAAP. The Company is not in default with respect to any Indebtedness.

(ii) Listing and Maintenance Requirements. The Common Stock is listed on the TSXV under the symbol MCW. The Company has not, in the twenty-four (24) months preceding the date hereof, received notice from any Trading Market on which the Common Stock is or has been listed or quoted to the effect that the Company is not in compliance with the listing or maintenance requirements of such Trading Market.

(jj) Environmental and Safety Laws.

(i) The Company is, and at all times has been, in full compliance with, and has not been and is not in violation of or liable under, any Environmental Law. The Company has no basis to expect, nor has it or any other Person for whose conduct it is or may be held to be responsible received, any actual or threatened order, notice, or other communication from (i) any governmental body or private citizen acting in the public interest, or (ii) the current or prior owner or operator of any facilities, of any actual or potential violation or failure to comply with any Environmental Law, or of any actual or threatened obligation to undertake or bear the cost of any environmental, health, and safety liabilities with respect to any of the facilities or any other properties or assets (whether real, personal, or mixed) in which the Company has had an interest, or with respect to any property or facility at or to which Hazardous Materials were generated, manufactured, refined, transferred, imported, used, or processed by the Company, or any other Person for whose conduct it is or may be held responsible, or from which Hazardous Materials have been transported, treated, stored, handled, transferred, disposed, recycled, or received.

(ii) There are no pending or, to the knowledge of the Company, threatened claims, encumbrances, or other restrictions of any nature, resulting from any environmental, health, and safety liabilities or arising under or pursuant to any Environmental Law, with respect to or affecting any of the facilities or any other properties and assets (whether real, personal, or mixed) in which the Company has or had an interest.

(iii) The Company has no knowledge of any basis to expect, nor has it or any other Person for whose conduct it is or may be held responsible, received, any citation, directive, inquiry, notice, order, summons, warning, or other communication that relates to Hazardous Materials, or any alleged or actual violation or failure to comply with any Environmental Law, or of any alleged or actual obligation to undertake or bear the cost of any environmental, health, and safety liabilities with respect to any of the facilities or any other properties or assets (whether real, personal, or mixed) in which the Company had an interest, or with respect to any property or facility to which Hazardous Materials generated, manufactured, refined, transferred, imported, used, or processed by the Company, or any other Person for whose conduct it is or may be held responsible, have been transported, treated, stored, handled, transferred, disposed, recycled, or received.

(iv) Neither the Company nor any other Person for whose conduct it is or may be held responsible, had any environmental, health, and safety liabilities with respect to the facilities or, to the knowledge of the Company, with respect to any other properties and assets (whether real, personal, or mixed) in which the Company (or any predecessor), has or had an interest, or at any property geologically or hydrologically adjoining the facilities or any such other property or assets.

(v) Neither the Company nor any other Person for whose conduct it is or may be held responsible, or to the knowledge of the Company, any other Person, has permitted or conducted, or is aware of, any hazardous activity conducted with respect to the facilities or any other properties or assets (whether real, personal, or mixed) in which the Company has or had an interest except in full compliance with all applicable Environmental Laws.

(vi) There has been no release of any Hazardous Materials at or from the facilities or at any other locations where any Hazardous Materials were generated, manufactured, refined, transferred, produced, imported, used, or processed from or by the facilities, or from or by any other properties and assets (whether real, personal, or mixed) in which the Company has or had an interest, or to the knowledge of the Company any geologically or hydrologically adjoining property, whether by the Company, or any other Person that has had a Material Adverse Effect.

(vii) For the purpose of this Section, Hazardous Material shall mean (i) materials which are listed or otherwise defined as "hazardous" or "toxic" under any applicable federal, local or stated and/or foreign laws and regulations that govern the existence and/or remedy of contamination on property, the protection of the environment from contamination, the control of the hazardous wastes, or other activities involving hazardous substances, including building materials or (b) petroleum products or nuclear materials.

(viii) For the purpose of this Section 3.1(jj), “Environmental Law” shall have the following meaning:

1. advising appropriate authorities, employees, and the public intended or actual releases of pollutants or hazardous substances or material, violations of discharge limits, or other prohibitions and of the commencements of activities, such as resource extraction or construction, that could have significant impact on the environment;
2. preventing or reducing to acceptable levels the release of pollutants or hazardous substances or materials into the environment;
3. reducing the quantities, preventing the release, or minimizing the hazardous characteristics of waste that are generated;
4. assuring that products are designed, formulated, packaged, and used so that they do not present unreasonable risks to human health or the environment when used or disposed of;
5. protecting resources, species or ecological amenities;
6. reducing to acceptable levels the risk inherent in the transportation of hazardous substances, pollutants, oil or other potentially harmful substances;
7. cleaning up pollutants that have been released, preventing the threat of release or paying the costs of such clean up or prevention; or
8. making responsible parties pay private parties, or groups of them, for damages done to their health or to the environment, or permitting self appointed representatives of the public interest to recover for injuries done to public assets.

(kk) Survival. The foregoing representations and warranties shall survive the Closing Date.

3.2 Representations and Warranties of the Purchasers. Each Purchaser, for itself and for no other Purchaser, hereby represents and warrants as of the date hereof and as of the Closing Date to the Company as follows (unless as of a specific date therein):

(a) Organization: Authority. The address of the residence or principal offices of such Purchaser is set forth on the signature page hereto executed by such Purchaser and such address is not located in the Province of Ontario, Canada. Such Purchaser is either an individual or an entity duly incorporated or formed, validly existing and in good standing under the laws of the jurisdiction of its incorporation or formation with full right, corporate, partnership, limited liability company or similar power and authority to enter into and to consummate the transactions contemplated by the Transaction Documents and otherwise to carry out its obligations hereunder and thereunder. The execution and delivery of the Transaction Documents and performance by such Purchaser of the transactions contemplated by the Transaction Documents have been duly authorized by all necessary corporate, partnership, limited liability company or similar action, as applicable, on the part of such Purchaser. Each Transaction Document to which it is a party has been duly executed by such Purchaser, and when delivered by such Purchaser in accordance with the terms hereof, will constitute the valid and legally binding obligation of such Purchaser, enforceable against it in accordance with its terms, except: (i) as limited by general equitable principles and applicable bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting enforcement of creditors' rights generally, (ii) as limited by laws relating to the availability of specific performance, injunctive relief or other equitable remedies and (iii) insofar as indemnification and contribution provisions may be limited by applicable law.

(b) Understandings or Arrangements. Such Purchaser understands that the Securities are “restricted securities” and have not been registered under the U.S. Securities Act or any applicable state securities law and is acquiring the Securities as principal for its own account and not with a view to or for distributing or reselling such Securities or any part thereof in violation of the U.S. Securities Act or any applicable state securities law, has no present intention of distributing any of such Securities in violation of the U.S. Securities Act or any applicable state securities law and has no direct or indirect arrangement or understandings with any other persons to distribute or regarding the distribution of such Securities in violation of the U.S. Securities Act or any applicable state securities law (this representation and warranty not limiting such Purchaser’s right to sell the Securities pursuant to a registration statement or otherwise in compliance with applicable federal and state securities laws). Such Purchaser is acquiring the Securities hereunder in the ordinary course of its business.

(c) The Purchaser is a resident, or if not an individual has its head office, in the jurisdiction set out on the signature page herein. Such address was not created and is not used solely for the purpose of acquiring the Notes and the Purchaser was not solicited to purchase the Notes in the United States.

(d) The Purchaser is purchasing as principal for its own account and has properly completed, executed and delivered to the Company, Exhibit “E” and the applicable certificate(s) and/or form(s) (dated as of the date hereof) set forth in Exhibit “E”, and the information contained therein is true and correct.

(e) The information, representations, warranties and covenants contained in Exhibit “E” will be true and correct both as of the date of execution of this Agreement and as of the time of Closing.

(f) The Purchaser is neither a U.S. Person nor subscribing for the Notes for the account of a U.S. Person or for resale in the United States.

(g) The Purchaser will not offer, sell or otherwise dispose of the Notes or underlying securities in the United States or to a U.S. Person unless the Company has consented to such offer, sale or disposition and such offer, sale or distribution is made in accordance with an exemption from the registration requirements under the U.S. Securities Act and the securities laws of all applicable states of the United States or the U.S. Securities and Exchange Commission has declared effective a registration statement in respect of such securities.

(h) The Purchaser confirms that the Notes have not been offered to the Purchaser in the United States and that this Agreement has not been signed in the United States.

(i) The Purchaser was not offered the Notes as the result of any directed selling efforts, as that term is defined in Regulation S under the U.S. Securities Act.

(j) The current structure of this transaction and all transactions and activities contemplated hereunder is not a scheme to avoid the registration requirements of the U.S. Securities Act.

(k) If the Purchaser is not a person resident in Canada, the subscription for the Notes by the Purchaser does not contravene any of the applicable securities legislation in the jurisdiction in which the Purchaser resides and does not give rise to any obligation of the Company to prepare and file a prospectus or similar document or to register the Notes or underlying securities or to be registered with or to file any report or notice with any governmental or regulatory authority and the Purchaser agrees that it shall deliver to the Company such further particulars of the exemption(s) and the Purchaser's qualifications thereunder as the Company may reasonably request.

(l) If the Purchaser is a resident of a country other than Canada or the United States (an "International Jurisdiction") then in addition to the other representations and warranties contained herein, the Purchaser represents and warrants that:

- i) the Purchaser is knowledgeable of, or has been independently advised as to, the applicable securities laws of the International Jurisdiction which would apply to this Agreement, if any;
- ii) the Purchaser is purchasing the Notes pursuant to exemptions from the prospectus, financial promotion and registration requirements under the applicable securities laws of that International Jurisdiction or, if such is not applicable, the Purchaser is permitted to purchase the Notes under the applicable securities laws of the International Jurisdiction without the need to rely on an exemption;
- iii) the applicable securities laws of the International Jurisdiction do not require the Company to file a prospectus, offering memorandum or similar document or to register or qualify the distribution of the Notes or underlying securities or for the Company to be registered with or to make any filings or seek any approvals of any kind whatsoever from any governmental or regulatory authority of any kind whatsoever in the International Jurisdiction;
- iv) the delivery of this Agreement, the acceptance of it by the Company and the issuance of the Notes and underlying securities to the Purchaser complies with all applicable laws of the Purchaser's jurisdiction of residence or domicile and all other applicable laws and will not cause the Company to become subject to or comply with any continuous disclosure, prospectus or other periodic filing or reporting requirements under any such applicable laws;
- v) the Purchaser will not sell, transfer or dispose of the Notes and underlying securities except in accordance with all applicable laws, including applicable securities laws of Canada and the United States, and the Purchaser acknowledges that the Company shall have no obligation to register any such purported sale, transfer or disposition which violates applicable Canadian or United States securities laws or other securities laws;

- vi) the Purchaser shall not sell the Notes and underlying securities until all applicable hold periods have expired unless the sale is made pursuant to an exemption to applicable securities laws; and
- vii) the Purchaser has duly completed and delivered to the Company Exhibit "E" and represents and warrants as set forth therein.

(m) The execution and delivery of this Agreement, the performance and compliance with the terms hereof, the subscription for the Notes and the completion of the transactions described herein by the Purchaser, will not result in any material breach of, or be in conflict with or constitute a material default under, or create a state of facts which, after notice or lapse of time, or both, would constitute a material default under any term or provision of the constating documents, by-laws or resolutions (if applicable) of the Purchaser, the Securities Laws or any other laws applicable to the Purchaser, any agreement to which the Purchaser is a party, or any judgment, decree, order, statute, rule or regulation applicable to the Purchaser.

(n) The Purchaser is not, with respect to the Company or any of its affiliates, a Control Person (as such term is defined by Securities Laws).

(o) If required by applicable Securities Laws or the Company, the Purchaser will execute, deliver and file or assist the Company at the Company's sole cost and expense, in filing such reports, undertakings and other documents with respect to the issue of the Notes and the underlying securities as may be reasonably required by any securities commission, stock exchange or other regulatory authority.

(p) The Purchaser has been advised to consult their own legal advisors with respect to trading in the Notes and underlying securities and with respect to the resale restrictions imposed by the Securities Laws of the jurisdiction in which the Purchaser resides and other applicable securities laws, and acknowledges that no representation has been made respecting the applicable hold periods imposed by the Securities Laws or other resale restrictions applicable to such securities which restrict the ability of the Purchaser to resell such securities, that the Purchaser is solely responsible to find out what these restrictions are and the Purchaser is solely responsible (and the Company is in no way responsible) for compliance with applicable resale restrictions and the Purchaser is aware that may not be able to resell such securities except in accordance with limited exemptions under the Securities Laws and other applicable securities laws.

(q) The Purchaser has not received or been provided with a prospectus or offering memorandum, within the meaning of the Securities Laws, or any sales or advertising literature in connection with this Agreement and the Purchaser's decision to subscribe for the Notes was not based upon, and the Purchaser has not relied upon, any oral or written representations as to facts made by or on behalf of the Company. The Purchaser's decision to subscribe for the Notes was based solely upon information about the Company which is publicly available on www.sedar.com.

(r) The Purchaser is not purchasing Notes with knowledge of material information concerning the Company which has not been generally disclosed.

(s) No person has made any written or oral representations (i) that any person will resell or repurchase the Notes or underlying securities, or (ii) as to the future price or value of the Notes or underlying securities.

(t) The subscription for the Notes has not been made through or as a result of, and the distribution of the Notes is not being accompanied by any advertisement, including without limitation in printed public media, radio, television or telecommunications, including electronic display, or as part of a general solicitation.

(u) The Purchaser is not a person or entity identified in the Regulations Implementing the United Nations Resolutions on the Suppression of Terrorism, the United Nations Al-Qaida and Taliban Regulations, the Regulations Implementing the United Nations Resolution on the Democratic People's Republic of Korea, the Regulations Implementing the United Nations Resolution on Iran, the United Nations Cote d'Ivoire Regulations, the United Nations Democratic Republic of the Congo Regulations, the United Nations Liberia Regulations, the United Nations Sudan Regulations, the Special Economic Measures (Zimbabwe) Regulations or the Special Economic Measures (Burma) Regulations (collectively, the "Trade Sanctions"). The Purchaser acknowledges that the Company may in the future be required by law to disclose the name and other information of the Purchaser related to the acquisition of the Notes hereunder, on a confidential basis, pursuant to the Trade Sanctions.

(v) None of the funds being used to purchase Notes are, to the Purchaser's knowledge, proceeds obtained or derived directly or indirectly as a result of illegal activities.

(w) Experience of Such Purchaser. Such Purchaser, either alone or together with its representatives, has such knowledge, sophistication and experience in business and financial matters so as to be capable of evaluating the merits and risks of the prospective investment in the Securities, and has so evaluated the merits and risks of such investment. Such Purchaser is able to bear the economic risk of an investment in the Securities and, at the present time, is able to afford a complete loss of such investment.

(x) No Governmental Review. Such Purchaser understands that no Canadian or United States federal or state agency or any other governmental or state agency has passed on or made recommendations or endorsement of the Securities or the suitability of the investment in the Securities nor have such authorities passed upon or endorsed the merits of the offering of the Securities.

(y) No Conflicts. The execution, delivery and performance of this Agreement and performance under the other Transaction Documents and the consummation by such Purchaser of the transactions contemplated hereby and thereby or relating hereto or thereto do not and will not (i) result in a violation of such Purchaser's charter documents, bylaws or other organizational documents, if applicable, (ii) conflict with nor constitute a default (or an event which with notice or lapse of time or both would become a default) under any agreement to which such Purchaser is a party, nor (iii) result in a violation of any law, rule, or regulation, or any order, judgment or decree of any court or governmental agency applicable to such Purchaser or its properties (except for such conflicts, defaults and violations as would not, individually or in the aggregate, have a material adverse effect on such Purchaser). Such Purchaser is not required to obtain any consent, authorization or order of, or make any filing or registration with, any court or governmental agency in order for it to execute, deliver or perform any of its obligations under this Agreement or perform under the other Transaction Documents nor to purchase the Securities in accordance with the terms hereof, provided that for purposes of the representation made in this sentence, such Purchaser is assuming and relying upon the accuracy of the relevant representations and agreements of the Company herein.

(z) Money Laundering. Purchaser represents that the funds representing the Subscription Amount which will be advanced by the Purchaser hereunder will not represent proceeds of crime for the purposes of the *Proceeds of Crime (Money Laundering) Act* (Canada) and Purchaser acknowledges that the Company may in the future be required by law to disclose Purchaser's name and other information relating to this Agreement and the Purchaser's subscription hereunder, on a confidential basis, pursuant to the *Proceeds of Crime (Money Laundering) Act* (Canada) and to the best of the Purchaser's knowledge (i) none of the Subscription Amount to be provided by Purchaser (A) have been or will be derived from or related to any activity that is deemed criminal under the law of Canada or the United States, or (B) are being tendered on behalf of a person or entity who has not been identified to the Purchaser, and (ii) it shall promptly notify the Company if Purchaser discovers that any of such representations ceases to be true.

(aa) Survival. The foregoing representations and warranties shall survive the Closing Date.

The Company acknowledges and agrees that the representations contained in Section 3.2 shall not modify, amend or affect such Purchaser's right to rely on the Company's representations and warranties contained in this Agreement or any representations and warranties contained in any other Transaction Document or any other document or instrument executed and/or delivered in connection with this Agreement or the consummation of the transaction contemplated hereby.

ARTICLE IV. OTHER AGREEMENTS OF THE PARTIES

4.1 Transfer Restrictions.

(a) Resales. The Purchaser acknowledges and agrees that the Securities may only be disposed of in compliance with applicable securities laws.

(b) Legends. The Purchasers acknowledge and agree that the Notes will bear, as of the Closing Date, a legend substantially in the following form and with the necessary information inserted:

**“UNLESS PERMITTED UNDER SECURITIES LEGISLATION, THE HOLDER OF THIS SECURITY
MUST NOT TRADE THE SECURITY BEFORE <INSERT THE DATE THAT IS FOUR (4) MONTHS
AND ONE (1) DAY AFTER THE CLOSING DATE>.”**

(c) The Purchaser acknowledges and agrees that in the event of conversion of the Notes prior to the expiry of the hold period applicable to the Notes, the underlying securities will bear a legend substantially in the form of the legend set forth in 4.1(b) above, and with the necessary information inserted, which legend, if imprinted will be removed at the Purchaser's request four (4) months and one (1) day after the Closing Date.

(d) DWAC. In lieu of delivering physical certificates representing the Unlegended Shares, upon request of a Purchaser, so long as the certificates therefor do not bear a legend and the Purchaser is not obligated to return such certificate for the placement of a legend thereon, the Company shall cause its transfer agent to electronically transmit the Unlegended Shares by crediting the account of Purchaser's prime broker with the Depository Trust Company through its Deposit Withdrawal At Custodian system, provided that the Company's Common Stock is DTC eligible and the Company's transfer agent participates in the Deposit Withdrawal at Custodian system.

4.2 Acknowledgment of Dilution. The Company acknowledges that the issuance of the Securities may result in dilution of the outstanding shares of Common Stock, which dilution may be substantial under certain market conditions. The Company further acknowledges that its obligations under the Transaction Documents, including, without limitation, its obligation to issue the Underlying Shares pursuant to the Transaction Documents, are unconditional and absolute and not subject to any right of set off, counterclaim, delay or reduction, regardless of the effect of any such dilution or any claim the Company may have against any Purchaser and regardless of the dilutive effect that such issuance may have on the ownership of the other stockholders of the Company.

4.3 Furnishing of Information; Public Information.

(a) As long as the Notes or the Warrants are outstanding, the Company covenants to comply with its continuous disclosure obligations pursuant to applicable Securities Laws.

(b) At any time commencing on the Initial Closing Date and for so long as the Notes or Warrants are outstanding, if the Company shall fail for any reason to satisfy its Securities Laws filing and disclosure requirements and TSXV filing and disclosure requirements which is not rectified within 10 days of the first occurrence of such failure (a “Public Information Failure”) then, in addition to such Purchaser’s other available remedies, the Company shall pay to a Purchaser, in cash, as partial liquidated damages and not as a penalty, by reason of any such actual delay in or reduction of its ability to sell the Securities, an amount in cash equal to one percent (1.0%) of the aggregate principal amount of Notes held by such Purchaser on the day of a Public Information Failure and on every thirtieth (30th) day (pro-rated for periods totaling less than thirty days) thereafter until the earlier of (a) the date such Public Information Failure is cured and (b) such time that such public information is no longer required for the Purchasers to publicly transfer the Underlying Shares without registration or exemption. The payments to which a Purchaser shall be entitled pursuant to this Section 4.3(b) are referred to herein as “Public Information Failure Payments.” Public Information Failure Payments shall be paid on the earlier of (i) the last day of the calendar month during which such Public Information Failure Payments are incurred and (ii) the third (3rd) Business Day after the event or failure giving rise to the Public Information Failure Payments is cured. In the event the Company fails to make Public Information Failure Payments in a timely manner, such Public Information Failure Payments shall bear interest at the rate of 1.5% per month (prorated for partial months) until paid in full. Nothing herein shall limit such Purchaser’s right to pursue actual damages for the Public Information Failure, and such Purchaser shall have the right to pursue all remedies available to it at law or in equity including, without limitation, a decree of specific performance and/or injunctive relief.

4.4 Integration. The Company shall not sell, offer for sale or solicit offers to buy or otherwise negotiate in respect of any security (as defined in Section 2 of the U.S. Securities Act) that would be integrated with the offer or sale of the Securities in a manner that would require the registration under the U.S. Securities Act of the sale of the Securities or that would be integrated with the offer or sale of the Securities for purposes of the rules and regulations of any Trading Market such that it would require shareholder approval prior to the closing of such other transaction unless shareholder approval is obtained before the closing of such subsequent transaction.

4.5 Conversion and Exercise Procedures. Each of the form of Notice of Exercise included in the Warrants and the form of Notice of Conversion included in the Notes set forth the totality of the procedures required of the Purchasers in order to exercise the Warrants or convert the Notes. No additional legal opinion, other information or instructions shall be required of the Purchasers to exercise their Warrants or convert their Notes. The Company shall honor exercises of the Warrants and conversions of the Notes and shall deliver Underlying Shares in accordance with the terms, conditions and time periods set forth in the Transaction Documents.

4.6 Securities Laws Disclosure: Publicity. The Company shall immediately following each Closing Date comply with its reporting and disclosure obligations under all Securities Laws and principal Trading Market requirements in connection with this Agreement. The Company and each Purchaser shall consult with each other in issuing any press releases with respect to the transactions contemplated hereby, and neither the Company nor any Purchaser shall issue any press release nor otherwise make any such public statement without the prior consent of the Company, with respect to any press release of any Purchaser, or without the prior consent of each Purchaser, with respect to any press release of the Company, which consent shall not unreasonably be withheld or delayed, except if such disclosure is required by law or pursuant to the policies of the TSXV, in which case the disclosing party shall promptly provide the other party with prior notice of such public statement or communication. Notwithstanding the foregoing, the Company shall not publicly disclose the name of any Purchaser, or include the name of any Purchaser in any filing with the Commission or any regulatory agency or Trading Market unless the name of such Purchaser is already included in the body of the Transaction Documents, without the prior written consent of such Purchaser, except as required by Securities Laws in connection with such filing and (b) to the extent such disclosure is required by Trading Market regulations, in which case the Company shall provide the Purchasers with prior notice of such disclosure permitted under this clause (b).

4.7 Shareholder Rights Plan. No claim will be made or enforced by the Company or, with the consent of the Company, any other Person, that any Purchaser is an “Acquiring Person” under any control share acquisition, business combination, poison pill (including any distribution under a rights agreement) or similar anti-takeover plan or arrangement in effect or hereafter adopted by the Company, or that any Purchaser could be deemed to trigger the provisions of any such plan or arrangement, by virtue of receiving Securities under the Transaction Documents or under any other agreement between the Company and the Purchasers.

4.8 Non-Public Information. Except with respect to the material terms and conditions of the transactions contemplated by the Transaction Documents, the Company covenants and agrees that neither it, nor any other Person acting on its behalf, will provide any Purchaser or its agents or counsel with any information that the Company believes constitutes material non-public information, unless prior thereto such Purchaser shall have entered into a written agreement with the Company regarding the confidentiality and use of such information. The Company understands and confirms that each Purchaser shall be relying on the foregoing covenant in effecting transactions in securities of the Company.

4.9 Use of Proceeds. The Company shall use the net proceeds from the sale of the Securities hereunder for working capital purposes and shall not use such proceeds: (a) for the satisfaction of any portion of the Company’s debt (other than payment of trade payables in the ordinary course of the Company’s business and prior practices), (b) for the redemption of any Common Stock or Common Stock Equivalents, (c) for the settlement of any outstanding litigation or (d) in violation of FCPA or OFAC regulations.

4.10 Indemnification of Purchasers. Subject to the provisions of this Section 4.10, the Company will indemnify and hold each Purchaser and its directors, officers, shareholders, members, partners, employees and agents (and any other Persons with a functionally equivalent role of a Person holding such titles notwithstanding a lack of such title or any other title), each Person who controls such Purchaser (within the meaning of the *Securities Act* (Ontario)), and the directors, officers, shareholders, agents, members, partners or employees (and any other Persons with a functionally equivalent role of a Person holding such titles notwithstanding a lack of such title or any other title) of such controlling persons (each, a “Purchaser Party”) harmless from any and all losses, liabilities, obligations, claims, contingencies, damages, costs and expenses, including all judgments, amounts paid in settlements, court costs and reasonable attorneys’ fees and costs of investigation that any such Purchaser Party may suffer or incur as a result of or relating to (a) any breach of any of the representations, warranties, covenants or agreements made by the Company in this Agreement or in the other Transaction Documents or (b) any action instituted against Purchaser Parties in any capacity, or any of them or their respective Affiliates, by any stockholder of the Company who is not an Affiliate of such Purchaser Party, with respect to any of the transactions contemplated by the Transaction Documents. Notwithstanding anything to the contrary contained herein, the indemnity contemplated in this Section 4.10 shall not apply if such action is based upon a breach of such Purchaser Party’s representations, warranties or covenants under the Transaction Documents or any agreements or understandings such Purchaser Party may have with any such stockholder or any violations by such Purchaser Party of Securities Laws or any conduct by such Purchaser Party which constitutes fraud, gross negligence, willful misconduct or malfeasance. If any action shall be brought against any Purchaser Party in respect of which indemnity may be sought pursuant to this Agreement, such Purchaser Party shall promptly notify the Company in writing, and the Company shall have the right to assume the defense thereof with counsel of its own choosing reasonably acceptable to the Purchaser Party. Any Purchaser Party shall have the right to employ separate counsel in any such action and participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of such Purchaser Party except to the extent that (i) the employment thereof has been specifically authorized by the Company in writing, (ii) the Company has failed after a reasonable period of time to assume such defense and to employ counsel or (iii) in such action there is, in the reasonable opinion of counsel, a material conflict on any material issue between the position of the Company and the position of such Purchaser Party, in which case the Company shall be responsible for the reasonable fees and expenses of no more than one such separate counsel. The Company will not be liable to any Purchaser Party under this Agreement (y) for any settlement by a Purchaser Party effected without the Company’s prior written consent, which shall not be unreasonably withheld or delayed; or (z) to the extent, but only to the extent that a loss, claim, damage or liability is attributable to any Purchaser Party’s breach of its representations, warranties or covenants under the Transaction Documents. The indemnification required by this Section 4.10 shall be made by periodic payments of the amount thereof during the course of the investigation or defense, as and when bills are received or are incurred. The indemnity agreements contained herein shall be in addition to any cause of action or similar right of any Purchaser Party against the Company or others and any liabilities the Company may be subject to pursuant to law.

4.11 Reservation and Listing of Securities.

(a) The Company shall maintain a reserve from its duly authorized shares of Common Stock for issuance pursuant to the Transaction Documents in such amount as may then be required to fulfill its obligations in full under the Transaction Documents, but not less than the Required Minimum.

(b) If, on any date, the number of authorized but unissued (and otherwise unreserved) shares of Common Stock is less than the Required Minimum on such date, then the Board of Directors shall amend the Company’s certificate or articles of incorporation to increase the number of authorized but unissued shares of Common Stock to at least the Required Minimum at such time, as soon as possible and in any event not later than the 60th day after such date.

(c) The Company shall, if applicable: (i) in the time and manner required by the principal Trading Market, prepare and file with such Trading Market an additional shares listing application covering a number of shares of Common Stock at least equal to the Required Minimum on the date of such application, (ii) take all steps necessary to cause such shares of Common Stock to be approved for listing or quotation on such Trading Market as soon as possible thereafter, (iii) provide to the Purchasers evidence of such listing or quotation and (iv) maintain the listing or quotation of such Common Stock on any date at least equal to the Required Minimum on such date on such Trading Market or another Trading Market. The Company will then take all action necessary to continue the listing or quotation and trading of its Common Stock on a Trading Market for so long as amounts are owing under the Note or the Warrants are outstanding, and will comply in all respects with the Company's reporting, filing and other obligations under the bylaws or rules of the Trading Market at least until five years after the Final Closing Date and for so long as the Warrants are outstanding. In the event the aforescribed listing is not continuously maintained for five years after the Final Closing Date (a "Listing Default"), then in addition to any other rights the Purchasers may have hereunder or under applicable law, on the first day of a Listing Default and on each monthly anniversary of each such Listing Default date (if the applicable Listing Default shall not have been cured by such date) until the applicable Listing Default is cured, the Company shall pay to each Purchaser an amount in cash, as partial liquidated damages and not as a penalty, equal to 1% of the aggregate Subscription Amount and purchase price of Warrant Shares held by such Purchaser on the day of a Listing Default and on every thirtieth day (pro-rated for periods less than thirty days) thereafter until the date such Listing Default is cured. If the Company fails to pay any liquidated damages pursuant to this Section in a timely manner, the Company will pay interest thereon at a rate of 1.5% per month (pro-rated for partial months) to the Purchaser.

4.12 Equal Treatment of Purchasers. No consideration (including any modification of any Transaction Document) shall be offered or paid to any Person to amend or consent to a waiver or modification of any provision of any of this Agreement unless the same consideration is also offered on a ratable basis to all of the parties to this Agreement. For clarification purposes, this provision constitutes a separate right granted to each Purchaser by the Company and negotiated separately by each Purchaser, and is intended for the Company to treat the Purchasers as a class and shall not in any way be construed as the Purchasers acting in concert or as a group with respect to the purchase, disposition or voting of Securities or otherwise.

4.13 Preservation of Corporate Existence. For as long as the Notes or Warrants remain outstanding, the Company shall preserve and maintain corporate existence, rights, privileges and franchises in the jurisdictions of their incorporation, and qualify and remain qualified, as a foreign corporation in each jurisdiction in which such qualification is necessary in view of their business or operations and where the failure to qualify or remain qualified might reasonably have a Material Adverse Effect upon the financial condition, business or operations of the Company taken as a whole.

4.14 Participation in Future Financing

(a) From the date hereof until one year after the Initial Closing Date, upon any proposed issuance by the Company of Common Stock, Common Stock Equivalents for cash consideration, Indebtedness or a combination thereof, other than (i) a rights offering to all holders of Common Stock (which may include extending such rights offering to holders of Notes) or (ii) an Exempt Issuance, (a "Subsequent Financing"), the Purchasers shall have the right to participate in up to an amount of the Subsequent Financing equal to 50% of the Subsequent Financing (the "Participation Maximum") pro rata to each other in proportion to their Subscription Amounts on the same terms, conditions and price provided for in the Subsequent Financing, unless the Subsequent Financing is an underwritten public offering, in which case the Company shall offer each Purchaser the right to participate in such public offering when it is lawful for the Company to do so, but no Purchaser shall be entitled to purchase any particular amount of such public offering.

(b) At least seven (7) Trading Days prior to the closing of the Subsequent Financing, the Company shall deliver to each Purchaser a written notice of its intention to effect a Subsequent Financing ("Pre-Notice"), which Pre-Notice shall ask such Purchaser if it wants to review the details of such financing (such additional notice, a "Subsequent Financing Notice"). Upon the request of a Purchaser, and only upon a request by such Purchaser, for a Subsequent Financing Notice, the Company shall promptly, but no later than one (1) Trading Day after such request, deliver a Subsequent Financing Notice to such Purchaser. The requesting Purchaser shall be deemed to have acknowledged that the Subsequent Financing Notice may contain material non-public information. The Subsequent Financing Notice shall describe in reasonable detail the proposed terms of such Subsequent Financing, the amount of proceeds intended to be raised thereunder and the Person or Persons through or with whom such Subsequent Financing is proposed to be effected and shall include a term sheet or similar document relating thereto as an attachment.

(c) Any Purchaser desiring to participate in such Subsequent Financing must provide written notice to the Company by not later than 5:30 p.m. (New York City time) on the fifth (5th) Trading Day after all of the Purchasers have received the Pre-Notice that the Purchaser is willing to participate in the Subsequent Financing, the amount of such Purchaser's participation, and representing and warranting that such Purchaser has such funds ready, willing, and available for investment on the terms set forth in the Subsequent Financing Notice. If the Company receives no such notice from a Purchaser as of such fifth (5th) Trading Day, such Purchaser shall be deemed to have notified the Company that it does not elect to participate.

(d) If by 5:30 p.m. (New York City time) on the fifth (5th) Trading Day after all of the Purchasers have received the Pre-Notice, notifications by the Purchasers of their willingness to participate in the Subsequent Financing (or to cause their designees to participate) is, in the aggregate, less than the total amount of the Subsequent Financing, then the Company may affect the remaining portion of such Subsequent Financing on the terms and with the Persons set forth in the Subsequent Financing Notice.

(e) If by 5:30 p.m. (New York City time) on the fifth (5th) Trading Day after all of the Purchasers have received the Pre-Notice, the Company receives responses to a Subsequent Financing Notice from Purchasers seeking to purchase more than the aggregate amount of the Participation Maximum, each such Purchaser shall have the right to purchase its Pro Rata Portion (as defined below) of the Participation Maximum. "Pro Rata Portion" means the ratio of (x) the principal amount of Notes purchased hereunder by a Purchaser participating under this Section 4.14 and (y) the sum of the aggregate principal amounts of Notes purchased hereunder by all Purchasers participating under this Section 4.14.

(f) The Company must provide the Purchasers with a second Subsequent Financing Notice, and the Purchasers will again have the right of participation set forth above in this Section 4.14, if the Subsequent Financing subject to the initial Subsequent Financing Notice is not consummated for any reason on the terms set forth in such Subsequent Financing Notice within thirty (30) Trading Days after the date of the initial Subsequent Financing Notice.

(g) The Company and each Purchaser agree that if any Purchaser elects to participate in the Subsequent Financing, the transaction documents related to the Subsequent Financing shall not include any term or provision whereby such Purchaser shall be required to agree to any restrictions on trading as to any of the Securities purchased hereunder (for avoidance of doubt, the securities purchased in the Subsequent Financing shall not be considered securities purchased hereunder) or be required to consent to any amendment to or termination of, or grant any waiver, release or the like under or in connection with, this Agreement, without the prior written consent of such Purchaser.

(h) Notwithstanding anything to the contrary in this Section 4.14 and unless otherwise agreed to by such Purchaser, the Company shall either confirm in writing to such Purchaser that the transaction with respect to the Subsequent Financing has been abandoned or shall publicly disclose its intention to issue the securities in the Subsequent Financing, in either case in such a manner such that such Purchaser will not be in possession of any material, non-public information, by the tenth (10th) Business Day following delivery of the Subsequent Financing Notice. If by such tenth (10th) Business Day, no public disclosure regarding a transaction with respect to the Subsequent Financing has been made, and no notice regarding the abandonment of such transaction has been received by such Purchaser, such transaction shall be deemed to have been abandoned and such Purchaser shall not be deemed to be in possession of any material, non-public information with respect to the Company.

4.15 Maintenance of Property. The Company shall keep all of its property, which is necessary or useful to the conduct of its business, in good working order and condition, ordinary wear and tear excepted, except for any property that may be subject to the sale of the Company's fuels distribution business.

4.16 Subordination. Each Purchaser acknowledges and hereby agrees to postpone and subordinate the Subordinate Security in all respects to the Senior Security in, against and with respect to the Collateral. In so doing, all indebtedness due to any Senior Lender and secured by the Senior Security shall rank senior in all respects, including right of payment, to all indebtedness due to any Purchaser and secured by the Subordinate Security, and the indebtedness due to any Senior Lender and secured by the Senior Security (including, without limitation, principal, interest, fees and other amounts of any kind) shall be indefeasibly paid and satisfied in full before any Purchaser shall be entitled to be paid or receive any payments representing proceeds of the Collateral or otherwise on account of, or with respect to, the indebtedness secured by the Subordinate Security (including, without limitation, principal, interest, fees and other amounts of any kind). Without limiting the generality of the foregoing, the postponements and subordinations provided for herein shall be effective notwithstanding: (1) the respective dates of execution, delivery, attachment, registration, perfection or enforcement of the Senior Security or the Subordinate Security; (2) the date or dates of any advance or advances of the indebtedness secured by the Senior Security or the Subordinate Security and whether any such advances occur before or after the occurrence of any default or event of default and whether a Senior Lender or any Purchaser had notice of any such default or event of default at the time of making any such advance; (3) the dates of any default or event of default or the date or dates of crystallization of any floating charge under the Senior Security or the Subordinate Security; (4) the rules of priority established under applicable law; or (5) the provisions of the agreements or instruments creating the Senior Security or the Subordinate Security.

4.17 Further Instruments. Each Purchaser hereby agrees to execute and deliver, upon request by any Senior Lender or the Company, such further instruments and agreements as may be reasonably required by such Senior Lender or the Company to confirm and give effect to the provisions of this Agreement and to register and record or file notice of the subordinations and postponements of the Subordinate Security in favor of the Senior Security in any office of public record as such Senior Lender or the Company may consider necessary or desirable from time to time.

4.18 Additional Issuances. For so long as a Note is outstanding, the Company will not amend the terms of any securities or Common Stock Equivalents or of any agreement outstanding or in effect as of the date of this Agreement pursuant to which same were or may be acquired nor issue any Common Stock or Common Stock Equivalents, if such issuance or the result of such amendment would be at an effective price per share of Common Stock less than the Conversion Price in effect at the time of such lower price issuance or amendment, except pursuant to Schedule 3.1(g) and Schedule 3.1(hh).

ARTICLE V. MISCELLANEOUS

5.1 Termination. This Agreement may be terminated by any Purchaser, as to such Purchaser's obligations hereunder only and without any effect whatsoever on the obligations between the Company and the other Purchasers, by written notice to the other parties, if the Initial Closing has not been consummated on or before June 30, 2016; provided, however, that such termination will not affect the right of any party to sue for any breach by any other party (or parties).

5.2 Fees and Expenses. Except as expressly set forth in the Transaction Documents, each party shall pay the fees and expenses of its advisers, counsel, accountants and other experts, if any, and all other expenses incurred by such party incident to the negotiation, preparation, execution, delivery and performance of this Agreement. The Company shall pay all Transfer Agent fees (including, without limitation, any fees required for same-day processing of any instruction letter delivered by the Company and any conversion or exercise notice delivered by a Purchaser), stamp taxes and other taxes and duties levied in connection with the delivery of any Securities to the Purchasers and all expenses in connection with filing and perfecting the security interest granted pursuant to the Security Agreement.

5.3 Entire Agreement. The Transaction Documents, together with the exhibits and schedules thereto, contain the entire understanding of the parties with respect to the subject matter hereof and thereof and supersede all prior agreements and understandings, oral or written, with respect to such matters, which the parties acknowledge have been merged into such documents, exhibits and schedules.

5.4 Notices. All notices, demands, requests, consents, approvals, and other communications required or permitted hereunder shall be in writing and, unless otherwise specified herein, shall be (i) personally served, (ii) deposited in the mail, registered or certified, return receipt requested, postage prepaid, (iii) delivered by reputable air courier service with charges prepaid, or (iv) transmitted by hand delivery, telegram, or facsimile, addressed as set forth below or to such other address as such party shall have specified most recently by written notice. Any notice or other communication required or permitted to be given hereunder shall be deemed effective (a) upon hand delivery or delivery by facsimile, with accurate confirmation generated by the transmitting facsimile machine, at the address or number designated below (if delivered on a business day during normal business hours where such notice is to be received), or the first business day following such delivery (if delivered other than on a business day during normal business hours where such notice is to be received) or (b) on the second business day following the date of mailing by express courier service, fully prepaid, addressed to such address, or upon actual receipt of such mailing, whichever shall first occur. The addresses for such communications shall be: (i) if to the Company, to: MCW Energy Group Limited, 4370 Tujunga Avenue, Suite 320, Studio City, California, 91604, Attn: Alex Blyumkin, Executive Chairman, facsimile: 866-571-9613, with a copy by email only to (which shall not constitute notice): robbie.grossman@mcmillan.ca, and (ii) if to the Purchasers, to: the addresses and fax numbers indicated on the signature pages hereto, with an additional copy by fax only to (which shall not constitute notice): Grushko & Mittman, P.C., 515 Rockaway Avenue, Valley Stream, New York 11581, facsimile: (212) 697-3575.

5.5 Amendments; Waivers. No provision of this Agreement may be waived, modified, supplemented or amended except in a written instrument signed, in the case of an amendment, by the Company and the Purchasers holding at least a majority in interest of the component of the affected Securities then outstanding or, in the case of a waiver, by the party against whom enforcement of any such waived provision is sought. No waiver of any default with respect to any provision, condition or requirement of this Agreement shall be deemed to be a continuing waiver in the future or a waiver of any subsequent default or a waiver of any other provision, condition or requirement hereof, nor shall any delay or omission of any party to exercise any right hereunder in any manner impair the exercise of any such right.

5.6 Headings. The headings herein are for convenience only, do not constitute a part of this Agreement and shall not be deemed to limit or affect any of the provisions hereof.

5.7 Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties and their successors and permitted assigns. The Company may not assign this Agreement or any rights or obligations hereunder without the prior written consent of each Purchaser (other than by merger). Following the Closing, any Purchaser may assign any or all of its rights under this Agreement to any Person to whom such Purchaser assigns or transfers any Securities, provided that such transferee agrees in writing to be bound, with respect to the transferred Securities, by the provisions of the Transaction Documents that apply to the "Purchasers."

5.8 No Third-Party Beneficiaries. This Agreement is intended for the benefit of the parties hereto and their respective successors and permitted assigns and is not for the benefit of, nor may any provision hereof be enforced by, any other Person, except as otherwise set forth in Section 4.10.

5.9 Governing Law. Unless otherwise stated in a Transaction Document, all questions concerning the construction, validity, enforcement and interpretation of the Transaction Documents shall be governed by and construed and enforced in accordance with the internal laws of the State of New York, without regard to the principles of conflicts of law thereof. Each party agrees that all legal proceedings concerning the interpretations, enforcement and defense of the transactions contemplated by this Agreement and any other Transaction Documents (whether brought against a party hereto or its respective affiliates, directors, officers, shareholders, partners, members, employees or agents) shall be commenced exclusively in the state and federal courts sitting in the City of New York, or such other jurisdiction elected by a Purchaser to enforce its rights in which case the Purchaser may elect to enforce any of the Transaction Documents in any other appropriate or convenient jurisdiction. Each party hereby irrevocably submits to the exclusive jurisdiction of the courts sitting in the state and federal courts sitting in the City of New York, Borough of Manhattan for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein (including with respect to the enforcement of any of the Transaction Documents), or such other jurisdiction elected by Purchaser and hereby irrevocably waives, and agrees not to assert in any action, suit or proceeding, any claim that it is not personally subject to the jurisdiction of any such court, that such suit, action or proceeding is improper or is an inconvenient venue for such proceeding. Each party hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or proceeding by mailing a copy thereof via registered or certified mail or overnight delivery (with evidence of delivery) to such party at the address in effect for notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any other manner permitted by law. If either party shall commence an action or proceeding to enforce any provisions of the Transaction Documents, then, in addition to the obligations of the Company under Section 4.10, the prevailing party in such action, suit or proceeding shall be reimbursed by the other party for its reasonable attorneys' fees and other costs and expenses incurred with the investigation, preparation and prosecution of such action or proceeding.

5.10 Survival. The representations and warranties contained herein shall survive the Closing and the delivery of the Securities.

5.11 Execution. This Agreement may be executed in two or more counterparts, all of which when taken together shall be considered one and the same agreement and shall become effective when counterparts have been signed by each party and delivered to each other party, it being understood that the parties need not sign the same counterpart. In the event that any signature is delivered by facsimile transmission or by e-mail delivery of a ".pdf" format data file, such signature shall create a valid and binding obligation of the party executing (or on whose behalf such signature is executed) with the same force and effect as if such facsimile or ".pdf" signature page were an original thereof.

5.12 Severability. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction to be invalid, illegal, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions set forth herein shall remain in full force and effect and shall in no way be affected, impaired or invalidated, and the parties hereto shall use their commercially reasonable efforts to find and employ an alternative means to achieve the same or substantially the same result as that contemplated by such term, provision, covenant or restriction. It is hereby stipulated and declared to be the intention of the parties that they would have executed the remaining terms, provisions, covenants and restrictions without including any of such that may be hereafter declared invalid, illegal, void or unenforceable.

5.13 Rescission and Withdrawal Right. Notwithstanding anything to the contrary contained in (and without limiting any similar provisions of) any of the other Transaction Documents, whenever any Purchaser exercises a right, election, demand or option under a Transaction Document and the Company does not timely perform its related obligations within the periods therein provided and such failure is not waived by the Purchaser, then such Purchaser may, at any time prior to the Company's performance of such obligations, rescind or withdraw, in its sole discretion from time to time upon written notice to the Company, any relevant notice, demand or election in whole or in part without prejudice to its future actions and rights; provided, however, that in the case of a rescission of a conversion of a Note or exercise of a Warrant, the applicable Purchaser shall be required to return any shares of Common Stock subject to any such rescinded conversion or exercise notice concurrently with the return to such Purchaser of the aggregate exercise price paid to the Company for such shares and the restoration of such Purchaser's right to acquire such shares pursuant to such Purchaser's Warrant (including, issuance of a replacement warrant certificate evidencing such restored right).

5.14 Replacement of Securities. If any certificate or instrument evidencing any Securities is mutilated, lost, stolen or destroyed, the Company shall issue or cause to be issued in exchange and substitution for and upon cancellation thereof (in the case of mutilation), or in lieu of and substitution therefor, a new certificate or instrument, but only upon receipt of evidence reasonably satisfactory to the Company of such loss, theft or destruction. The applicant for a new certificate or instrument under such circumstances shall also pay any reasonable third-party costs (including customary indemnity) associated with the issuance of such replacement Securities.

5.15 Remedies. In addition to being entitled to exercise all rights provided herein or granted by law, including recovery of damages, each of the Purchasers and the Company will be entitled to specific performance under the Transaction Documents. The parties agree that monetary damages may not be adequate compensation for any loss incurred by reason of any breach of obligations contained in the Transaction Documents and hereby agree to waive and not to assert in any action for specific performance of any such obligation the defense that a remedy at law would be adequate.

5.16 Payment Set Aside. To the extent that the Company makes a payment or payments to any Purchaser pursuant to any Transaction Document or a Purchaser enforces or exercises its rights thereunder, and such payment or payments or the proceeds of such enforcement or exercise or any part thereof are subsequently invalidated, declared to be fraudulent or preferential, set aside, recovered from, disgorged by or are required to be refunded, repaid or otherwise restored to the Company, a trustee, receiver or any other Person under any law (including, without limitation, any bankruptcy law, state or federal law, common law or equitable cause of action), then to the extent of any such restoration the obligation or part thereof originally intended to be satisfied shall be revived and continued in full force and effect as if such payment had not been made or such enforcement or setoff had not occurred.

5.17 Usury. To the extent it may lawfully do so, the Company hereby agrees not to insist upon or plead or in any manner whatsoever claim, and will resist any and all efforts to be compelled to take the benefit or advantage of, usury laws wherever enacted, now or at any time hereafter in force, in connection with any claim, action or proceeding that may be brought by any Purchaser in order to enforce any right or remedy under any Transaction Document. Notwithstanding any provision to the contrary contained in any Transaction Document, it is expressly agreed and provided that the total liability of the Company under the Transaction Documents for payments in the nature of interest shall not exceed the maximum lawful rate authorized under applicable law (the "Maximum Rate"), and, without limiting the foregoing, in no event shall any rate of interest or default interest, or both of them, when aggregated with any other sums in the nature of interest that the Company may be obligated to pay under the Transaction Documents exceed such Maximum Rate. It is agreed that if the maximum contract rate of interest allowed by law and applicable to the Transaction Documents is increased or decreased by statute or any official governmental action subsequent to the date hereof, the new maximum contract rate of interest allowed by law will be the Maximum Rate applicable to the Transaction Documents from the Closing Date thereof forward, unless such application is precluded by applicable law. If under any circumstances whatsoever, interest in excess of the Maximum Rate is paid by the Company to any Purchaser with respect to indebtedness evidenced by the Transaction Documents, such excess shall be applied by such Purchaser to the unpaid principal balance of any such indebtedness or be refunded to the Company, at such Purchaser's election.

5.18 Independent Nature of Purchasers' Obligations and Rights. The obligations of each Purchaser under any Transaction Document are several and not joint with the obligations of any other Purchaser, and no Purchaser shall be responsible in any way for the performance or non-performance of the obligations of any other Purchaser under any Transaction Document. Nothing contained herein or in any other Transaction Document, and no action taken by any Purchaser pursuant hereto or thereto, shall be deemed to constitute the Purchasers as a partnership, an association, a joint venture or any other kind of entity, or create a presumption that the Purchasers are in any way acting in concert or as a group with respect to such obligations or the transactions contemplated by the Transaction Documents. Each Purchaser shall be entitled to independently protect and enforce its rights, including, without limitation, the rights arising out of this Agreement or out of the other Transaction Documents, and it shall not be necessary for any other Purchaser to be joined as an additional party in any proceeding for such purpose. Each Purchaser has been represented by its own separate legal counsel in its review and negotiation of the Transaction Documents. For reasons of administrative convenience only, each Purchaser and its respective counsel have chosen to communicate with the Company through G&M. The Company has elected to provide all Purchasers with the same terms and Transaction Documents for the convenience of the Company and not because it was required or requested to do so by any of the Purchasers. It is expressly understood and agreed that each provision contained in this Agreement and in each other Transaction Document is between the Company and a Purchaser, solely, and not between the Company and the Purchasers collectively and not between and among the Purchasers.

5.19 Liquidated Damages. The Company's obligations to pay any partial liquidated damages or other amounts owing under the Transaction Documents is a continuing obligation of the Company and shall not terminate until all unpaid partial liquidated damages and other amounts have been paid notwithstanding the fact that the instrument or security pursuant to which such partial liquidated damages or other amounts are due and payable shall have been canceled.

5.20 Saturdays, Sundays, Holidays, etc. If the last or appointed day for the taking of any action or the expiration of any right required or granted herein shall not be a Business Day, then such action may be taken or such right may be exercised on the next succeeding Business Day.

5.21 Construction. The parties agree that each of them and/or their respective counsel have reviewed and had an opportunity to revise the Transaction Documents and, therefore, the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of the Transaction Documents or any amendments thereto. In addition, each and every reference to share prices and shares of Common Stock in any Transaction Document shall be subject to adjustment for reverse and forward stock splits, stock dividends, stock combinations and other similar transactions of the Common Stock that occur after the date of this Agreement.

5.22 WAIVER OF JURY TRIAL. IN ANY ACTION, SUIT, OR PROCEEDING IN ANY JURISDICTION BROUGHT BY ANY PARTY AGAINST ANY OTHER PARTY, THE PARTIES EACH KNOWINGLY AND INTENTIONALLY, TO THE GREATEST EXTENT PERMITTED BY APPLICABLE LAW, HEREBY ABSOLUTELY, UNCONDITIONALLY, IRREVOCABLY AND EXPRESSLY WAIVES FOREVER TRIAL BY JURY.

5.23 Equitable Adjustment. Trading volume amounts, price/volume amounts and similar figures in the Transaction Documents shall be equitably adjusted (but without duplication) to offset the effect of stock splits, similar events and as otherwise described in this Agreement and Warrants.

5.24 Currency. Unless otherwise stated, all references to currency shall mean United States Dollars.

5.25 Paramourncy. If there is any conflict or inconsistency between the provisions of this Agreement and the provisions of any Note, the provisions of this Agreement shall govern and prevail, to the extent necessary to resolve such conflict or inconsistency.

(Signature Pages Follow)

IN WITNESS WHEREOF, the parties hereto have caused this Securities Purchase Agreement to be duly executed by their respective authorized signatories as of the date first indicated above.

MCW ENERGY GROUP LIMITED

Address for Notice:

4370 Tujunga Avenue, Suite 320,
Studio City, California, 91604
Fax: 818-358-3148

By: /s/ Alex Blyumkin

Name: Alex Blyumkin

Title: Executive Chairman

With a copy to (which shall not constitute notice):

McMillan LLP
181 Bay Street, Suite 4400
Toronto, ON M5J 2T3
Attn: Robbie Grossman
Email: robbie.grossman@mcmillan.ca

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK
SIGNATURE PAGE FOR PURCHASER FOLLOWS]

EXHIBIT “E”

FOREIGN PURCHASER’S CERTIFICATE

Capitalized terms not specifically defined in this Exhibit “E” have the meanings ascribed to them in the Agreement to which this “Exhibit E” is attached.

TO: MCW ENERGY GROUP LIMITED (the “Company”)

The undersigned Purchaser, a resident of a jurisdiction other than Canada or the United States, hereby represents and warrants to the Company, and acknowledges as an integral part of the attached Agreement, as follows:

1. The Purchaser is, and each beneficial purchaser for whom the Purchaser may be acting as trustee or agent is, a resident of a country (an “**International Jurisdiction**”) other than Canada or the United States and the decision to acquire the Notes was taken in such International Jurisdiction.
2. The execution of the Agreement and the issuance of the Notes to the Purchaser, or any beneficial purchaser, complies with all laws applicable to the Purchaser and such beneficial purchaser, including the laws of such purchaser’s jurisdiction of residence, and all other applicable laws, and will not require the Company to register the Securities nor will it cause the Company to become subject to, or require it to comply with, any disclosure, prospectus, filing or reporting requirements under any applicable laws of the International Jurisdiction or seek any approvals of any kind whatsoever from any regulatory authority of any kind whatsoever in the International Jurisdiction.
3. If the undersigned Purchaser, or any other purchaser for whom it is acting hereunder, is resident in or otherwise subject to applicable securities laws of the United Kingdom:
 - (a) the Purchaser is either: (i) purchasing the Notes as principal for its own account, (ii) acting as agent for a disclosed beneficial purchaser who has been disclosed to the Company and who is purchasing the Notes as principal for its own account; or (iii) purchasing the Notes on behalf of discretionary client(s) in circumstances where section 86(2) of the *Financial Services and Markets Act 2000* (“**FSMA**”) applies;
 - (b) the Purchaser (and if the undersigned Purchaser is purchasing as agent for a disclosed beneficial purchaser, the disclosed beneficial purchaser): (i) is such a person as is referred to in Article 19 (investment professionals); Article 49 (high net worth companies, unincorporated associations, etc.) or Article 50 (sophisticated investors) of the *Financial Services and Markets Act 2000 (Financial Promotion) Order 2005* (the “**FPO**”); and (ii) has complied with and undertakes to comply with all applicable provisions of the FSMA and other applicable securities laws with respect to anything done by it in relation to the Note and the underlying securities in, from or otherwise involving the United Kingdom;
 - (c) the Purchaser acknowledges that the offer detailed in the Agreement is only directed in the United Kingdom at the following persons (such that such offer is not available in the United Kingdom to any other persons and such that no other persons should rely on the contents of the Agreement):
 - (i) (in the case of investment professionals as referred to in Article 19 of the FPO) persons having professional experience in matters relating to investments; and

(ii) (in the case of high net worth companies, etc. as referred to in Article 49 of the FPO) high net worth companies, unincorporated associations or partnerships or trustees of high value trusts which: (A) in the case of a company, has, or is a member of the same group as an undertaking that has, a called up share capital or net assets of not less than £500,000 (for companies with more than 20 members or subsidiary undertakings of an undertaking with more than 20 members) or net assets of not less than £5,000,000 in any other case; or (B) in the case of an unincorporated association or partnership, has net assets of not less than £5,000,000; or (C) in the case of a trustee of a high value trust, has cash and investments forming part of the trust's assets (before the deduction of liabilities) with an aggregate value of not less than £10,000,000 (or which has had an aggregate value of not less than £10,000,000 during the year immediately preceding the date of receipt of the Agreement); and

(iii) (in the case of certified sophisticated investors as referred to in Article 50(1) of the FPO) a person that this communication is directed who:

(A) has a current certificate in writing or other legible form signed by an authorised person to the effect that he is sufficiently knowledgeable to understand the risks associated with investments in shares and other securities issued by companies listed or quoted on an investment exchange, whether in the United Kingdom or elsewhere, and

(B) has signed, within the period of twelve months ending with the day on which the communication was made, a statement in the following terms:

“I,, make this statement so that I am able to receive promotions which are exempt from the restrictions on financial promotion in the Financial Services and Markets Act 2000 (as amended). The exemption relates to certified sophisticated investors and I declare that I qualify as such in relation to investments in shares and other securities issued by private companies and by companies listed or quoted on an investment exchange, whether in the United Kingdom or elsewhere.

I accept that the contents of promotions and other material that I receive may not have been approved by an authorised person and that their content may not therefore be subject to controls which would apply if the promotion were made or approved by an authorised person. I am aware that it is open to me to seek advice from someone who specialises in advising on this kind of investment.”

(d) it confirms that, to the extent applicable to it, it is aware of, has complied and will comply with its obligations in connection with the *Criminal Justice Act 1993*, the *Proceeds of Crime Act 2002* and Part VIII of the FSMA, it has identified its clients in accordance with the Money Laundering Regulations 2003 (the “**Regulations**”) and has complied fully with its obligations pursuant to the Regulations and will, as a condition precedent of any acceptance of this subscription, provide all such information and documents as may be required in relation to it (or any person on whose behalf it is acting as agent) that may be required by the Company or any agent or person acting for it in order to discharge any obligations under the Regulations.

4. The Purchaser, and each beneficial purchaser, is knowledgeable of, or has been independently advised as to, the application or jurisdiction of the securities laws of the International Jurisdiction which would apply to the transactions contemplated by the Agreement (other than the securities laws of Canada and the United States).

5. The Purchaser, and each beneficial purchaser, is purchasing the Notes pursuant to exemptions from the prospectus and registration requirements (or their equivalent) under the applicable securities laws of that International Jurisdiction or, if such is not applicable, each is permitted to purchase the Notes under the applicable securities laws of the International Jurisdiction without the need to rely on an exemption.

6. The Purchaser, and each beneficial purchaser, will not sell, transfer or dispose of the Notes and the underlying securities except in accordance with all applicable laws, including applicable securities laws of Canada and the United States, and the Purchaser, and each beneficial purchaser, acknowledges that the Company shall have no obligation to register any such purported sale, transfer or disposition which violates applicable Canadian or United States securities laws or other securities laws.

7. The Purchaser, and each beneficial purchaser, shall not sell the Notes and the underlying securities until all applicable hold periods have expired unless the sale is made pursuant to an exemption to applicable securities laws.

The foregoing representations and warranties contained in this Exhibit "E" are true and accurate as of the date of this Exhibit "E" and will be true and accurate as of the time of Closing. If any such representations or warranties shall not be true and accurate prior to the time of Closing, the undersigned shall give immediate written notice of such fact to the Company prior to the time of Closing.

Dated: 12/15/15 _____

Signed: _____

Witness (If Purchaser is an Individual)

Alpha Capital Anstalt

Print the name of Purchaser

Print Name of Witness

Konrad Ackermann, Director

If Purchaser is a corporation, print name and
title of Authorized Signing Officer

References in this Exhibit "E" to "£" are to United Kingdom pounds.

SCHEDULE 3.1(g)
Capitalization

Issued and outstanding shares = 62,534,715

Shares issuable pursuant to incentive stock options = 1,300,000

Shares issuable pursuant to common share purchase warrants = 2,569,849

Shares issuable to developer pursuant to Restricted Stock Agreement = 500,000

Shares issuable pursuant to contractual commitments = 11,747,675

SCHEDULE 3.1(hh)
Existing Indebtedness

MCW Energy Group Limited
Loan Summary Schedule
As of March 31, 2016

Vendor	Amount	Term
B&N Bank	3,060,993.00	18-Mar-16
BK Peterson	75,549.00	15-Oct-17
Equipment Funding - Bank of the West	210,760.00	17-Apr-20
Equipment Funding - Wells Fargo	42,159.00	20-Apr-20
Strategic IR	84,323.00	6-Aug-18
Altlands Corp	3,624,598.00	9-Feb-17
Temple Mountain	10,250,685.00	8-Sep-20
Donald Cameron	755,341.00	15-Oct-17
Rocky Romano	151,965.00	12-Dec-15
Regular Trade Payables	668,869.05	
	<u>18,925,242.05</u>	

LOAN AGREEMENT AMENDMENT NO. 2

February 1, 2016

Altlands Overseas Corp.
Office 101
1 ½ Miles Northern Highway
Belize City, Belize

We refer to the loan agreement dated February 9, 2015 between Altlands Overseas Corp. (the "Lender") and MCW Energy CA, Inc., as amended on July 21, 2015 (the "**Agreement**"). For good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties agree to amend the Agreement **as** follows (the "**Amending Agreement**"). Capitalized terms not otherwise defined shall have the same meaning ascribed to them in the Agreement.

1. Section 1.1 the term "Repayment Date" is deleted and replaced with the following:

"Repayment Date" means the 9th of February, 2017.

2. Section 4.2 is deleted and replaced with the following:

The interest applicable to the loan through February 9th, 2016 shall be 6%. The interest applicable to the loan from February 10th, 2016 through February 9, 2017 shall be 10%.

All other terms of the Agreement not contradicting with the provisions of this Amending Agreement shall continue in full force and effect.

This Amending Agreement is subject to (i) the issuance to the Lender of the maximum number of common shares in the capital of MCW Energy Group Limited permitted under section 2.2(b) of TSX Venture Exchange Policy 5.1, (ii) all necessary, director, shareholder, regulatory and stock exchange approvals, and (iii) compliance with applicable securities laws.

This Amending Agreement may be executed in two or more counterparts, each of which is deemed to be an original and **all** of which will constitute one agreement, effective as of the date given above. If you are in agreement with the terms and conditions of this Amending Agreement, please sign below and return one copy to our attention.

Yours truly,

MCW ENERGY CA, INC.

Per: /s/ Aleksandr Blyumkin
Name: Aleksandr Blyumkin
Title: Director

AGREED AND ACCEPTED this **22nd** day of February, 2016.

ALTLANDS OVERSEAS CORP.

Per: /s/ Lorraine Torres
Name: Lorraine Torres
Title: Director

**REINSTATEMENT OF AND SECOND AMENDMENT TO
MINING AND MINERAL LEASE AGREEMENT**

This **REINSTATEMENT OF AND SECOND AMENDMENT TO MINING & MINERAL LEASE AGREEMENT** (“Second Amendment”), dated and made effective as of March 1, 2016 (“Amendment Date”), is made and entered into by and between **ASPHALT RIDGE, INC.**, a Utah corporation having offices at 6083 Carriage House Way, Reno, NV 89519 (“Lessor”), and **TMC CAPITAL, LLC**, a Utah limited liability company having offices at 18653 Ventura Blvd., Ste. 158, Tarzana, California 91356 (“Lessee”) (the parties are sometimes referred to herein individually as a “Party” or collectively as the “Parties”).

RECITALS

A. Lessor and Lessee are Parties to that certain that - certain “Mining and Mineral Lease Agreement” dated as of July 1, 2013, as amended by the First Amendment to Mining & Mineral Lease Agreement dated as of October 15, 2015 (“Lease”), whereby Lessor granted to Lessee an exclusive right to explore for, mine, produce, extract and sell or otherwise dispose of Tar Sands and any Minerals which are associated with or contained in any Tar Sands (as defined in the Lease), subject to a depth limitation of above 3,000 feet above Mean Sea Level (MSL), located in and under the Properties in Uintah County, Utah more particularly described in Exhibit A of the Lease and to use in connection therewith the Water Rights described in Exhibit B of the Lease;

B. On March 1, 2016, the Lease automatically terminated in accordance with the terms of the Lease as a result of Lessee’s failure to obtain a written letter by that date from a funding source as required by Paragraph 11 of the Lease (“Financial Commitment”);

C. Lessee has not paid all taxes on the Properties for calendar year 2015 and Lessee has not paid all amounts due and owing to Lessor under the Lease; and,

D. Lessor and Lessee desire to reinstate and amend the Lease effective as of March 1, 2016, upon the terms and conditions set forth in this Second Amendment, allowing Lessee a period of time from March 1, 2016 and up to and including, but in no event after, March 1, 2018 (“Extension Period”), within which to obtain and provide Lessor a copy of the Financial Commitment.

NOW, THEREFORE, in consideration of the covenants, promises and obligations contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

1. LESSEE PAYMENTS. On or before April 22, 2016, Lessee shall have paid in full the following payments, and, thereafter, all of the payments required in the Lease as amended must be made in a timely fashion by Lessee:

(a) the sum of \$60,000.00 to Lessor, as the quarterly payment for advance royalty due under Paragraph 4) of the Lease;

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(b) the sum of \$6,829.00 to Lessor in reimbursement of Lessor's attorney's fees incurred by Lessor in connection with the negotiation and preparation of the First Amendment to Mining & Mineral Lease Agreement dated as of October 15, 2015;

(c) upon receiving the Financial Commitment, TMC shall pay the sum of \$24,000.00 to Lessor as Lessor's 20% share of the sum of \$170,000 received by TMC from Blackrock Petroleum (less a credit of \$10,000.00) received by Lessee from Blackrock;

(d) all property taxes due and owing on the Properties for the property tax year 2015, estimated in the amount of \$1,603.74.

2. REINSTATEMENT AND AMENDMENT OF LEASE. If and only if the sums required to be paid by Lessee under Paragraph 1 of this Second Amendment have been paid in full on or before April 22, 2016, the Lease shall be reinstated effective as of March 1, 2016, and shall be amended effective as of March 1, 2016 in the following respects:

(a) **Amendment of Paragraph 11 of the Lease.** Paragraph 11 of the Lease is hereby amended in its entirety and replaced with the following:

11) Termination.

a) Lack of Financial Commitment. This Lease shall automatically terminate without notice, if a written letter from an institution or individual capable of and committed to funding the proposed 3,000 barrel/day processing facility to be constructed for the benefit of the Properties (the "Financial Commitment") is not obtained or secured by Lessee and a true and accurate copy of the Financial Commitment received by Lessor on or before March 1, 2018. The period of time between March 1, 2016 and the earlier of (i) March 1, 2018 or (ii) the date on which a true and accurate copy of the Financial Commitment is received by Lessor shall be referred to herein as the "Extension Period."

b) Cessation of Operations or Inadequate Production. If the technology, techniques or process deployed by Lessee in the development of the Lease prove to be uneconomic and operations cease due to increased operating costs or decreased marketability, this Lease shall automatically terminate without notice if operations are not resumed at 80% of capacity within six (6) months of any such cessation.

If the proposed 3,000 barrel/day processing facility to be constructed for the benefit of the Properties fails to produce an average at a minimum of 80% of its rated capacity for at least 180 calendar days during the Lease Year commencing July 1, 2020 plus the Extension Period, or any successive Lease Year, this Lease shall terminate within thirty (30) days after Lessor delivers to Lessee a written notice of termination. The 3,000 barrel/day rated capacity is determined solely by the quantity of ore processed from the Property to produce 3,000 barrels/day prior to being diluted by condensate or any other dilutant.

c) Surrender by Lessee. Lessee may at any time after the Effective Date surrender this Lease provided thirty (30) days advance written notice of termination is given to Lessor, after which all rights and obligations of Lessee hereunder shall cease, save and excepting all accrued obligations and any reclamation and similar obligations that were occasioned by Lessee's operations and Lessee's environmental obligations, which shall survive any termination. Lessee shall leave the Properties in a clean, good and safe condition and in accordance with all applicable laws and regulations. Upon termination of this Lease, Lessee shall comply with all DOGM and/or BLM reclamation requirements and shall have a continuing right to enter upon the Properties to complete required reclamation and to remove from the Properties all equipment, machinery, facilities and other items belonging to Lessee in accordance with DOGM's standards, in accordance with all relevant operating permits and reclamation plans, and to DOGM's satisfaction. Lessee's reclamation obligations hereunder shall be deemed complete upon final release by DOGM and/or the BLM of Lessee's surety bond or other financial guarantee.

d) Breach of Lease by Lessee. In the event of Lessee's failure to comply with any material provision of this Lease, Lessor shall provide Lessee with written notice setting forth the nature of such non-compliance after receipt of which, if the non-compliance relates to the payment of money, Lessee shall within thirty (30) days of receipt of notice cure such non-compliance. If the non-compliance relates other than to the payment of money, Lessee shall within thirty (30) days of receipt of notice pursue diligently all appropriate actions to cure the non-compliance within one hundred fifty (150) days of receipt of notice. If the non-compliance is not timely cured, Lessor may thereupon terminate this Lease by giving Lessee written notice to that effect. However, should there be a dispute as to whether or not non-compliance has occurred or remained, then the provisions of paragraph 12 below shall apply.

In the event of any breach of this Lease by Lessee and the failure to cure after notice as provided above, Lessor, in addition to the other rights or remedies it may have, shall have the immediate right of reentry and may remove all persons and property from the premises; such property may be removed and stored in a public warehouse or elsewhere at the cost of, and for the account of Tenant. Should Lessor elect to reenter, as herein provided, or should it take possession pursuant to legal proceedings or pursuant to any notice provided for by law, Lessor may terminate this Lease. Should Lessor at any time terminate this Lease for any breach, in addition to any other remedy it may have, Lessor may recover from Tenant all damages incurred by reason of such breach, including the cost of recovering the premises. If lessee doesn't remove personal property, after 6 months it belongs to lessor.

(b) Amendment of Paragraph 2 of the Lease. Paragraph 2 of the Lease is hereby amended in its entirety and replaced with the following:

“2) Term. This Lease is granted for a primary term of six (6) years plus the Extension Period provided in Paragraph 11 (the “Primary Term”) commencing July 1, 2013 (the “Effective Date”). If at any time during the Primary Term, Lessee fails to achieve (or exceed) the requirements of Continuous Operations (as defined below), this Lease shall terminate unless mutually agreed in writing by both Parties. If within the Primary Term, Lessee meets or exceeds the applicable requirements of Continuous Operations, then this Lease shall continue after the Primary Term for so long as such requirements continue to be met or maintained. If, at any time following the Primary Term, the operations conducted by Lessee cease for longer than 180 days during any Lease Year or 600 days in any three consecutive Lease Years, Lessor shall be entitled, upon complying with the provisions contained in Paragraphs 12 (Termination) and 14 (Notices), respectively, to terminate this Lease. a) Definition of “Continuous Operations”. For purposes of this Lease, the term “Continuous Operations” means:

(i) the construction or operation of one or more facilities having the capacity to produce, from bituminous ores, sands and compounds mined or extracted from the Properties, an average daily quantity (“ADO”) of bitumen, synthetic crude oil and/or bitumen products (excluding blending agents and dilutants) that, in the aggregate, equals or exceeds the following:

By 07-01-2016 plus the Extension Period, at 80% of the ADQ of 100 bbls/day;
By 07-01-2018 plus the Extension Period, at 80% of the ADQ of 1,500 bbls/day; and
By 07-01-2020 plus the Extension Period, and thereafter during the remainder of this Lease, at 80% of the ADQ of 3,000 bbls/day; and

(ii) from and after 07-01-2016 plus the Extension Period, the continuation of operations for a minimum period of 180 days during each Lease Year or 600 days in any period of three consecutive Lease Years at (or in excess of) the applicable ADQ specified hereinabove.

b) Offsite Operations. Operations conducted by Lessee off the Properties shall be included in determining whether the applicable requirements of Continuous Operations have been met if they are conducted in connection with an integrated mining operation involving the Properties and other properties in which Lessee holds an interest, provided that, during any period of three (3) Lease Years, at least fifty percent (50%) percent of the ores, tar sands, or fee stock of whatever nature mined or otherwise extracted from or in the integrated mining operation comes from the Properties.

c) Smaller Operations. In the event that the operation of any facility or facility constructed or deployed by Lessee to produce bitumen, synthetic crude oil and/or bitumen products from the Properties fails to achieve (or exceed) the requirements for Continuous Operations in or for any Lease Year (or any period of three consecutive Lease Years), Lessor shall be entitled, upon complying with the provisions contained in Paragraphs 12 (Termination) and 14 (Notices), respectively, to terminate this Lease.”

c. Amendment of Paragraph 4 of the Lease. Paragraph 4) of the Lease is hereby amended in its entirety and replaced with the following:

4) Royalties and Minimum Expenditures. As part of the consideration for the granting of this Lease, Lessee agrees to pay Lessor the following advance royalties and production royalties. As used herein, the term “Lease Quarter” shall mean a period of three months commencing on the Effective Date or any three-month period thereafter:

a) Advance Royalties. Lessee agrees to make advance royalty payments to Lessor during the term of this Lease as provided in this Paragraph 4(a) (“Advance Royalties”).

(i) Lessor and Lessee each acknowledge and agree that all Advance Royalties payable to Lessor under this Lease from and after the Effective Date through September 30, 2015 have been paid in full.¹

(ii) Effective as of October 1, 2015, Lessee shall pay Advance Royalties to Lessor as follows:

For the Lease Quarter beginning 10-01-2015 and each of the next ensuing nine (9) successive Lease Quarters (ending 02-28-2018)	Advance Royalty of \$60,000 shall be paid quarterly, with payment made on or before the first day of each such Lease Quarter
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For the Lease Quarter beginning 03-01 2018 and each of the next ensuing ten (10) successive Lease Quarters (ending 12-31-2020)	Advance Royalty of \$100,000 shall be paid quarterly, with payment made on or before the first day of each such Lease Quarter
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For the Lease Quarter commencing 01 01-2021 and each ensuing successive Lease Quarter during the remaining term of this Lease	Advance Royalty of \$150,000 shall be paid quarterly, subject to a CPI Adjustment as provided below, with payment made within 30 days after the end of each such Lease Year
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(iii) The Advance Royalty payable to Lessor for the Lease Year commencing on July 1, 2020 and for each successive Lease Year thereafter shall be adjusted on each anniversary of the Effective Date (7-1-2013) by a percentage equal to the percentage change in the Consumer Price Index (all Urban Areas), U.S. City Average, published by the U.S. Department of Labor, for and during the prior calendar year (the "CPI Adjustment"). Any Advance Royalty payable to Lessor under this Lease prior to the Lease Year commencing on July 1, 2020 shall not be subject to the CPI Adjustment.

b) Accrual and Credit of Advance Royalties. Payments of Advance Royalties may accrue and be utilized as a credit against (and a reduction of) Production Royalties for a maximum of two years following the year for which the Advance Royalties have been paid. Upon any assignment, merger, or transfer of the Lease the credit for all accrued Advance Royalty payments shall be forfeited and will no longer be recoverable from Production Royalties.

c) Production Royalties. Lessee agrees to make production royalty payments to Lessor during the term of this Lease as provided in this paragraph 4(c) ("Production Royalties").

¹ An extension of time for payment of the Advance Royalty payment due on October 1, 2015 is hereby granted by Lessor on the condition that the payment is made on or before November 1, 2015.

(i) From and after the Effective Date through the Lease Year ending June 30, 2020, the Production Royalty for Bitumen Oil Product produced from Tar Sands mined or otherwise extracted from the Properties shall be seven (7%) percent of the gross sales revenue received by Lessee from the sale of such Bitumen Oil Product, less actual transportation costs incurred post-processing to the point of sale to a third party unrelated to and unaffiliated with Lessee. As used herein, the term “Bitumen Oil Product” means natural occurring oil in the Tar Sands that is sold in whatever form, including run-of-mine, screened or processed, or after the addition of any additives and/or the upgrading of, Bitumen Oil Product; it being the intent of the parties hereto that calculation of Production Royalty for the Bitumen Oil Product sold shall be determined solely by the actual number of tons, cubic yards, or barrels of Bitumen Oil Product produced and sold from the Tar Sands deposits contained within the Properties.

It is the intention of the Parties that the Production Royalty payable to Lessor on any Bitumen Oil Product, or other products or by-products (see paragraph 4 c (iii)) that have been generated, processed or extracted from deposits of Tar Sands mined or otherwise extracted from the Properties shall be based upon the gross sales price. Adjustments for diluent shall be made if properly accounted for and verified to Lessor. No deduction may be made for any process chemicals, including but not limited to the 15% condensate component. Example: If 80% of the “Bitumen Oil Product” sold is diluent (condensate or other blending agent), 65% (80% -15%) shall be deductible from the gross sales price. Likewise, if 40% is diluent, 25% (40%-15%) shall be deductible from the gross sales price.

A division order or similar agreement or contract may be entered into from time to time by (i) Lessor, Lessee and other future owners of working interests or royalty interests under other leases, and (ii) the buyer of Bitumen Oil Product or an independent person or entity retained by Lessee for the purpose of calculating the payment of Production Royalties hereunder, in each case for the purpose of directing the buyer or such independent person or entity, as the case may be, to (A) calculate Production Royalties in accordance with the provisions hereof based on information and data provided by Lessee and reviewed by Lessors and such other future owners of interests, and then (B) disburse Production Royalties to all persons entitled thereto.

Effective with the Lease Year commencing July 1, 2020 and for each successive Lease Year thereafter, the rate for determining Production Royalties payable under this Paragraph 4(c)(i) shall be subject to adjustment based on changes in the average monthly “spot” price for West Texas Intermediate Crude Oil as specified in Table 1 below. In each case and for each such royalty payment period, the royalty rate used in determining or calculating Production Royalties for such period shall be the applicable percentage rate specified in Table 1.

TABLE 1

CRUDE OIL PRICE Quoted Average Monthly West Texas Intermediate Crude (WTI) ²	PRODUCTION ROYALTY (PR%) Percentage
\$60.00 and below	7%
\$65.01 to \$70.00	8%
\$70.01 to \$75.00	9%
\$75.01 to \$80.00	10%
\$80.01 to \$85.00	11%
\$85.01 to \$90.00	12%
\$90.01 to \$95.00	13%
\$95.01 to \$100.00	14%
\$100.01 and above	15%

(ii) Lessee shall be required to pay Production Royalties on any Minerals used or consumed by Lessee in the conduct of its operations, provided the source of Minerals is proportionally distributed among all properties where Minerals are mined. The purchase price shall be based upon the market price for screened cold asphalt road mix.

(iii) The Production Royalty for all other Minerals produced from the Bitumen Oil Products taken from the Properties and sold shall be five percent (5%) of the amount received by Lessee. Subject to the provisions of Paragraph 1(a) wherein sales of products and by-products are wholly accounted for, should sales occur to a third party purchaser that is engaged in marketing a variety of products or by-products and payments to Lessee are measurably greater than comparable sales by others (this may be due to the variety of high end by-products such as frac sands produced by the third party), the Production Royalty to Lessor shall be the greater of a 5% royalty on the gross value of the product and by-products sold by the third party or 50% of the gross revenue received by the Lessee from the sale of such products or byproducts, as the case may be.

² The average monthly WTI "Spot Price", FOB Cushing, OK (in U.S. Dollars per barrel) as reported by the U.S. Energy Information Administration.

(iv) Subject to the provisions contained in Paragraph 3(c), all Minerals shall be deemed sold at the time payment is actually received by Lessee.

(v) Should oil and gas be discovered and subject to being produced using standard oil and gas recovery techniques within and above 3000 feet above Mean Sea Level (MSL), Lessee shall have the exclusive right during the Term of this Lease (which right may not be assigned without prior written consent of Lessor) to produce, market and sell all such oil and gas existing or discovered within the Lease boundaries upon the condition that the Production Royalty payable to Lessor for all such oil and gas produced, saved and sold shall be 1/6 of the gross market value thereof

(vi) In order to avoid potential conflicts, unnecessary or burdensome calculations and misunderstandings, Lessee shall not assign, convey or otherwise transfer to any third person or entity, whether by assignment, sublease, merger or otherwise, any right, title or interest in and to the Leases, place a burden on any potential third party, sublessee, merger party, or any other form of assignment of Lessee's interest in this Lease wherein the actual retained interest of whatever nature exceeds 3.5% gross royalty/overriding royalty during the period when any third party is recovering their capital, thereafter, the burden shall not exceed a 5% gross royalty. This interest of whatever nature will be subject to the split (80% Lessee and 20% Lessor) as provided for in Paragraph 7 - Assignment of the Lease.

d) Production Royalty Payments. All payments of Production Royalty shall be made no later than forty-five (45) days after the end of each calendar month in which Bitumen Oil Product or any byproducts or other Minerals have been sold. Such payment shall be accompanied by a royalty settlement statement that will show the mathematical calculation of how the payment amount was calculated, including the credit for Advance Royalties paid, and will be accompanied by appropriate documentation, including copies of sales records, monthly mining and processing records, actual transportation costs to third party buyers, and annual summaries. If Lessor does not give Lessee written notice objecting to any Production Payment within six months of receipt of the statement, it shall be conclusively deemed correct. All royalty settlement statements shall be delivered to Lessor and payments to the designated Depository Agent.

e) Depository Agent. All payments due under the terms of this Lease shall be made by Lessee to Wells Fargo Bank, NA, 1200 Disc Drive, Sparks, NV 89436, ("Agent"), which Lessor hereby appoints as Lessor's agent for the receipt of such payments, or to such other organization as Lessor may from time to time designate by written notice to Lessee. All payments made to Agent shall be considered to have been made to Lessor and, upon making payment to such Agent, Lessee shall be relieved of all responsibility or liability for the disbursement thereof. In the event that payments should be made to a transferee because of any transfer of Lessor's interest in this Lease or the Properties, payments tendered to the Agent shall conclusively be deemed payment to such transferee until Lessee receives notice and sufficient documentation from both Agent and Lessor that Lessor's interest has been transferred and that payments should be made to any such transferee. Documentation of payments shall be sent directly to Lessor.

f) Commingling and Area of Mutual Interest. Lessee shall have the right to commingle Minerals removed from the Properties or products derived therefrom after treatment, with other minerals or products from other properties, before or after processing. Consequently, Lessor acknowledges that part or all of Lessee's Gross Revenue may come from minerals extracted from other properties and not from Minerals subject to this Lease.

(i) In order to determine the split of Production Royalties to be paid to Lessor and to other lessors of other properties, aerial photographic and photogrammetric techniques combined with other methods to be agreed upon by Lessor and Lessee will be used by Lessee to calculate ore volumes processed from the various properties. The Production Royalty paid to Lessor shall be based on the proportionate volume of ore calculated to have come from Lessor's Properties. Aerial photography shall be performed a minimum of once per calendar quarter and ore removal volumetric and grade calculations shall be performed monthly. The use of photogrammetry is useful and recognized as a method to measure quantities (not quality) of material mined, stockpiled, and removed from the Properties as a secondary and supportive measure. The recent use of drones may meet this criteria and is being investigated.

There is no adequate measure of the resources (minerals) removed from the Properties. Immediate measures must be taken to satisfactorily quantify the tonnage and grade of all minerals removed from the Property. The Lessee shall provide a summary of current and future techniques to accomplish this goal within the next 30 days and notify Lessor of any changes thereafter to any established and approved protocol. Additionally, the Lessee shall engage an independent third party to further validate an accurate measurement of all minerals/resources so removed.

(ii) The Area of Mutual Interest is defined as that property which may be currently controlled by or subsequently acquired by either Lessor, Lessee, or their agents, affiliates, subsidiaries, divisions, or any person or entity under common control that lies within one mile of the external boundary (perimeter) of the Properties. Lessee agrees to pay Lessor a one and one half percent (1 1/2%) production royalty, as defined above, on all Minerals produced from the Area of Mutual Interest. Lessor's properties described in Exhibit A that are excluded from the Lease are also excluded from the "Area of Mutual Interest".

g) Minimum Expenditures. From and after the Amendment Date plus the Extension Period through the Lease Year ending June 30, 2020 plus the Extension Period, Lessee shall make expenditures for the benefit of the Properties of not less than \$1,000,000 per year. During the Lease Year commencing July 1, 2020 plus the Extension Period, and each year thereafter in which Lessee fails to achieve (or exceed) an ADQ of at least 3,000 bbls/day during a 180-day period, Lessee shall make expenditures (which shall include operational costs but shall not include depreciation or corporate overhead) for the benefit of the Properties of not less than \$2,000,000 per year. Expenditures in excess of those stated above in or during any Lease Year may be carried forward to the next Lease Year. The term "benefit" shall mean expenditures for exploration, mapping, developing or acquiring water rights (any acquisition of water rights shall be made in the name of the Lessor with Lessee's right to utilize said water rights during the Term of the Lease.), assaying, metallurgical testing, permitting, preparing feasibility studies, and construction of plant and surface facilities, including facilities constructed and/or operated on property located near the Properties. Lessee will provide Lessor with copies of all acquired data relating to such expenditures, other than data considered proprietary to Lessee or that are or include the trade secrets of Lessee, which shall become the sole property of the Lessor on termination for any reason including copies of expenditures made for those qualifying categories above.

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3. RELEASE OF LEASE. Simultaneous with Lessee's execution of this Second Amendment, Lessee shall, in accordance with paragraph 14(e) of the Lease, execute and have notarized the Release of Lease in the form attached hereto as Attachment 1 and deliver the executed and notarized Release of Lease to Lessor who shall hold the Release of Lease in escrow in accordance with paragraph 14 (e) of the Lease until such time as the Lease is terminated pursuant to the terms of the Lease, and upon termination of the Lease, Lessor may record the Release of Lease on the records of the Uintah County Recorder, Uintah County, Utah.

4. EFFECT OF SECOND AMENDMENT. Except as reinstated and amended by this Second Amendment, the terms of the Lease shall continue in full force and effect in accordance with the terms thereof.

IN WITNESS WHEREOF, the Parties have executed this Second Amendment as of the date(s) written below.

ASPHALT RIDGE, INC.

By: /s/ Sam Arentz
Name: Sam Arentz, III
Title: President
Date: _____, 2016

TMC CAPITAL, LLC

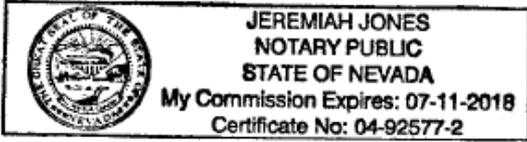
By: /s/ Aleksandr Blyumkin
Name: Aleksandr Blyumkin
Title: Manager
Date: 04/27/2016

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ACKNOWLEDGEMENTS

STATE OF NEVADA)
)ss
COUNTY OF Washoe)

The foregoing instrument was acknowledged before me on the 23rd day of May 2016, by Sam S. Arentz, III, the President of Asphalt Ridge, Inc., a Utah corporation.



/s/ Jeremiah Jones
Notary Public

STATE OF CALIFORNIA)
) ss
COUNTY OF LOS ANGELES)

On April 27, 2016, before me, Petra Even Zohar Sutter, notary, personally appeared ALEKSANDR BLYUMKIN, who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

[Seal]

/s/ Petra Even Zohar Sutter
Notary Public's Name:

Notary Public, State of California

My commission expires on 5/8/2019/.



ATTACHMENT 1

Release of Mining and Mineral Lease

SECURITIES PURCHASE AGREEMENT

This Securities Purchase Agreement (this "Agreement") is dated as of April 8, 2016, between MCW Energy Group Limited, a corporation amalgamated pursuant to the laws of the Province of Ontario (the "Company"), and each purchaser identified on the signature pages hereto (each, including its successors and permitted assigns, a "Purchaser" and collectively, the "Purchasers").

WHEREAS, subject to the terms and conditions set forth in this Agreement, the Company desires to issue and sell to each Purchaser, and each Purchaser, severally and not jointly, desires to purchase from the Company, securities of the Company as more fully described in this Agreement (the "Offering").

NOW, THEREFORE, IN CONSIDERATION of the mutual covenants contained in this Agreement, and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the Company and each Purchaser agree as follows:

**ARTICLE I.
DEFINITIONS**

1.1 Definitions. In addition to the terms defined elsewhere in this Agreement: (a) capitalized terms that are not otherwise defined herein have the meanings given to such terms in the Notes (as defined herein), and (b) the following terms have the meanings set forth in this Section 1.1:

"Acquiring Person" shall have the meaning ascribed to such term in Section 4.7.

"Action" shall have the meaning ascribed to such term in Section 3.1(j).

"Additional Notes" shall have the meaning ascribed to such term in Section 2.4, which Additional Notes shall be identical to the Notes except for the issue date, principal amount and maturity date. The maturity date of the Additional Notes will be eighteen (18) months after the issue date of such Additional Notes and all time effective conditions, clauses and provisions will be similarly modified, *mutatis mutandem*.

"Affiliate" means any Person that, directly or indirectly through one or more intermediaries, controls or is controlled by or is under common control with a Person, as such terms are used in and construed under Rule 405 under the U.S. Securities Act.

"Board of Directors" means the board of directors of the Company.

"Business Day" means any day except any Saturday, any Sunday, any day which is a federal legal holiday in the United States, a statutory or civil holiday in the Province of Ontario, or any day on which banking institutions in the State of New York or the Province of Ontario are authorized or required by law or other governmental action to close.

"Closing" means the Initial Closing and Subsequent Closing, if any, of the purchase and sale of the Securities pursuant to Section 2.1 or 2.4.

"Closing Date" means each of the Initial Closing Date and the Subsequent Closing Date, if any, and is the Trading Day on which all of the Transaction Documents have been executed and delivered by the applicable parties thereto, and all conditions precedent to (i) the Purchasers' obligations to pay the Subscription Amount at such Closing and (ii) the Company's obligations to deliver the Securities to be issued and sold at such Closing, in each case, have been satisfied or waived, but in no event later than the seventh Business Day following the date hereof in the case of the Initial Closing and not later than the tenth Business Day after the Subsequent Closing Option Date in the case of the Subsequent Closing Date.

“Collateral” shall have the meaning ascribed to such term in the Security Agreement.

“Commission” means the United States Securities and Exchange Commission.

“Common Stock” means the common stock of the Company, no par value, and any other class of securities into which such securities may hereafter be reclassified or changed.

“Common Stock Equivalents” means any securities of the Company which would entitle the holder thereof to acquire at any time Common Stock, including, without limitation, any debt, preferred stock, right, option, warrant or other instrument that is at any time convertible into or exercisable or exchangeable for, or otherwise entitles the holder thereof to receive, Common Stock.

“Company Counsel” means McMillan LLP, 181 Bay Street, Suite 4400, Toronto, ON M5J 2T3, Attn: Robbie Grossman, Email: robbie.grossman@mcmillan.ca.

“Company Reports” shall have the meaning ascribed to such term in Section 3.1(h).

“Conversion Price” shall have the meaning ascribed to such term in the Notes.

“Disclosure Schedules” means the Disclosure Schedules of the Company delivered concurrently herewith.

“Environment Law” shall have the meaning ascribed to such term in Section 3.1(jj).

“Event of Default” shall have the meaning ascribed thereto in the Note.

“Exchange Act” means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

“Exempt Issuance” means the issuance of (a) shares issued pursuant to the obligations set forth on Schedule 3.1(g) and Schedule 3.1(hh), (b) securities upon the exercise or exchange of or conversion of any Securities issued hereunder, including shares paid in lieu of interest on the Notes pursuant to Section 2.a) of the Notes (subject to adjustment pursuant to Section 5.23), (c) securities issued pursuant to acquisitions or strategic transactions approved by a majority of the disinterested directors of the Company, provided that any such issuance shall only be to a Person (or to the equityholders of a Person) which is, itself or through its subsidiaries, an operating company or an owner of an asset in a business synergistic with the business of the Company, and (d) securities issued or issuable pursuant to this Agreement, or the Notes, including, without limitation, Section 4.14, or upon exercise or conversion of any such securities.

“Exercise Notice” shall have the meaning ascribed to such term in Section 2.4.

“FCPA” means the Foreign Corrupt Practices Act of 1977, as amended.

“Final Closing Date” shall mean the last Subsequent Closing Date to occur if a Subsequent Closing occurs or, if there is no Subsequent Closing, the Initial Closing Date.

“GAAP” shall have the meaning ascribed to such term in Section 3.1(h).

“G&M” shall mean Grushko & Mittman, P.C., with offices located at 515 Rockaway Avenue, Valley Stream, New York 11581, Fax: 212-697-3575.

“Hazardous Materials” shall have the meaning ascribed to such term in Section 3.1(jj).

“Indebtedness” shall have the meaning ascribed to such term in Section 3.1(hh).

“Initial Closing” shall have the meaning ascribed to such term in Section 2.1.

“Initial Closing Date” shall mean the date upon which the Initial Closing occurs.

“Initial Option Period” shall have the meaning ascribed to such term in Section 2.4.

“Intellectual Property Rights” shall have the meaning ascribed to such term in Section 3.1(o).

“Liens” means a lien, charge, pledge, security interest, encumbrance, right of first refusal, preemptive right or other restriction.

“Listing Default” shall have the meaning ascribed to such term in Section 4.11.

“Lockup Agreement” means the agreement in the form annexed hereto as Exhibit D, and in substance satisfactory to the Purchaser.

“Material Adverse Effect” shall have the meaning assigned to such term in Section 3.1(b).

“Material Permits” shall have the meaning ascribed to such term in Section 3.1(m).

“Maximum Rate” shall have the meaning ascribed to such term in Section 5.17.

“Money Laundering Laws” shall have the meaning ascribed to such term in Section 3.1(cc).

“Notes” means the convertible notes due eighteen (18) months after their respective issue dates, in the form of Exhibit A hereto. The term Notes as employed herein except for Sections 2.4, 2.5 and 2.6 and on the signature page hereto shall also include Additional Notes, mutatis mutandem.

“OFAC” shall have the meaning ascribed to such term in Section 3.1(ee).

“Participation Maximum” shall have the meaning ascribed to such term in Section 4.14(a).

“Permitted Liens” means the individual and collective reference to the following: (a) Liens for taxes, assessments and other governmental charges or levies not yet due or Liens for taxes, assessments and other governmental charges or levies being contested in good faith and by appropriate proceedings for which adequate reserves (in the good faith judgment of the management of Company) have been established in accordance with GAAP, (b) Liens imposed by law which were incurred in the ordinary course of Company’s business, such as carriers’, warehousemen’s and mechanics’ Liens, statutory landlords’ Liens, and other similar Liens arising in the ordinary course of Company’s business, and which (x) do not individually or in the aggregate materially detract from the value of such property or assets or materially impair the use thereof in the operation of the business of Company or (y) are being contested in good faith by appropriate proceedings, which proceedings have the effect of preventing for the foreseeable future the forfeiture or sale of the property or asset subject to such Lien, (c) Liens incurred in connection with any Indebtedness, including, for greater certainty, all Indebtedness listed on Schedule 3.1(hh), (d) any Lien created by, or arising under any statute or regulation or common law (in contrast with Liens voluntarily granted) in connection with, without limiting the foregoing, workers’ compensation, employment and unemployment insurance, old age pension, employers’ health tax, vacation pay or other social security or statutory obligations that secure amounts that are not yet due or which are being contested in good faith by proper proceedings diligently pursued and as to which adequate reserves have been established on the Company’s books and records and the assets in respect of such Lien are not at risk of forfeiture, (e) Liens made or incurred in the ordinary course of business to secure the performance of bids, tenders, contracts (other than for the borrowing of money), leases, statutory obligations or surety and performance bonds and deposits securing or in lieu of such bonds, (f) Liens securing appeal bonds or other similar Liens arising in connection with court proceedings (including, without limitation, surety bonds, security for costs of litigation where required by law, and letters of credit) or any other instruments serving a similar purpose, (g) attachments, judgments and other similar Liens arising in connection with court proceedings, provided such Liens are in existence for less than 30 days after their creation or a stay of enforcement of the Liens is in effect or the claims so secured are being contested in good faith by proper proceedings diligently pursued, (h) Liens given to a public utility or any applicable governmental authority where required by such utility or governmental authority in connection with the operation of the business or the ownership of the assets of Company provided that such Liens do not materially detract from the value of any real property subject thereto and do not materially impair Company’s ability to carry on its business, (i) minor imperfections in title on real property that do not materially detract from the value of the real property subject thereto and do not materially impair Company’s ability to carry on its business or any Purchaser’s rights and remedies under the Transaction Documents, (j) any purchase money Lien on specific fixed assets to secure the payment of the purchase price of those fixed assets where the amount of the obligations secured does not exceed 100% of the lesser of the cost or fair market value of the fixed assets and the amount secured by the Lien does not exceed \$250,000 in the aggregate; and extensions, renewals or replacements thereof upon the fixed assets if the amount of the obligations secured thereby is not increased, (k) restrictions, easements, rights-of-way, servitudes or other similar rights in land (including rights-of-way and servitudes for railways, sewers, drains, gas and oil pipelines, gas and water mains, electric light and power and telephone or telegraph or cable television conduits, poles, wires and cables) granted to or reserved by other Persons which in the aggregate do not materially impair the usefulness, in the operation of the business of Company, of the real property subject to the restrictions, easements, rights-of-way, servitudes or other similar rights in land granted to or reserved by other Persons and, in each case, which do not impair any Purchasers’ rights and remedies under the Transaction Documents, (l) the rights reserved to or vested in any Person by the terms of any lease, license, franchise, grant or permit held by Company or by any statutory provision, to terminate any such lease, license, franchise, grant or permit, or to require annual or periodic payments as a condition to the continuance thereof, (m) restrictive covenants affecting the use to which real property may be put, provided that the covenants are complied with and do not materially detract from the value of the real property concerned or materially impair its use in the operations of Company or impair any Purchaser’s rights and remedies under the Transaction Documents, (n) Liens created by the Transaction Documents and any other security provided to any Purchaser by Company, (o) Liens to which the majority of the Purchasers have given their consent, (p) any Liens now or hereafter arising in favor of any entity who provides financing to the Company, including any financial institution, which are subordinate in priority to any Liens granted to any Purchaser, and (q) the Senior Security.

“Person” means an individual or corporation, partnership, trust, incorporated or unincorporated association, joint venture, limited liability company, joint stock company, government (or an agency or subdivision thereof) or other entity of any kind.

“Pre-Notice” shall have the meaning ascribed to such term in Section 4.14.

“Proceeding” means an action, claim, suit, investigation or proceeding (including, without limitation, an informal investigation or partial proceeding, such as a deposition), whether commenced or threatened.

“Public Information Failure” shall have the meaning ascribed to such term in Section 4.3(b).

“Public Information Failure Payments” shall have the meaning ascribed to such term in Section 4.3(b).

“Purchaser Party” shall have the meaning ascribed to such term in Section 4.10.

“Reporting Issuer” shall have the meaning given to such term under Securities Laws.

“Required Approvals” shall have the meaning ascribed to such term in Section 3.1(e).

“Required Minimum” means, as of any date, the maximum aggregate number of shares of Common Stock then issued or potentially issuable in the future pursuant to the Transaction Documents, including any Underlying Shares issuable upon exercise in full of all Warrants or conversion in full of all Notes, and assuming that any previously unconverted Notes will be held until the third anniversary of the Final Closing Date.

“Securities” means the Notes, the Warrants, and the Underlying Shares.

“Securities Laws” means the securities laws of Canada and its provinces and the rules and regulations promulgated thereunder.

“Security Agreement” shall have the meaning ascribed to such term in Section 2.2(a)(iv).

“Senior Security” shall mean all liens, charges, pledges, hypothecs, mortgages, assignments, security interests and other encumbrances of any nature or kind, now or hereafter granted, created or assumed by the Company or any other person in or over all or any of the Collateral and held by or on behalf of (i) any affiliate or successor of the Deutsche Bank Group, or (ii) any affiliate or successor of US Capital Partners (each a “Senior Lender”, and collectively, the “Senior Lenders”), including all amendments, modifications, restatements, supplements or replacements thereof or thereto from time to time. Without limiting the generality of the foregoing, Senior Security includes all security agreements granted to any of the Senior Lenders by the Company and all security interests of any Senior Lender now or at any time in the future perfected by registration in any jurisdiction under any personal property security legislation.

“Subordinate Security” shall mean all liens, charges, pledges, hypothecs, mortgages, assignments, security interests and other encumbrances of any nature or kind, now or hereafter granted, created or assumed by the Company or any other person in or over all or any of the Collateral and held by or on behalf of any Purchaser, including all amendments, modifications, restatements, supplements or replacements thereof or thereto from time to time. Without limiting the generality of the foregoing, Subordinate Security includes all security agreements granted to any Purchaser by the Company and all security interests of any Purchaser now or at any time in the future perfected by registration in any jurisdiction under any personal property security legislation.

“Subscription Amount” means, as to each Purchaser, the aggregate amount to be paid for the Notes (including Additional Notes) and Warrants purchased hereunder as specified below such Purchaser’s name on the signature page of this Agreement and next to the heading “Subscription Amount,” in United States dollars and in immediately available funds, or such other amount with respect to the Additional Notes.

“Subsequent Closing” shall have the meaning ascribed to such term in Section 2.4.

“Subsequent Closing Date” shall have the meaning ascribed to such term in Section 2.4 hereof.

“Subsequent Closing Option Date” means the date that is six (6) months after the Initial Closing Date.

“Subsequent Financing” shall have the meaning ascribed to such term in Section 4.14.

“Subsequent Financing Notice” shall have the meaning ascribed to such term in Section 4.14.

“Subsidiary” means with respect to any entity at any date, any direct or indirect corporation, limited or general partnership, limited liability company, trust, estate, association, joint venture or other business entity of which (A) more than 30% of (i) the outstanding capital stock having (in the absence of contingencies) ordinary voting power to elect a majority of the board of directors or other managing body of such entity, (ii) in the case of a partnership or limited liability company, the interest in the capital or profits of such partnership or limited liability company or (iii) in the case of a trust, estate, association, joint venture or other entity, the beneficial interest in such trust, estate, association or other entity business is, at the time of determination, owned or controlled directly or indirectly through one or more intermediaries, by such entity, or (B) is under the actual control of the Company.

“Termination Date” shall have the meaning ascribed to such term in Section 2.1.

“Trading Day” means a day on which the principal Trading Market is open for trading.

“Trading Market” means any of the following markets or exchanges on which the Common Stock is listed or quoted for trading on the date in question: the Toronto Stock Exchange, the NYSE MKT, the Nasdaq Capital Market, the Nasdaq Global Market, the Nasdaq Global Select Market, the New York Stock Exchange, the OTC Bulletin Board, the OTCQB, the OTCQX, the TSXV (or any successors to any of the foregoing). As of the Initial Closing Date, the TSXV is the principal Trading Market.

“Transaction Documents” means this Agreement, the Notes, the Warrants, the Security Agreement, all exhibits and schedules thereto and hereto and any other documents or agreements executed in connection with the transactions contemplated hereunder.

“Transfer Agent” means Computershare Trust Company of Canada, and any successor transfer agent of the Company.

“TSXV” means the TSX Venture Exchange.

“Underlying Shares” means the Common Stock issuable in the event of conversion of the Notes, and the Warrant Shares.

“U.S. Person” shall have the meaning ascribed to such term in Rule 902(k) of Regulation S under the U.S. Securities Act.

“U.S. Securities Act” means the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

“Variable Priced Equity Linked Instruments” shall have the meaning ascribed to such term in Section 4.13.

“Variable Rate Transaction” shall have the meaning ascribed to such term in Section 4.13.

“Warrants” means, collectively, the Common Stock purchase warrants to be delivered to the Purchasers upon conversion of the Notes in accordance with the Notes, which Warrants shall be exercisable immediately and have a term of exercise equal to five (5) years from the date of issuance of such Note and be in the form of Exhibit B attached hereto.

“Warrant Shares” means the shares of Common Stock issuable upon exercise of the Warrants.

ARTICLE II. PURCHASE AND SALE

2.1 Initial Closing. On the Initial Closing Date, upon the terms and subject to the conditions set forth herein, substantially concurrent with the execution and delivery of this Agreement by the parties hereto, the Company agrees to sell, and the Purchasers, severally and not jointly, agree to purchase, an aggregate of \$600,000 principal amount of Notes representing \$1.00 of note principal for each \$0.90 of such Purchaser’s Subscription Amount as set forth on the signature page hereto executed by such Purchaser (such purchase and sale being the “Initial Closing”). Each Purchaser shall deliver to the Company such Purchaser’s Subscription Amount, and the Company shall deliver to each Purchaser its respective Note, as determined pursuant to Section 2.2(a), and the Company and each Purchaser shall deliver the other items set forth in Section 2.2 deliverable at the Closing. Upon satisfaction of the covenants and conditions set forth in Sections 2.2 and 2.3, the Initial Closing shall occur electronically or at such physical location as the parties shall mutually agree. Notwithstanding anything herein to the contrary, the Initial Closing Date shall occur on or before April 8, 2016 (“Termination Date”). If the Initial Closing is not held on or before the Termination Date, the Company shall cause all subscription documents and funds to be returned, without interest or deduction to each prospective Purchaser.

2.2 Deliveries.

(a) On or prior to the Initial Closing Date, the Company shall deliver or cause to be delivered to each Purchaser the following:

- (i) this Agreement duly executed by the Company;

(ii) a legal opinion of Company Counsel, substantially in the form of Exhibit C attached hereto and in substance satisfactory to such Purchaser;

(iii) a Note with a principal amount equal to a \$1.00 for each \$0.90 of such Purchaser's Subscription Amount registered in the name of such Purchaser;

(iv) the Security Agreement duly executed by the Company (the "Security Agreement");

(v) the Lockup Agreement executed by Aleksandr Blyumkin;

(vi) a certificate from the Company's executive chairman that all of the conditions to Closing set forth in Section 2.3(b) have occurred;

(b) On or prior to the Initial Closing Date, each Purchaser shall deliver or cause to be delivered to the Company the following:

(i) this Agreement duly executed by such Purchaser;

(ii) the Security Agreement duly executed by such Purchaser; and

(iii) such Purchaser's Subscription Amount by wire transfer or as otherwise permitted, to the Company.

2.3 Initial Closing Conditions.

(a) The obligations of the Company hereunder to effect the Initial Closing are, unless waived by the Purchaser, subject to the following conditions being met:

(i) the accuracy in all material respects (determined without regard to any materiality, Material Adverse Effect or other similar qualifiers therein) on the Initial Closing Date of the representations and warranties of the Purchasers contained herein (unless as of a specific date therein in which case they shall be accurate as of such date);

(ii) all obligations, covenants and agreements of each Purchaser required to be performed at or prior to the Initial Closing Date shall have been performed; and

(iii) the delivery by each Purchaser of the items set forth in Section 2.2(b) of this Agreement.

(b) The respective obligations of a Purchaser hereunder to effect the Initial Closing, unless waived by such Purchaser, are subject to the following conditions being met:

(i) the accuracy in all material respects (determined without regard to any materiality, Material Adverse Effect or other similar qualifiers therein) on the Initial Closing Date of the representations and warranties of the Company contained herein (unless as of a specific date therein in which case they shall be accurate as of such date);

(ii) all obligations, covenants and agreements of the Company required to be performed at or prior to the Initial Closing Date shall have been performed;

(iii) the Company shall have received executed signature pages to this Agreement with an aggregate Subscription Amount of \$540,000 prior to the Initial Closing;

(iv) the delivery by the Company of the items set forth in Section 2.2(a) of this Agreement;

(v) there shall have been no Material Adverse Effect with respect to the Company or the occurrence of an Event of Default, or an event which, to the knowledge of the Company, with the giving of notice or the passage of time could become an Event of Default (as defined in the Note) unless waived by the Purchaser with respect to an Initial Closing, since the date hereof;

(vi) the Required Approvals have been obtained; and

(vii) from the date hereof to the Initial Closing Date, trading in the Common Stock shall not have been suspended by any regulatory authority or the Company's principal Trading Market, and, at any time prior to the Initial Closing Date, trading in securities generally as reported by Bloomberg L.P. shall not have been suspended or limited, or minimum prices shall not have been established on securities whose trades are reported by such service, or on any Trading Market, nor shall a banking moratorium have been declared either by the Canadian, United States or New York State authorities nor shall there have occurred any material outbreak or escalation of hostilities or other national or international calamity of such magnitude in its effect on, or any material adverse change in, any financial market which, in each case, in the reasonable judgment of such Purchaser, makes it impracticable or inadvisable to purchase the Securities at the Initial Closing.

2.4 Subsequent Closing Option. Subject to the TSXV written approval, during the first 45 days after the Initial Closing Date (the "Initial Option Period"), each Purchaser shall have the option to cause the Company to sell, and the Company shall sell to each Purchaser for the same relative purchase price of additional Notes ("Additional Notes") equal to 66.667% of the Note principal purchased by such Purchaser on the Initial Closing Date with a conversion price equal to the Conversion Price. After the Initial Option Period until the date that is six months from the Initial Closing Date, and subject to the TSXV written approval, each Purchaser shall have the option to cause the Company to sell, and the Company shall sell to each Purchaser for the same relative purchase price of Additional Notes equal to 67.667% of the Note principal purchased by such Purchaser on the Initial Closing Date with a conversion price equal to Market Price (as such term is defined by the TSXV) as of the time of Closing of such Additional Notes. To exercise the options provided for in this subsection 2.4, each Purchaser shall provide written notice of the exercise of such option to the Company, pro-rata to the amount of Note Principal acquired on the Initial Closing Date in the form of the completed signature page hereto (the "Exercise Notice") on or before the Subsequent Closing Option Date, which Exercise Notice shall specify the Subsequent Closing Subscription Amount for each such Purchaser. The Company shall be entitled to one closing of the purchase and sale of Additional Notes upon exercise of the option provided in this subsection 2.4 (the "Subsequent Closing"). The Subsequent Closing shall occur electronically or at such mutually acceptable physical location promptly after the date the Exercise Notice is given and upon satisfaction of all of the covenants and conditions set forth in Sections 2.5 and 2.6, but not later than ten Trading Days thereafter ("Subsequent Closing Date").

2.5 Subsequent Closing Deliveries.

(a) On or prior to the Subsequent Closing Date, the Company shall deliver or cause to be delivered to the Purchaser the following:

(i) bring down legal opinions of Company Counsel to the legal opinion delivered at the Initial Closing;

(ii) bring down officers' certificate of the Company as to the obligations set forth in Section 2.6(b);

(iii) an Additional Note in the principal amount equal to \$1.00 of note principal for each \$0.90 of such Purchaser's Subsequent Closing Subscription Amount registered in the name of such Purchaser with the Conversion Price therein equal to the Conversion Price then in effect with respect to the Notes issued on the Initial Closing Date;

(iii) acknowledgement from the Company of the applicability of the Security Agreement to the Additional Notes; and

(iv) a certificate from the Company's executive chairman that all of the conditions to Closing set forth in Section 2.6(b) have occurred.

(b) On or prior to the Subsequent Closing Date, each Purchaser shall deliver or cause to be delivered to the Company, the following:

(i) such Purchaser's Subscription Amount by wire transfer to the account specified by the Company.

2.6 Subsequent Closing Conditions.

(a) The obligations of the Company hereunder in connection with the Subsequent Closing are, unless waived by the Purchaser, subject to the following conditions being met:

(i) the accuracy in all material respects (determined without regard to any materiality, Material Adverse Effect or other similar qualifiers therein) on the Subsequent Closing Date of the representations and warranties of the Purchasers contained herein (unless as of a specific date therein in which case they shall be accurate as of such date);

(ii) all obligations, covenants and agreements of each Purchaser to be performed at or prior to the Subsequent Closing Date shall have been performed;

(iii) the delivery by each Purchaser of the items set forth in Section 2.5(b) of this Agreement; and

(iv) the Company shall have received Subsequent Closing Subscription Amounts from Purchasers in good funds in the amount designated in the Exercise Notice.

(b) The respective obligations of a Purchaser hereunder in connection with the Subsequent Closing are, unless waived by such Purchaser, subject to the following conditions being met:

(i) the accuracy in all material respects (determined without regard to any materiality, Material Adverse Effect or other similar qualifiers therein) on the Subsequent Closing Date of the representations and warranties of the Company contained herein (unless as of a specific date therein in which case they shall be accurate as of such date);

(ii) all obligations, covenants and agreements of the Company under this Agreement required to be performed at or prior to the Subsequent Closing Date shall have been performed;

(iii) the delivery by the Company of the items set forth in Section 2.5(a) of this Agreement;

(iv) there shall have been no Material Adverse Effect with respect to the Company or the occurrence of an Event of Default, or an event which, to the knowledge of the Company, with the giving of notice or the passage of time could become an Event of Default (as defined in the Note) unless waived by the Purchaser with respect to a Subsequent Closing, since the date hereof;

(v) from the date hereof to the Subsequent Closing Date, trading in the Common Stock shall not have been suspended by any regulatory authority or the Company's principal Trading Market, and, at any time from the date of this Agreement and prior to the Subsequent Closing Date, trading in securities generally as reported by Bloomberg L.P. shall not have been suspended or limited, or minimum prices shall not have been established on securities whose trades are reported by such service, or on any Trading Market, nor shall a banking moratorium have been declared either by the Canadian, United States or New York State authorities nor shall there have occurred any material outbreak or escalation of hostilities or other national or international calamity of such magnitude in its effect on, or any material adverse change in, any financial market which, in each case, in the reasonable judgment of such Purchaser, makes it impracticable or inadvisable to purchase the Securities at the Subsequent Closing; and

(vi) the Company shall have received Exercise Notices and the Subscription Amounts designated on such Exercise Notices from such Purchaser in good funds.

ARTICLE III. REPRESENTATIONS AND WARRANTIES

3.1 Representations and Warranties of the Company. Except as set forth in the Company Reports or the Disclosure Schedules, which Disclosure Schedules shall be deemed a part hereof and shall qualify any representation made herein only to the extent of the disclosure contained in the corresponding section of the Disclosure Schedules, the Company hereby makes the following representations and warranties to each Purchaser:

(a) Subsidiaries. All of the material direct and indirect subsidiaries of the Company and the Company's ownership interests therein immediately prior to the date of this Agreement, as of the date of this Agreement and as of the Initial Closing Date are as follows: the Company has one wholly-owned Subsidiary, MCW Energy CA, Inc., a California corporation, which directly and indirectly holds a 100% share interest in MCW Oil Sands Recovery, LLC, a Utah limited liability corporation. All of the issued and outstanding shares of capital stock of each Subsidiary is validly issued and are fully paid, non-assessable and free of preemptive and similar rights to subscribe for or purchase securities. As of the Initial Closing Date, the Company will have acquired all equity and rights to receive equity for each Subsidiary so that each Subsidiary is fully owned by the Company.

(b) Organization and Qualification. The Company is an entity duly incorporated or otherwise organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation or organization, with the requisite power and authority to own and use its properties and assets and to carry on its business as currently conducted. Neither the Company nor any Subsidiary is in violation nor default of any of the provisions of its respective certificate or articles of incorporation, bylaws or other organizational or charter documents. The Company is duly qualified to conduct business and is in good standing as a foreign corporation or other entity in each jurisdiction in which the nature of the business conducted or property owned by it makes such qualification necessary, except where the failure to be so qualified or in good standing, as the case may be, could not have or reasonably be expected to result in: (i) a material adverse effect on the legality, validity or enforceability of any Transaction Document, (ii) a material adverse effect on the results of operations, assets, business, prospects or condition (financial or otherwise) of the Company, taken as a whole, or (iii) a material adverse effect on the Company's ability to perform in any material respect on a timely basis its obligations under any Transaction Document (any of (i), (ii) or (iii), a "Material Adverse Effect") and, no Proceeding has been instituted in any such jurisdiction revoking, limiting or curtailing or seeking to revoke, limit or curtail such power and authority or qualification.

(c) Authorization; Enforcement. The Company has the requisite corporate power and authority to enter into and to consummate the transactions contemplated by this Agreement and each of the other Transaction Documents and otherwise to carry out its obligations hereunder and thereunder. The execution and delivery of this Agreement and each of the other Transaction Documents by the Company and the consummation by it of the transactions contemplated hereby and thereby have been duly authorized by all necessary action on the part of the Company and no further action is required by the Company, the Board of Directors or the Company's stockholders in connection herewith or therewith other than in connection with the Required Approvals. This Agreement and each other Transaction Document to which it is a party has been (or upon delivery will have been) duly executed by the Company and, when delivered in accordance with the terms hereof and thereof, will constitute the valid and binding obligation of the Company enforceable against the Company in accordance with its terms, except: (i) as limited by general equitable principles and applicable bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting enforcement of creditors' rights generally, (ii) as limited by laws relating to the availability of specific performance, injunctive relief or other equitable remedies and (iii) insofar as indemnification and contribution provisions may be limited by applicable law.

(d) No Conflicts. The execution, delivery and performance by the Company of this Agreement and the other Transaction Documents, the issuance and sale of the Securities and the consummation by it of the transactions contemplated hereby and thereby to which it is a party do not and will not: (i) conflict with or violate any provision of the Company's or any Subsidiary's certificate or articles of incorporation, bylaws or other organizational or charter documents, (ii) subject to Required Approvals, conflict with, or constitute a default (or an event that, to the knowledge of the Company, with notice or lapse of time or both would become a default) under, result in the creation of any Lien (other than Permitted Liens) upon any of the properties or assets of the Company, or, to the knowledge of the Company, give to others any rights of termination, amendment, acceleration or cancellation (with or without notice, lapse of time or both) of, any agreement, credit facility, debt or other instrument (evidencing a Company debt) or other understanding to which the Company is a party or by which any property or asset of the Company is bound or affected, or (iii) subject to the Required Approvals, to the knowledge of the Company, conflict with or result in a violation of any law, rule, regulation, order, judgment, injunction, decree or other restriction of any court or governmental authority to which the Company is subject (including Securities Laws and regulations), or by which any property or asset of the Company is bound or affected; except in the case of each of clauses (ii) and (iii), such as could not have or reasonably be expected to result in a Material Adverse Effect.

(e) Filings, Consents and Approvals. The Company is not required to obtain any consent, waiver, authorization or order of, give any notice to, or make any filing or registration with, any court or other federal, state, local or other governmental authority or other Person in connection with the execution, delivery and performance by the Company of the Transaction Documents, other than: (i) the notice and/or application(s) to each applicable Trading Market for the issuance and sale of the Notes and Warrant Shares and the listing of the Underlying Shares for trading thereon in the time and manner required thereby, (ii) the consent required by the Toronto Stock Exchange, (iii) the approval by the Board of Directors of the Company and (iv) such filings as are required to be made under applicable securities laws (collectively, the “Required Approvals”).

(f) Issuance of the Securities. The Securities are duly authorized and, when issued and paid for in accordance with the applicable Transaction Documents, will be duly and validly issued, fully paid and nonassessable, free and clear of all Liens.

(g) Capitalization. The capitalization of the Company is as set forth in Schedule 3.1(g). The Company has not issued any capital stock since its most recently filed report available on SEDAR or otherwise disclosed on Schedule 3.1(g). No Person has any right of first refusal, preemptive right, right of participation, or any similar right to participate in the transactions contemplated by the Transaction Documents. Except as disclosed on Schedule 3.1(g), there are no outstanding options, warrants, scrip rights to subscribe to, calls or commitments of any character whatsoever relating to, or securities, rights or obligations convertible into or exercisable or exchangeable for, or giving any Person any right to subscribe for or acquire any shares of Common Stock, or contracts, commitments, understandings or arrangements by which the Company or any Subsidiary is or may become bound to issue additional shares of Common Stock or Common Stock Equivalents. As of the Closing, the Company has no outstanding convertible debt instruments. Except as set forth on Schedule 3.1(g), the issuance and sale of the Securities will not obligate the Company to issue shares of Common Stock or other securities to any Person (other than the Purchasers) and will not result in a right of any holder of Company securities to adjust the exercise, conversion, exchange or reset price under any of such securities. All of the outstanding shares of capital stock of the Company are duly authorized, validly issued, fully paid and nonassessable, have been issued in material compliance with all Securities Laws, and none of such outstanding shares was issued in violation of any preemptive rights or similar rights to subscribe for or purchase securities. No further approval or authorization of any stockholder or others is required for the issuance and sale of the Securities except for any approvals or authorizations from the TSXV and the Board of Directors of the Company. There are no stockholders agreements, voting agreements or other similar agreements with respect to the Company’s capital stock to which the Company is a party or, to the knowledge of the Company, between or among any of the Company’s stockholders.

(h) Company Reports; Financial Statements. The Company is a Reporting Issuer. The Company has filed all material reports, schedules, forms, statements and other documents required to be filed by the Company under the Securities Laws and pursuant to the rules of the TSXV including but not limited to all Material Information (as defined in TSXV Policy 3.3), for the two years preceding the date hereof (or such shorter period as the Company was required by law or regulation to file such material) (the foregoing materials, including the exhibits thereto and documents incorporated by reference therein, being collectively referred to herein as the “Company Reports”) on a timely basis or has received a valid extension of such time of filing and has filed any such Company Reports prior to the expiration of any such extension. As of their respective dates, the Company Reports complied in all material respects with the requirements of the Securities Laws, and none of the Company Reports, when filed, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. The financial statements of the Company included in the Company Reports comply in all material respects with applicable accounting requirements and Securities Laws with respect thereto as in effect at the time of filing. Such financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis during the periods involved (“GAAP”), except as may be otherwise specified in such financial statements or the notes thereto and except that unaudited financial statements may not contain all footnotes required by GAAP, and fairly present in all material respects the financial position of the Company as of and for the dates thereof and the results of operations and cash flows for the periods then ended, subject, in the case of unaudited statements, to normal, immaterial, year-end audit adjustments.

(i) Material Changes; Undisclosed Events, Liabilities or Developments. Since the date of the latest quarterly unaudited financial statements included within the Company Reports: (i) there has, to the knowledge of the Company, been no event, occurrence or development that has had or that could reasonably be expected to result in a Material Adverse Effect, (ii) the Company has not incurred any material liabilities (contingent or otherwise) other than (A) trade payables and accrued expenses incurred in the ordinary course of business consistent with past practice and (B) liabilities not required to be reflected in the Company’s financial statements pursuant to GAAP or disclosed in filings made with the Commission, (iii) the Company has not altered its method of accounting, (iv) the Company has not declared or made any dividend or distribution of cash or other property to its stockholders or purchased, redeemed or made any agreements to purchase or redeem any shares of its capital stock, and (v) the Company has not issued any equity securities to any officer, director or Affiliate except as set forth in the Company Reports. The Company does not have pending before any regulatory or governing body any request for confidential treatment of information. Except for the issuance of the Securities contemplated by this Agreement, no event, liability, fact, circumstance, occurrence or development has occurred or exists with respect to the Company or its business, properties, operations, assets or financial condition, that would be required to be disclosed by the Company under Securities Laws at the time this representation is made or deemed made that has not been publicly disclosed at least two Trading Days prior to the date that this representation is made.

(j) Litigation. There is no material action, suit, inquiry, notice of violation, proceeding or investigation pending or, to the knowledge of the Company, threatened against or affecting the Company or any of its properties before or by any court, arbitrator, governmental or administrative agency or regulatory authority (federal, state, county, local or foreign) (collectively, an “Action”) which (i) adversely affects or challenges the legality, validity or enforceability of any of the Transaction Documents or the Securities or (ii) could, if there were an unfavorable decision, have or reasonably be expected to result in a Material Adverse Effect. Since August 31, 2015, neither the Company, nor any director or officer thereof, is or has been the subject of any Action involving a claim of violation of or liability under Securities Laws or a claim of breach of fiduciary duty. There has not been, and to the knowledge of the Company, there is not pending or contemplated, any investigation by any governmental body or authority involving the Company or any current or former director or officer of the Company. The Company’s securities have never been subject to any stop trading order or other order suspending the effectiveness of any registration statement filed by the Company or any Subsidiary under any Securities Laws.

(k) Labor Relations. No labor dispute exists or, to the knowledge of the Company, is imminent with respect to any of the employees of the Company, which could reasonably be expected to result in a Material Adverse Effect. None of the Company's employees is a member of a union that relates to such employee's relationship with the Company, and the Company is not a party to a collective bargaining agreement. To the knowledge of the Company, no executive officer of the Company is in violation of any material term of any employment contract, confidentiality, disclosure or proprietary information agreement or non-competition agreement, or any other contract or agreement or any restrictive covenant in favor of any third party, and the continued employment of each such executive officer does not subject the Company to any liability with respect to any of the foregoing matters. To the knowledge of the Company, it is in compliance with all applicable laws and regulations relating to employment and employment practices, terms and conditions of employment and wages and hours, except where the failure to be in compliance could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

(l) Compliance. The Company: (i) is not in default under or in violation of (and no event has occurred that has not been waived that, to the knowledge of the Company, with notice or lapse of time or both, would result in a default by the Company under), nor has the Company received notice of a claim that it is in default under or that it is in violation of, any indenture, loan or credit agreement or any other agreement or instrument to which it is a party or by which it or any of its properties is bound (whether or not such default or violation has been waived), (ii) is in violation of any judgment, decree or order of any court, arbitrator or other governmental authority or (iii) is or has been in violation of any statute, rule, ordinance or regulation of any governmental authority, including without limitation all foreign, federal, state and local laws relating to taxes, environmental protection, occupational health and safety, product quality and safety and employment and labor matters, except in each case as could not have or reasonably be expected to result in a Material Adverse Effect.

(m) Regulatory Permits. The Company possesses all certificates, authorizations and permits issued by the appropriate federal, state, local or foreign regulatory authorities necessary to conduct its business as described in the Company Reports, except where the failure to possess such permits could not reasonably be expected to result in a Material Adverse Effect ("Material Permits"), and the Company has not received any notice of proceedings relating to the revocation or modification of any Material Permit.

(n) Title to Assets. The Company has good and marketable title in fee simple to all real property (if any) owned by them and good and marketable title in all personal property owned by them that is material to the business of the Company, free and clear of all Liens, except for (i) Liens as do not materially affect the value of such property and do not materially interfere with the use made and proposed to be made of such property by the Company, (ii) Liens for the payment of Canadian and United States federal, state or other taxes, for which appropriate reserves have been made in accordance with GAAP and, the payment of which is neither delinquent nor subject to penalties and (iii) Permitted Liens. Any real property and facilities held under lease by the Company is held by it under valid, subsisting and enforceable leases with which the Company is in compliance.

(o) Intellectual Property.

(i) The term “Intellectual Property Rights” includes:

1. the name of the Company, all fictional business names, trading names, registered and unregistered trademarks, service marks, and applications of the Company (collectively, “Marks”);
2. all patents, patent applications, and inventions and discoveries that may be patentable of the Company (collectively, “Patents”);
3. all copyrights in both published works and unpublished works of the Company (collectively, “Copyrights”);
4. all rights in mask works of the Company (collectively, “Rights in Mask Works”); and
5. all know-how, trade secrets, confidential information, customer lists, software, technical information, data, process technology, plans, drawings, and blue prints (collectively, “Trade Secrets”); owned, used, or licensed by the Company as licensee or licensor.

(ii) Agreements. There are no outstanding and, to Company’s knowledge, no threatened disputes or disagreements with respect to any agreements relating to any Intellectual Property Rights to which the Company is a party or by which the Company is bound.

(iii) Know-How Necessary for the Business. The Intellectual Property Rights are all those necessary for the operation of the Company’s businesses as it is currently conducted or as represented, in writing, to the Purchaser to be conducted. The Company is the owner of all right, title, and interest in and to each of the Intellectual Property Rights, free and clear of all liens, security interests, charges, encumbrances, equities, and other adverse claims, except for Permitted Liens, and has the right to use all of the Intellectual Property Rights. To the Company’s knowledge, no employee of the Company has entered into any contract that restricts or limits in any way the scope or type of work in which the employee may be engaged or requires the employee to transfer, assign, or disclose information concerning his work to anyone other than of the Company.

(iv) Patents. The Company is the owner of all right, title and interest in and to each of the Patents, free and clear of all Liens and other adverse claims except for Permitted Liens. All of the issued Patents are currently in compliance with formal legal requirements (including payment of filing, examination, and maintenance fees and proofs of working or use), are valid and enforceable, and are not subject to any maintenance fees or taxes or actions falling due within ninety days after the Initial Closing Date. No Patent has been or is now involved in any interference, reissue, reexamination, or opposition proceeding. To the Company’s knowledge: (1) there is no potentially interfering patent or patent application of any third party, and (2) no Patent is infringed or has been challenged or threatened in any way. To the Company’s knowledge, none of the products manufactured and sold, nor any process or know-how used, by the Company infringes or is alleged to infringe any patent or other proprietary right of any other Person.

(v) Trademarks. The Company is the owner of all right, title, and interest in and to each of the Marks, free and clear of all Liens and other adverse claims except for Permitted Liens. All Marks that have been registered with the United States Patent and Trademark Office are currently in compliance with all formal legal requirements (including the timely post-registration filing of affidavits of use and incontestability and renewal applications), are valid and enforceable, and are not subject to any maintenance fees or taxes or actions falling due within ninety days after the Initial Closing Date. No Mark has been or is now involved in any opposition, invalidation, or cancellation and, to the Company's knowledge, no such action is threatened with respect to any of the Marks. To the Company's knowledge: (1) there is no potentially interfering trademark or trademark application of any third party, and (2) no Mark is infringed or has been challenged or threatened in any way. To the Company's knowledge, none of the Marks used by the Company infringes or is alleged to infringe any trade name, trademark, or service mark of any third party.

(vi) Copyrights. The Company is the owner of all right, title, and interest in and to each of the Copyrights, free and clear of all Liens and other adverse claims except for Permitted Liens. All the Copyrights have been registered and are currently in compliance with formal requirements, are valid and enforceable, and are not subject to any maintenance fees or taxes or actions falling due within ninety days after the date of the Initial Closing. No Copyright is infringed or, to the Company's knowledge, has been challenged or threatened in any way. To the Company's knowledge, none of the subject matter of any of the Copyrights infringes or is alleged to infringe any copyright of any third party or is a derivative work based on the work of a third party. All works encompassed by the Copyrights have been marked with the proper copyright notice.

(vii) Trade Secrets. With respect to each Trade Secret, the documentation relating to such Trade Secret is current, accurate, and sufficient in detail and content to identify and explain it and to allow its full and proper use without reliance on the knowledge or memory of any individual. The Company has taken all reasonable precautions to protect the secrecy, confidentiality, and value of its Trade Secrets. The Company has good title and an absolute (but not necessarily exclusive) right to use the Trade Secrets, subject to Permitted Liens. The Trade Secrets are not part of the public knowledge or literature, and, to the Company's knowledge, have not been used, divulged, or appropriated either for the benefit of any Person (other the Company) or to the detriment of the Company. No Trade Secret is subject to any adverse claim or has been challenged or threatened in any way.

(p) Insurance. The Company is insured by insurers of recognized financial responsibility against such losses and risks and in such amounts as are prudent and customary in the businesses in which the Company is engaged, including, but not limited to, directors and officers insurance coverage at least equal to the aggregate Subscription Amount. The Company has no reason to believe that the Company will not be able to renew its existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to continue its business without a significant increase in cost.

(q) Transactions With Affiliates and Employees. Except as set forth in the Company Reports, none of the officers or directors of the Company and, to the knowledge of the Company, none of the employees of the Company is presently a party to any transaction with the Company (other than for services as employees, officers and directors), including any contract, agreement or other arrangement providing for the furnishing of services to or by, providing for rental of real or personal property to or from, providing for the borrowing of money from or lending of money to or otherwise requiring payments to or from any officer, director or such employee or, to the knowledge of the Company, any entity in which any officer, director, or any such employee has a substantial interest or is an officer, director, trustee, stockholder, member or partner, in each case in excess of \$100,000 other than for: (i) payment of salary or consulting fees for services rendered, (ii) reimbursement for expenses incurred on behalf of the Company and (iii) other employee benefits, including stock option agreements under any stock option plan of the Company.

(r) Compliance; Internal Accounting Controls. The Company is in material compliance with any and all applicable requirements of Securities Laws and filing and disclosure obligations with the principal Trading Market that are effective as of the date hereof, and as of the Closing Date. The Company maintains a system of internal accounting controls sufficient to provide reasonable assurance that: (i) transactions are executed in accordance with management's general or specific authorizations, (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with GAAP and to maintain asset accountability, and (iii) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

(s) Certain Fees. No brokerage, finder's fees, commissions or due diligence fees are or will be payable by the Company or any Subsidiary to any broker, financial advisor or consultant, finder, placement agent, investment banker, bank or other Person with respect to the transactions contemplated by the Transaction Documents. The Purchasers shall have no obligation with respect to any such fees or with respect to any claims made by or on behalf of any Persons for fees of a type contemplated in this Section 3.1(s) that may be due in connection with the transactions contemplated by the Transaction Documents.

(t) Reporting Company. The Company is a publicly-held company subject to reporting obligations under applicable Securities Laws and as described in the Company Reports. The Company has timely filed all material reports and other materials required to be filed by the Company thereunder during the preceding twelve months. The Company is, and has no reason to believe that it will not in the foreseeable future continue to be, in compliance with all such listing and maintenance requirements.

(u) Application of Takeover Protections. The Company and the Board of Directors will have taken as of the Closing Date all necessary action, if any, in order to render inapplicable any control share acquisition, business combination, poison pill (including any distribution under a rights agreement) or other similar anti-takeover provision under the Company's certificate of incorporation (or similar charter documents) that is or could become applicable to the Purchasers as a result of the Purchasers and the Company fulfilling their obligations or exercising their rights under the Transaction Documents, including without limitation as a result of the Company's issuance of the Securities and the Purchasers' ownership of the Securities.

(v) Disclosure. Except with respect to the material terms and conditions of the transactions contemplated by the Transaction Documents, the Company confirms that neither it nor any other Person acting on its behalf has provided any of the Purchasers or their agents or counsel with any information that it believes constitutes or might constitute material, non-public information which has not already been publicly disclosed pursuant to Securities Laws. The Company understands and confirms that the Purchasers will rely on the foregoing representation in effecting transactions in securities of the Company. All of the disclosure furnished by or on behalf of the Company to the Purchasers regarding the Company, its business and the transactions contemplated hereby, including the Disclosure Schedules to this Agreement, when taken together as a whole, is true and correct and does not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading. The public releases disseminated by the Company during the twelve months preceding the date of this Agreement taken as a whole do not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made and when made, not misleading. The Company acknowledges and agrees that no Purchaser makes or has made any representations or warranties with respect to the transactions contemplated hereby other than those specifically set forth in Section 3.2 hereof.

(w) Solvency. Based on the consolidated financial condition of the Company as of the Closing Date, and the Company's good faith estimate of the fair market value of its assets, after giving effect to the receipt by the Company of the proceeds from the sale of the Securities hereunder: (i) the fair saleable value of the Company's assets exceeds the amount that will be required to be paid on or in respect of the Company's existing debts and other liabilities (including known contingent liabilities) as they mature, (ii) the Company's assets do not constitute unreasonably small capital to carry on its business as now conducted and as proposed to be conducted including its capital needs taking into account the particular capital requirements of the business conducted by the Company, consolidated and projected capital requirements and capital availability thereof, and (iii) the current cash flow of the Company, together with the proceeds the Company would receive, were it to liquidate all of its assets, after taking into account all anticipated uses of the cash, would be sufficient to pay all amounts on or in respect of its liabilities when such amounts are required to be paid. The Company does not intend to incur debts beyond its ability to pay such debts as they mature (taking into account the timing and amounts of cash to be payable on or in respect of its debt). The Company has no knowledge of any facts or circumstances which lead it to believe that it will file for reorganization or liquidation under the bankruptcy or reorganization laws of any jurisdiction within one year from the Closing Date. As of the Initial Closing Date, the Company will have no outstanding convertible notes or convertible indebtedness.

(x) Tax Status. Except for matters that would not, individually or in the aggregate, have or reasonably be expected to result in a Material Adverse Effect, the Company (i) has made or filed all Canadian and United States federal, state and local income and all foreign income and franchise tax returns, reports and declarations required by any jurisdiction to which it is subject, (ii) has paid all taxes and other governmental assessments and charges that are material in amount, shown or determined to be due on such returns, reports and declarations and (iii) has set aside on its books provision reasonably adequate for the payment of all material taxes for periods subsequent to the periods to which such returns, reports or declarations apply. There are no unpaid taxes in any material amount claimed to be due by the taxing authority of any jurisdiction, and the officers of the Company or of any Subsidiary know of no basis for any such claim.

(y) Foreign Corrupt Practices. Neither the Company nor any Subsidiary, nor to the knowledge of the Company or any Subsidiary, any agent or other person acting on behalf of the Company or any Subsidiary, has: (i) directly or indirectly, used any funds for unlawful contributions, gifts, entertainment or other unlawful expenses related to foreign or domestic political activity, (ii) made any unlawful payment to foreign or domestic government officials or employees or to any foreign or domestic political parties or campaigns from corporate funds, (iii) failed to disclose fully any contribution made by the Company or any Subsidiary (or made by any person acting on its behalf of which the Company is aware) which is in violation of law or (iv) violated in any material respect any provision of FCPA.

(z) Accountants. The Company's accounting firm is Hay & Watson, Chartered Accountants. To the knowledge and belief of the Company, such accounting firm shall express its opinion with respect to the financial statements to be included in the Company's annual report for the fiscal year ending August 31, 2015. There are no disagreements of any kind presently existing, or reasonably anticipated by the Company to arise, between the Company and the accountants and lawyers formerly or presently employed by the Company and the Company is current with respect to any fees owed to its accountants and lawyers which could affect the Company's ability to perform any of its obligations under any of the Transaction Documents.

(aa) Acknowledgment Regarding Purchasers' Purchase of Securities. The Company acknowledges and agrees that each of the Purchasers is acting solely in the capacity of an arm's length purchaser with respect to the Transaction Documents and the transactions contemplated thereby. The Company further acknowledges that no Purchaser is acting as a financial advisor or fiduciary of the Company (or in any similar capacity) with respect to the Transaction Documents and the transactions contemplated thereby and any advice given by any Purchaser or any of their respective representatives or agents in connection with the Transaction Documents and the transactions contemplated thereby is merely incidental to the Purchasers' purchase of the Securities. The Company further represents to each Purchaser that the Company's decision to enter into this Agreement and the other Transaction Documents has been based solely on the independent evaluation of the transactions contemplated hereby by the Company and its representatives.

(bb) Acknowledgment Regarding Purchaser's Trading Activity. Anything in this Agreement or elsewhere herein to the contrary notwithstanding, it is understood and acknowledged by the Company that: (i) none of the Purchasers has been asked by the Company to agree, nor has any Purchaser agreed, to desist from purchasing or selling, long and/or short, securities of the Company, or "derivative" securities based on securities issued by the Company or to hold the Securities for any specified term, (ii) past or future open market or other transactions by any Purchaser, specifically including, without limitation, Short Sales or "derivative" transactions, before or after the closing of this or future private placement transactions, may negatively impact the market price of the Company's publicly-traded securities, (iii) any Purchaser, and counter-parties in "derivative" transactions to which any such Purchaser is a party, directly or indirectly, may presently have a "short" position in the Common Stock and (iv) each Purchaser shall not be deemed to have any affiliation with or control over any arm's length counter-party in any "derivative" transaction. The Company further understands and acknowledges that (y) one or more Purchasers may engage in hedging activities at various times during the period that the Securities are outstanding, including, without limitation, during the periods that the value of the Underlying Shares deliverable with respect to Securities are being determined, and (z) such hedging activities (if any) could reduce the value of the existing stockholders' equity interests in the Company at and after the time that the hedging activities are being conducted. The Company acknowledges that such aforementioned hedging activities do not constitute a breach of any of the Transaction Documents.

(cc) Money Laundering. The operations of the Company are and have been conducted at all times in compliance with applicable financial record-keeping and reporting requirements of the Currency and Foreign Transactions Reporting Act of 1970, as amended, applicable money laundering statutes and applicable rules and regulations thereunder (collectively, the "Money Laundering Laws"), and no action, suit or proceeding by or before any court or governmental agency, authority or body or any arbitrator involving the Company or any Subsidiary with respect to the Money Laundering Laws is pending or, to the knowledge of the Company or any Subsidiary, threatened.

(dd) Stock Option Plans. Each stock option granted by the Company under the stock option plan was granted (i) in accordance with the terms of such stock option plan and (ii) with an exercise price at least equal to the fair market value of the Common Stock on the date such stock option would be considered granted under GAAP and applicable law. No stock option granted under any stock option plan has been backdated. The Company has not knowingly granted, and there is no and has been no Company policy or practice to knowingly grant, stock options prior to, or otherwise knowingly coordinate the grant of stock options with, the release or other public announcement of material information regarding the Company or its financial results or prospects.

(ee) Office of Foreign Assets Control. Neither the Company nor any Subsidiary nor, to the Company's knowledge, any director, officer, agent, employee or affiliate of the Company is currently subject to any U.S. sanctions administered by the United States Office of Foreign Assets Control of the U.S. Treasury Department ("OFAC").

(ff) Private Placement. Assuming the accuracy of the Purchasers' representations and warranties set forth in Section 3.2, no registration under the U.S. Securities Act is required for the offer and sale of the Securities by the Company to the Purchasers as contemplated hereby. The issuance and sale of the Securities hereunder does not contravene the rules and regulations of the Trading Market.

(gg) No General Solicitation. Neither the Company nor any person acting on behalf of the Company has offered or sold any of the Securities by any form of general solicitation or general advertising.

(hh) Indebtedness and Seniority. As of March 31, 2016, all Indebtedness and Liens are as set forth on Schedule 3.1(hh). Except as set forth on Schedule 3.1(hh), as of the Closing Date, no Indebtedness or other equity of the Company is currently senior to the Notes in right of payment, whether with respect to interest or upon liquidation or dissolution, or otherwise, other than indebtedness secured by purchase money security interests (which is senior only as to underlying assets covered thereby) and capital lease obligations (which is senior only as to the property covered thereby). For the purposes of this Agreement, "Indebtedness" means (x) any liabilities for borrowed money or amounts owed in excess of \$500,000 in the aggregate (other than trade accounts payable incurred in the ordinary course of business), (y) all guaranties, endorsements and other contingent obligations in respect of indebtedness of others, whether or not the same are or should be reflected in the Company's consolidated balance sheet (or the notes thereto), except guaranties by endorsement of negotiable instruments for deposit or collection or similar transactions in the ordinary course of business; and (z) the present value of any lease payments in excess of \$500,000 due under leases required to be capitalized in accordance with GAAP. The Company is not in default with respect to any Indebtedness.

(ii) Listing and Maintenance Requirements. The Common Stock is listed on the TSXV under the symbol MCW. The Company has not, in the twenty-four (24) months preceding the date hereof, received notice from any Trading Market on which the Common Stock is or has been listed or quoted to the effect that the Company is not in compliance with the listing or maintenance requirements of such Trading Market.

(jj) Environmental and Safety Laws.

(i) The Company is, and at all times has been, in full compliance with, and has not been and is not in violation of or liable under, any Environmental Law. The Company has no basis to expect, nor has it or any other Person for whose conduct it is or may be held to be responsible received, any actual or threatened order, notice, or other communication from (i) any governmental body or private citizen acting in the public interest, or (ii) the current or prior owner or operator of any facilities, of any actual or potential violation or failure to comply with any Environmental Law, or of any actual or threatened obligation to undertake or bear the cost of any environmental, health, and safety liabilities with respect to any of the facilities or any other properties or assets (whether real, personal, or mixed) in which the Company has had an interest, or with respect to any property or facility at or to which Hazardous Materials were generated, manufactured, refined, transferred, imported, used, or processed by the Company, or any other Person for whose conduct it is or may be held responsible, or from which Hazardous Materials have been transported, treated, stored, handled, transferred, disposed, recycled, or received.

(ii) There are no pending or, to the knowledge of the Company, threatened claims, encumbrances, or other restrictions of any nature, resulting from any environmental, health, and safety liabilities or arising under or pursuant to any Environmental Law, with respect to or affecting any of the facilities or any other properties and assets (whether real, personal, or mixed) in which the Company has or had an interest.

(iii) The Company has no knowledge of any basis to expect, nor has it or any other Person for whose conduct it is or may be held responsible, received, any citation, directive, inquiry, notice, order, summons, warning, or other communication that relates to Hazardous Materials, or any alleged or actual violation or failure to comply with any Environmental Law, or of any alleged or actual obligation to undertake or bear the cost of any environmental, health, and safety liabilities with respect to any of the facilities or any other properties or assets (whether real, personal, or mixed) in which the Company had an interest, or with respect to any property or facility to which Hazardous Materials generated, manufactured, refined, transferred, imported, used, or processed by the Company, or any other Person for whose conduct it is or may be held responsible, have been transported, treated, stored, handled, transferred, disposed, recycled, or received.

(iv) Neither the Company nor any other Person for whose conduct it is or may be held responsible, had any environmental, health, and safety liabilities with respect to the facilities or, to the knowledge of the Company, with respect to any other properties and assets (whether real, personal, or mixed) in which the Company (or any predecessor), has or had an interest, or at any property geologically or hydrologically adjoining the facilities or any such other property or assets.

(v) Neither the Company nor any other Person for whose conduct it is or may be held responsible, or to the knowledge of the Company, any other Person, has permitted or conducted, or is aware of, any hazardous activity conducted with respect to the facilities or any other properties or assets (whether real, personal, or mixed) in which the Company has or had an interest except in full compliance with all applicable Environmental Laws.

(vi) There has been no release of any Hazardous Materials at or from the facilities or at any other locations where any Hazardous Materials were generated, manufactured, refined, transferred, produced, imported, used, or processed from or by the facilities, or from or by any other properties and assets (whether real, personal, or mixed) in which the Company has or had an interest, or to the knowledge of the Company any geologically or hydrologically adjoining property, whether by the Company, or any other Person that has had a Material Adverse Effect.

(vii) For the purpose of this Section, Hazardous Material shall mean (i) materials which are listed or otherwise defined as “hazardous” or “toxic” under any applicable federal, local or stated and/or foreign laws and regulations that govern the existence and/or remedy of contamination on property, the protection of the environment from contamination, the control of the hazardous wastes, or other activities involving hazardous substances, including building materials or (b) petroleum products or nuclear materials.

(viii) For the purpose of this Section 3.1(jj), “Environmental Law” shall have the following meaning:

1. advising appropriate authorities, employees, and the public intended or actual releases of pollutants or hazardous substances or material, violations of discharge limits, or other prohibitions and of the commencements of activities, such as resource extraction or construction, that could have significant impact on the environment;
2. preventing or reducing to acceptable levels the release of pollutants or hazardous substances or materials into the environment;
3. reducing the quantities, preventing the release, or minimizing the hazardous characteristics of waste that are generated;
4. assuring that products are designed, formulated, packaged, and used so that they do not present unreasonable risks to human health or the environment when used or disposed of;
5. protecting resources, species or ecological amenities;
6. reducing to acceptable levels the risk inherent in the transportation of hazardous substances, pollutants, oil or other potentially harmful substances;
7. cleaning up pollutants that have been released, preventing the threat of release or paying the costs of such clean up or prevention; or
8. making responsible parties pay private parties, or groups of them, for damages done to their health or to the environment, or permitting self appointed representatives of the public interest to recover for injuries done to public assets.

(kk) Survival. The foregoing representations and warranties shall survive the Closing Date.

3.2 Representations and Warranties of the Purchasers. Each Purchaser, for itself and for no other Purchaser, hereby represents and warrants as of the date hereof and as of the Closing Date to the Company as follows (unless as of a specific date therein):

(a) Organization; Authority. The address of the residence or principal offices of such Purchaser is set forth on the signature page hereto executed by such Purchaser and such address is not located in the Province of Ontario, Canada. Such Purchaser is either an individual or an entity duly incorporated or formed, validly existing and in good standing under the laws of the jurisdiction of its incorporation or formation with full right, corporate, partnership, limited liability company or similar power and authority to enter into and to consummate the transactions contemplated by the Transaction Documents and otherwise to carry out its obligations hereunder and thereunder. The execution and delivery of the Transaction Documents and performance by such Purchaser of the transactions contemplated by the Transaction Documents have been duly authorized by all necessary corporate, partnership, limited liability company or similar action, as applicable, on the part of such Purchaser. Each Transaction Document to which it is a party has been duly executed by such Purchaser, and when delivered by such Purchaser in accordance with the terms hereof, will constitute the valid and legally binding obligation of such Purchaser, enforceable against it in accordance with its terms, except: (i) as limited by general equitable principles and applicable bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting enforcement of creditors' rights generally, (ii) as limited by laws relating to the availability of specific performance, injunctive relief or other equitable remedies and (iii) insofar as indemnification and contribution provisions may be limited by applicable law.

(b) Understandings or Arrangements. Such Purchaser understands that the Securities are "restricted securities" and have not been registered under the U.S. Securities Act or any applicable state securities law and is acquiring the Securities as principal for its own account and not with a view to or for distributing or reselling such Securities or any part thereof in violation of the U.S. Securities Act or any applicable state securities law, has no present intention of distributing any of such Securities in violation of the U.S. Securities Act or any applicable state securities law and has no direct or indirect arrangement or understandings with any other persons to distribute or regarding the distribution of such Securities in violation of the U.S. Securities Act or any applicable state securities law (this representation and warranty not limiting such Purchaser's right to sell the Securities pursuant to a registration statement or otherwise in compliance with applicable federal and state securities laws). Such Purchaser is acquiring the Securities hereunder in the ordinary course of its business.

(c) The Purchaser is a resident, or if not an individual has its head office, in the jurisdiction set out on the signature page herein. Such address was not created and is not used solely for the purpose of acquiring the Notes and the Purchaser was not solicited to purchase the Notes in the United States.

(d) The Purchaser is purchasing as principal for its own account and has properly completed, executed and delivered to the Company, Exhibit "E" and the applicable certificate(s) and/or form(s) (dated as of the date hereof) set forth in Exhibit "E", and the information contained therein is true and correct.

(e) The information, representations, warranties and covenants contained in Exhibit "E" will be true and correct both as of the date of execution of this Agreement and as of the time of Closing.

(f) The Purchaser is neither a U.S. Person nor subscribing for the Notes for the account of a U.S. Person or for resale in the United States.

(g) The Purchaser will not offer, sell or otherwise dispose of the Notes or underlying securities in the United States or to a U.S. Person unless the Company has consented to such offer, sale or disposition and such offer, sale or distribution is made in accordance with an exemption from the registration requirements under the U.S. Securities Act and the securities laws of all applicable states of the United States or the U.S. Securities and Exchange Commission has declared effective a registration statement in respect of such securities.

(h) The Purchaser confirms that the Notes have not been offered to the Purchaser in the United States and that this Agreement has not been signed in the United States.

(i) The Purchaser was not offered the Notes as the result of any directed selling efforts, as that term is defined in Regulation S under the U.S. Securities Act.

(j) The current structure of this transaction and all transactions and activities contemplated hereunder is not a scheme to avoid the registration requirements of the U.S. Securities Act.

(k) If the Purchaser is not a person resident in Canada, the subscription for the Notes by the Purchaser does not contravene any of the applicable securities legislation in the jurisdiction in which the Purchaser resides and does not give rise to any obligation of the Company to prepare and file a prospectus or similar document or to register the Notes or underlying securities or to be registered with or to file any report or notice with any governmental or regulatory authority and the Purchaser agrees that it shall deliver to the Company such further particulars of the exemption(s) and the Purchaser's qualifications thereunder as the Company may reasonably request.

(l) If the Purchaser is a resident of a country other than Canada or the United States (an "International Jurisdiction") then in addition to the other representations and warranties contained herein, the Purchaser represents and warrants that:

- i) the Purchaser is knowledgeable of, or has been independently advised as to, the applicable securities laws of the International Jurisdiction which would apply to this Agreement, if any;
- ii) the Purchaser is purchasing the Notes pursuant to exemptions from the prospectus, financial promotion and registration requirements under the applicable securities laws of that International Jurisdiction or, if such is not applicable, the Purchaser is permitted to purchase the Notes under the applicable securities laws of the International Jurisdiction without the need to rely on an exemption;
- iii) the applicable securities laws of the International Jurisdiction do not require the Company to file a prospectus, offering memorandum or similar document or to register or qualify the distribution of the Notes or underlying securities or for the Company to be registered with or to make any filings or seek any approvals of any kind whatsoever from any governmental or regulatory authority of any kind whatsoever in the International Jurisdiction;
- iv) the delivery of this Agreement, the acceptance of it by the Company and the issuance of the Notes and underlying securities to the Purchaser complies with all applicable laws of the Purchaser's jurisdiction of residence or domicile and all other applicable laws and will not cause the Company to become subject to or comply with any continuous disclosure, prospectus or other periodic filing or reporting requirements under any such applicable laws;

- v) the Purchaser will not sell, transfer or dispose of the Notes and underlying securities except in accordance with all applicable laws, including applicable securities laws of Canada and the United States, and the Purchaser acknowledges that the Company shall have no obligation to register any such purported sale, transfer or disposition which violates applicable Canadian or United States securities laws or other securities laws;
- vi) the Purchaser shall not sell the Notes and underlying securities until all applicable hold periods have expired unless the sale is made pursuant to an exemption to applicable securities laws; and
- vii) the Purchaser has duly completed and delivered to the Company Exhibit "E" and represents and warrants as set forth therein.

(m) The execution and delivery of this Agreement, the performance and compliance with the terms hereof, the subscription for the Notes and the completion of the transactions described herein by the Purchaser, will not result in any material breach of, or be in conflict with or constitute a material default under, or create a state of facts which, after notice or lapse of time, or both, would constitute a material default under any term or provision of the constating documents, by-laws or resolutions (if applicable) of the Purchaser, the Securities Laws or any other laws applicable to the Purchaser, any agreement to which the Purchaser is a party, or any judgment, decree, order, statute, rule or regulation applicable to the Purchaser.

(n) The Purchaser is not, with respect to the Company or any of its affiliates, a Control Person (as such term is defined by Securities Laws).

(o) If required by applicable Securities Laws or the Company, the Purchaser will execute, deliver and file or assist the Company at the Company's sole cost and expense, in filing such reports, undertakings and other documents with respect to the issue of the Notes and the underlying securities as may be reasonably required by any securities commission, stock exchange or other regulatory authority.

(p) The Purchaser has been advised to consult their own legal advisors with respect to trading in the Notes and underlying securities and with respect to the resale restrictions imposed by the Securities Laws of the jurisdiction in which the Purchaser resides and other applicable securities laws, and acknowledges that no representation has been made respecting the applicable hold periods imposed by the Securities Laws or other resale restrictions applicable to such securities which restrict the ability of the Purchaser to resell such securities, that the Purchaser is solely responsible to find out what these restrictions are and the Purchaser is solely responsible (and the Company is in no way responsible) for compliance with applicable resale restrictions and the Purchaser is aware that may not be able to resell such securities except in accordance with limited exemptions under the Securities Laws and other applicable securities laws.

(q) The Purchaser has not received or been provided with a prospectus or offering memorandum, within the meaning of the Securities Laws, or any sales or advertising literature in connection with this Agreement and the Purchaser's decision to subscribe for the Notes was not based upon, and the Purchaser has not relied upon, any oral or written representations as to facts made by or on behalf of the Company. The Purchaser's decision to subscribe for the Notes was based solely upon information about the Company which is publicly available on www.sedar.com.

(r) The Purchaser is not purchasing Notes with knowledge of material information concerning the Company which has not been generally disclosed.

(s) No person has made any written or oral representations (i) that any person will resell or repurchase the Notes or underlying securities, or (ii) as to the future price or value of the Notes or underlying securities.

(t) The subscription for the Notes has not been made through or as a result of, and the distribution of the Notes is not being accompanied by any advertisement, including without limitation in printed public media, radio, television or telecommunications, including electronic display, or as part of a general solicitation.

(u) The Purchaser is not a person or entity identified in the Regulations Implementing the United Nations Resolutions on the Suppression of Terrorism, the United Nations Al-Qaida and Taliban Regulations, the Regulations Implementing the United Nations Resolution on the Democratic People's Republic of Korea, the Regulations Implementing the United Nations Resolution on Iran, the United Nations Cote d'Ivoire Regulations, the United Nations Democratic Republic of the Congo Regulations, the United Nations Liberia Regulations, the United Nations Sudan Regulations, the Special Economic Measures (Zimbabwe) Regulations or the Special Economic Measures (Burma) Regulations (collectively, the "Trade Sanctions"). The Purchaser acknowledges that the Company may in the future be required by law to disclose the name and other information of the Purchaser related to the acquisition of the Notes hereunder, on a confidential basis, pursuant to the Trade Sanctions.

(v) None of the funds being used to purchase Notes are, to the Purchaser's knowledge, proceeds obtained or derived directly or indirectly as a result of illegal activities.

(w) Experience of Such Purchaser. Such Purchaser, either alone or together with its representatives, has such knowledge, sophistication and experience in business and financial matters so as to be capable of evaluating the merits and risks of the prospective investment in the Securities, and has so evaluated the merits and risks of such investment. Such Purchaser is able to bear the economic risk of an investment in the Securities and, at the present time, is able to afford a complete loss of such investment.

(x) No Governmental Review. Such Purchaser understands that no Canadian or United States federal or state agency or any other governmental or state agency has passed on or made recommendations or endorsement of the Securities or the suitability of the investment in the Securities nor have such authorities passed upon or endorsed the merits of the offering of the Securities.

(y) No Conflicts. The execution, delivery and performance of this Agreement and performance under the other Transaction Documents and the consummation by such Purchaser of the transactions contemplated hereby and thereby or relating hereto or thereto do not and will not (i) result in a violation of such Purchaser's charter documents, bylaws or other organizational documents, if applicable, (ii) conflict with nor constitute a default (or an event which with notice or lapse of time or both would become a default) under any agreement to which such Purchaser is a party, nor (iii) result in a violation of any law, rule, or regulation, or any order, judgment or decree of any court or governmental agency applicable to such Purchaser or its properties (except for such conflicts, defaults and violations as would not, individually or in the aggregate, have a material adverse effect on such Purchaser). Such Purchaser is not required to obtain any consent, authorization or order of, or make any filing or registration with, any court or governmental agency in order for it to execute, deliver or perform any of its obligations under this Agreement or perform under the other Transaction Documents nor to purchase the Securities in accordance with the terms hereof, provided that for purposes of the representation made in this sentence, such Purchaser is assuming and relying upon the accuracy of the relevant representations and agreements of the Company herein.

(z) Money Laundering. Purchaser represents that the funds representing the Subscription Amount which will be advanced by the Purchaser hereunder will not represent proceeds of crime for the purposes of the *Proceeds of Crime (Money Laundering) Act* (Canada) and Purchaser acknowledges that the Company may in the future be required by law to disclose Purchaser's name and other information relating to this Agreement and the Purchaser's subscription hereunder, on a confidential basis, pursuant to the *Proceeds of Crime (Money Laundering) Act* (Canada) and to the best of the Purchaser's knowledge (i) none of the Subscription Amount to be provided by Purchaser (A) have been or will be derived from or related to any activity that is deemed criminal under the law of Canada or the United States, or (B) are being tendered on behalf of a person or entity who has not been identified to the Purchaser, and (ii) it shall promptly notify the Company if Purchaser discovers that any of such representations ceases to be true.

(aa) Survival. The foregoing representations and warranties shall survive the Closing Date.

The Company acknowledges and agrees that the representations contained in Section 3.2 shall not modify, amend or affect such Purchaser's right to rely on the Company's representations and warranties contained in this Agreement or any representations and warranties contained in any other Transaction Document or any other document or instrument executed and/or delivered in connection with this Agreement or the consummation of the transaction contemplated hereby.

ARTICLE IV. OTHER AGREEMENTS OF THE PARTIES

4.1 Transfer Restrictions.

(a) Resales. The Purchaser acknowledges and agrees that the Securities may only be disposed of in compliance with applicable securities laws.

(b) Legends. The Purchasers acknowledge and agree that the Notes will bear, as of the Closing Date, a legend substantially in the following form and with the necessary information inserted:

**“UNLESS PERMITTED UNDER SECURITIES LEGISLATION, THE HOLDER OF THIS SECURITY
MUST NOT TRADE THE SECURITY BEFORE <INSERT THE DATE THAT IS FOUR (4) MONTHS
AND ONE (1) DAY AFTER THE CLOSING DATE>.”**

(c) The Purchaser acknowledges and agrees that in the event of conversion of the Notes prior to the expiry of the hold period applicable to the Notes, the underlying securities will bear a legend substantially in the form of the legend set forth in 4.1(b) above, and with the necessary information inserted, which legend, if imprinted will be removed at the Purchaser's request four (4) months and one (1) day after the Closing Date.

(d) DWAC. In lieu of delivering physical certificates representing the Unlegended Shares, upon request of a Purchaser, so long as the certificates therefor do not bear a legend and the Purchaser is not obligated to return such certificate for the placement of a legend thereon, the Company shall cause its transfer agent to electronically transmit the Unlegended Shares by crediting the account of Purchaser's prime broker with the Depository Trust Company through its Deposit Withdrawal At Custodian system, provided that the Company's Common Stock is DTC eligible and the Company's transfer agent participates in the Deposit Withdrawal at Custodian system.

4.2 Acknowledgment of Dilution. The Company acknowledges that the issuance of the Securities may result in dilution of the outstanding shares of Common Stock, which dilution may be substantial under certain market conditions. The Company further acknowledges that its obligations under the Transaction Documents, including, without limitation, its obligation to issue the Underlying Shares pursuant to the Transaction Documents, are unconditional and absolute and not subject to any right of set off, counterclaim, delay or reduction, regardless of the effect of any such dilution or any claim the Company may have against any Purchaser and regardless of the dilutive effect that such issuance may have on the ownership of the other stockholders of the Company.

4.3 Furnishing of Information; Public Information.

(a) As long as the Notes or the Warrants are outstanding, the Company covenants to comply with its continuous disclosure obligations pursuant to applicable Securities Laws.

(b) At any time commencing on the Initial Closing Date and for so long as the Notes or Warrants are outstanding, if the Company shall fail for any reason to satisfy its Securities Laws filing and disclosure requirements and TSXV filing and disclosure requirements which is not rectified within 10 days of the first occurrence of such failure (a "Public Information Failure") then, in addition to such Purchaser's other available remedies, the Company shall pay to a Purchaser, in cash, as partial liquidated damages and not as a penalty, by reason of any such actual delay in or reduction of its ability to sell the Securities, an amount in cash equal to one percent (1.0%) of the aggregate principal amount of Notes held by such Purchaser on the day of a Public Information Failure and on every thirtieth (30th) day (pro-rated for periods totaling less than thirty days) thereafter until the earlier of (a) the date such Public Information Failure is cured and (b) such time that such public information is no longer required for the Purchasers to publicly transfer the Underlying Shares without registration or exemption. The payments to which a Purchaser shall be entitled pursuant to this Section 4.3(b) are referred to herein as "Public Information Failure Payments." Public Information Failure Payments shall be paid on the earlier of (i) the last day of the calendar month during which such Public Information Failure Payments are incurred and (ii) the third (3rd) Business Day after the event or failure giving rise to the Public Information Failure Payments is cured. In the event the Company fails to make Public Information Failure Payments in a timely manner, such Public Information Failure Payments shall bear interest at the rate of 1.5% per month (prorated for partial months) until paid in full. Nothing herein shall limit such Purchaser's right to pursue actual damages for the Public Information Failure, and such Purchaser shall have the right to pursue all remedies available to it at law or in equity including, without limitation, a decree of specific performance and/or injunctive relief.

4.4 Integration. The Company shall not sell, offer for sale or solicit offers to buy or otherwise negotiate in respect of any security (as defined in Section 2 of the U.S. Securities Act) that would be integrated with the offer or sale of the Securities in a manner that would require the registration under the U.S. Securities Act of the sale of the Securities or that would be integrated with the offer or sale of the Securities for purposes of the rules and regulations of any Trading Market such that it would require shareholder approval prior to the closing of such other transaction unless shareholder approval is obtained before the closing of such subsequent transaction.

4.5 Conversion and Exercise Procedures. Each of the form of Notice of Exercise included in the Warrants and the form of Notice of Conversion included in the Notes set forth the totality of the procedures required of the Purchasers in order to exercise the Warrants or convert the Notes. No additional legal opinion, other information or instructions shall be required of the Purchasers to exercise their Warrants or convert their Notes. The Company shall honor exercises of the Warrants and conversions of the Notes and shall deliver Underlying Shares in accordance with the terms, conditions and time periods set forth in the Transaction Documents.

4.6 Securities Laws Disclosure; Publicity. The Company shall immediately following each Closing Date comply with its reporting and disclosure obligations under all Securities Laws and principal Trading Market requirements in connection with this Agreement. The Company and each Purchaser shall consult with each other in issuing any press releases with respect to the transactions contemplated hereby, and neither the Company nor any Purchaser shall issue any press release nor otherwise make any such public statement without the prior consent of the Company, with respect to any press release of any Purchaser, or without the prior consent of each Purchaser, with respect to any press release of the Company, which consent shall not unreasonably be withheld or delayed, except if such disclosure is required by law or pursuant to the policies of the TSXV, in which case the disclosing party shall promptly provide the other party with prior notice of such public statement or communication. Notwithstanding the foregoing, the Company shall not publicly disclose the name of any Purchaser, or include the name of any Purchaser in any filing with the Commission or any regulatory agency or Trading Market unless the name of such Purchaser is already included in the body of the Transaction Documents, without the prior written consent of such Purchaser, except as required by Securities Laws in connection with such filing and (b) to the extent such disclosure is required by Trading Market regulations, in which case the Company shall provide the Purchasers with prior notice of such disclosure permitted under this clause (b).

4.7 Shareholder Rights Plan. No claim will be made or enforced by the Company or, with the consent of the Company, any other Person, that any Purchaser is an "Acquiring Person" under any control share acquisition, business combination, poison pill (including any distribution under a rights agreement) or similar anti-takeover plan or arrangement in effect or hereafter adopted by the Company, or that any Purchaser could be deemed to trigger the provisions of any such plan or arrangement, by virtue of receiving Securities under the Transaction Documents or under any other agreement between the Company and the Purchasers.

4.8 Non-Public Information. Except with respect to the material terms and conditions of the transactions contemplated by the Transaction Documents, the Company covenants and agrees that neither it, nor any other Person acting on its behalf, will provide any Purchaser or its agents or counsel with any information that the Company believes constitutes material non-public information, unless prior thereto such Purchaser shall have entered into a written agreement with the Company regarding the confidentiality and use of such information. The Company understands and confirms that each Purchaser shall be relying on the foregoing covenant in effecting transactions in securities of the Company.

4.9 Use of Proceeds. The Company shall use the net proceeds from the sale of the Securities hereunder for working capital purposes and shall not use such proceeds: (a) for the satisfaction of any portion of the Company's debt (other than payment of trade payables in the ordinary course of the Company's business and prior practices), (b) for the redemption of any Common Stock or Common Stock Equivalents, (c) for the settlement of any outstanding litigation or (d) in violation of FCPA or OFAC regulations.

4.10 Indemnification of Purchasers. Subject to the provisions of this Section 4.10, the Company will indemnify and hold each Purchaser and its directors, officers, shareholders, members, partners, employees and agents (and any other Persons with a functionally equivalent role of a Person holding such titles notwithstanding a lack of such title or any other title), each Person who controls such Purchaser (within the meaning of the *Securities Act* (Ontario)), and the directors, officers, shareholders, agents, members, partners or employees (and any other Persons with a functionally equivalent role of a Person holding such titles notwithstanding a lack of such title or any other title) of such controlling persons (each, a “Purchaser Party”) harmless from any and all losses, liabilities, obligations, claims, contingencies, damages, costs and expenses, including all judgments, amounts paid in settlements, court costs and reasonable attorneys’ fees and costs of investigation that any such Purchaser Party may suffer or incur as a result of or relating to (a) any breach of any of the representations, warranties, covenants or agreements made by the Company in this Agreement or in the other Transaction Documents or (b) any action instituted against Purchaser Parties in any capacity, or any of them or their respective Affiliates, by any stockholder of the Company who is not an Affiliate of such Purchaser Party, with respect to any of the transactions contemplated by the Transaction Documents. Notwithstanding anything to the contrary contained herein, the indemnity contemplated in this Section 4.10 shall not apply if such action is based upon a breach of such Purchaser Party’s representations, warranties or covenants under the Transaction Documents or any agreements or understandings such Purchaser Party may have with any such stockholder or any violations by such Purchaser Party of Securities Laws or any conduct by such Purchaser Party which constitutes fraud, gross negligence, willful misconduct or malfeasance. If any action shall be brought against any Purchaser Party in respect of which indemnity may be sought pursuant to this Agreement, such Purchaser Party shall promptly notify the Company in writing, and the Company shall have the right to assume the defense thereof with counsel of its own choosing reasonably acceptable to the Purchaser Party. Any Purchaser Party shall have the right to employ separate counsel in any such action and participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of such Purchaser Party except to the extent that (i) the employment thereof has been specifically authorized by the Company in writing, (ii) the Company has failed after a reasonable period of time to assume such defense and to employ counsel or (iii) in such action there is, in the reasonable opinion of counsel, a material conflict on any material issue between the position of the Company and the position of such Purchaser Party, in which case the Company shall be responsible for the reasonable fees and expenses of no more than one such separate counsel. The Company will not be liable to any Purchaser Party under this Agreement (y) for any settlement by a Purchaser Party effected without the Company’s prior written consent, which shall not be unreasonably withheld or delayed; or (z) to the extent, but only to the extent that a loss, claim, damage or liability is attributable to any Purchaser Party’s breach of its representations, warranties or covenants under the Transaction Documents. The indemnification required by this Section 4.10 shall be made by periodic payments of the amount thereof during the course of the investigation or defense, as and when bills are received or are incurred. The indemnity agreements contained herein shall be in addition to any cause of action or similar right of any Purchaser Party against the Company or others and any liabilities the Company may be subject to pursuant to law.

4.11 Reservation and Listing of Securities.

(a) The Company shall maintain a reserve from its duly authorized shares of Common Stock for issuance pursuant to the Transaction Documents in such amount as may then be required to fulfill its obligations in full under the Transaction Documents, but not less than the Required Minimum.

(b) If, on any date, the number of authorized but unissued (and otherwise unreserved) shares of Common Stock is less than the Required Minimum on such date, then the Board of Directors shall amend the Company’s certificate or articles of incorporation to increase the number of authorized but unissued shares of Common Stock to at least the Required Minimum at such time, as soon as possible and in any event not later than the 60th day after such date.

(c) The Company shall, if applicable: (i) in the time and manner required by the principal Trading Market, prepare and file with such Trading Market an additional shares listing application covering a number of shares of Common Stock at least equal to the Required Minimum on the date of such application, (ii) take all steps necessary to cause such shares of Common Stock to be approved for listing or quotation on such Trading Market as soon as possible thereafter, (iii) provide to the Purchasers evidence of such listing or quotation and (iv) maintain the listing or quotation of such Common Stock on any date at least equal to the Required Minimum on such date on such Trading Market or another Trading Market. The Company will then take all action necessary to continue the listing or quotation and trading of its Common Stock on a Trading Market for so long as amounts are owing under the Note or the Warrants are outstanding, and will comply in all respects with the Company's reporting, filing and other obligations under the bylaws or rules of the Trading Market at least until five years after the Final Closing Date and for so long as the Warrants are outstanding. In the event the aforescribed listing is not continuously maintained for five years after the Final Closing Date (a "Listing Default"), then in addition to any other rights the Purchasers may have hereunder or under applicable law, on the first day of a Listing Default and on each monthly anniversary of each such Listing Default date (if the applicable Listing Default shall not have been cured by such date) until the applicable Listing Default is cured, the Company shall pay to each Purchaser an amount in cash, as partial liquidated damages and not as a penalty, equal to 1% of the aggregate Subscription Amount and purchase price of Warrant Shares held by such Purchaser on the day of a Listing Default and on every thirtieth day (pro-rated for periods less than thirty days) thereafter until the date such Listing Default is cured. If the Company fails to pay any liquidated damages pursuant to this Section in a timely manner, the Company will pay interest thereon at a rate of 1.5% per month (pro-rated for partial months) to the Purchaser.

4.12 Equal Treatment of Purchasers. No consideration (including any modification of any Transaction Document) shall be offered or paid to any Person to amend or consent to a waiver or modification of any provision of any of this Agreement unless the same consideration is also offered on a ratable basis to all of the parties to this Agreement. For clarification purposes, this provision constitutes a separate right granted to each Purchaser by the Company and negotiated separately by each Purchaser, and is intended for the Company to treat the Purchasers as a class and shall not in any way be construed as the Purchasers acting in concert or as a group with respect to the purchase, disposition or voting of Securities or otherwise.

4.13 Preservation of Corporate Existence. For as long as the Notes or Warrants remain outstanding, the Company shall preserve and maintain corporate existence, rights, privileges and franchises in the jurisdictions of their incorporation, and qualify and remain qualified, as a foreign corporation in each jurisdiction in which such qualification is necessary in view of their business or operations and where the failure to qualify or remain qualified might reasonably have a Material Adverse Effect upon the financial condition, business or operations of the Company taken as a whole.

4.14 Participation in Future Financing

(a) From the date hereof until one year after the Initial Closing Date, upon any proposed issuance by the Company of Common Stock, Common Stock Equivalents for cash consideration, Indebtedness or a combination thereof, other than (i) a rights offering to all holders of Common Stock (which may include extending such rights offering to holders of Notes) or (ii) an Exempt Issuance, (a "Subsequent Financing"), the Purchasers shall have the right to participate in up to an amount of the Subsequent Financing equal to 50% of the Subsequent Financing (the "Participation Maximum") pro rata to each other in proportion to their Subscription Amounts on the same terms, conditions and price provided for in the Subsequent Financing, unless the Subsequent Financing is an underwritten public offering, in which case the Company shall offer each Purchaser the right to participate in such public offering when it is lawful for the Company to do so, but no Purchaser shall be entitled to purchase any particular amount of such public offering.

(b) At least seven (7) Trading Days prior to the closing of the Subsequent Financing, the Company shall deliver to each Purchaser a written notice of its intention to effect a Subsequent Financing (“Pre-Notice”), which Pre-Notice shall ask such Purchaser if it wants to review the details of such financing (such additional notice, a “Subsequent Financing Notice”). Upon the request of a Purchaser, and only upon a request by such Purchaser, for a Subsequent Financing Notice, the Company shall promptly, but no later than one (1) Trading Day after such request, deliver a Subsequent Financing Notice to such Purchaser. The requesting Purchaser shall be deemed to have acknowledged that the Subsequent Financing Notice may contain material non-public information. The Subsequent Financing Notice shall describe in reasonable detail the proposed terms of such Subsequent Financing, the amount of proceeds intended to be raised thereunder and the Person or Persons through or with whom such Subsequent Financing is proposed to be effected and shall include a term sheet or similar document relating thereto as an attachment.

(c) Any Purchaser desiring to participate in such Subsequent Financing must provide written notice to the Company by not later than 5:30 p.m. (New York City time) on the fifth (5th) Trading Day after all of the Purchasers have received the Pre-Notice that the Purchaser is willing to participate in the Subsequent Financing, the amount of such Purchaser’s participation, and representing and warranting that such Purchaser has such funds ready, willing, and available for investment on the terms set forth in the Subsequent Financing Notice. If the Company receives no such notice from a Purchaser as of such fifth (5th) Trading Day, such Purchaser shall be deemed to have notified the Company that it does not elect to participate.

(d) If by 5:30 p.m. (New York City time) on the fifth (5th) Trading Day after all of the Purchasers have received the Pre-Notice, notifications by the Purchasers of their willingness to participate in the Subsequent Financing (or to cause their designees to participate) is, in the aggregate, less than the total amount of the Subsequent Financing, then the Company may affect the remaining portion of such Subsequent Financing on the terms and with the Persons set forth in the Subsequent Financing Notice.

(e) If by 5:30 p.m. (New York City time) on the fifth (5th) Trading Day after all of the Purchasers have received the Pre-Notice, the Company receives responses to a Subsequent Financing Notice from Purchasers seeking to purchase more than the aggregate amount of the Participation Maximum, each such Purchaser shall have the right to purchase its Pro Rata Portion (as defined below) of the Participation Maximum. “Pro Rata Portion” means the ratio of (x) the principal amount of Notes purchased hereunder by a Purchaser participating under this Section 4.14 and (y) the sum of the aggregate principal amounts of Notes purchased hereunder by all Purchasers participating under this Section 4.14.

(f) The Company must provide the Purchasers with a second Subsequent Financing Notice, and the Purchasers will again have the right of participation set forth above in this Section 4.14, if the Subsequent Financing subject to the initial Subsequent Financing Notice is not consummated for any reason on the terms set forth in such Subsequent Financing Notice within thirty (30) Trading Days after the date of the initial Subsequent Financing Notice.

(g) The Company and each Purchaser agree that if any Purchaser elects to participate in the Subsequent Financing, the transaction documents related to the Subsequent Financing shall not include any term or provision whereby such Purchaser shall be required to agree to any restrictions on trading as to any of the Securities purchased hereunder (for avoidance of doubt, the securities purchased in the Subsequent Financing shall not be considered securities purchased hereunder) or be required to consent to any amendment to or termination of, or grant any waiver, release or the like under or in connection with, this Agreement, without the prior written consent of such Purchaser.

(h) Notwithstanding anything to the contrary in this Section 4.14 and unless otherwise agreed to by such Purchaser, the Company shall either confirm in writing to such Purchaser that the transaction with respect to the Subsequent Financing has been abandoned or shall publicly disclose its intention to issue the securities in the Subsequent Financing, in either case in such a manner such that such Purchaser will not be in possession of any material, non-public information, by the tenth (10th) Business Day following delivery of the Subsequent Financing Notice. If by such tenth (10th) Business Day, no public disclosure regarding a transaction with respect to the Subsequent Financing has been made, and no notice regarding the abandonment of such transaction has been received by such Purchaser, such transaction shall be deemed to have been abandoned and such Purchaser shall not be deemed to be in possession of any material, non-public information with respect to the Company.

4.15 Maintenance of Property. The Company shall keep all of its property, which is necessary or useful to the conduct of its business, in good working order and condition, ordinary wear and tear excepted, except for any property that may be subject to the sale of the Company's fuels distribution business.

4.16 Subordination. Each Purchaser acknowledges and hereby agrees to postpone and subordinate the Subordinate Security in all respects to the Senior Security in, against and with respect to the Collateral. In so doing, all indebtedness due to any Senior Lender and secured by the Senior Security shall rank senior in all respects, including right of payment, to all indebtedness due to any Purchaser and secured by the Subordinate Security, and the indebtedness due to any Senior Lender and secured by the Senior Security (including, without limitation, principal, interest, fees and other amounts of any kind) shall be indefeasibly paid and satisfied in full before any Purchaser shall be entitled to be paid or receive any payments representing proceeds of the Collateral or otherwise on account of, or with respect to, the indebtedness secured by the Subordinate Security (including, without limitation, principal, interest, fees and other amounts of any kind). Without limiting the generality of the foregoing, the postponements and subordinations provided for herein shall be effective notwithstanding: (1) the respective dates of execution, delivery, attachment, registration, perfection or enforcement of the Senior Security or the Subordinate Security; (2) the date or dates of any advance or advances of the indebtedness secured by the Senior Security or the Subordinate Security and whether any such advances occur before or after the occurrence of any default or event of default and whether a Senior Lender or any Purchaser had notice of any such default or event of default at the time of making any such advance; (3) the dates of any default or event of default or the date or dates of crystallization of any floating charge under the Senior Security or the Subordinate Security; (4) the rules of priority established under applicable law; or (5) the provisions of the agreements or instruments creating the Senior Security or the Subordinate Security.

4.17 Further Instruments. Each Purchaser hereby agrees to execute and deliver, upon request by any Senior Lender or the Company, such further instruments and agreements as may be reasonably required by such Senior Lender or the Company to confirm and give effect to the provisions of this Agreement and to register and record or file notice of the subordinations and postponements of the Subordinate Security in favor of the Senior Security in any office of public record as such Senior Lender or the Company may consider necessary or desirable from time to time.

4.18 Additional Issuances. For so long as a Note is outstanding, the Company will not amend the terms of any securities or Common Stock Equivalents or of any agreement outstanding or in effect as of the date of this Agreement pursuant to which same were or may be acquired nor issue any Common Stock or Common Stock Equivalents, if such issuance or the result of such amendment would be at an effective price per share of Common Stock less than the Conversion Price in effect at the time of such lower price issuance or amendment, except pursuant to Schedule 3.1(g) and Schedule 3.1(hh).

**ARTICLE V.
MISCELLANEOUS**

5.1 Termination. This Agreement may be terminated by any Purchaser, as to such Purchaser's obligations hereunder only and without any effect whatsoever on the obligations between the Company and the other Purchasers, by written notice to the other parties, if the Initial Closing has not been consummated on or before June 30, 2016; provided, however, that such termination will not affect the right of any party to sue for any breach by any other party (or parties).

5.2 Fees and Expenses. Except as expressly set forth in the Transaction Documents, each party shall pay the fees and expenses of its advisers, counsel, accountants and other experts, if any, and all other expenses incurred by such party incident to the negotiation, preparation, execution, delivery and performance of this Agreement. The Company shall pay all Transfer Agent fees (including, without limitation, any fees required for same-day processing of any instruction letter delivered by the Company and any conversion or exercise notice delivered by a Purchaser), stamp taxes and other taxes and duties levied in connection with the delivery of any Securities to the Purchasers and all expenses in connection with filing and perfecting the security interest granted pursuant to the Security Agreement.

5.3 Entire Agreement. The Transaction Documents, together with the exhibits and schedules thereto, contain the entire understanding of the parties with respect to the subject matter hereof and thereof and supersede all prior agreements and understandings, oral or written, with respect to such matters, which the parties acknowledge have been merged into such documents, exhibits and schedules.

5.4 Notices. All notices, demands, requests, consents, approvals, and other communications required or permitted hereunder shall be in writing and, unless otherwise specified herein, shall be (i) personally served, (ii) deposited in the mail, registered or certified, return receipt requested, postage prepaid, (iii) delivered by reputable air courier service with charges prepaid, or (iv) transmitted by hand delivery, telegram, or facsimile, addressed as set forth below or to such other address as such party shall have specified most recently by written notice. Any notice or other communication required or permitted to be given hereunder shall be deemed effective (a) upon hand delivery or delivery by facsimile, with accurate confirmation generated by the transmitting facsimile machine, at the address or number designated below (if delivered on a business day during normal business hours where such notice is to be received), or the first business day following such delivery (if delivered other than on a business day during normal business hours where such notice is to be received) or (b) on the second business day following the date of mailing by express courier service, fully prepaid, addressed to such address, or upon actual receipt of such mailing, whichever shall first occur. The addresses for such communications shall be: (i) if to the Company, to: MCW Energy Group Limited, 4370 Tujunga Avenue, Suite 320, Studio City, California, 91604, Attn: Alex Blyumkin, Executive Chairman, facsimile: 866-571-9613, with a copy by email only to (which shall not constitute notice): robbie.grossman@mcmillan.ca, and (ii) if to the Purchasers, to: the addresses and fax numbers indicated on the signature pages hereto, with an additional copy by fax only to (which shall not constitute notice): Grushko & Mittman, P.C., 515 Rockaway Avenue, Valley Stream, New York 11581, facsimile: (212) 697-3575.

5.5 Amendments; Waivers. No provision of this Agreement may be waived, modified, supplemented or amended except in a written instrument signed, in the case of an amendment, by the Company and the Purchasers holding at least a majority in interest of the component of the affected Securities then outstanding or, in the case of a waiver, by the party against whom enforcement of any such waived provision is sought. No waiver of any default with respect to any provision, condition or requirement of this Agreement shall be deemed to be a continuing waiver in the future or a waiver of any subsequent default or a waiver of any other provision, condition or requirement hereof, nor shall any delay or omission of any party to exercise any right hereunder in any manner impair the exercise of any such right.

5.6 Headings. The headings herein are for convenience only, do not constitute a part of this Agreement and shall not be deemed to limit or affect any of the provisions hereof.

5.7 Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties and their successors and permitted assigns. The Company may not assign this Agreement or any rights or obligations hereunder without the prior written consent of each Purchaser (other than by merger). Following the Closing, any Purchaser may assign any or all of its rights under this Agreement to any Person to whom such Purchaser assigns or transfers any Securities, provided that such transferee agrees in writing to be bound, with respect to the transferred Securities, by the provisions of the Transaction Documents that apply to the “Purchasers.”

5.8 No Third-Party Beneficiaries. This Agreement is intended for the benefit of the parties hereto and their respective successors and permitted assigns and is not for the benefit of, nor may any provision hereof be enforced by, any other Person, except as otherwise set forth in Section 4.10.

5.9 Governing Law. Unless otherwise stated in a Transaction Document, all questions concerning the construction, validity, enforcement and interpretation of the Transaction Documents shall be governed by and construed and enforced in accordance with the internal laws of the State of New York, without regard to the principles of conflicts of law thereof. Each party agrees that all legal proceedings concerning the interpretations, enforcement and defense of the transactions contemplated by this Agreement and any other Transaction Documents (whether brought against a party hereto or its respective affiliates, directors, officers, shareholders, partners, members, employees or agents) shall be commenced exclusively in the state and federal courts sitting in the City of New York, or such other jurisdiction elected by a Purchaser to enforce its rights in which case the Purchaser may elect to enforce any of the Transaction Documents in any other appropriate or convenient jurisdiction. Each party hereby irrevocably submits to the exclusive jurisdiction of the courts sitting in the state and federal courts sitting in the City of New York, Borough of Manhattan for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein (including with respect to the enforcement of any of the Transaction Documents), or such other jurisdiction elected by Purchaser and hereby irrevocably waives, and agrees not to assert in any action, suit or proceeding, any claim that it is not personally subject to the jurisdiction of any such court, that such suit, action or proceeding is improper or is an inconvenient venue for such proceeding. Each party hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or proceeding by mailing a copy thereof via registered or certified mail or overnight delivery (with evidence of delivery) to such party at the address in effect for notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any other manner permitted by law. If either party shall commence an action or proceeding to enforce any provisions of the Transaction Documents, then, in addition to the obligations of the Company under Section 4.10, the prevailing party in such action, suit or proceeding shall be reimbursed by the other party for its reasonable attorneys’ fees and other costs and expenses incurred with the investigation, preparation and prosecution of such action or proceeding.

5.10 Survival. The representations and warranties contained herein shall survive the Closing and the delivery of the Securities.

5.11 Execution. This Agreement may be executed in two or more counterparts, all of which when taken together shall be considered one and the same agreement and shall become effective when counterparts have been signed by each party and delivered to each other party, it being understood that the parties need not sign the same counterpart. In the event that any signature is delivered by facsimile transmission or by e-mail delivery of a “.pdf” format data file, such signature shall create a valid and binding obligation of the party executing (or on whose behalf such signature is executed) with the same force and effect as if such facsimile or “.pdf” signature page were an original thereof.

5.12 Severability. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction to be invalid, illegal, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions set forth herein shall remain in full force and effect and shall in no way be affected, impaired or invalidated, and the parties hereto shall use their commercially reasonable efforts to find and employ an alternative means to achieve the same or substantially the same result as that contemplated by such term, provision, covenant or restriction. It is hereby stipulated and declared to be the intention of the parties that they would have executed the remaining terms, provisions, covenants and restrictions without including any of such that may be hereafter declared invalid, illegal, void or unenforceable.

5.13 Rescission and Withdrawal Right. Notwithstanding anything to the contrary contained in (and without limiting any similar provisions of) any of the other Transaction Documents, whenever any Purchaser exercises a right, election, demand or option under a Transaction Document and the Company does not timely perform its related obligations within the periods therein provided and such failure is not waived by the Purchaser, then such Purchaser may, at any time prior to the Company's performance of such obligations, rescind or withdraw, in its sole discretion from time to time upon written notice to the Company, any relevant notice, demand or election in whole or in part without prejudice to its future actions and rights; provided, however, that in the case of a rescission of a conversion of a Note or exercise of a Warrant, the applicable Purchaser shall be required to return any shares of Common Stock subject to any such rescinded conversion or exercise notice concurrently with the return to such Purchaser of the aggregate exercise price paid to the Company for such shares and the restoration of such Purchaser's right to acquire such shares pursuant to such Purchaser's Warrant (including, issuance of a replacement warrant certificate evidencing such restored right).

5.14 Replacement of Securities. If any certificate or instrument evidencing any Securities is mutilated, lost, stolen or destroyed, the Company shall issue or cause to be issued in exchange and substitution for and upon cancellation thereof (in the case of mutilation), or in lieu of and substitution therefor, a new certificate or instrument, but only upon receipt of evidence reasonably satisfactory to the Company of such loss, theft or destruction. The applicant for a new certificate or instrument under such circumstances shall also pay any reasonable third-party costs (including customary indemnity) associated with the issuance of such replacement Securities.

5.15 Remedies. In addition to being entitled to exercise all rights provided herein or granted by law, including recovery of damages, each of the Purchasers and the Company will be entitled to specific performance under the Transaction Documents. The parties agree that monetary damages may not be adequate compensation for any loss incurred by reason of any breach of obligations contained in the Transaction Documents and hereby agree to waive and not to assert in any action for specific performance of any such obligation the defense that a remedy at law would be adequate.

5.16 Payment Set Aside. To the extent that the Company makes a payment or payments to any Purchaser pursuant to any Transaction Document or a Purchaser enforces or exercises its rights thereunder, and such payment or payments or the proceeds of such enforcement or exercise or any part thereof are subsequently invalidated, declared to be fraudulent or preferential, set aside, recovered from, disgorged by or are required to be refunded, repaid or otherwise restored to the Company, a trustee, receiver or any other Person under any law (including, without limitation, any bankruptcy law, state or federal law, common law or equitable cause of action), then to the extent of any such restoration the obligation or part thereof originally intended to be satisfied shall be revived and continued in full force and effect as if such payment had not been made or such enforcement or setoff had not occurred.

5.17 Usury. To the extent it may lawfully do so, the Company hereby agrees not to insist upon or plead or in any manner whatsoever claim, and will resist any and all efforts to be compelled to take the benefit or advantage of, usury laws wherever enacted, now or at any time hereafter in force, in connection with any claim, action or proceeding that may be brought by any Purchaser in order to enforce any right or remedy under any Transaction Document. Notwithstanding any provision to the contrary contained in any Transaction Document, it is expressly agreed and provided that the total liability of the Company under the Transaction Documents for payments in the nature of interest shall not exceed the maximum lawful rate authorized under applicable law (the "Maximum Rate"), and, without limiting the foregoing, in no event shall any rate of interest or default interest, or both of them, when aggregated with any other sums in the nature of interest that the Company may be obligated to pay under the Transaction Documents exceed such Maximum Rate. It is agreed that if the maximum contract rate of interest allowed by law and applicable to the Transaction Documents is increased or decreased by statute or any official governmental action subsequent to the date hereof, the new maximum contract rate of interest allowed by law will be the Maximum Rate applicable to the Transaction Documents from the Closing Date thereof forward, unless such application is precluded by applicable law. If under any circumstances whatsoever, interest in excess of the Maximum Rate is paid by the Company to any Purchaser with respect to indebtedness evidenced by the Transaction Documents, such excess shall be applied by such Purchaser to the unpaid principal balance of any such indebtedness or be refunded to the Company, at such Purchaser's election.

5.18 Independent Nature of Purchasers' Obligations and Rights. The obligations of each Purchaser under any Transaction Document are several and not joint with the obligations of any other Purchaser, and no Purchaser shall be responsible in any way for the performance or non-performance of the obligations of any other Purchaser under any Transaction Document. Nothing contained herein or in any other Transaction Document, and no action taken by any Purchaser pursuant hereto or thereto, shall be deemed to constitute the Purchasers as a partnership, an association, a joint venture or any other kind of entity, or create a presumption that the Purchasers are in any way acting in concert or as a group with respect to such obligations or the transactions contemplated by the Transaction Documents. Each Purchaser shall be entitled to independently protect and enforce its rights, including, without limitation, the rights arising out of this Agreement or out of the other Transaction Documents, and it shall not be necessary for any other Purchaser to be joined as an additional party in any proceeding for such purpose. Each Purchaser has been represented by its own separate legal counsel in its review and negotiation of the Transaction Documents. For reasons of administrative convenience only, each Purchaser and its respective counsel have chosen to communicate with the Company through G&M. The Company has elected to provide all Purchasers with the same terms and Transaction Documents for the convenience of the Company and not because it was required or requested to do so by any of the Purchasers. It is expressly understood and agreed that each provision contained in this Agreement and in each other Transaction Document is between the Company and a Purchaser, solely, and not between the Company and the Purchasers collectively and not between and among the Purchasers.

5.19 Liquidated Damages. The Company's obligations to pay any partial liquidated damages or other amounts owing under the Transaction Documents is a continuing obligation of the Company and shall not terminate until all unpaid partial liquidated damages and other amounts have been paid notwithstanding the fact that the instrument or security pursuant to which such partial liquidated damages or other amounts are due and payable shall have been canceled.

5.20 Saturdays, Sundays, Holidays, etc. If the last or appointed day for the taking of any action or the expiration of any right required or granted herein shall not be a Business Day, then such action may be taken or such right may be exercised on the next succeeding Business Day.

5.21 Construction. The parties agree that each of them and/or their respective counsel have reviewed and had an opportunity to revise the Transaction Documents and, therefore, the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of the Transaction Documents or any amendments thereto. In addition, each and every reference to share prices and shares of Common Stock in any Transaction Document shall be subject to adjustment for reverse and forward stock splits, stock dividends, stock combinations and other similar transactions of the Common Stock that occur after the date of this Agreement.

5.22 WAIVER OF JURY TRIAL. IN ANY ACTION, SUIT, OR PROCEEDING IN ANY JURISDICTION BROUGHT BY ANY PARTY AGAINST ANY OTHER PARTY, THE PARTIES EACH KNOWINGLY AND INTENTIONALLY, TO THE GREATEST EXTENT PERMITTED BY APPLICABLE LAW, HEREBY ABSOLUTELY, UNCONDITIONALLY, IRREVOCABLY AND EXPRESSLY WAIVES FOREVER TRIAL BY JURY.

5.23 Equitable Adjustment. Trading volume amounts, price/volume amounts and similar figures in the Transaction Documents shall be equitably adjusted (but without duplication) to offset the effect of stock splits, similar events and as otherwise described in this Agreement and Warrants.

5.24 Currency. Unless otherwise stated, all references to currency shall mean United States Dollars.

5.25 Paramountcy. If there is any conflict or inconsistency between the provisions of this Agreement and the provisions of any Note, the provisions of this Agreement shall govern and prevail, to the extent necessary to resolve such conflict or inconsistency.

(Signature Pages Follow)

IN WITNESS WHEREOF, the parties hereto have caused this Securities Purchase Agreement to be duly executed by their respective authorized signatories as of the date first indicated above.

MCW ENERGY GROUP LIMITED

Address for Notice:

4370 Tujunga Avenue, Suite 320,
Studio City, California, 91604
Fax: 818-358-3148

By: /s/ Alex Blyumkin

Name: Alex Blyumkin

Title: Executive Chairman

With a copy to (which shall not constitute notice):

McMillan LLP
181 Bay Street, Suite 4400
Toronto, ON M5J 2T3
Attn: Robbie Grossman
Email: robbie.grossman@mcmillan.ca

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK
SIGNATURE PAGE FOR PURCHASER FOLLOWS]

[PURCHASER SIGNATURE PAGE TO MCW ENERGY GROUP LIMITED
SECURITIES PURCHASE AGREEMENT]

IN WITNESS WHEREOF, the undersigned have caused this Securities Purchase Agreement to be duly executed by their respective authorized signatories as of the date first indicated above.

Name of Purchaser: ALPHA CAPITAL ANSTALT

Signature of Authorized Signatory of Purchaser: _____

Name of Authorized Signatory: _____

Title of Authorized Signatory: _____

Email Address of Authorized Signatory: _____

Facsimile Number of Authorized Signatory: _____

Address for Notice to Purchaser: Pradafant 7
9490 Furstentums
Vaduz, Lichtenstein
Fax: 01141714773504

Address for Delivery of Securities to Purchaser (if not same as address for notice):

c/o LH Financial Services Corp.
510 Madison Avenue, #1400
New York, NY 10022

Initial Closing Cash: US\$540,000

Initial Closing Note principal amount: US\$600,000

EIN Number, if applicable, will be provided under separate cover: _____

Date: _____

[SIGNATURE PAGES CONTINUE]

EXHIBIT “E”

FOREIGN PURCHASER’S CERTIFICATE

Capitalized terms not specifically defined in this Exhibit “E” have the meanings ascribed to them in the Agreement to which this “Exhibit E” is attached.

TO: MCW ENERGY GROUP LIMITED (the “Company”)

The undersigned Purchaser, a resident of a jurisdiction other than Canada or the United States, hereby represents and warrants to the Company, and acknowledges as an integral part of the attached Agreement, as follows:

1. The Purchaser is, and each beneficial purchaser for whom the Purchaser may be acting as trustee or agent is, a resident of a country (an “**International Jurisdiction**”) other than Canada or the United States and the decision to acquire the Notes was taken in such International Jurisdiction.
2. The execution of the Agreement and the issuance of the Notes to the Purchaser, or any beneficial purchaser, complies with all laws applicable to the Purchaser and such beneficial purchaser, including the laws of such purchaser’s jurisdiction of residence, and all other applicable laws, and will not require the Company to register the Securities nor will it cause the Company to become subject to, or require it to comply with, any disclosure, prospectus, filing or reporting requirements under any applicable laws of the International Jurisdiction or seek any approvals of any kind whatsoever from any regulatory authority of any kind whatsoever in the International Jurisdiction.
3. If the undersigned Purchaser, or any other purchaser for whom it is acting hereunder, is resident in or otherwise subject to applicable securities laws of the United Kingdom:
 - (a) the Purchaser is either: (i) purchasing the Notes as principal for its own account, (ii) acting as agent for a disclosed beneficial purchaser who has been disclosed to the Company and who is purchasing the Notes as principal for its own account; or (iii) purchasing the Notes on behalf of discretionary client(s) in circumstances where section 86(2) of the *Financial Services and Markets Act 2000* (“**FSMA**”) applies;
 - (b) the Purchaser (and if the undersigned Purchaser is purchasing as agent for a disclosed beneficial purchaser, the disclosed beneficial purchaser): (i) is such a person as is referred to in Article 19 (investment professionals); Article 49 (high net worth companies, unincorporated associations, etc.) or Article 50 (sophisticated investors) of the *Financial Services and Markets Act 2000 (Financial Promotion) Order 2005* (the “**FPO**”); and (ii) has complied with and undertakes to comply with all applicable provisions of the FSMA and other applicable securities laws with respect to anything done by it in relation to the Note and the underlying securities in, from or otherwise involving the United Kingdom;
 - (c) the Purchaser acknowledges that the offer detailed in the Agreement is only directed in the United Kingdom at the following persons (such that such offer is not available in the United Kingdom to any other persons and such that no other persons should rely on the contents of the Agreement):
 - (i) (in the case of investment professionals as referred to in Article 19 of the FPO) persons having professional experience in matters relating to investments; and

(ii) (in the case of high net worth companies, etc. as referred to in Article 49 of the FPO) high net worth companies, unincorporated associations or partnerships or trustees of high value trusts which: (A) in the case of a company, has, or is a member of the same group as an undertaking that has, a called up share capital or net assets of not less than £500,000 (for companies with more than 20 members or subsidiary undertakings of an undertaking with more than 20 members) or net assets of not less than £5,000,000 in any other case; or (B) in the case of an unincorporated association or partnership, has net assets of not less than £5,000,000; or (C) in the case of a trustee of a high value trust, has cash and investments forming part of the trust's assets (before the deduction of liabilities) with an aggregate value of not less than £10,000,000 (or which has had an aggregate value of not less than £10,000,000 during the year immediately preceding the date of receipt of the Agreement); and

(iii) (in the case of certified sophisticated investors as referred to in Article 50(1) of the FPO) a person that this communication is directed who:

(A) has a current certificate in writing or other legible form signed by an authorised person to the effect that he is sufficiently knowledgeable to understand the risks associated with investments in shares and other securities issued by companies listed or quoted on an investment exchange, whether in the United Kingdom or elsewhere, and

(B) has signed, within the period of twelve months ending with the day on which the communication was made, a statement in the following terms:

“I,, make this statement so that I am able to receive promotions which are exempt from the restrictions on financial promotion in the Financial Services and Markets Act 2000 (as amended). The exemption relates to certified sophisticated investors and I declare that I qualify as such in relation to investments in shares and other securities issued by private companies and by companies listed or quoted on an investment exchange, whether in the United Kingdom or elsewhere.

I accept that the contents of promotions and other material that I receive may not have been approved by an authorised person and that their content may not therefore be subject to controls which would apply if the promotion were made or approved by an authorised person. I am aware that it is open to me to seek advice from someone who specialises in advising on this kind of investment.”

(d) it confirms that, to the extent applicable to it, it is aware of, has complied and will comply with its obligations in connection with the *Criminal Justice Act 1993*, the *Proceeds of Crime Act 2002* and Part VIII of the FSMA, it has identified its clients in accordance with the Money Laundering Regulations 2003 (the “**Regulations**”) and has complied fully with its obligations pursuant to the Regulations and will, as a condition precedent of any acceptance of this subscription, provide all such information and documents as may be required in relation to it (or any person on whose behalf it is acting as agent) that may be required by the Company or any agent or person acting for it in order to discharge any obligations under the Regulations.

4. The Purchaser, and each beneficial purchaser, is knowledgeable of, or has been independently advised as to, the application or jurisdiction of the securities laws of the International Jurisdiction which would apply to the transactions contemplated by the Agreement (other than the securities laws of Canada and the United States).

5. The Purchaser, and each beneficial purchaser, is purchasing the Notes pursuant to exemptions from the prospectus and registration requirements (or their equivalent) under the applicable securities laws of that International Jurisdiction or, if such is not applicable, each is permitted to purchase the Notes under the applicable securities laws of the International Jurisdiction without the need to rely on an exemption.

6. The Purchaser, and each beneficial purchaser, will not sell, transfer or dispose of the Notes and the underlying securities except in accordance with all applicable laws, including applicable securities laws of Canada and the United States, and the Purchaser, and each beneficial purchaser, acknowledges that the Company shall have no obligation to register any such purported sale, transfer or disposition which violates applicable Canadian or United States securities laws or other securities laws.
7. The Purchaser, and each beneficial purchaser, shall not sell the Notes and the underlying securities until all applicable hold periods have expired unless the sale is made pursuant to an exemption to applicable securities laws.

The foregoing representations and warranties contained in this Exhibit "E" are true and accurate as of the date of this Exhibit "E" and will be true and accurate as of the time of Closing. If any such representations or warranties shall not be true and accurate prior to the time of Closing, the undersigned shall give immediate written notice of such fact to the Company prior to the time of Closing.

Dated: _____

Signed: _____

Witness (If Purchaser is an Individual)

Print the name of Purchaser

Print Name of Witness

If Purchaser is a corporation, print name and title of Authorized Signing Officer

References in this Exhibit "E" to "£" are to United Kingdom pounds.

SCHEDULE 3.1(g)
Capitalization

Issued and outstanding shares = 108,508,117

Shares issuable pursuant to incentive stock options = 3,800,000

Shares issuable pursuant to common share purchase warrants = 2,759,798

Shares issuable to developer pursuant to Restricted Stock Agreement = 500,000

Shares issuable pursuant to a private placement at CDN\$0.12 per share = 5,538,750

Shares issuable pursuant to a private placement at CDN\$0.124 per share = 11,122,580

Shares issuable pursuant to a private placement at CDN\$0.143561 per share = 1,000,000

SCHEDULE 3.1(hh)
Existing Indebtedness

MCW Energy Group Limited
Loan Summary Schedule
As of March 31, 2016

Vendor	Amount	Term
B&N Bank	3,060,993.00	18-Mar-16
BK Peterson	75,549.00	15-Oct-17
Equipment Funding - Bank of the West	210,760.00	17-Apr-20
Equipment Funding - Wells Fargo	42,159.00	20-Apr-20
Strategic IR	84,323.00	6-Aug-18
Altlands Corp	3,624,598.00	9-Feb-17
Temple Mountain	10,250,685.00	8-Sep-20
Donald Cameron	755,341.00	15-Oct-17
Rocky Romano	151,965.00	12-Dec-15
Regular Trade Payables	668,869.05	
	<u>18,925,242.05</u>	

LOAN AGREEMENT AMENDMENT NO. 3

July 28, 2016

Altlands Overseas Corp.
Office 101
1 ½ Miles Northern Highway
Belize City, Belize

We refer to the loan agreement dated February 9, 2015 between Altlands Overseas Corp. (the “**Lender**”) and MCW Energy CA, Inc., as amended on July 21, 2015 and February 1, 2016 (the “**Agreement**”). For good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties agree to amend the Agreement as follows (the “**Amending Agreement**”). Capitalized terms not otherwise defined shall have the same meaning ascribed to them in the Agreement.

1. The following shall be inserted on the top of page one (1) of the Agreement:

“UNLESS PERMITTED UNDER SECURITIES LEGISLATION, THE HOLDER OF THIS SECURITY MUST NOT TRADE THE SECURITY BEFORE November 29, 2016.”

2. The following Section 5.3 shall be inserted in the Agreement:

“5.3 Conversion of Loan. Upon and subject to the terms and conditions set out in this Section 5.3, the Lender shall have the right, at its option at any time, and from time to time, prior to the close of business on the Repayment Date (the “**Time of Expiry**”) to convert, in whole or in part, the Loan (excluding interest) into fully paid and non-assessable common shares (the “**Common Shares**”) in the capital of MCW Energy Group Limited (“MCW”), at \$0.15 (the “**Conversion Price**”) on the Date of Conversion (defined below). The Conversion Price shall be subject to customary adjustment in the event of corporate reorganization, merger, dissolution of MCW, or subdivision, consolidation or dividend of Common Shares, or change or reclassification of Common Shares. The right of conversion set forth herein shall extend only to the maximum number of whole Common Shares into which the Loan may be converted. If the Lender wishes to convert the Loan into Common Shares, the Lender shall, prior to the Time of Expiry, send written notice, duly executed by the Lender or its legal representative or attorney duly appointed by an instrument in writing in form and executed in a manner satisfactory to the Borrower, exercising its right to convert the Loan into Common Shares, to the Borrower. Thereupon, the Lender or, subject to the payment of all applicable security transfer taxes or other governmental charges by the Lender, its nominee(s) or assignee(s), shall be entitled to be entered in the books of MCW (as of the Date of Conversion) as the holder of the number of Common Shares into which the Loan is converted and, as soon as practicable thereafter, the Borrower shall deliver to the Lender or, subject as aforesaid, its nominee(s), or assignee(s), a certificate or certificates for such Common Shares. For the purposes of this Section 5.3, the Lender shall be deemed to be entitled to conversion of the Loan then outstanding to Common Shares on the date (herein called the “**Date of Conversion**”) on which the notice contemplated by this Section 5.3) is actually received by the Borrower. At the time of conversion, the Lender shall be entitled to receive accrued and unpaid interest in respect thereof up to the Date of Conversion. Common Shares issued upon conversion of the Loan by the Lender shall only be entitled to receive dividends declared in favour of shareholders of record on or after the Date of Conversion, from which applicable date such Common Shares will for all purposes be and be deemed to be issued and outstanding as fully paid and non-assessable Common Shares. MCW shall not be required to issue fractional Common Shares upon the conversion of the Loan into Common Shares pursuant to this Section 5.3. If any fractional interest in a Common Share would, except for the provisions of this Section 5.3, be deliverable upon the conversion of the Loan, the MCW shall, in lieu of issuing any such fractional interest, satisfy such fractional interest by either, at its option, (i) issuing to the Lender one full Common Share and delivering a certificate representing such Common Share to the Lender, or (ii) paying, or causing the Borrower to pay, to the Lender an amount of lawful money of United States equal to the principal amount of the Loan remaining outstanding after so much of the Loan as may be converted into a whole number of Common Shares has been so converted. Upon conversion of the entire Loan, if applicable, pursuant to this Section 5.3 and payment of all accrued and unpaid interest, this Loan shall be cancelled and shall be of no further force or effect. Any Common Shares issued upon conversion of the Loan before November 29, 2016, shall bear the following legend:

“UNLESS PERMITTED UNDER SECURITIES LEGISLATION, THE HOLDER OF THIS SECURITY MUST NOT TRADE THE SECURITY BEFORE NOVEMBER 29, 2016.””

All other terms of the Agreement not contradicting with the provisions of this Amending Agreement shall continue in full force and effect.

This Amending Agreement is subject to (i) all necessary, director, shareholder, regulatory and stock exchange approvals, and (iii) compliance with applicable securities laws.

This Amending Agreement may be executed in two or more counterparts, each of which is deemed to be an original and all of which will constitute one agreement, effective as of the date given above. If you are in agreement with the terms and conditions of this Amending Agreement, please sign below and return one copy to our attention.

Yours truly,

MCW ENERGY CA, INC.

Per: /s/ Aleksandr Blyumkin
Name: Aleksandr Blyumkin
Title Director

SECTION 5.3 OF THE AGREEMENT ACKNOWLEDGED AND AGREED TO:

MCW ENERGY GROUP LIMITED

Per: /s/ Aleksandr Blyumkin
Name: Aleksandr Blyumkin
Title Director

AGREED AND ACCEPTED this _____ day of July, 2016.

ATLANDS OVERSEAS CORP.

Per: /s/ Huee Abos
Name: Huee Abos
Title President

**DEBT CONVERSION AGREEMENT
(United States Lender)**

Made as of the 18th day of May, 2017.

B E T W E E N :

PETROTEQ ENERGY INC.
(the “**Company**”)

OF THE FIRST PART;

- and -

MCW ENERGY CA, INC.
(the “**Subsidiary**”)

OF THE SECOND PART;

- and -

ALEKSANDR BLYUMKIN
(the “**Lender**”)

OF THE THIRD PART;

WHEREAS the Subsidiary, a wholly-owned subsidiary of the Company, is indebted to the Lender in the aggregate amount of US\$115,000 plus accrued and unpaid interest pursuant to the promissory note attached hereto as Schedule “A” (the “**Debt**”);

AND WHEREAS the Lender has agreed to accept 325,779 common shares of the Company (the “**Debt Shares**”) in full and final settlement of the Debt including accrued and unpaid interest;

NOW THEREFORE THIS AGREEMENT WITNESSETH THAT for and in consideration of the mutual premises and agreements hereinafter contained, the sum of \$1.00 now paid by each party to the other and other good and valuable consideration (the receipt and sufficiency of which is hereby irrevocably acknowledged), the parties hereto hereby agree as follows:

1. Subject to the terms and conditions hereafter contained, the Lender agrees to accept, in full and final satisfaction of the Debt, the Debt Shares. The Lender further agrees that, upon the issuance and delivery of the Debt Shares to the Lender, the Lender shall fully release the Subsidiary in respect of the Debt and acknowledges the full repayment thereof by the Subsidiary.
2. The issuance of the Debt Shares shall be conditional on the (i) the issuance of the Debt Shares being exempt from the prospectus and registration requirements under applicable securities laws, the United States Securities Act of 1933, as amended (the “**U.S. Securities Act**”) and applicable state securities laws, and (ii) approval of this Agreement by the directors of the Company, and (iii) the Company receiving final approval from the TSX Venture Exchange (the “**TSXV**”) or any other applicable stock exchange for the issuance and listing of the Debt Shares.
3. The closing of this Agreement (the “**Closing**”) shall take place no later than thirty (30) business days subsequent to the date hereof, or such later time the parties hereto agree.

4. The Company hereby represents and warrants to and covenants with the Lender as follows, and acknowledges that the Lender is relying thereon, both at the date hereof and at the Closing:
- (a) The execution and delivery of this Agreement is within the corporate power and authority of the Company and has been duly authorized by all necessary corporate action and this Agreement constitutes a valid and binding obligation of the Company enforceable against it and its successors in accordance with its terms, subject to the usual qualification as to enforceability being limited by bankruptcy and other laws effecting the enforcement of creditors' rights generally, equitable remedies being discretionary remedies and rights to indemnification and contribution being limited by applicable laws.
 - (b) None of the execution and delivery of this Agreement, the consummation of the transactions contemplated hereby or the fulfillment of or compliance with the terms and provisions hereof do or will, with the giving of notice, or the lapse of time or both (i) to the best of the knowledge of the Company, violate any provision of any law or administrative regulation or any administrative orders, award, judgment or decree applicable to the Company, (ii) conflict with any of the terms, conditions or provisions of the memorandum of association or articles of the Company or any resolution of its directors or shareholders, or (iii) conflict with, result in a breach or constitute a default under, or accelerate or permit the acceleration of the performance required by, any material agreement, covenant, undertaking, commitment, instrument, judgment, order, decree or award to which the Company is a party or by which it is bound or to which the property of it is subject.
 - (c) The Debt Shares will, upon issuance and delivery, be validly issued and outstanding as fully paid and non-assessable common shares.
 - (d) It is a company duly amalgamated and organized under the laws of the Province of Ontario and is presently in good standing thereunder with full corporate power to own its properties and carry on its business as now being conducted.
5. The Subsidiary hereby represents and warrants to and covenants with the Lender as follows, and acknowledges that the Lender is relying thereon, both at the date hereof and at the Closing:
- (a) The execution and delivery of this Agreement is within the corporate power and authority of the Subsidiary and has been duly authorized by all necessary corporate action and this Agreement constitutes a valid and binding obligation of the Subsidiary enforceable against it and its successors in accordance with its terms, subject to the usual qualification as to enforceability being limited by bankruptcy and other laws effecting the enforcement of creditors' rights generally, equitable remedies being discretionary remedies and rights to indemnification and contribution being limited by applicable laws.
 - (b) None of the execution and delivery of this Agreement, the consummation of the transactions contemplated hereby or the fulfillment of or compliance with the terms and provisions hereof do or will, with the giving of notice, or the lapse of time or both (i) to the best of the knowledge of the Subsidiary, violate any provision of any law or administrative regulation or any administrative orders, award, judgment or decree applicable to the Subsidiary, (ii) conflict with any of the terms, conditions or provisions of the memorandum of association or articles of the Subsidiary or any resolution of its directors or shareholders, or (iii) conflict with, result in a breach or constitute a default under, or accelerate or permit the acceleration of the performance required by, any material agreement, covenant, undertaking, commitment, instrument, judgment, order, decree or award to which the Subsidiary is a party or by which it is bound or to which the property of it is subject.
 - (c) It is a company duly organized under the laws of the State of California and is presently in good standing thereunder with full corporate power to own its properties and carry on its business as now being conducted.

6. The Lender hereby represents and warrants to and covenants with the Company and the Subsidiary as follows, and acknowledges that the Company and the Subsidiary are relying thereon, both at the date hereof and at the Closing:
- (a) The Lender is a resident in the jurisdiction set out on Schedule “B”, attached hereto. Such address was not created and is not used solely for the purpose of acquiring the Debt Shares and the Lender was solicited to purchase the Debt Shares in such jurisdiction.
 - (b) The Lender has properly completed, executed and delivered to the Corporation Schedule “B”, attached hereto and the information contained therein is true and correct.
 - (c) The Lender acknowledges that: (i) the Debt Shares have not been and will not be registered under the U.S. Securities Act or the securities laws of any state of the United States, and (ii) the offer and sale of Debt Shares contemplated hereby is being made in reliance on an exemption from such registration requirements in reliance on Rule 506(b) of Regulation D and/or Section 4(a)(2) of the U.S. Securities Act.
 - (d) The information, representations, warranties and covenants contained herein and in Schedule “B” will be true and correct both as of the date of execution of this Agreement and as of the time of Closing.
 - (e) The execution and delivery of this Agreement, the performance and compliance with the terms hereof, the issuance of the Debt Shares and the completion of the transactions described herein by the Lender will not result in any material breach of, or be in conflict with or constitute a material default under, or create a state of facts which, after notice or lapse of time, or both, would constitute a material default under any term or provision of the constating documents, by-laws or resolutions of the Lender, applicable securities laws or any other laws applicable to the Lender, any agreement to which the Lender is a party, or any judgment, decree, order, statute, rule or regulation applicable to the Lender.
 - (f) The Lender is acquiring the Debt Shares as principal for its own account and not for the benefit of any other person (within the meaning of applicable securities laws) and not with a view to the resale or distribution of all or any of the Debt Shares.
 - (g) This Agreement has been duly authorized, executed and delivered by, and constitutes a legal, valid and binding agreement of, the Lender. This Agreement is enforceable in accordance with its terms against the Lender.
 - (h) If the Lender is (i) a corporation, it is duly incorporated and is validly subsisting under the laws of its jurisdiction of incorporation and has all requisite legal and corporate power and authority to execute and deliver this Agreement, to acquire the Debt Shares as contemplated herein and to carry out and perform its obligations under the terms of this Agreement, (ii) a partnership, syndicate or other form of unincorporated organization, it has the necessary legal capacity and authority to execute and deliver this Agreement and to observe and perform its covenants and obligations hereunder and has obtained all necessary approvals in respect thereof, or (iii) an individual, it is of the full age of majority and is legally competent to execute this Agreement and to observe and perform his or her covenants and obligations hereunder.
 - (i) If required by applicable securities laws or the Company, the Lender will execute, deliver and file or assist the Company in filing such reports, undertakings and other documents with respect to the issue of the Debt Shares as may be required by any securities commission, stock exchange or other regulatory authority.
 - (j) The Lender has been advised to consult their own legal advisors with respect to trading in the Debt Shares and with respect to the resale restrictions imposed by applicable securities laws of the jurisdiction in which the Lender resides and other applicable securities laws, and acknowledges that no representation has been made respecting the applicable hold periods imposed by applicable securities laws or other resale restrictions applicable to such securities which restrict the ability of the Lender to resell such securities, that the Lender is solely responsible to find out what these restrictions are and the Lender is solely responsible (and the Company is in no way responsible) for compliance with applicable resale restrictions and the Lender is aware that it may not be able to resell such securities except in accordance with limited exemptions under applicable securities laws.

- (k) The Lender has not received or been provided with a prospectus or offering memorandum, within the meaning of applicable securities laws, or any sales or advertising literature in connection with the issuance of the Debt Shares to the Lender and the Lender's decision to acquire the Debt Shares was not based upon, and the Lender has not relied upon, any verbal or written representations as to facts made by or on behalf of the Company.
- (l) The Lender is not acquiring the Debt Shares with knowledge of material information concerning the Company which has not been generally disclosed.
- (m) No person has made any written or oral representations (i) that any person will resell or repurchase the Debt Shares, or (ii) as to the future price or value of the Debt Shares.
- (n) It has not purchased the Debt Shares as a result of any form of general solicitation or general advertising (as such terms are used in Regulation D under the U.S. Securities Act), including, without limitation, advertisements, articles, notices or other communications published in any newspaper, magazine or similar media or on the internet, or broadcast over radio, internet, television or other form of telecommunications, or any seminar or meeting whose attendees have been invited by general solicitation or general advertising.

7. The Lender acknowledges and agrees as follows:

- (a) The Debt Shares have not been recommended by the United States Securities and Exchange Commission or by any state securities commission or regulatory authority.
- (b) The Debt Shares will be issued to the Lender as "restricted securities" (as defined in Rule 144(a)(3) under the U.S. Securities Act), and the Lender is not acquiring the Debt Shares with a view to any resale, distribution or other disposition of such securities in violation of United States federal or state securities laws. The Debt Shares shall be subject to additional statutory resale restrictions under applicable securities laws, and the Lender covenants that it will not resell the Debt Shares except in compliance with such laws. The Lender acknowledges that it is solely responsible (and the Company is in no way responsible) for such compliance, and it is the responsibility of the Lender to find out what those restrictions are and to comply with them before selling the Debt Shares.
- (c) The certificates representing the Debt Shares will bear legends substantially in the following form and with the necessary information inserted:

"UNLESS PERMITTED UNDER SECURITIES LEGISLATION, THE HOLDER OF THIS SECURITY MUST NOT TRADE THE SECURITY BEFORE <INSERT THE DATE THAT IS FOUR (4) MONTHS AND ONE (1) DAY AFTER THE DATE OF CLOSING>."

"THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "U.S. SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. THE HOLDER HEREOF, BY PURCHASING SUCH SECURITIES, AGREES FOR THE BENEFIT OF THE COMPANY THAT SUCH SECURITIES MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED, DIRECTLY OR INDIRECTLY, ONLY (A) TO THE COMPANY; (B) OUTSIDE THE UNITED STATES IN ACCORDANCE WITH RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT AND IN ACCORDANCE WITH ALL LOCAL LAWS AND REGULATIONS; (C) IN ACCORDANCE WITH THE EXEMPTION FROM REGISTRATION UNDER THE U.S. SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER, IF AVAILABLE, AND IN COMPLIANCE WITH ANY APPLICABLE STATE SECURITIES LAWS; OR (D) IN A TRANSACTION THAT DOES NOT REQUIRE REGISTRATION UNDER THE U.S. SECURITIES ACT AND ANY APPLICABLE STATE SECURITIES LAWS, AND, IN THE CASE OF CLAUSE (C) OR (D), THE SELLER FURNISHES TO THE COMPANY AN OPINION OF COUNSEL OF RECOGNIZED STANDING IN FORM AND SUBSTANCE SATISFACTORY TO THE COMPANY TO SUCH EFFECT. THE PRESENCE OF THIS LEGEND MAY IMPAIR THE ABILITY OF THE HOLDER HEREOF TO EFFECT "GOOD DELIVERY" OF THE SECURITIES REPRESENTED HEREBY ON A CANADIAN STOCK EXCHANGE."

and subject to the policies of the TSXV may bear a legend substantially in the following form and with the necessary information inserted:

“WITHOUT PRIOR WRITTEN APPROVAL OF TSX VENTURE EXCHANGE AND COMPLIANCE WITH ALL APPLICABLE SECURITIES LEGISLATION, THE SECURITIES REPRESENTED BY THIS CERTIFICATE MAY NOT BE SOLD, TRANSFERRED, HYPOTHECATED OR OTHERWISE TRADED ON OR THROUGH THE FACILITIES OF TSX VENTURE EXCHANGE OR OTHERWISE IN CANADA OR TO OR FOR THE BENEFIT OF A CANADIAN RESIDENT UNTIL <INSERT THE DATE THAT IS FOUR (4) MONTHS AND ONE (1) DAY AFTER THE DATE OF CLOSING>.”

- (d) The Lender acknowledges that:
- (i) the Company has determined that it has ceased to qualify as a “foreign private issuer” (as such term is defined in Rule 405 under the U.S. Securities Act and Rule 3b-4 under the United States Securities Exchange Act of 1934, as amended) as of February 28, 2017 (being the last business day of its most recently completed second fiscal quarter, and hereinafter referred to as the “**Determination Date**”), and, accordingly, the Company will be deemed to be a U.S. domestic issuer for the purposes of U.S. federal securities laws and cease to be eligible to use the forms and rules designated for foreign private issuers under U.S. federal securities laws after August 31, 2017 (being the end of Company’s current fiscal year, and hereinafter referred to as the “**Fiscal Year End Date**”);
 - (ii) Rule 905 of Regulation S under the U.S. Securities Act (“**Rule 905**”) provides in material part that any “restricted securities” that are equity securities of a U.S. domestic issuer will continue to be deemed to be restricted securities, notwithstanding that they were acquired in a resale transaction made pursuant to Rule 901 or Rule 904 of Regulation S under the U.S. Securities Act;
 - (iii) As interpreted by Staff at the United States Securities and Exchange Commission (“**SEC Staff**”), Rule 905 applies to equity securities that, at the time of issuance, were those of a U.S. domestic issuer, and, in the absence of any additional guidance from SEC Staff, it remains unclear whether the Company will be considered for such purposes to have become a U.S. domestic issuer on the Determination Date or on the day next following the Fiscal Year End Date;
 - (iv) if the Company is deemed to have become a U.S. domestic issuer on the Determination Date for the purposes of Rule 905, the Debt Shares will continue to be “restricted securities” if they are resold in an “offshore transaction” pursuant to Rule 904 of Regulation S, with the result that it would not be possible to make “good delivery” of the Debt Shares on the TSXV or any other Canadian stock exchange;

- (v) A. the Company may be deemed to be an issuer that at a previous time has been an issuer with no or nominal operations and no or nominal assets other than cash and cash equivalents (a “**Shell Company**”), B. if the Company is deemed to have been a Shell Company at any time previously, Rule 144 under the U.S. Securities Act may not be available for resales of the Debt Shares except in very limited circumstances, and C. the Company is not obligated to make Rule 144 under the U.S. Securities Act available for resales of the Debt Shares.
 - (e) The Lender shall execute, deliver, file and otherwise assist the Company and the Subsidiary with filing all documentation required by the applicable securities laws to permit the issuance of the Debt Shares.
 - (f) The Company and the Subsidiary are relying on the representations, warranties and covenants contained herein and in Schedule “B”, attached hereto, to determine the Lender’s eligibility to acquire the Debt Shares under applicable securities laws and the Lender agrees to indemnify the Company and the Subsidiary and their directors and officers, employees and agents against all losses, claims, costs, expenses, damages or liabilities which any of them may suffer or incur as a result of or arising from reliance thereon. The Lender undertakes to immediately notify the Company and the Subsidiary of any change in any statement or other information relating to the Lender set forth herein and in Schedule “B”, attached hereto, which takes place prior to the time of Closing.
 - (g) The Lender is responsible for obtaining such legal and tax advice as it considers appropriate in connection with the execution, delivery and performance of this Agreement.
 - (h) The Lender is knowledgeable of securities legislation in its jurisdiction of residence that may have application over the Lender or transactions contemplated herein which would apply to this Agreement and is satisfied that the Company, the Subsidiary and the Lender will not breach such laws by completing the transactions contemplated hereby.
 - (i) The issuance of the Debt Shares by the Company to the Lender requires the final approval of the TSXV.
7. All of the covenants, representations, and warranties contained herein and in Schedule “B”, attached hereto, shall survive the issuance of the Debt Shares hereunder.
 8. The Lender hereby consents to (a) the disclosure of Personal Information by the Company to the Exchange (as defined in Appendix 6A of the TSXV) pursuant to TSXV Form 4E *Shares for Debt Filing Form* (“**Form 4E**”), and (b) the collection, use and disclosure of Personal Information by the Exchange for the purposes described in Appendix 6A of the TSXV or as otherwise identified by the Exchange, from time to time. “**Personal Information**” means any information about an identifiable individual, and includes the information contained in the tables, as applicable, found in Form 4E.
 9. Time shall in all respects be of the essence of this Agreement.
 10. This Agreement shall be governed by and construed in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein and the parties hereby irrevocably attorn to the jurisdiction of the courts of the Province of Ontario.
 11. Unless otherwise specified, all references to \$ refer to lawful currency of the United States.
 12. The parties agree to execute and deliver to each other such further instruments and other written assurances and to do or cause to be done such further acts or things as may be necessary or convenient to carry out and give effect to the intent of this Agreement or as any of the parties may reasonably request in order to carry out the transactions contemplated herein.

13. This Agreement sets forth the entire agreement among the parties hereto pertaining to the specific subject matter hereof and replaces and supersedes all prior agreements, understandings, negotiations and discussions, whether oral or written, of the parties hereto, and there are no warranties, representations or other agreements, whether oral or written, express or implied, statutory or otherwise, between the parties hereto in connection with the subject matter hereof except as specifically set forth herein. No supplement, modification, waiver or termination of this Agreement shall be binding unless executed in writing by the party to be bound thereby.
14. In case any one or more of the provisions contained in this Agreement should be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained in this Agreement shall not in any way be affected or impaired thereby, and any such invalid, illegal or unenforceable provision shall be deemed to be severable, and the remainder of the provisions of this Agreement shall nevertheless remain in full force and effect.
15. This Agreement may be executed by the parties hereto in separate counterparts or duplicates each of which when so executed and delivered shall be an original, but all such counterparts or duplicates shall together constitute one and the same instrument. A signed facsimile, portable document format (PDF) or telecopied copy of this Agreement shall be effective and valid proof of execution and delivery.
16. This Agreement shall be binding upon and shall enure to the benefit of the parties hereto and their respective heirs, executors, administrators, successors, assigns and legal representatives. This Agreement may not be assigned without the prior written consent of the parties, which consent may not be unreasonably withheld.

[Signature page follows]

SCHEDULE "A"
PROMISSORY NOTE

SCHEDULE "B"

U.S. ACCREDITED INVESTOR CERTIFICATE

DEBT CONVERSION AGREEMENT
(United States Lender)

Made as of the 18th day of May, 2017.

B E T W E E N :

PETROTEQ ENERGY INC.
(the “**Company**”)

OF THE FIRST PART;

- and -

MCW ENERGY CA, INC.
(the “**Subsidiary**”)

OF THE SECOND PART;

- and -

PALMIRA ASSOCIATES, INC.
(the “**Lender**”)

OF THE THIRD PART;

WHEREAS the Subsidiary, a wholly-owned subsidiary of the Company, is indebted to the Lender in the principal amount of US\$27,250.00 plus accrued and unpaid interest pursuant to a promissory note, which for greater certainty is equal to US\$28,020.42 including accrued and unpaid interest up to and including May 19, 2017, attached hereto as Schedule “A” (the “**Debt**”);

AND WHEREAS the Lender has agreed to accept 79,377 common shares of the Company (the “**Debt Shares**”) at a deemed price per share of US\$0.353 (CAD\$0.48 based on the Bank of Canada daily noon exchange rate on the date hereof) in full and final settlement of the Debt;

NOW THEREFORE THIS AGREEMENT WITNESSETH THAT for and in consideration of the mutual premises and agreements hereinafter contained, the sum of \$1.00 now paid by each party to the other and other good and valuable consideration (the receipt and sufficiency of which is hereby irrevocably acknowledged), the parties hereto hereby agree as follows:

1. Subject to the terms and conditions hereafter contained, the Lender agrees to accept, in full and final satisfaction of the Debt, the Debt Shares. The Lender further agrees that, upon the issuance and delivery of the Debt Shares to the Lender, the Lender shall fully release the Subsidiary in respect of the Debt and acknowledges the full repayment thereof by the Subsidiary. For greater certainty, the Lender irrevocably waives any and all rights to all interest on or after May 20, 2017.
2. The issuance of the Debt Shares shall be conditional on the (i) the issuance of the Debt Shares being exempt from the prospectus and registration requirements under applicable securities laws, the United States Securities Act of 1933, as amended (the “**U.S. Securities Act**”) and applicable state securities laws, and (ii) approval of this Agreement by the directors of the Company, and (iii) the Company receiving final approval from the TSX Venture Exchange (the “**TSXV**”) or any other applicable stock exchange for the issuance and listing of the Debt Shares.
3. The closing of this Agreement (the “**Closing**”) shall take place no later than thirty (30) business days subsequent to the date the date hereof, or such later time the parties hereto agree.

4. The Company hereby represents and warrants to and covenants with the Lender as follows, and acknowledges that the Lender is relying thereon, both at the date hereof and at the Closing:
- (a) The execution and delivery of this Agreement is within the corporate power and authority of the Company and has been duly authorized by all necessary corporate action and this Agreement constitutes a valid and binding obligation of the Company enforceable against it and its successors in accordance with its terms, subject to the usual qualification as to enforceability being limited by bankruptcy and other laws effecting the enforcement of creditors' rights generally, equitable remedies being discretionary remedies and rights to indemnification and contribution being limited by applicable laws.
 - (b) None of the execution and delivery of this Agreement, the consummation of the transactions contemplated hereby or the fulfillment of or compliance with the terms and provisions hereof do or will, with the giving of notice, or the lapse of time or both (i) to the best of the knowledge of the Company, violate any provision of any law or administrative regulation or any administrative orders, award, judgment or decree applicable to the Company, (ii) conflict with any of the terms, conditions or provisions of the memorandum of association or articles of the Company or any resolution of its directors or shareholders, or (iii) conflict with, result in a breach or constitute a default under, or accelerate or permit the acceleration of the performance required by, any material agreement, covenant, undertaking, commitment, instrument, judgment, order, decree or award to which the Company is a party or by which it is bound or to which the property of it is subject.
 - (c) The Debt Shares will, upon issuance and delivery, be validly issued and outstanding as fully paid and non-assessable common shares.
 - (d) It is a company duly amalgamated and organized under the laws of the Province of Ontario and is presently in good standing thereunder with full corporate power to own its properties and carry on its business as now being conducted.
5. The Subsidiary hereby represents and warrants to and covenants with the Lender as follows, and acknowledges that the Lender is relying thereon, both at the date hereof and at the Closing:
- (a) The execution and delivery of this Agreement is within the corporate power and authority of the Subsidiary and has been duly authorized by all necessary corporate action and this Agreement constitutes a valid and binding obligation of the Subsidiary enforceable against it and its successors in accordance with its terms, subject to the usual qualification as to enforceability being limited by bankruptcy and other laws effecting the enforcement of creditors' rights generally, equitable remedies being discretionary remedies and rights to indemnification and contribution being limited by applicable laws.
 - (b) None of the execution and delivery of this Agreement, the consummation of the transactions contemplated hereby or the fulfillment of or compliance with the terms and provisions hereof do or will, with the giving of notice, or the lapse of time or both (i) to the best of the knowledge of the Subsidiary, violate any provision of any law or administrative regulation or any administrative orders, award, judgment or decree applicable to the Subsidiary, (ii) conflict with any of the terms, conditions or provisions of the memorandum of association or articles of the Subsidiary or any resolution of its directors or shareholders, or (iii) conflict with, result in a breach or constitute a default under, or accelerate or permit the acceleration of the performance required by, any material agreement, covenant, undertaking, commitment, instrument, judgment, order, decree or award to which the Subsidiary is a party or by which it is bound or to which the property of it is subject.
 - (c) It is a company duly organized under the laws of the State of California and is presently in good standing thereunder with full corporate power to own its properties and carry on its business as now being conducted.

6. The Lender hereby represents and warrants to and covenants with the Company and the Subsidiary as follows, and acknowledges that the Company and the Subsidiary are relying thereon, both at the date hereof and at the Closing:
- (a) The Lender is a resident in the jurisdiction set out on Schedule “B”, attached hereto. Such address was not created and is not used solely for the purpose of acquiring the Debt Shares and the Lender was solicited to purchase the Debt Shares in such jurisdiction.
 - (b) The Lender has properly completed, executed and delivered to the Corporation Schedule “B”, attached hereto and the information contained therein is true and correct.
 - (c) The Lender acknowledges that: (i) the Debt Shares have not been and will not be registered under the U.S. Securities Act or the securities laws of any state of the United States, and (ii) the offer and sale of Debt Shares contemplated hereby is being made in reliance on an exemption from such registration requirements in reliance on Rule 506(b) of Regulation D and/or Section 4(a)(2) of the U.S. Securities Act.
 - (d) The information, representations, warranties and covenants contained herein and in Schedule “B” will be true and correct both as of the date of execution of this Agreement and as of the time of Closing.
 - (e) The execution and delivery of this Agreement, the performance and compliance with the terms hereof, the issuance of the Debt Shares and the completion of the transactions described herein by the Lender will not result in any material breach of, or be in conflict with or constitute a material default under, or create a state of facts which, after notice or lapse of time, or both, would constitute a material default under any term or provision of the constating documents, by-laws or resolutions of the Lender, applicable securities laws or any other laws applicable to the Lender, any agreement to which the Lender is a party, or any judgment, decree, order, statute, rule or regulation applicable to the Lender.
 - (f) The Lender is acquiring the Debt Shares as principal for its own account and not for the benefit of any other person (within the meaning of applicable securities laws) and not with a view to the resale or distribution of all or any of the Debt Shares.
 - (g) This Agreement has been duly authorized, executed and delivered by, and constitutes a legal, valid and binding agreement of, the Lender. This Agreement is enforceable in accordance with its terms against the Lender.
 - (h) If the Lender is (i) a corporation, it is duly incorporated and is validly subsisting under the laws of its jurisdiction of incorporation and has all requisite legal and corporate power and authority to execute and deliver this Agreement, to acquire the Debt Shares as contemplated herein and to carry out and perform its obligations under the terms of this Agreement, (ii) a partnership, syndicate or other form of unincorporated organization, it has the necessary legal capacity and authority to execute and deliver this Agreement and to observe and perform its covenants and obligations hereunder and has obtained all necessary approvals in respect thereof, or (iii) an individual, it is of the full age of majority and is legally competent to execute this Agreement and to observe and perform his or her covenants and obligations hereunder.
 - (i) If required by applicable securities laws or the Company, the Lender will execute, deliver and file or assist the Company in filing such reports, undertakings and other documents with respect to the issue of the Debt Shares as may be required by any securities commission, stock exchange or other regulatory authority.

- (j) The Lender has been advised to consult their own legal advisors with respect to trading in the Debt Shares and with respect to the resale restrictions imposed by applicable securities laws of the jurisdiction in which the Lender resides and other applicable securities laws, and acknowledges that no representation has been made respecting the applicable hold periods imposed by applicable securities laws or other resale restrictions applicable to such securities which restrict the ability of the Lender to resell such securities, that the Lender is solely responsible to find out what these restrictions are and the Lender is solely responsible (and the Company is in no way responsible) for compliance with applicable resale restrictions and the Lender is aware that it may not be able to resell such securities except in accordance with limited exemptions under applicable securities laws.
- (k) The Lender has not received or been provided with a prospectus or offering memorandum, within the meaning of applicable securities laws, or any sales or advertising literature in connection with the issuance of the Debt Shares to the Lender and the Lender's decision to acquire the Debt Shares was not based upon, and the Lender has not relied upon, any verbal or written representations as to facts made by or on behalf of the Company.
- (l) The Lender is not acquiring the Debt Shares with knowledge of material information concerning the Company which has not been generally disclosed.
- (m) No person has made any written or oral representations (i) that any person will resell or repurchase the Debt Shares, or (ii) as to the future price or value of the Debt Shares.
- (n) It has not purchased the Debt Shares as a result of any form of general solicitation or general advertising (as such terms are used in Regulation D under the U.S. Securities Act), including, without limitation, advertisements, articles, notices or other communications published in any newspaper, magazine or similar media or on the internet, or broadcast over radio, internet, television or other form of telecommunications, or any seminar or meeting whose attendees have been invited by general solicitation or general advertising.

7. The Lender acknowledges and agrees as follows:

- (a) The Debt Shares have not been recommended by the United States Securities and Exchange Commission or by any state securities commission or regulatory authority.
- (b) The Debt Shares will be issued to the Lender as "restricted securities" (as defined in Rule 144(a)(3) under the U.S. Securities Act), and the Lender is not acquiring the Debt Shares with a view to any resale, distribution or other disposition of such securities in violation of United States federal or state securities laws. The Debt Shares shall be subject to additional statutory resale restrictions under applicable securities laws, and the Lender covenants that it will not resell the Debt Shares except in compliance with such laws. The Lender acknowledges that it is solely responsible (and the Company is in no way responsible) for such compliance, and it is the responsibility of the Lender to find out what those restrictions are and to comply with them before selling the Debt Shares.
- (c) The certificates representing the Debt Shares will bear legends substantially in the following form and with the necessary information inserted:

"UNLESS PERMITTED UNDER SECURITIES LEGISLATION, THE HOLDER OF THIS SECURITY MUST NOT TRADE THE SECURITY BEFORE <INSERT THE DATE THAT IS FOUR (4) MONTHS AND ONE (1) DAY AFTER THE DATE OF CLOSING>."

“THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “U.S. SECURITIES ACT”), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. THE HOLDER HEREOF, BY PURCHASING SUCH SECURITIES, AGREES FOR THE BENEFIT OF THE COMPANY THAT SUCH SECURITIES MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED, DIRECTLY OR INDIRECTLY, ONLY (A) TO THE COMPANY; (B) OUTSIDE THE UNITED STATES IN ACCORDANCE WITH RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT AND IN ACCORDANCE WITH ALL LOCAL LAWS AND REGULATIONS; (C) IN ACCORDANCE WITH THE EXEMPTION FROM REGISTRATION UNDER THE U.S. SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER, IF AVAILABLE, AND IN COMPLIANCE WITH ANY APPLICABLE STATE SECURITIES LAWS; OR (D) IN A TRANSACTION THAT DOES NOT REQUIRE REGISTRATION UNDER THE U.S. SECURITIES ACT AND ANY APPLICABLE STATE SECURITIES LAWS, AND, IN THE CASE OF CLAUSE (C) OR (D), THE SELLER FURNISHES TO THE COMPANY AN OPINION OF COUNSEL OF RECOGNIZED STANDING IN FORM AND SUBSTANCE SATISFACTORY TO THE COMPANY TO SUCH EFFECT. THE PRESENCE OF THIS LEGEND MAY IMPAIR THE ABILITY OF THE HOLDER HEREOF TO EFFECT “GOOD DELIVERY” OF THE SECURITIES REPRESENTED HEREBY ON A CANADIAN STOCK EXCHANGE.”

and subject to the policies of the TSXV may bear a legend substantially in the following form and with the necessary information inserted:

“WITHOUT PRIOR WRITTEN APPROVAL OF TSX VENTURE EXCHANGE AND COMPLIANCE WITH ALL APPLICABLE SECURITIES LEGISLATION, THE SECURITIES REPRESENTED BY THIS CERTIFICATE MAY NOT BE SOLD, TRANSFERRED, HYPOTHECATED OR OTHERWISE TRADED ON OR THROUGH THE FACILITIES OF TSX VENTURE EXCHANGE OR OTHERWISE IN CANADA OR TO OR FOR THE BENEFIT OF A CANADIAN RESIDENT UNTIL <INSERT THE DATE THAT IS FOUR (4) MONTHS AND ONE (1) DAY AFTER THE DATE OF CLOSING>.”

- (d) The Lender acknowledges that:
- (i) the Company has determined that it has ceased to qualify as a “foreign private issuer” (as such term is defined in Rule 405 under the U.S. Securities Act and Rule 3b-4 under the United States Securities Exchange Act of 1934, as amended) as of February 28, 2017 (being the last business day of its most recently completed second fiscal quarter, and hereinafter referred to as the “**Determination Date**”), and, accordingly, the Company will be deemed to be a U.S. domestic issuer for the purposes of U.S. federal securities laws and cease to be eligible to use the forms and rules designated for foreign private issuers under U.S. federal securities laws after August 31, 2017 (being the end of Company’s current fiscal year, and hereinafter referred to as the “**Fiscal Year End Date**”);
 - (ii) Rule 905 of Regulation S under the U.S. Securities Act (“**Rule 905**”) provides in material part that any “restricted securities” that are equity securities of a U.S. domestic issuer will continue to be deemed to be restricted securities, notwithstanding that they were acquired in a resale transaction made pursuant to Rule 901 or Rule 904 of Regulation S under the U.S. Securities Act;
 - (iii) As interpreted by Staff at the United States Securities and Exchange Commission (“**SEC Staff**”), Rule 905 applies to equity securities that, at the time of issuance, were those of a U.S. domestic issuer, and, in the absence of any additional guidance from SEC Staff, it remains unclear whether the Company will be considered for such purposes to have become a U.S. domestic issuer on the Determination Date or on the day next following the Fiscal Year End Date;
 - (iv) if the Company is deemed to have become a U.S. domestic issuer on the Determination Date for the purposes of Rule 905, the Debt Shares will continue to be “restricted securities” if they are resold in an “offshore transaction” pursuant to Rule 904 of Regulation S, with the result that it would not be possible to make “good delivery” of the Debt Shares on the TSXV or any other Canadian stock exchange;

- (v) A. the Company may be deemed to be an issuer that at a previous time has been an issuer with no or nominal operations and no or nominal assets other than cash and cash equivalents (a “**Shell Company**”), B. if the Company is deemed to have been a Shell Company at any time previously, Rule 144 under the U.S. Securities Act may not be available for resales of the Debt Shares except in very limited circumstances, and C. the Company is not obligated to make Rule 144 under the U.S. Securities Act available for resales of the Debt Shares.
 - (e) The Lender shall execute, deliver, file and otherwise assist the Company and the Subsidiary with filing all documentation required by the applicable securities laws to permit the issuance of the Debt Shares.
 - (f) The Company and the Subsidiary are relying on the representations, warranties and covenants contained herein and in Schedule “B”, attached hereto, to determine the Lender’s eligibility to acquire the Debt Shares under applicable securities laws and the Lender agrees to indemnify the Company and the Subsidiary and their directors and officers, employees and agents against all losses, claims, costs, expenses, damages or liabilities which any of them may suffer or incur as a result of or arising from reliance thereon. The Lender undertakes to immediately notify the Company and the Subsidiary of any change in any statement or other information relating to the Lender set forth herein and in Schedule “B”, attached hereto, which takes place prior to the time of Closing.
 - (g) The Lender is responsible for obtaining such legal and tax advice as it considers appropriate in connection with the execution, delivery and performance of this Agreement.
 - (h) The Lender is knowledgeable of securities legislation in its jurisdiction of residence that may have application over the Lender or transactions contemplated herein which would apply to this Agreement and is satisfied that the Company, the Subsidiary and the Lender will not breach such laws by completing the transactions contemplated hereby.
 - (i) The issuance of the Debt Shares by the Company to the Lender requires the final approval of the TSXV.
7. All of the covenants, representations, and warranties contained herein and in Schedule “B”, attached hereto, shall survive the issuance of the Debt Shares hereunder.
 8. The Lender hereby consents to (a) the disclosure of Personal Information by the Company to the Exchange (as defined in Appendix 6A of the TSXV) pursuant to TSXV Form 4E *Shares for Debt Filing Form* (“**Form 4E**”), and (b) the collection, use and disclosure of Personal Information by the Exchange for the purposes described in Appendix 6A of the TSXV or as otherwise identified by the Exchange, from time to time. “**Personal Information**” means any information about an identifiable individual, and includes the information contained in the tables, as applicable, found in Form 4E.
 9. Time shall in all respects be of the essence of this Agreement.
 10. This Agreement shall be governed by and construed in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein and the parties hereby irrevocably attorn to the jurisdiction of the courts of the Province of Ontario.
 11. Unless otherwise specified, all references to \$ refer to lawful currency of the United States.
 12. The parties agree to execute and deliver to each other such further instruments and other written assurances and to do or cause to be done such further acts or things as may be necessary or convenient to carry out and give effect to the intent of this Agreement or as any of the parties may reasonably request in order to carry out the transactions contemplated herein.

13. This Agreement sets forth the entire agreement among the parties hereto pertaining to the specific subject matter hereof and replaces and supersedes all prior agreements, understandings, negotiations and discussions, whether oral or written, of the parties hereto, and there are no warranties, representations or other agreements, whether oral or written, express or implied, statutory or otherwise, between the parties hereto in connection with the subject matter hereof except as specifically set forth herein. No supplement, modification, waiver or termination of this Agreement shall be binding unless executed in writing by the party to be bound thereby.
14. In case any one or more of the provisions contained in this Agreement should be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained in this Agreement shall not in any way be affected or impaired thereby, and any such invalid, illegal or unenforceable provision shall be deemed to be severable, and the remainder of the provisions of this Agreement shall nevertheless remain in full force and effect.
15. This Agreement may be executed by the parties hereto in separate counterparts or duplicates each of which when so executed and delivered shall be an original, but all such counterparts or duplicates shall together constitute one and the same instrument. A signed facsimile, portable document format (PDF) or telecopied copy of this Agreement shall be effective and valid proof of execution and delivery.
16. This Agreement shall be binding upon and shall enure to the benefit of the parties hereto and their respective heirs, executors, administrators, successors, assigns and legal representatives. This Agreement may not be assigned without the prior written consent of the parties, which consent may not be unreasonably withheld.

[Signature page follows]

IN WITNESS WHEREOF the parties have executed this Agreement as of the date first above written.

MCW ENERGY GROUP LIMITED

By: /s/ Aleksandr Blyumkin
Name: Aleksandr Blyumkin
Title: Chairman

MCW ENERGY CA, INC.

By: /s/ Aleksandr Blyumkin
Name: Aleksandr Blyumkin
Title: Aleksandr Blyumkin

PALMIRA ASSOCIATES, INC.

By: /s/ Slava Komrash
Name: Slava Komrash
Title: President

SCHEDULE "A"
PROMISSORY NOTE

SCHEDULE "B"

U.S. ACCREDITED INVESTOR CERTIFICATE

**DEBT CONVERSION AGREEMENT
(United States Lender)**

Made as of the 18th day of May, 2017.

B E T W E E N :

PETROTEQ ENERGY INC.
(the “**Company**”)

OF THE FIRST PART;

- and -

MCW ENERGY CA, INC.
(the “**Subsidiary**”)

OF THE SECOND PART;

- and -

EXPRESS CONSULTING, LLC
(the “**Lender**”)

OF THE THIRD PART;

WHEREAS the Subsidiary, a wholly-owned subsidiary of the Company, is indebted to the Lender in the principal amount of US\$172,400 plus accrued and unpaid interest pursuant to a promissory note, which for greater certainty is equal to US\$179,005.81 including accrued and unpaid interest up to and including May 19, 2017, attached hereto as Schedule “A” (the “**Debt**”);

AND WHEREAS the Lender has agreed to accept 507,098 common shares of the Company (the “**Debt Shares**”) at a deemed price per share of US\$0.353 (CAD\$0.48 based on the Bank of Canada daily noon exchange rate on the date hereof) in full and final settlement of the Debt;

NOW THEREFORE THIS AGREEMENT WITNESSETH THAT for and in consideration of the mutual premises and agreements hereinafter contained, the sum of \$1.00 now paid by each party to the other and other good and valuable consideration (the receipt and sufficiency of which is hereby irrevocably acknowledged), the parties hereto hereby agree as follows:

1. Subject to the terms and conditions hereafter contained, the Lender agrees to accept, in full and final satisfaction of the Debt, the Debt Shares. The Lender further agrees that, upon the issuance and delivery of the Debt Shares to the Lender, the Lender shall fully release the Subsidiary in respect of the Debt and acknowledges the full repayment thereof by the Subsidiary. For greater certainty, the Lender irrevocably waives any and all rights to all interest on or after May 20, 2017.
2. The issuance of the Debt Shares shall be conditional on the (i) the issuance of the Debt Shares being exempt from the prospectus and registration requirements under applicable securities laws, the United States Securities Act of 1933, as amended (the “**U.S. Securities Act**”) and applicable state securities laws, and (ii) approval of this Agreement by the directors of the Company, and (iii) the Company receiving final approval from the TSX Venture Exchange (the “**TSXV**”) or any other applicable stock exchange for the issuance and listing of the Debt Shares.
3. The closing of this Agreement (the “**Closing**”) shall take place no later than thirty (30) business days subsequent to the date the date hereof, or such later time the parties hereto agree.

4. The Company hereby represents and warrants to and covenants with the Lender as follows, and acknowledges that the Lender is relying thereon, both at the date hereof and at the Closing:
- (a) The execution and delivery of this Agreement is within the corporate power and authority of the Company and has been duly authorized by all necessary corporate action and this Agreement constitutes a valid and binding obligation of the Company enforceable against it and its successors in accordance with its terms, subject to the usual qualification as to enforceability being limited by bankruptcy and other laws effecting the enforcement of creditors' rights generally, equitable remedies being discretionary remedies and rights to indemnification and contribution being limited by applicable laws.
 - (b) None of the execution and delivery of this Agreement, the consummation of the transactions contemplated hereby or the fulfillment of or compliance with the terms and provisions hereof do or will, with the giving of notice, or the lapse of time or both (i) to the best of the knowledge of the Company, violate any provision of any law or administrative regulation or any administrative orders, award, judgment or decree applicable to the Company, (ii) conflict with any of the terms, conditions or provisions of the memorandum of association or articles of the Company or any resolution of its directors or shareholders, or (iii) conflict with, result in a breach or constitute a default under, or accelerate or permit the acceleration of the performance required by, any material agreement, covenant, undertaking, commitment, instrument, judgment, order, decree or award to which the Company is a party or by which it is bound or to which the property of it is subject.
 - (c) The Debt Shares will, upon issuance and delivery, be validly issued and outstanding as fully paid and non-assessable common shares.
 - (d) It is a company duly amalgamated and organized under the laws of the Province of Ontario and is presently in good standing thereunder with full corporate power to own its properties and carry on its business as now being conducted.
5. The Subsidiary hereby represents and warrants to and covenants with the Lender as follows, and acknowledges that the Lender is relying thereon, both at the date hereof and at the Closing:
- (a) The execution and delivery of this Agreement is within the corporate power and authority of the Subsidiary and has been duly authorized by all necessary corporate action and this Agreement constitutes a valid and binding obligation of the Subsidiary enforceable against it and its successors in accordance with its terms, subject to the usual qualification as to enforceability being limited by bankruptcy and other laws effecting the enforcement of creditors' rights generally, equitable remedies being discretionary remedies and rights to indemnification and contribution being limited by applicable laws.
 - (b) None of the execution and delivery of this Agreement, the consummation of the transactions contemplated hereby or the fulfillment of or compliance with the terms and provisions hereof do or will, with the giving of notice, or the lapse of time or both (i) to the best of the knowledge of the Subsidiary, violate any provision of any law or administrative regulation or any administrative orders, award, judgment or decree applicable to the Subsidiary, (ii) conflict with any of the terms, conditions or provisions of the memorandum of association or articles of the Subsidiary or any resolution of its directors or shareholders, or (iii) conflict with, result in a breach or constitute a default under, or accelerate or permit the acceleration of the performance required by, any material agreement, covenant, undertaking, commitment, instrument, judgment, order, decree or award to which the Subsidiary is a party or by which it is bound or to which the property of it is subject.
 - (c) It is a company duly organized under the laws of the State of California and is presently in good standing thereunder with full corporate power to own its properties and carry on its business as now being conducted.

6. The Lender hereby represents and warrants to and covenants with the Company and the Subsidiary as follows, and acknowledges that the Company and the Subsidiary are relying thereon, both at the date hereof and at the Closing:
- (a) The Lender is a resident in the jurisdiction set out on Schedule “B”, attached hereto. Such address was not created and is not used solely for the purpose of acquiring the Debt Shares and the Lender was solicited to purchase the Debt Shares in such jurisdiction.
 - (b) The Lender has properly completed, executed and delivered to the Corporation Schedule “B”, attached hereto and the information contained therein is true and correct.
 - (c) The Lender acknowledges that: (i) the Debt Shares have not been and will not be registered under the U.S. Securities Act or the securities laws of any state of the United States, and (ii) the offer and sale of Debt Shares contemplated hereby is being made in reliance on an exemption from such registration requirements in reliance on Rule 506(b) of Regulation D and/or Section 4(a)(2) of the U.S. Securities Act.
 - (d) The information, representations, warranties and covenants contained herein and in Schedule “B” will be true and correct both as of the date of execution of this Agreement and as of the time of Closing.
 - (e) The execution and delivery of this Agreement, the performance and compliance with the terms hereof, the issuance of the Debt Shares and the completion of the transactions described herein by the Lender will not result in any material breach of, or be in conflict with or constitute a material default under, or create a state of facts which, after notice or lapse of time, or both, would constitute a material default under any term or provision of the constating documents, by-laws or resolutions of the Lender, applicable securities laws or any other laws applicable to the Lender, any agreement to which the Lender is a party, or any judgment, decree, order, statute, rule or regulation applicable to the Lender.
 - (f) The Lender is acquiring the Debt Shares as principal for its own account and not for the benefit of any other person (within the meaning of applicable securities laws) and not with a view to the resale or distribution of all or any of the Debt Shares.
 - (g) This Agreement has been duly authorized, executed and delivered by, and constitutes a legal, valid and binding agreement of, the Lender. This Agreement is enforceable in accordance with its terms against the Lender.
 - (h) If the Lender is (i) a corporation, it is duly incorporated and is validly subsisting under the laws of its jurisdiction of incorporation and has all requisite legal and corporate power and authority to execute and deliver this Agreement, to acquire the Debt Shares as contemplated herein and to carry out and perform its obligations under the terms of this Agreement, (ii) a partnership, syndicate or other form of unincorporated organization, it has the necessary legal capacity and authority to execute and deliver this Agreement and to observe and perform its covenants and obligations hereunder and has obtained all necessary approvals in respect thereof, or (iii) an individual, it is of the full age of majority and is legally competent to execute this Agreement and to observe and perform his or her covenants and obligations hereunder.
 - (i) If required by applicable securities laws or the Company, the Lender will execute, deliver and file or assist the Company in filing such reports, undertakings and other documents with respect to the issue of the Debt Shares as may be required by any securities commission, stock exchange or other regulatory authority.

- (j) The Lender has been advised to consult their own legal advisors with respect to trading in the Debt Shares and with respect to the resale restrictions imposed by applicable securities laws of the jurisdiction in which the Lender resides and other applicable securities laws, and acknowledges that no representation has been made respecting the applicable hold periods imposed by applicable securities laws or other resale restrictions applicable to such securities which restrict the ability of the Lender to resell such securities, that the Lender is solely responsible to find out what these restrictions are and the Lender is solely responsible (and the Company is in no way responsible) for compliance with applicable resale restrictions and the Lender is aware that it may not be able to resell such securities except in accordance with limited exemptions under applicable securities laws.
- (k) The Lender has not received or been provided with a prospectus or offering memorandum, within the meaning of applicable securities laws, or any sales or advertising literature in connection with the issuance of the Debt Shares to the Lender and the Lender's decision to acquire the Debt Shares was not based upon, and the Lender has not relied upon, any verbal or written representations as to facts made by or on behalf of the Company.
- (l) The Lender is not acquiring the Debt Shares with knowledge of material information concerning the Company which has not been generally disclosed.
- (m) No person has made any written or oral representations (i) that any person will resell or repurchase the Debt Shares, or (ii) as to the future price or value of the Debt Shares.
- (n) It has not purchased the Debt Shares as a result of any form of general solicitation or general advertising (as such terms are used in Regulation D under the U.S. Securities Act), including, without limitation, advertisements, articles, notices or other communications published in any newspaper, magazine or similar media or on the internet, or broadcast over radio, internet, television or other form of telecommunications, or any seminar or meeting whose attendees have been invited by general solicitation or general advertising.

7. The Lender acknowledges and agrees as follows:

- (a) The Debt Shares have not been recommended by the United States Securities and Exchange Commission or by any state securities commission or regulatory authority.
- (b) The Debt Shares will be issued to the Lender as "restricted securities" (as defined in Rule 144(a)(3) under the U.S. Securities Act), and the Lender is not acquiring the Debt Shares with a view to any resale, distribution or other disposition of such securities in violation of United States federal or state securities laws. The Debt Shares shall be subject to additional statutory resale restrictions under applicable securities laws, and the Lender covenants that it will not resell the Debt Shares except in compliance with such laws. The Lender acknowledges that it is solely responsible (and the Company is in no way responsible) for such compliance, and it is the responsibility of the Lender to find out what those restrictions are and to comply with them before selling the Debt Shares.
- (c) The certificates representing the Debt Shares will bear legends substantially in the following form and with the necessary information inserted:

"UNLESS PERMITTED UNDER SECURITIES LEGISLATION, THE HOLDER OF THIS SECURITY MUST NOT TRADE THE SECURITY BEFORE <INSERT THE DATE THAT IS FOUR (4) MONTHS AND ONE (1) DAY AFTER THE DATE OF CLOSING>."

“THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “U.S. SECURITIES ACT”), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. THE HOLDER HEREOF, BY PURCHASING SUCH SECURITIES, AGREES FOR THE BENEFIT OF THE COMPANY THAT SUCH SECURITIES MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED, DIRECTLY OR INDIRECTLY, ONLY (A) TO THE COMPANY; (B) OUTSIDE THE UNITED STATES IN ACCORDANCE WITH RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT AND IN ACCORDANCE WITH ALL LOCAL LAWS AND REGULATIONS; (C) IN ACCORDANCE WITH THE EXEMPTION FROM REGISTRATION UNDER THE U.S. SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER, IF AVAILABLE, AND IN COMPLIANCE WITH ANY APPLICABLE STATE SECURITIES LAWS; OR (D) IN A TRANSACTION THAT DOES NOT REQUIRE REGISTRATION UNDER THE U.S. SECURITIES ACT AND ANY APPLICABLE STATE SECURITIES LAWS, AND, IN THE CASE OF CLAUSE (C) OR (D), THE SELLER FURNISHES TO THE COMPANY AN OPINION OF COUNSEL OF RECOGNIZED STANDING IN FORM AND SUBSTANCE SATISFACTORY TO THE COMPANY TO SUCH EFFECT. THE PRESENCE OF THIS LEGEND MAY IMPAIR THE ABILITY OF THE HOLDER HEREOF TO EFFECT “GOOD DELIVERY” OF THE SECURITIES REPRESENTED HEREBY ON A CANADIAN STOCK EXCHANGE.”

and subject to the policies of the TSXV may bear a legend substantially in the following form and with the necessary information inserted:

“WITHOUT PRIOR WRITTEN APPROVAL OF TSX VENTURE EXCHANGE AND COMPLIANCE WITH ALL APPLICABLE SECURITIES LEGISLATION, THE SECURITIES REPRESENTED BY THIS CERTIFICATE MAY NOT BE SOLD, TRANSFERRED, HYPOTHECATED OR OTHERWISE TRADED ON OR THROUGH THE FACILITIES OF TSX VENTURE EXCHANGE OR OTHERWISE IN CANADA OR TO OR FOR THE BENEFIT OF A CANADIAN RESIDENT UNTIL <INSERT THE DATE THAT IS FOUR (4) MONTHS AND ONE (1) DAY AFTER THE DATE OF CLOSING>.”

- (d) The Lender acknowledges that:
- (i) the Company has determined that it has ceased to qualify as a “foreign private issuer” (as such term is defined in Rule 405 under the U.S. Securities Act and Rule 3b-4 under the United States Securities Exchange Act of 1934, as amended) as of February 28, 2017 (being the last business day of its most recently completed second fiscal quarter, and hereinafter referred to as the “**Determination Date**”), and, accordingly, the Company will be deemed to be a U.S. domestic issuer for the purposes of U.S. federal securities laws and cease to be eligible to use the forms and rules designated for foreign private issuers under U.S. federal securities laws after August 31, 2017 (being the end of Company’s current fiscal year, and hereinafter referred to as the “**Fiscal Year End Date**”);
 - (ii) Rule 905 of Regulation S under the U.S. Securities Act (“**Rule 905**”) provides in material part that any “restricted securities” that are equity securities of a U.S. domestic issuer will continue to be deemed to be restricted securities, notwithstanding that they were acquired in a resale transaction made pursuant to Rule 901 or Rule 904 of Regulation S under the U.S. Securities Act;
 - (iii) As interpreted by Staff at the United States Securities and Exchange Commission (“**SEC Staff**”), Rule 905 applies to equity securities that, at the time of issuance, were those of a U.S. domestic issuer, and, in the absence of any additional guidance from SEC Staff, it remains unclear whether the Company will be considered for such purposes to have become a U.S. domestic issuer on the Determination Date or on the day next following the Fiscal Year End Date;
 - (iv) if the Company is deemed to have become a U.S. domestic issuer on the Determination Date for the purposes of Rule 905, the Debt Shares will continue to be “restricted securities” if they are resold in an “offshore transaction” pursuant to Rule 904 of Regulation S, with the result that it would not be possible to make “good delivery” of the Debt Shares on the TSXV or any other Canadian stock exchange;

- (v) A. the Company may be deemed to be an issuer that at a previous time has been an issuer with no or nominal operations and no or nominal assets other than cash and cash equivalents (a “**Shell Company**”), B. if the Company is deemed to have been a Shell Company at any time previously, Rule 144 under the U.S. Securities Act may not be available for resales of the Debt Shares except in very limited circumstances, and C. the Company is not obligated to make Rule 144 under the U.S. Securities Act available for resales of the Debt Shares.
 - (e) The Lender shall execute, deliver, file and otherwise assist the Company and the Subsidiary with filing all documentation required by the applicable securities laws to permit the issuance of the Debt Shares.
 - (f) The Company and the Subsidiary are relying on the representations, warranties and covenants contained herein and in Schedule “B”, attached hereto, to determine the Lender’s eligibility to acquire the Debt Shares under applicable securities laws and the Lender agrees to indemnify the Company and the Subsidiary and their directors and officers, employees and agents against all losses, claims, costs, expenses, damages or liabilities which any of them may suffer or incur as a result of or arising from reliance thereon. The Lender undertakes to immediately notify the Company and the Subsidiary of any change in any statement or other information relating to the Lender set forth herein and in Schedule “B”, attached hereto, which takes place prior to the time of Closing.
 - (g) The Lender is responsible for obtaining such legal and tax advice as it considers appropriate in connection with the execution, delivery and performance of this Agreement.
 - (h) The Lender is knowledgeable of securities legislation in its jurisdiction of residence that may have application over the Lender or transactions contemplated herein which would apply to this Agreement and is satisfied that the Company, the Subsidiary and the Lender will not breach such laws by completing the transactions contemplated hereby.
 - (i) The issuance of the Debt Shares by the Company to the Lender requires the final approval of the TSXV.
7. All of the covenants, representations, and warranties contained herein and in Schedule “B”, attached hereto, shall survive the issuance of the Debt Shares hereunder.
8. The Lender hereby consents to (a) the disclosure of Personal Information by the Company to the Exchange (as defined in Appendix 6A of the TSXV) pursuant to TSXV Form 4E *Shares for Debt Filing Form* (“**Form 4E**”), and (b) the collection, use and disclosure of Personal Information by the Exchange for the purposes described in Appendix 6A of the TSXV or as otherwise identified by the Exchange, from time to time. “**Personal Information**” means any information about an identifiable individual, and includes the information contained in the tables, as applicable, found in Form 4E.
9. Time shall in all respects be of the essence of this Agreement.
10. This Agreement shall be governed by and construed in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein and the parties hereby irrevocably attorn to the jurisdiction of the courts of the Province of Ontario.
11. Unless otherwise specified, all references to \$ refer to lawful currency of the United States.
12. The parties agree to execute and deliver to each other such further instruments and other written assurances and to do or cause to be done such further acts or things as may be necessary or convenient to carry out and give effect to the intent of this Agreement or as any of the parties may reasonably request in order to carry out the transactions contemplated herein.

13. This Agreement sets forth the entire agreement among the parties hereto pertaining to the specific subject matter hereof and replaces and supersedes all prior agreements, understandings, negotiations and discussions, whether oral or written, of the parties hereto, and there are no warranties, representations or other agreements, whether oral or written, express or implied, statutory or otherwise, between the parties hereto in connection with the subject matter hereof except as specifically set forth herein. No supplement, modification, waiver or termination of this Agreement shall be binding unless executed in writing by the party to be bound thereby.
14. In case any one or more of the provisions contained in this Agreement should be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained in this Agreement shall not in any way be affected or impaired thereby, and any such invalid, illegal or unenforceable provision shall be deemed to be severable, and the remainder of the provisions of this Agreement shall nevertheless remain in full force and effect.
15. This Agreement may be executed by the parties hereto in separate counterparts or duplicates each of which when so executed and delivered shall be an original, but all such counterparts or duplicates shall together constitute one and the same instrument. A signed facsimile, portable document format (PDF) or telecopied copy of this Agreement shall be effective and valid proof of execution and delivery.
16. This Agreement shall be binding upon and shall enure to the benefit of the parties hereto and their respective heirs, executors, administrators, successors, assigns and legal representatives. This Agreement may not be assigned without the prior written consent of the parties, which consent may not be unreasonably withheld.

[Signature page follows]

IN WITNESS WHEREOF the parties have executed this Agreement as of the date first above written.

PETROTEQ ENERGY INC.

By: /s/ Aleksandr Blyumkin
Name: Aleksandr Blyumkin
Title: Chairman

MCW ENERGY CA, INC.

By: /s/ Aleksandr Blyumkin
Name: Aleksandr Blyumkin
Title: Chairman

EXPRESS CONSULTING, LLC

By: /s/ Aleksandr Blyumkin
Name: Aleksandr Blyumkin
Title: Chairman

SCHEDULE "A"
PROMISSORY NOTE

SCHEDULE "B"

U.S. ACCREDITED INVESTOR CERTIFICATE

DEBT CONVERSION AGREEMENT
(United States Lender)

Made as of the 18th day of May, 2017.

B E T W E E N :

PETROTEQ ENERGY INC.
(the “**Company**”)

OF THE FIRST PART;

- and -

ALEKSANDR BLYUMKIN
(the “**Lender**”)

OF THE SECOND PART;

WHEREAS the Company is indebted to the Lender in the principal amount of US\$204,000.00 plus accrued and unpaid interest pursuant to a convertible debenture, which for greater certainty is equal to US\$265,343.58 including accrued and unpaid interest up to and including May 19, 2017, attached hereto as Schedule “A” (the “**Debt**”);

AND WHEREAS the Lender has agreed to accept 751,681 common shares of the Company (the “**Debt Shares**”) at a deemed price per share of \$US0.353 (CAD\$0.48 based on the Bank of Canada daily noon exchange rate on the date hereof) in full and final settlement of the Debt including accrued and unpaid interest;

NOW THEREFORE THIS AGREEMENT WITNESSETH THAT for and in consideration of the mutual premises and agreements hereinafter contained, the sum of \$1.00 now paid by each party to the other and other good and valuable consideration (the receipt and sufficiency of which is hereby irrevocably acknowledged), the parties hereto hereby agree as follows:

1. Subject to the terms and conditions hereafter contained, the Lender agrees to accept, in full and final satisfaction of the Debt, the Debt Shares. The Lender further agrees that, upon the issuance and delivery of the Debt Shares to the Lender, or as the Lender may direct, the Lender shall fully release the Company in respect of the Debt and acknowledges the full repayment thereof by the Company. For greater certainty, the Lender irrevocably waives any and all rights to all interest on or after May 20, 2017.
2. The issuance of the Debt Shares shall be conditional on the (i) the issuance of the Debt Shares being exempt from the prospectus and registration requirements under applicable securities laws, the United States Securities Act of 1933, as amended (the “**U.S. Securities Act**”) and applicable state securities laws, (ii) approval of this Agreement by the directors of the Company, and (iii) the Company receiving final approval from the TSX Venture Exchange (the “**TSXV**”) or any other applicable stock exchange for the issuance and listing of the Debt Shares.
3. The closing of this Agreement (the “**Closing**”) shall take place no later than thirty (30) business days subsequent to the date hereof, or such later time the parties hereto agree.
4. The Company hereby represents and warrants to and covenants with the Lender as follows, and acknowledges that the Lender is relying thereon, both at the date hereof and at the Closing:
 - (a) The execution and delivery of this Agreement is within the corporate power and authority of the Company and has been duly authorized by all necessary corporate action and this Agreement constitutes a valid and binding obligation of the Company enforceable against it and its successors in accordance with its terms, subject to the usual qualification as to enforceability being limited by bankruptcy and other laws effecting the enforcement of creditors' rights generally, equitable remedies being discretionary remedies and rights to indemnification and contribution being limited by applicable laws.

- (b) None of the execution and delivery of this Agreement, the consummation of the transactions contemplated hereby or the fulfillment of or compliance with the terms and provisions hereof do or will, with the giving of notice, or the lapse of time or both (i) to the best of the knowledge of the Company, violate any provision of any law or administrative regulation or any administrative orders, award, judgment or decree applicable to the Company, (ii) conflict with any of the terms, conditions or provisions of the memorandum of association or articles of the Company or any resolution of its directors or shareholders, or (iii) conflict with, result in a breach or constitute a default under, or accelerate or permit the acceleration of the performance required by, any material agreement, covenant, undertaking, commitment, instrument, judgment, order, decree or award to which the Company is a party or by which it is bound or to which the property of it is subject.
 - (c) The Debt Shares will, upon issuance and delivery, be validly issued and outstanding as fully paid and non-assessable common shares.
 - (d) It is a company duly amalgamated and organized under the laws of the Province of Ontario and is presently in good standing thereunder with full corporate power to own its properties and carry on its business as now being conducted.
5. The Lender hereby represents and warrants to and covenants with the Company as follows, and acknowledges that the Company is relying thereon, both at the date hereof and at the Closing:
- (a) The Lender is a resident in the jurisdiction set out on Schedule “B”, attached hereto. Such address was not created and is not used solely for the purpose of acquiring the Debt Shares and the Lender was solicited to purchase the Debt Shares in such jurisdiction.
 - (b) The Lender has properly completed, executed and delivered to the Corporation Schedule “B”, attached hereto, and the information contained therein is true and correct.
 - (c) The Lender acknowledges that: (i) the Debt Shares have not been and will not be registered under the U.S. Securities Act or the securities laws of any state of the United States, and (ii) the offer and sale of Debt Shares contemplated hereby is being made in reliance on an exemption from such registration requirements in reliance on Rule 506(b) of Regulation D and/or Section 4(a)(2) of the U.S. Securities Act.
 - (d) The information, representations, warranties and covenants contained herein and in Schedule “B” will be true and correct both as of the date of execution of this Agreement and as of the time of Closing.
 - (e) The execution and delivery of this Agreement, the performance and compliance with the terms hereof, the issuance of the Debt Shares and the completion of the transactions described herein by the Lender will not result in any material breach of, or be in conflict with or constitute a material default under, or create a state of facts which, after notice or lapse of time, or both, would constitute a material default under any term or provision of the constating documents, by-laws or resolutions of the Lender, applicable securities laws or any other laws applicable to the Lender, any agreement to which the Lender is a party, or any judgment, decree, order, statute, rule or regulation applicable to the Lender.
 - (f) The Lender is acquiring the Debt Shares as principal for the Lender’s own account and not for the benefit of any other person (within the meaning of applicable securities laws) and not with a view to the resale or distribution of all or any of the Debt Shares.
 - (g) This Agreement has been duly authorized, executed and delivered by, and constitutes a legal, valid and binding agreement of, the Lender. This Agreement is enforceable in accordance with its terms against the Lender.

- (h) If the Lender is (i) a corporation, it is duly incorporated and is validly subsisting under the laws of its jurisdiction of incorporation and has all requisite legal and corporate power and authority to execute and deliver this Agreement, to acquire the Debt Shares as contemplated herein and to carry out and perform its obligations under the terms of this Agreement, (ii) a partnership, syndicate or other form of unincorporated organization, it has the necessary legal capacity and authority to execute and deliver this Agreement and to observe and perform its covenants and obligations hereunder and has obtained all necessary approvals in respect thereof, or (iii) an individual, it is of the full age of majority and is legally competent to execute this Agreement and to observe and perform his or her covenants and obligations hereunder.
- (i) If required by applicable securities laws or the Company, the Lender will execute, deliver and file or assist the Company in filing such reports, undertakings and other documents with respect to the issue of the Debt Shares as may be required by any securities commission, stock exchange or other regulatory authority.
- (j) The Lender has been advised to consult their own legal advisors with respect to trading in the Debt Shares and with respect to the resale restrictions imposed by applicable securities laws of the jurisdiction in which the Lender resides and other applicable securities laws, and acknowledges that no representation has been made respecting the applicable hold periods imposed by applicable securities laws or other resale restrictions applicable to such securities which restrict the ability of the Lender to resell such securities, that the Lender is solely responsible to find out what these restrictions are and the Lender is solely responsible (and the Company is in no way responsible) for compliance with applicable resale restrictions and the Lender is aware that it may not be able to resell such securities except in accordance with limited exemptions under applicable securities laws.
- (k) The Lender has not received or been provided with a prospectus or offering memorandum, within the meaning of applicable securities laws, or any sales or advertising literature in connection with the issuance of the Debt Shares to the Lender and the Lender's decision to acquire the Debt Shares was not based upon, and the Lender has not relied upon, any verbal or written representations as to facts made by or on behalf of the Company.
- (l) The Lender is not acquiring the Debt Shares with knowledge of material information concerning the Company which has not been generally disclosed.
- (m) No person has made any written or oral representations (i) that any person will resell or repurchase the Debt Shares, or (ii) as to the future price or value of the Debt Shares.
- (n) It has not purchased the Debt Shares as a result of any form of general solicitation or general advertising (as such terms are used in Regulation D under the U.S. Securities Act), including, without limitation, advertisements, articles, notices or other communications published in any newspaper, magazine or similar media or on the internet, or broadcast over radio, internet, television or other form of telecommunications, or any seminar or meeting whose attendees have been invited by general solicitation or general advertising.

6. The Lender acknowledges and agrees as follows:

- (a) The Debt Shares have not been recommended by the United States Securities and Exchange Commission or by any state securities commission or regulatory authority.
- (b) The Debt Shares will be issued to the Lender as "restricted securities" (as defined in Rule 144(a)(3) under the U.S. Securities Act), and the Lender is not acquiring the Debt Shares with a view to any resale, distribution or other disposition of such securities in violation of United States federal or state securities laws. The Debt Shares shall be subject to additional statutory resale restrictions under applicable securities laws, and the Lender covenants that it will not resell the Debt Shares except in compliance with such laws. The Lender acknowledges that it is solely responsible (and the Company is in no way responsible) for such compliance, and it is the responsibility of the Lender to find out what those restrictions are and to comply with them before selling the Debt Shares.

- (c) The certificates representing the Debt Shares will bear legends substantially in the following form and with the necessary information inserted:

“UNLESS PERMITTED UNDER SECURITIES LEGISLATION, THE HOLDER OF THIS SECURITY MUST NOT TRADE THE SECURITY BEFORE <INSERT THE DATE THAT IS FOUR (4) MONTHS AND ONE (1) DAY AFTER THE DATE OF CLOSING>.”

“THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “U.S. SECURITIES ACT”), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. THE HOLDER HEREOF, BY PURCHASING SUCH SECURITIES, AGREES FOR THE BENEFIT OF THE COMPANY THAT SUCH SECURITIES MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED, DIRECTLY OR INDIRECTLY, ONLY (A) TO THE COMPANY; (B) OUTSIDE THE UNITED STATES IN ACCORDANCE WITH RULE 904 OF REGULATIONS UNDER THE U.S. SECURITIES ACT AND IN ACCORDANCE WITH ALL LOCAL LAWS AND REGULATIONS; (C) IN ACCORDANCE WITH THE EXEMPTION FROM REGISTRATION UNDER THE U.S. SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER, IF AVAILABLE, AND IN COMPLIANCE WITH ANY APPLICABLE STATE SECURITIES LAWS; OR (D) IN A TRANSACTION THAT DOES NOT REQUIRE REGISTRATION UNDER THE U.S. SECURITIES ACT AND ANY APPLICABLE STATE SECURITIES LAWS, AND, IN THE CASE OF CLAUSE (C) OR (D), THE SELLER FURNISHES TO THE COMPANY AN OPINION OF COUNSEL OF RECOGNIZED STANDING IN FORM AND SUBSTANCE SATISFACTORY TO THE COMPANY TO SUCH EFFECT. THE PRESENCE OF THIS LEGEND MAY IMPAIR THE ABILITY OF THE HOLDER HEREOF TO EFFECT “GOOD DELIVERY” OF THE SECURITIES REPRESENTED HEREBY ON A CANADIAN STOCK EXCHANGE.”

and subject to the policies of the TSXV may bear a legend substantially in the following form and with the necessary information inserted:

“WITHOUT PRIOR WRITTEN APPROVAL OF TSX VENTURE EXCHANGE AND COMPLIANCE WITH ALL APPLICABLE SECURITIES LEGISLATION, THE SECURITIES REPRESENTED BY THIS CERTIFICATE MAY NOT BE SOLD, TRANSFERRED, HYPOTHECATED OR OTHERWISE TRADED ON OR THROUGH THE FACILITIES OF TSX VENTURE EXCHANGE OR OTHERWISE IN CANADA OR TO OR FOR THE BENEFIT OF A CANADIAN RESIDENT UNTIL <INSERT THE DATE THAT IS FOUR (4) MONTHS AND ONE (1) DAY AFTER THE DATE OF CLOSING>.”

- (d) The Lender acknowledges that:
- (i) the Company has determined that it has ceased to qualify as a “foreign private issuer” (as such term is defined in Rule 405 under the U.S. Securities Act and Rule 3b-4 under the United States Securities Exchange Act of 1934, as amended) as of February 28, 2017 (being the last business day of its most recently completed second fiscal quarter, and hereinafter referred to as the “**Determination Date**”), and, accordingly, the Company will be deemed to be a U.S. domestic issuer for the purposes of U.S. federal securities laws and cease to be eligible to use the forms and rules designated for foreign private issuers under U.S. federal securities laws after August 31, 2017 (being the end of Company’s current fiscal year, and hereinafter referred to as the “**Fiscal Year End Date**”);

- (ii) Rule 905 of Regulation S under the U.S. Securities Act (“**Rule 905**”) provides in material part that any “restricted securities” that are equity securities of a U.S. domestic issuer will continue to be deemed to be restricted securities, notwithstanding that they were acquired in a resale transaction made pursuant to Rule 901 or Rule 904 of Regulation S under the U.S. Securities Act;
 - (iii) As interpreted by Staff at the United States Securities and Exchange Commission (“SEC Staff”), Rule 905 applies to equity securities that, at the time of issuance, were those of a U.S. domestic issuer, and, in the absence of any additional guidance from SEC Staff, it remains unclear whether the Company will be considered for such purposes to have become a U.S. domestic issuer on the Determination Date or on the day next following the Fiscal Year End Date;
 - (iv) if the Company is deemed to have become a U.S. domestic issuer on the Determination Date for the purposes of Rule 905, the Debt Shares will continue to be “restricted securities” if they are resold in an “offshore transaction” pursuant to Rule 904 of Regulation S, with the result that it would not be possible to make “good delivery” of the Debt Shares on the TSXV or any other Canadian stock exchange;
 - (v) A. the Company may be deemed to be an issuer that at a previous time has been an issuer with no or nominal operations and no or nominal assets other than cash and cash equivalents (a “**Shell Company**”), B. if the Company is deemed to have been a Shell Company at any time previously, Rule 144 under the U.S. Securities Act may not be available for resales of the Debt Shares except in very limited circumstances, and C. the Company is not obligated to make Rule 144 under the U.S. Securities Act available for resales of the Debt Shares.
- (e) The Lender shall execute, deliver, file and otherwise assist the Company with filing all documentation required by the applicable securities laws to permit the issuance of the Debt Shares.
 - (f) The Company is relying on the representations, warranties and covenants contained herein and in Schedule “B”, attached hereto, to determine the Lender’s eligibility to acquire the Debt Shares under applicable securities laws and the Lender agrees to indemnify the Company and its directors and officers, employees and agents against all losses, claims, costs, expenses, damages or liabilities which any of them may suffer or incur as a result of or arising from reliance thereon. The Lender undertakes to immediately notify the Corporation of any change in any statement or other information relating to the Lender set forth herein and in Schedule “B”, attached hereto, which takes place prior to the time of Closing.
 - (g) The Lender is responsible for obtaining such legal and tax advice as it considers appropriate in connection with the execution, delivery and performance of this Agreement.
 - (h) The Lender is knowledgeable of securities legislation in the Lender’s jurisdiction of residence that may have application over the Lender or transactions contemplated herein which would apply to this Agreement and is satisfied that the Company and the Lender will not breach such laws by completing the transactions contemplated hereby.
 - (i) The issuance of the Debt Shares by the Company to the Lender requires the final approval of the TSXV.
7. All of the covenants, representations, and warranties contained herein and in Schedule “B”, attached hereto, shall survive the issuance of the Debt Shares hereunder.

8. The Lender hereby consents to (a) the disclosure of Personal Information by the Company to the Exchange (as defined in Appendix 6A of the TSXV) pursuant to TSXV Form 4E *Shares for Debt Filing Form* (“**Form 4E**”), and (b) the collection, use and disclosure of Personal Information by the Exchange for the purposes described in Appendix 6A of the TSXV or as otherwise identified by the Exchange, from time to time. “**Personal Information**” means any information about an identifiable individual, and includes the information contained in the tables, as applicable, found in Form 4E.
9. Time shall in all respects be of the essence of this Agreement.
10. This Agreement shall be governed by and construed in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein and the parties hereby irrevocably attorn to the jurisdiction of the courts of the Province of Ontario.
11. Unless otherwise specified, all references to \$ refer to lawful currency of the United States.
12. The parties agree to execute and deliver to each other such further instruments and other written assurances and to do or cause to be done such further acts or things as may be necessary or convenient to carry out and give effect to the intent of this Agreement or as any of the parties may reasonably request in order to carry out the transactions contemplated herein.
13. This Agreement sets forth the entire agreement among the parties hereto pertaining to the specific subject matter hereof and replaces and supersedes all prior agreements, understandings, negotiations and discussions, whether oral or written, of the parties hereto, and there are no warranties, representations or other agreements, whether oral or written, express or implied, statutory or otherwise, between the parties hereto in connection with the subject matter hereof except as specifically set forth herein. No supplement, modification, waiver or termination of this Agreement shall be binding unless executed in writing by the party to be bound thereby.
14. In case any one or more of the provisions contained in this Agreement should be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained in this Agreement shall not in any way be affected or impaired thereby, and any such invalid, illegal or unenforceable provision shall be deemed to be severable, and the remainder of the provisions of this Agreement shall nevertheless remain in full force and effect.
15. This Agreement may be executed by the parties hereto in separate counterparts or duplicates each of which when so executed and delivered shall be an original, but all such counterparts or duplicates shall together constitute one and the same instrument. A signed facsimile, portable document format (PDF) or telecopied copy of this Agreement shall be effective and valid proof of execution and delivery.
16. This Agreement shall be binding upon and shall enure to the benefit of the parties hereto and their respective heirs, executors, administrators, successors, assigns and legal representatives. This Agreement may not be assigned without the prior written consent of the parties, which consent may not be unreasonably withheld.

[Signature page follows]

SCHEDULE "A"
CONVERTIBLE DEBENTURE

SCHEDULE "B"

U.S. ACCREDITED INVESTOR CERTIFICATE

INDEMNITY AGREEMENT

DATED this ____ day of _____.

B E T W E E N:

PETROTEQ ENERGY, INC., a corporation established pursuant to the laws of the Province of British Columbia

(hereinafter referred to as the “**Indemnifier**”)

- and -

[_____], an individual residing in the State of California

(hereinafter referred to as the “**Indemnified Party**”).

WHEREAS the Indemnified Party has been elected and/or appointed a director and/or officer of the Indemnifier;

AND WHEREAS the Indemnifier desires to indemnify the Indemnified Party in certain circumstances in respect of liability which the Indemnified Party may incur as a result of such Indemnified Party acting as a director and/or officer of the Indemnifier;

NOW THEREFORE, IN CONSIDERATION OF the premises and mutual covenants herein contained, and in consideration of the sum of One Dollar (\$1.00) paid by the Indemnified Party to the Indemnifier (the receipt of which is hereby acknowledged) and in consideration of the Indemnified Party acting as a director and/or officer of the Indemnifier, the Indemnifier and the Indemnified Party do hereby covenant and agree as follows:

1. **Indemnification**

- (a) To the full extent allowed by law, the Indemnifier agrees to indemnify and save harmless the Indemnified Party, his or her heirs, successors and legal representatives from and against any and all damages, liabilities, costs, charges or expenses suffered or incurred by the Indemnified Party, his or her heirs, successors or legal representatives as a result or by reason of the Indemnified Party acting as a director and/or officer of the Indemnifier or by reason of any action taken or not taken by such Indemnified Party in such capacity, including without limitation, any liability arising under applicable corporate and securities legislation or otherwise, provided that such damages, liabilities, costs, charges or expenses were not suffered or incurred as a direct result of such Indemnified Party’s own gross negligence, fraud, dishonesty or wilful default.
- (b) The Indemnifier agrees:
 - (i) except in respect of an action by or on behalf of the Indemnifier to procure a judgment in its favour, to indemnify the Indemnified Party and his or her heirs, successors and legal representatives against all costs, charges and expenses, including an amount paid to settle an action where such settlement has been consented to by the Indemnifier, acting reasonably, cause of action, claim or demand whatsoever or to satisfy a judgment, reasonably incurred by the Indemnified Party in respect of any civil, criminal or administrative action or proceeding to which the Indemnified Party is made a party by reason of such Indemnified Party acting as a director and/or officer of the Indemnifier, if:
 - (1) the Indemnified Party acted honestly and in good faith with a view to the best interests of the Indemnifier; and

- (2) in the case of a criminal or administrative action or proceeding that is enforced by monetary penalty, the Indemnified Party had reasonable grounds for believing that the Indemnified Party's conduct was lawful;
- (ii) to indemnify the Indemnified Party and his or her heirs, successors and legal representatives in respect of an action by or on behalf of the Indemnifier to procure a judgment in its favour, to which the Indemnified Party is made a party by reason of such Indemnified Party acting as a director and/or officer of the Indemnifier against all costs, charges and expenses reasonably incurred by the Indemnified Party in connection with the action if the Indemnified Party has fulfilled the conditions set forth in Clauses 1.(b)(i)(1) and (2) set out above and if the Indemnifier obtains the approval of a court of competent jurisdiction to grant such indemnity;
- (iii) in the event that the approval of a court of competent jurisdiction is required to effect any indemnification granted hereunder, the Indemnifier agrees to use best efforts to obtain the court's approval to such indemnification provided that the Indemnified Party has fulfilled the conditions set forth in Clauses 1.(b)(i) (1) and (2) herein;
- (iv) notwithstanding Clauses 1.(b)(i) and (ii) above, to indemnify the Indemnified Party and his or her heirs, successors and legal representatives in respect of all costs, charges and expenses reasonably incurred by the Indemnified Party in connection with the defence of any civil, criminal or administrative action or proceeding to which the Indemnified Party is made a party by reason of such Indemnified Party acting as a director and/or officer of the Indemnifier, if the Indemnified Party:
 - (1) was substantially successful on the merits in such Indemnified Party's defence of the action or proceeding;
 - (2) fulfills the conditions set out in Clauses 1.(b)(i) (1) and (2) set out above; and
 - (3) is fairly and reasonably entitled to be indemnified; and
- (v) to indemnify the Indemnified Party and his or her heirs, successors and legal representatives in respect of all costs, charges and expenses reasonably incurred by the Indemnified Party in connection with defence of any threatened civil, criminal or administrative action or proceeding or alleged wrongdoing (or settlement thereof with the consent of the Indemnifier acting reasonably) against the Indemnified Party by reason of such Indemnified Party acting as a director and/or officer of the Indemnifier.

- (c) Without limiting the generality of the foregoing and notwithstanding anything contained herein:
- (i) nothing in this Agreement shall be interpreted, by implication or otherwise, in limitation of the scope of the indemnification provided in Subsections 1.(a) and (b) hereof; and
 - (ii) Subsection 1.(b) is intended to provide indemnification to the Indemnified Party to the fullest extent permitted by applicable laws (the “**Applicable Laws**”) and, in the event that such Applicable Laws are amended to permit a broader scope of indemnification (including, without limitation, the deletion or limiting of one or more of the provisos to the applicability of indemnification), Subsection 1.(b) shall be deemed to be amended concurrently with the amendment to the statute so as to provide such broader indemnification.

2. **Prepaid Expenses**

All costs, charges and expenses reasonably incurred by the Indemnified Party in investigating, defending or appealing any civil, criminal or administrative action or proceeding, actual or threatened, covered hereunder shall, at the request of such Indemnified Party, be paid by the Indemnifier in advance as may be appropriate to enable the Indemnified Party to properly investigate, defend or appeal such action or proceeding, with the understanding and agreement being herein made that, in the event it is ultimately determined as provided hereunder that the Indemnified Party was not entitled to be so indemnified, or was not entitled to be fully so indemnified, that the Indemnified Party shall indemnify and hold harmless the Indemnifier, and pay to the Indemnifier forthwith after such ultimate determination such amount or the appropriate portion thereof, so paid in advance.

3. **Other Rights and Remedies**

Indemnification and advance payment of costs, charges and expenses as provided by this Agreement shall not be deemed to derogate from or exclude any other rights to which the Indemnified Party may be entitled under any provision of the Applicable Laws or otherwise at law, as the same may be amended from time to time, this Agreement, any vote of shareholders of the Indemnifier, or otherwise, both as to matters arising out of the Indemnified Party’s position as a director and/or officer of the Indemnifier, or as to matters arising out of another capacity with the Indemnifier.

4. **Notice of Proceedings**

The Indemnified Party agrees to give notice to the Indemnifier within seven days of being served with any statement of claim, writ, notice of motion, indictment or other document commencing or continuing any civil, criminal or administrative action or proceeding against the Indemnified Party, or receiving notice of any threatened civil, criminal or administrative action or proceeding or alleged wrongdoing against the Indemnified Party, and in respect of which the Indemnified Party is entitled to be indemnified hereunder and the Indemnifier agrees to give notice to the Indemnified Party in writing within seven days of (a) being served with any such statement of claim, writ, notice of motion, indictment or other document commencing or continuing any civil, criminal or administrative action or proceeding naming the Indemnified Party as a party, or (b) receiving notice of any such threatened civil, criminal or administrative action or proceeding or alleged wrongdoing against the Indemnified Party.

The Indemnifier further agrees to promptly retain counsel, who shall be reasonably satisfactory to the Indemnified Party, to represent the Indemnified Party in any such matter.

5. **Right to Retain Other Counsel**

In any such matter the Indemnified Party shall have the right to retain other counsel to act on such Indemnified Party's behalf, provided that the fees and disbursements of such other counsel shall be paid by such Indemnified Party unless (a) such Indemnified Party and the Indemnifier shall have mutually agreed to the retention of such other counsel, or (b) the named parties to any such action, claim, demand or proceeding (including any added third, or interpleaded parties) include the Indemnifier and the Indemnified Party and, in the written opinion of the Indemnified Party's counsel, a copy of which is provided to the Indemnifier, representation by the same counsel would be inappropriate due to actual or potential differing interests between them (including the availability of different defences), in which event the Indemnifier agrees to pay the reasonable fees and disbursements of such counsel.

6. **Indemnified Party to Cooperate**

The Indemnified Party agrees to give the Indemnifier such information and cooperation as the Indemnifier may reasonably require from time to time in respect of all matters hereunder.

7. **Notices**

Any notice, document or other communication required or permitted by this Agreement to be given by a party hereto shall be in writing and is sufficiently given if delivered personally, or if sent by prepaid ordinary mail posted in Canada, or if transmitted by any form of telecommunication (which is tested prior to transmission, confirms to the sender the receipt of the entire transmission by the recipient and reproduces a complete written version of the transmission at the point of reception) to such party addressed as follows:

(a) if to the Indemnified Party, at:

[_____]
[_____]
[_____]

Fax No.: _____
Email address: _____

(b) if to the Indemnifier, at:

[_____]
[_____]
[_____]

Fax No.: _____
Email address: _____

Notice so mailed shall be deemed to have been given on the third business day ("**Business Day**") means a day other than a Saturday, Sunday or any day other than Saturday or Sunday on which the principal commercial banks located at Toronto, Ontario are not open for business during normal banking hours; after deposit in a post office or public letterbox). Neither party shall mail any notice, request or other communication hereunder during any period in which Canadian postal workers are on strike or if such strike is imminent and may reasonably be anticipated to affect the normal delivery of mail. Notice transmitted by a form of recorded telecommunication during normal business hours on a Business Day (9:00 a.m. to 5:00 p.m. local time at the place of receipt) shall be deemed to have been given on the day of transmission or, in the case of notice transmitted outside of normal business hours shall be deemed to have been given on the first Business Day after the day of transmission; provided that immediately following such transmission such notice is given by personal delivery. Notice delivered personally shall be deemed to have been given on the day it was delivered. Any party may from time to time notify the others in the manner provided herein of any change of address which thereafter, until changed by like notice, shall be the address of such party for all purposes hereof.

8. **Severability**

If any provision or provisions of this Agreement shall be held to be invalid, illegal or unenforceable for any reason whatsoever (a) the validity, legality and enforceability of the remaining provisions of this Agreement (including, without limitation, all portions of any paragraph of this Agreement containing such provisions held to be invalid, illegal or unenforceable that are not of themselves in whole invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby, and (b) to the fullest possible extent, the provisions of this Agreement (including, without limitation, all portions of any paragraphs of this Agreement containing any provisions held to be invalid, illegal or unenforceable, that are not of themselves in whole invalid, illegal or unenforceable) shall be construed so as to give effect to the intent manifested by the provision which is held to be invalid, illegal or unenforceable.

9. **Governing Law**

The parties hereto agree that this Agreement shall be construed and enforced in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein and shall be treated, in all respects, as an Ontario contract.

10. **Modification and Waiver**

No supplement, modification or amendment of this Agreement shall be binding unless executed in writing by both parties hereto. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provision hereof (whether or not similar) nor shall such waiver constitute a continuing waiver.

11. **Entire Agreement**

This Agreement shall supersede and replace any and all prior agreements (except any written agreement of employment between the Indemnifier and the Indemnified Party, which shall remain in full force and effect), except to the extent augmented or amended hereby, between the parties hereto respecting the specific subject matter set forth herein, and shall constitute the entire agreement between the parties hereto in respect of the specific subject matter set forth herein.

12. **Successors and Assigns**

This Agreement shall be binding upon and enure for the benefit of the Indemnifier and its successors and assigns and to the Indemnified Party and his or her estates, executors, administrators, legal representatives, lawful heirs, successors and assigns.

13. **Successor Legislation**

Any references herein to any enactment shall be deemed to be references to such enactment as the same may be amended or replaced from time to time.

14. **Effective Date**

For greater certainty, notwithstanding the date of execution hereof, the indemnities provided herein shall be effective as against the Indemnifier as of the date the Indemnified Party first was appointed or elected a director and/or officer of the Indemnifier until such date he ceases to be a director and/or officer.

IN WITNESS WHEREOF the parties hereto have executed this Agreement as at the date first written above.

**Signed, sealed and
delivered, in the presence of:**

)
)
)
)
)
)
)
)
)
)

Witness

PETROTEQ ENERGY, INC.

By: _____

Name: _____

Title: _____

I have authority to bind the Corporation.



STANDARD MULTI-TENANT OFFICE LEASE - GROSS
AIR COMMERCIAL REAL ESTATE ASSOCIATION

1. Basic Provisions ("Basic Provisions").

1.1 Parties: This Lease ("Lease"), dated for reference purposes only January 17, 2018 is made by and between Camp Granada LLC ("Lessor") and Petroblog LLC ("Lessee"), (collectively the "Parties", or individually a "Party").

1.2(a) Premises: That certain portion of the Project (as defined below), known as Suite Numbers(s) 4768 - #200, 2nd floor(s), consisting of approximately 1,800 rentable square feet and approximately useable square feet ("Premises"). The Premises are located at: 4768 Park Granada, in the City of Calabasas, County of Los Angeles, State of California, with zip code 91302. In addition to Lessee's rights to use and occupy the Premises as hereinafter specified, Lessee shall have non-exclusive rights to the Common Areas (as defined in Paragraph 2.7 below) as hereinafter specified, but shall not have any rights to the roof, the exterior walls, the area above the dropped ceilings, or the utility raceways of the building containing the Premises ("Building") or to any other buildings in the Project. The Premises, the Building, the Common Areas, the land upon which they are located, along with all other buildings and improvements thereon, are herein collectively referred to as the "Project". The Project consists of approximately 17,472 rentable square feet. (See also Paragraph 2)

1.2(b) Parking: 4 unreserved and 0 reserved vehicle parking spaces at a monthly cost of \$0 per unreserved space and \$0.00 per reserved space. (See Paragraph 2.6)

1.3 Term: Three (3) years and Zero (0) months ("Original Term") commencing March 1, 2018 or upon completion of Tenant Improvements whichever is Last ("Commencement Date") and ending February 28, 2021 ("Expiration Date"). (See also Paragraph 3)

1.4 Early Possession: If the Premises are available Lessee may have non-exclusive possession of the Premises commencing ("Early Possession Date"). (See also Paragraphs 3.2 and 3.3)

1.5 Base Rent: \$3,870.00 per month ("Base Rent"), payable on the first (1st) day of each month commencing March 1, 2018. (See also Paragraph 4)

[X] If this box is checked, there are provisions in this Lease for the Base Rent to be adjusted. See Paragraph

1.6 Lessee's Share of Operating Expense Increase: Nineteen point four seven percent (19.4%) ("lessee's Share"). In the event that that size of the Premises and/or the Project are modified during the term of this Lease, Lessor shall recalculate Lessee's Share to reflect such modification.

1.7 Base Rent and Other Monies Paid Upon Execution:

- (a) Base Rent: \$3,870.00 for the period March 1 to March 31, 2018.
(b) Security Deposit: \$4,105.68 ("Security Deposit"). (See also Paragraph 5)
(c) Parking: \$N/A for the period
(d) Other: \$ for
(e) Total Due Upon Execution of this Lease: \$7,975.68.

1.8 Agreed Use: General Office Use and no other uses. (See also Paragraph 6)

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[Handwritten initials]
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1.9 **Base Year; Insuring Party.** The Base Year is 2018. Lessor is the "**Insuring Party**". (See also Paragraphs 4.2 and 8)

1.10 **Real Estate Brokers:** (See also Paragraph 15)

(a) **Representation:** The following real estate brokers (the "**Brokers**") an brokerage relationships exist in this transaction (check applicable boxes):

- MAM Commercial a Medical Asset Company represents Lessor exclusively ("**Lessor's Broker**");
- Peak Commercial represents Lessee exclusively ("**Lessee's Broker**"); or
- _____ represents both Lessor and Lessee ("**Dual Agency**").

(b) **Payment to Brokers:** Upon execution and delivery of this Lease by both Parties, Lessor shall pay to the Brokers for the brokerage services rendered by the Brokers the fee agreed to in to in the attached a separate written agreement or if no such agreement is attached, the sum of _____ or _____% of the total Base Rent payable for the Original Term, the sum of _____ or _____ of the total Base Rent payable during any period of time that the Lessee occupies the Premises subsequent to the Original Term, and for the sum of _____ or _____% of the purchase price in the event that the Lessee or anyone affiliated with Lessee acquires from Lessor any rights to the Premises.

1.11 **Guarantor.** The obligations of the Lessee under this Lease shall be guaranteed by _____ ("**Guarantee**"). (See also Paragraph 37)

1.12 **Business Hours for the Building:** 8 a.m. to 6 p.m., Mondays through Fridays (except Building Holidays) and 8 a.m. to 6 p.m. on Saturdays (except Building Holidays). "**Building Holidays**" shall mean the dates of observation of New Year's Day, President's Day, Memorial Day, Independence Day, Labor Day, Thanksgiving Day, Christmas Day, and _____.

1.13 **Lessor Supplied Services.** Notwithstanding the provisions of Paragraph 11.1, Lessor is **NOT** obligated to provide the following within the Premises:

- Janitorial services
- Electricity
- Other (specify): phone, internet and cable, security

1.14 **Attachments.** Attached hereto are the following, all of which constitute a part of this Lease:

- an Addendum consisting of Paragraphs 50 through 64;
- plot plan depicting the Premises;
- current set of the Rules and Regulations;
- Work Letter;
- a janitorial schedule;
- other (specify): Rental Adjustment, Arbitration agreement, Option Agreement, Guarantee of Lease.



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2. Premises.

2.1 **Letting.** Lessor hereby leases to Lessee, and Lessee hereby leases from Lessor, the Premises, for the term, at the rental, and upon all of the terms, covenants and conditions set forth in this Lease. While the approximate square footage of the Premises may have been used in the marketing of the Premises for purposes of comparison, the Base Rent stated herein is NOT tied to square footage and is not subject to adjustment should the actual size be determined to be different. **Note: Lessee is advised to verify the actual size prior to executing this Lease.**

2.2 **Condition.** Lessor shall deliver the Premises to Lessee in a clean condition on the Commencement Date or the Early Possession Date, whichever first occurs ("**Start Date**"), and warrants that the existing electrical, plumbing, fire sprinkler, lighting, heating, ventilating and air conditioning systems ("**HVAC**"), and all other items which the Lessor is obligated to construct pursuant to the Work Letter attached hereto, if any, other than those constructed by Lessee, shall be in good operating condition on said date, that the structural elements of the roof, bearing walls and foundation of the Unit shall be free of material defects, and that the Premises do not contain hazardous levels of any mold or fungi defined as toxic under applicable state or federal law.

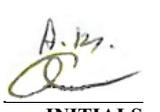
2.3 **Compliance.** Lessor warrants to the best of its knowledge that the improvements comprising the Premises and the Common Areas comply with the building codes that were in effect at the time that each such improvement, or portion thereof, was constructed, and also with all applicable laws, covenants or restrictions of record, regulations, and ordinances ("**Applicable Requirements**") in effect on the Start Date. Said warranty does not apply to the use to which Lessee will put the Premises, modifications which may be required by the Americans with Disabilities Act or any similar laws as a result of Lessee's use (see Paragraph 49), or to any Alterations or Utility Installations (as defined in Paragraph 7.3(a)) made or to be made by Lessee. **NOTE: Lessee is responsible for determining whether or not the zoning and other Applicable Requirements are appropriate for Lessee's intended use, and acknowledges that past uses of the Premises may no longer be allowed.** If the Premises do not comply with said warranty, Lessor shall, except as otherwise provided, promptly after receipt of written notice from Lessee setting forth with specificity the nature and extent of such non-compliance, rectify the same. If the Applicable Requirements are hereafter changed so as to require during the term of this Lease the construction of an addition to or an alteration of the Premises, the remediation of any Hazardous Substance, or the reinforcement or other physical modification of the Premises ("**Capital Expenditure**"), Lessor and Lessee shall allocate the cost of such work as follows:

(a) Subject to Paragraph 2.3(c) below, if such Capital Expenditures are required as a result of the specific and unique use of the Premises by Lessee as compared with uses by tenants in general, Lessee shall be fully responsible for the cost thereof, provided, however that if such Capital Expenditure Is required during the last 2 years of this Lease and the cost thereof exceeds 6 months' Base Rent, Lessee may instead terminate this Lease unless Lessor notifies Lessee, in writing, within 10 days after receipt of Lessee's termination notice that Lessor has elected to pay the difference between the actual cost thereof and the amount equal to 6 months' Base Rent. If Lessee elects termination, Lessee shall immediately cease the use of the Premises which requires such Capital Expenditure and deliver to Lessor written notice specifying a termination date at least 90 days thereafter. Such termination date shall, however, in no event be earlier than the last day that Lessee could legally utilize the Premises without commencing such Capital Expenditure.

(b) If such Capital Expenditure is not the result of the specific and unique use of the Premises by Lessee (such as, governmentally mandated seismic modifications), then Lessor shall pay for such Capital Expenditure and Lessee shall only be obligated to pay, each month during the remainder of the term of this Lease or any extension thereof, on the date that on which the Base Rent is due, an amount equal to 1/144th of the portion of such costs reasonably attributable to the Premises, Lessee shall pay Interest on the balance but may prepay its obligation at any time. If, however, such Capital Expenditure is required during the last 2 years of this Lease or if Lessor reasonably determines that it is not economically feasible to pay its share thereof, Lessor shall have the option to terminate this Lease upon 90 days prior written notice to Lessee unless Lessee notifies Lessor, in writing, within 10 days after receipt of Lessor's termination notice that Lessee will pay for such Capital Expenditure, If Lessor does not elect to terminate, and fails to tender its share of any such Capital Expenditure, Lessee may advance such funds and deduct same, with Interest, from Rent until Lessor's share of such costs have been fully paid. If Lessee is unable to finance Lessor's share, or if the balance of the Rent due and payable for the remainder of this Lease is not sufficient to fully reimburse Lessee on an offset basis, Lessee shall have the right to terminate this Lease upon 30 days written notice to Lessor.

(c) Notwithstanding the above, the provisions concerning Capital Expenditures are intended to apply only to nonvoluntary, unexpected, and new Applicable Requirements. If the Capital Expenditures are instead triggered by Lessee as a result of an actual or proposed change In use, change in intensity of use, or modification to the Premises then, and in that event, Lessee shall either: (i) immediately cease such changed use or intensity of use and/or take such other steps as may be necessary to eliminate the requirement for such Capital Expenditure, or (ii) complete such Capital Expenditure at its own expense. Lessee shall not have any right to terminate this Lease.


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2.4 Acknowledgements. Lessee acknowledges that: (a) it has been given an opportunity to inspect and measure the Premises, (b) Lessee has been advised by Lessor and/or Brokers to satisfy itself with respect to the size and condition of the Premises (including but not limited to the electrical, HVAC and fire sprinkler systems, security, environmental aspects, and compliance with Applicable Requirements), and their suitability for Lessee's intended use, (c) Lessee has made such investigation as it deems necessary with reference to such matters and assumes all responsibility therefor as the same relate to its occupancy of the Premises, (d) it is not relying on any representation as to the size of the Premises made by Brokers or Lessor, (e) the square footage of the Premises was not material to Lessee's decision to lease the Premises and pay the Rent stated herein, and (f) neither Lessor, Lessor's agents, nor Brokers have made any oral or written representations or warranties with respect to said matters other than as set forth in this Lease. In addition, Lessor acknowledges that: (i) Brokers have made no representations, promises or warranties concerning Lessee's ability to honor the Lease or suitability to occupy the Premises, and (ii) it is Lessor's sole responsibility to investigate the financial capability and/or suitability of all proposed tenants.

2.5 Lessee as Prior Owner/Occupant. The warranties made by Lessor in Paragraph 2 shall be of no force or effect if immediately prior to the Start Date, Lessee was the owner or occupant of the Premises. In such event, Lessee shall be responsible for any necessary corrective work.

2.6 Vehicle Parking. So long as Lessee is not in default, and subject to the Rules and Regulations attached hereto, and as established by Lessor from time to time, Lessee shall be entitled to rent and use the number of parking spaces specified in Paragraph 1.2(b) at the rental rate applicable from time to time for monthly parking as set by Lessor and/or its licensee.

(a) if Lessee commits, permits or allows any of the prohibited activities described in the Lease or the rules then in effect, then Lessor shall have the right, without notice, in addition to such other rights and remedies that it may have, to remove or tow away the vehicle involved and charge the cost to Lessee, which cost shall be immediately payable upon demand by Lessor.

(b) The monthly rent per parking space specified in Paragraph 1.2(b) is subject to change upon 30 days prior written notice to Lessee. The rent for the parking is payable one month in advance prior to the first day of each calendar month.

2.7 Common Areas - Definition. The term "Common Areas" is defined as all areas and facilities outside the Premises and within the exterior boundary line of the Project and interior utility raceways and installations within the Premises that are provided and designated by the Lessor from time to time for the general nonexclusive use of Lessor, Lessee and other tenants of the Project and their respective employees, suppliers, shippers, customers, contractors and invitees, including, but not limited to, common entrances, lobbies, corridors, stairwells, public restrooms, elevators, parking areas, loading and unloading areas, trash areas, roadways, walkways, driveways and landscaped areas.



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2.8 **Common Areas - Lessee's Rights.** Lessor grants to Lessee, for the benefit of Lessee and its employees, suppliers, shippers, contractors, customers and invitees, during the term of this Lease, the nonexclusive right to use, in common with others entitled to such use, the Common Areas as they exist from time to time, subject to any rights, powers, and privileges reserved by Lessor under the terms hereof or under the terms of any rules and regulations or restrictions governing the use of the Project. Under no circumstances shall the right herein granted to use the Common Areas be deemed to include the right to store any property, temporarily or permanently, in the Common Areas. Any such storage shall be permitted only by the prior written consent of Lessor or Lessor's designated agent, which consent may be revoked at any time. In the event that any unauthorized storage shall occur then Lessor shall have the right, without notice, in addition to such other rights and remedies that it may have, to remove the property and charge the cost to Lessee, which cost shall be immediately payable upon demand by Lessor.

2.9 **Common Areas - Rules and Regulations.** Lessor or such other person(s) as Lessor may appoint shall have the exclusive control and management of the Common Areas and shall have the right, from time to time, to adopt, modify, amend and enforce reasonable rules and regulations ("**Rules and Regulations**") for the management, safety, care, and cleanliness of the grounds, the parking and unloading of vehicles and the preservation of good order, as well as for the convenience of other occupants or tenants of the Building and the Project and their invitees. The Lessee agrees to abide by and conform to all such Rules and Regulations, and shall use its best efforts to cause its employees, suppliers, shippers, customers, contractors and invitees to (s) abide and conform. Lessor shall not be responsible to Lessee for the noncompliance with said Rules and Regulations by other tenants of the Project.

2.10 **Common Areas - Changes.** Lessor shall have the right, in Lessor's sole discretion, from time to time:

(a) To make changes to the Common Areas, including, without limitation, changes in the location, size, shape and number of the lobbies, windows, stairways, air shafts, elevators, escalators, restrooms, driveways, entrances, parking spaces, parking areas, loading and unloading areas, ingress, egress, direction of traffic, landscaped areas, walkways and utility raceways;

(b) To close temporarily any of the Common Areas for maintenance purposes so long as reasonable access to the Premises remains available;

(c) To designate other land outside the boundaries of the Project to be a part of the Common Areas;

(d) To add additional buildings and improvements to the Common Areas;

(e) To use the Common Areas while engaged in making additional improvements, repairs or alterations to the Project, or any portion thereof; and

(f) To do and perform such other acts and make such other changes in, to or with respect to the Common Areas and Project as Lessor may, in the exercise of sound business judgment, deem to be appropriate.

3. Term.

3.1 **Term.** The Commencement Date, Expiration Date and Original Term of this Lease are as specified in Paragraph 1.3.

3.2 **Early Possession.** Any provision herein granting Lessee Early Possession of the Premises is subject to and conditioned upon the Premises being available for such possession prior to the Commencement Date. Any grant of Early Possession only conveys a non-exclusive right to occupy the Premises. If Lessee totally or partially occupies the Premises prior to the Commencement Date, the obligation to pay Base Rent shall be abated for the period of such Early Possession. All other terms of this Lease (including but not limited to the obligations to pay Lessee's Share of the Operating Expense Increase) shall be in effect during such period. Any such Early Possession shall not affect the Expiration Date.

3.3 **Delay In Possession.** Lessor agrees to use its best commercially reasonable efforts to deliver possession of the Premises to Lessee by the Commencement Date. If, despite said efforts, Lessor is unable to deliver possession by such date, Lessor shall not be subject to any liability therefor, nor shall such failure affect the validity of this Lease. Lessee shall not, however, be obligated to pay Rent or perform its other obligations until Lessor delivers possession of the Premises and any period of rent abatement that Lessee would otherwise have enjoyed shall run from the date of delivery of possession and continue for a period equal to what Lessee would otherwise have enjoyed under the terms hereof, but minus any days of delay caused by the acts or omissions of Lessee. If possession is not delivered within 60 days after the Commencement Date, as the same may be extended under the terms of any Work Letter executed by Parties, Lessee may, at its option, by notice in writing within 10 days after the end of such 60 day period, cancel this Lease, in which event the Parties shall be discharged from all obligations hereunder. If such written notice is not received by Lessor within said 10 day period, Lessee's right to cancel shall terminate. If possession of the Premises is not delivered within 120 days after the Commencement Date, this Lease shall terminate unless other agreements are reached between Lessor and Lessee, in writing.

3.4 **Lessee Compliance.** Lessor shall not be required to deliver possession of the Premises to Lessee until Lessee complies with its obligation to provide evidence of insurance (Paragraph 8.5). Pending delivery of such evidence, Lessee shall be required to perform all of its obligations under this Lease from and after the Start Date, including the payment of Rent, notwithstanding Lessor's election to withhold possession pending receipt of such evidence of insurance. Further, if Lessee is required to perform any other conditions prior to or concurrent with the Start Date, the Start Date shall occur but Lessor may elect to withhold possession until such conditions are satisfied.



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4. Rent.

4.1. Rent Defined. All monetary obligations of Lessee to Lessor under the terms of this Lease (except for the Security Deposit) are deemed to be rent (“Rent”).

4.2 Operating Expense Increase. Lessee shall pay to Lessor during the term hereof, in addition to the Base Rent, Lessee’s Share of the amount by which all Operating Expenses for each Comparison Year exceeds the amount of all Operating Expenses for the Base Year, such excess being hereinafter referred to as the “**Operating Expense Increase**”, in accordance with the following provisions:

(a) “**Base Year**” is as specified in Paragraph 1.9.

(b) “**Comparison Year**” is defined as each calendar year during the term of this Lease subsequent to the Base Year; provided, however, Lessee shall have no obligation to pay a share of the Operating Expense Increase applicable to the first 12 months of the Lease Term (other than such as are mandated by a governmental authority, as to which government mandated expenses Lessee shall pay Lessee’s Share, notwithstanding they occur during the first twelve (12) months). Lessee’s Share of the Operating Expense Increase for the first and last Comparison Years of the Lease Term shall be prorated according to that portion of such Comparison Year as to which Lessee is responsible for a share of such increase.

(c) The following costs relating to the ownership and operation of the Project, calculated as if the Project was at least 95% occupied, are defined as “**Operating Expenses**”:

(i) Costs relating to the operation, repair, and maintenance in neat, clean, safe, good order and condition, but not the replacement (see subparagraph (g)), of the following:

(aa) The Common Areas, including their surfaces, coverings, decorative items, carpets, drapes and window coverings, and including parking areas, loading and unloading areas, trash areas, roadways, sidewalks, walkways, stairways, parkways, driveways, landscaped areas, striping, bumpers, irrigation systems, Common Area lighting facilities, building exteriors and roofs, fences and gates;

(bb) All heating, air conditioning, plumbing, electrical systems, life safety equipment, communication systems and other equipment used in common by, or for the benefit of, tenants or occupants of the Project, including elevators and escalators, tenant directories, fire detection systems including sprinkler system maintenance and repair.

(cc) All other areas and improvements that are within the exterior boundaries of the Project but outside of the Premises and/or any other space occupied by a tenant.

(ii) The cost of trash disposal, janitorial and security services, pest control services, and the costs of any environmental inspections;

(iii) The cost of any other service to be provided by Lessor that is elsewhere in this Lease stated to be an “Operating Expense”;

(iv) The cost of the premiums for the insurance policies maintained by Lessor pursuant to paragraph 8 and any deductible portion of an insured loss concerning the Building or the Common Areas;

(v) The amount of the Real Property Taxes payable by Lessor pursuant to paragraph 10;

(vi) The cost of water, sewer, gas, electricity, and other publicly mandated services not separately metered;

(vii) Labor, salaries, and applicable fringe benefits and costs, materials, supplies and tools, used in maintaining and/or cleaning the Project and accounting and management fees attributable to the operation of the Project;

(viii) The cost of any capital improvement to the Building or the Project not covered under the provisions of Paragraph 2.3 provided; however, that Lessor shall allocate the cost of any such capital improvement over a 12 year period and Lessee shall not be required to pay more than Lessee’s Share of 1/144th of the cost of such Capital Expenditure in any given month;

(ix) The cost to replace equipment or improvements that have a useful life for accounting purposes of 5 years or less.

(x) Reserves set aside for maintenance, repair and/or replacement of Common Area improvements and equipment.

(d) Any item of Operating Expense that is specifically attributable to the Premises, the Building or to any other building in the Project or to the operation, repair and maintenance thereof, shall be allocated entirely to such Premises, Building, or other building. However, any such item that is not specifically attributable to the Building or to any other building or to the operation, repair and maintenance thereof, shall be equitably allocated by Lessor to all buildings in the Project.



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(e) The inclusion of the improvements, facilities and services set forth in Subparagraph 4.2(c) shall not be deemed to impose an obligation upon Lessor to either have said improvements or facilities or to provide those services unless the Project already has the same, Lessor already provides the services, or Lessor has agreed elsewhere in this Lease to provide the same or some of them.

(f) Lessee's Share of Operating Expense Increase is payable monthly on the same day as the Base Rent is due hereunder. The amount of such payments shall be based on Lessor's estimate of the Operating Expense Expenses. Within 60 days after written request (but not more than once each year) Lessor shall deliver to Lessee a reasonably detailed statement showing Lessee's Share of the actual Common Area Operating Expenses for the preceding year. If Lessee's payments during such Year exceed Lessee's Share, Lessee shall credit the amount of such over-payment against Lessee's future payments. If Lessee's payments during such Year were less than Lessee's Share, Lessee shall pay to Lessor the amount of the deficiency within 10 days after delivery by Lessor to Lessee of said statement. Lessor and Lessee shall forthwith adjust between them by cash payment any balance determined to exist with respect to that portion of the last Comparison Year for which Lessee is responsible as to Operating Expense increases, notwithstanding that the Lease term may have terminated before the end of such Comparison Year.

(g) Operating Expenses shall not include the costs of replacement for equipment or capital components such as the roof, foundations, exterior walls or a Common Area capital improvement, such as the parking lot paving, elevators, fences that have a useful life for accounting purposes of 5 years or more.

(h) Operating Expenses shall not include any expenses paid by any tenant directly to third parties, or as to which Lessor is otherwise reimbursed by any third party, other tenant, or by insurance proceeds.

4.3 Payment. Lessee shall cause payment of Rent to be received by Lessor in lawful money of the United States on or before the day on which it is due, without offset or deduction (except as specifically permitted in this Lease). All monetary amounts shall be rounded to the nearest whole dollar. In the event that any invoice prepared by Lessor is inaccurate such inaccuracy shall not constitute a waiver and Lessee shall be obligated to pay the amount set forth in this Lease. Rent for any period during the term hereof which is for less than one full calendar month shall be prorated based upon the actual number of days of said month. Payment of Rent shall be made to Lessor at its address stated herein or to such other persons or place as Lessor may from time to time designate in writing. Acceptance of a payment which is less than the amount then due shall not be a waiver of Lessor's rights to the balance of such Rent, regardless of Lessor's endorsement of any check so stating. In the event that any check, draft, or other instrument of payment given by Lessee to Lessor is dishonored for any reason, Lessee agrees to pay to Lessor the sum of \$25 in addition to any Late Charge and Lessor, at its option, may require all future Rent be paid by cashier's check. Payments will be applied first to accrued late charges and attorney's fees, second to accrued interest, then to Base Rent and Common Area Operating Expenses, and any remaining amount to any other outstanding charges or costs.

5. Security Deposit. Lessee shall deposit with Lessor upon execution hereof the Security Deposit as security for Lessee's faithful performance of its obligations under this Lease. If Lessee fails to pay Rent, or otherwise Defaults under this Lease, Lessor may use, apply or retain all or any portion of said Security Deposit for the payment of any amount already due Lessor, for Rents which will be due in the future, and/ or to reimburse or compensate Lessor for any liability, expense, loss or damage which Lessor may suffer or Incur by reason thereof. If Lessor uses or applies all or any portion of the Security Deposit, Lessee shall within 10 days after written request therefor deposit monies with Lessor sufficient to restore said Security Deposit to the full amount required by this Lease. If the Base Rent increases during the term of this Lease, Lessee shall, upon written request from Lessor, deposit additional monies with Lessor so that the total amount of the Security Deposit shall at all times bear the same proportion to the increased Base Rent as the initial Security Deposit bore to the Initial Base Rent. Should the Agreed Use be amended to accommodate a material change in the business of Lessee or to accommodate a sublessee or assignee, Lessor shall have the right to increase the Security Deposit to the extent necessary, in Lessor's reasonable judgment, to account for any increased wear and tear that the Premises may suffer as a result thereof. If a change in control of Lessee occurs during this Lease and following such change the financial condition of Lessee is, in Lessor's reasonable judgment, significantly reduced, Lessee shall deposit such additional monies with Lessor as shall be sufficient to cause the Security Deposit to be at a commercially reasonable level based on such change in financial condition. Lessor shall not be required to keep the Security Deposit separate from its general accounts. Within 90 days after the expiration or termination of this Lease, Lessor shall return that portion of the Security Deposit not used or applied by Lessor. No part of the Security Deposit shall be considered to be held in trust, to bear interest or to be prepayment for any monies to be paid by Lessee under this Lease

6. Use

6.1 Use. Lessee shall use and occupy the Premises only for the Agreed Use, or any other legal use which is reasonably comparable thereto, and for no other purpose. Lessee shall not use or permit the use of the Premises in a manner that is unlawful, creates damage, waste or a nuisance, or that disturbs occupants of or causes damage to neighboring premises or properties. Other than guide, signal and seeing eye dogs, Lessee shall not keep or allow in the Premises any pets, animals, birds, fish, or reptiles. Lessor shall not unreasonably withhold or delay its consent to any written request for a modification of the Agreed Use, so long as the same will not impair the structural integrity of the improvements of the Building, will not adversely affect the mechanical, electrical, HVAC, and other systems of the Building, and/or will not affect the exterior appearance of the Building. If Lessor elects to withhold consent, Lessor shall within 7 days after such request give written notification of same, which notice shall include an explanation of Lessor's objections to the change in the Agreed Use.


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6.2 Hazardous Substances.

(a) **Reportable Uses Require Consent.** The term “**Hazardous Substance**” as used in this Lease shall mean any product, substance, or waste whose presence, use, manufacture, disposal, transportation, or release, either by itself or in combination with other materials expected to be on the Premises, is either: (i) potentially injurious to the public health, safety or welfare, the environment or the Premises, (ii) regulated or monitored by any governmental authority, or (iii) a basis for potential liability of Lessor to any governmental agency or third party under any applicable statute or common law theory. Hazardous Substances shall include, but not be limited to, hydrocarbons, petroleum, gasoline, and/or crude oil or any products, byproducts or fractions thereof. Lessee shall not engage in any activity in or on the Premises which constitutes a Reportable Use of Hazardous Substances without the express prior written consent of Lessor and timely compliance (at Lessee’s expense) with all Applicable Requirements. “**Reportable Use**” shall mean (i) the installation or use of any above or below ground storage tank, (ii) the generation, possession, storage, use, transportation, or disposal of a Hazardous Substance that requires a permit from, or with respect to which a report, notice, registration or business plan is required to be filed with, any governmental authority, and/or (iii) the presence at the Premises of a Hazardous Substance with respect to which any Applicable Requirements requires that a notice be given to persons entering or occupying the Premises or neighboring properties. Notwithstanding the foregoing, Lessee may use any ordinary and customary materials reasonably required to be used in the normal course of the Agreed Use such as ordinary office supplies (copier toner, liquid paper, glue, etc.) and common household cleaning materials, so long as such use is in compliance with all Applicable Requirements, is not a Reportable Use, and does not expose the Premises or neighboring property to any meaningful risk of contamination or damage or expose Lessor to any liability therefor. In addition, Lessor may condition its consent to any Reportable Use upon receiving such additional assurances as Lessor reasonably deems necessary to protect itself, the public, the Premises and/or the environment against damage, contamination, injury and/or liability, including, but not limited to, the installation (and removal on or before Lease expiration or termination) of protective modifications (such as concrete encasements) and/or increasing the Security Deposit.

(b) **Duty to Inform Lessor.** If Lessee knows, or has reasonable cause to believe, that a Hazardous Substance has come to be located in, on, under or about the Premises, other than as previously consented to by Lessor, Lessee shall immediately give written notice of such fact to Lessor, and provide Lessor with a copy of any report, notice, claim or other documentation which it has concerning the presence of such Hazardous Substance.

(c) **Lessee Remediation.** Lessee shall not cause or permit any Hazardous Substance to be spilled or released in, on, under, or about the Premises (including through the plumbing or sanitary sewer system) and shall promptly, at Lessee’s expense, comply with all Applicable Requirements and take all investigatory and/or remedial action reasonably recommended, whether or not formally ordered or required, for the cleanup of any contamination of, and for the maintenance, security and/or monitoring of the Premises or neighboring properties, that was caused or materially contributed to by Lessee, or pertaining to or involving any Hazardous Substance brought onto the Premises during the term of this Lease, by or for Lessee, or any third party.

(d) **Lessee Indemnification.** Lessee shall indemnify, defend and hold Lessor, its agents, employees, lenders and ground lessor, if any, harmless from and against any and all loss of rents and/or damages, liabilities, judgments, claims, expenses, penalties, and attorneys’ and consultants’ fees arising out of or Involving any Hazardous Substance brought onto the Premises by or for Lessee, or any third party (provided, however, that Lessee shall have no liability under this Lease with respect to underground migration of any Hazardous Substance under the Premises from areas outside of the Project not caused or contributed to by Lessee). Lessee’s obligations shall include, but not be limited to, the effects of any contamination or injury to person, property or the environment created or suffered by Lessee, and the cost of investigation, removal, remediation, restoration and/or abatement, and shall survive the expiration or termination of this Lease. No termination, cancellation or release agreement entered into by Lessor and Lessee shall release Lessee from its obligations under this Lease with respect to Hazardous Substances, unless specifically so agreed by Lessor in writing at the time of such agreement.

(e) **Lessor Indemnification.** Lessor and its successors and assigns shall indemnify, defend, reimburse and hold Lessee, its employees and lenders, harmless from and against any and all environmental damages, including the cost of remediation, which result from Hazardous Substances which existed on the Premises prior to Lessee’s occupancy or which are caused by the gross negligence or willful misconduct of Lessor, its agents or employees. Lessors obligations, as and when required by the Applicable Requirements, shall include, but not be limited to, the cost of investigation, removal, remediation, restoration and/or abatement, and shall survive the expiration or termination of this Lease.



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(f) **Investigations and Remediations.** Lessor shall retain the responsibility and pay for any investigations or remediation measures required by governmental entities having jurisdiction with respect to the existence of Hazardous Substances on the Premises prior to Lessee's occupancy, unless such remediation measure is required as a result of Lessee's use (including "Alterations", as defined in paragraph 7.3(a) below) of the Premises, in which event Lessee shall be responsible for such payment. Lessee shall cooperate fully in any such activities at the request of Lessor, including allowing Lessor and Lessors agents to have reasonable access to the Premises at reasonable times in order to carry out Lessors investigative and remedial responsibilities.

(g) **Lessor Termination Option.** If a Hazardous Substance Condition (see Paragraph 9.1(e)) occurs during the term of this Lease, unless Lessee is legally responsible therefor (in which case Lessee shall make the investigation and remediation thereof required by the Applicable Requirements and this Lease shall continue in full force and effect, but subject to Lessors rights under Paragraph 6.2(d) and Paragraph 13), Lessor may, at Lessor's option, either (i) investigate and remediate such Hazardous Substance Condition, if required, as soon as reasonably possible at Lessor's expense, in which event this Lease shall continue in full force and effect, or (ii) if the estimated cost to remediate such condition exceeds 12 times the then monthly Base Rent or \$100,000, whichever is greater, give written notice to Lessee, within 30 days after receipt by Lessor of knowledge of the occurrence of such Hazardous Substance Condition, of Lessor's desire to terminate this Lease as of the date 60 days following the date of such notice. In the event Lessor elects to give a termination notice, Lessee may, within 10 days thereafter, give written notice to Lessor of Lessee's commitment to pay the amount by which the cost of the remediation of such Hazardous Substance Condition exceeds an amount equal to 12 times the then monthly Base Rent or \$100,000, whichever is greater. Lessee shall provide Lessor with said funds or satisfactory assurance thereof within 30 days following such commitment. In such event, this Lease shall continue in full force and effect, and Lessor shall proceed to make such remediation as soon as reasonably possible after the required funds are available. If Lessee does not give such notice and provide the required funds or assurance thereof within the time provided, this Lease shall terminate as of the date specified in Lessors notice of termination.

6.3 Lessee's Compliance with Applicable Requirements. Except as otherwise provided in this Lease, Lessee shall, at Lessee's sole expense, fully, diligently and in a timely manner, materially comply with all Applicable Requirements, the requirements of any applicable fire insurance underwriter or rating bureau, and the recommendations of Lessor's engineers and/or consultants which relate in any manner to the Premises, without regard to whether said requirements are now in effect or become effective after the Start Date. Lessee shall, within 10 days after receipt of Lessor's written request, provide Lessor with copies of all permits and other documents, and other information evidencing Lessee's compliance with any Applicable Requirements specified by Lessor, and shall immediately upon receipt, notify Lessor in writing (with copies of any documents involved) of any threatened or actual claim, notice, citation, warning, complaint or report pertaining to or involving the failure of Lessee or the Premises to comply with any Applicable Requirements. Likewise, Lessee shall immediately give written notice to Lessor of: (i) any water damage to the Premises and any suspected seepage, pooling, dampness or other condition conducive to the production of mold; or (ii) any mustiness or other odors that might indicate the presence of mold in the Premises.

6.4 Inspection; Compliance. Lessor and Lessor's "Lender" (as defined in Paragraph 30) and consultants shall have the right to enter into Premises at any time, in the case of an emergency, and otherwise at reasonable times, after reasonable notice, for the purpose of inspecting the condition of the Premises and for verifying compliance by Lessee with this Lease. The cost of any such inspections shall be paid by Lessor, unless a violation of Applicable Requirements, or a Hazardous Substance Condition (see paragraph 9.1e) is found to exist or be imminent, or the inspection is requested or ordered by a governmental authority. In such case, Lessee shall upon request reimburse Lessor for the cost of such inspection, so long as such inspection is reasonably related to the violation or contamination. In addition, Lessee shall provide copies of all relevant material safety data sheets (MSDS) to Lessor within 10 days of the receipt of written request therefor.

7. Maintenance; Repairs; Utility installations; Trade Fixtures and Alterations.

7.1 Lessee's Obligations. Notwithstanding Lessor's obligation to keep the Premises in good condition and repair, Lessee shall be responsible for payment of the cost thereof to Lessor as additional rent for that portion of the cost of any maintenance and repair of the Premises, or any equipment (wherever located) that serves only Lessee or the Premises, to the extent such cost is attributable to abuse or misuse. Lessee shall be responsible for the cost of painting, repairing or replacing wall coverings, and to repair or replace any improvements with the Premises. Lessor may, at its option, upon reasonable notice, elect to have Lessee perform any particular such maintenance or repairs the cost of which is otherwise Lessee's responsibility hereunder.

7.2 Lessor's Obligations. Subject to the provisions of Paragraphs 2.2 (Condition), 2.3 (Compliance), 4.2 (Operating Expenses), 6 (Use), 7.1 (Lessee's Obligations), 9 (Damage or Destruction) and 14 (Condemnation), Lessor, subject to reimbursement pursuant to Paragraph 4.2, shall keep in good order, condition and repair the foundations, exterior walls, structural condition of interior bearing walls, exterior roof, fire sprinkler system, fire alarm and/or smoke detection systems, fire hydrants, and the Common Areas. Lessee expressly waives the benefit of any statute now or hereafter in effect to the extent it is Inconsistent with the terms of this Lease.



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7.3 Utility Installations; Trade Fixtures; Alterations.

(a) **Definitions.** The term “**Utility Installations**” refers to all floor and window coverings, air lines, vacuum lines, power panels, electrical distribution, security and fire protection systems, communication cabling, lighting fixtures, HVAC equipment, and plumbing in or on the Premises. The term “**Trade Fixtures**” shall mean Lessee’s machinery and equipment that can be removed without doing material damage to the Premises. The term “**Alterations**” shall mean any modification of the improvements, other than Utility Installations or Trade Fixtures, whether by addition or deletion. “**Lessee Owned Alterations and/or Utility Installations**” are defined as Alterations and/or Utility Installations made by Lessee that are not yet owned by Lessor pursuant to Paragraph 7.4(a).

(b) **Consent.** Lessee shall not make any Alterations or Utility Installations to the Premises without Lessors prior written consent. Lessee may, however, make non-structural Alterations or Utility Installations to the interior of the Premises (excluding the roof) without such consent but upon notice to Lessor, as long as they are not visible from the outside, do not involve puncturing, relocating or removing the roof, ceilings, floors or any existing walls, will not affect the electrical, plumbing, HVAC, and/or life safety systems, and the cumulative cost thereof during this Lease as extended does not exceed \$2000. Notwithstanding the foregoing, Lessee shall not make or permit any roof penetrations and/or install anything on the roof without the prior written approval of Lessor. Lessor may, as a precondition to granting such approval, require Lessee to utilize a contractor chosen and/or approved by Lessor. Any Alterations or Utility Installations that Lessee shall desire to make and which require the consent of the Lessor shall be presented to Lessor in written form with detailed plans. Consent shall be deemed conditioned upon Lessee’s: (i) acquiring all applicable governmental permits, (ii) furnishing Lessor with copies of both the permits and the plans and specifications prior to commencement of the work, and (iii) compliance with all conditions of said permits and other Applicable Requirements in a prompt and expeditious manner. Any Alterations or Utility Installations shall be performed in a workmanlike manner with good and sufficient materials. Lessee shall promptly upon completion furnish Lessor with asbuilt plans and specifications. For work which costs an amount in excess of one month’s Base Rent, Lessor may condition its consent upon Lessee providing a lien and completion bond in an amount equal to 150% of the estimated cost of such Alteration or Utility Installation and/or upon Lessee’s posting an additional Security Deposit with Lessor.

(c) **Liens; Bonds.** Lessee shall pay, when due, all claims for labor or materials furnished or alleged to have been furnished to or for Lessee at or for use on the Premises, which claims are or may be secured by any mechanic’s or materialmen’s lien against the Premises or any interest therein. Lessee shall give Lessor not less than 10 days notice prior to the commencement of any work in, on or about the Premises, and Lessor shall have the right to post notices of non-responsibility. If Lessee shall contest the validity of any such lien, claim or demand, then Lessee shall, at its sole expense defend and protect itself, Lessor and the Premises against the same and shall pay and satisfy any such adverse judgment that may be rendered thereon before the enforcement thereof. If Lessor shall require, Lessee shall furnish a surety bond in an amount equal to 150% of the amount of such contested lien, claim or demand, indemnifying Lessor against liability for the same. If Lessor elects to participate in any such action, Lessee shall pay Lessors attorneys’ fees and costs.

7.4 Ownership; Removal; Surrender; and Restoration.

(a) **Ownership.** Subject to Lessors right to require removal or elect ownership as hereinafter provided, all Alterations and Utility Installations made by Lessee shall be the property of Lessee, but considered a part of the Premises. Lessor may, at any time, elect in writing to be the owner of all or any specified part of the Lessee Owned Alterations and Utility Installations. Unless otherwise instructed per paragraph 7.4(b) hereof, all Lessee Owned Alterations and Utility Installations shall, at the expiration or termination of this Lease, become the property of Lessor and be surrendered by Lessee with the Premises.

(b) **Removal.** By delivery to Lessee of written notice from Lessor not earlier than 90 and not later than 30 days prior to the end of the term of this Lease, Lessor may require that any or all Lessee Owned Alterations or Utility Installations be removed by the expiration or termination of this Lease. Lessor may require the removal at any time of all or any part of any Lessee Owned Alterations or Utility Installations made without the required consent.

(c) **Surrender; Restoration.** Lessee shall surrender the Premises by the Expiration Date or any earlier termination date, with all of the improvements, parts and surfaces thereof clean and free of debris, and in good operating order, condition and state of repair, ordinary wear and tear excepted. “Ordinary wear and tear” shall not include any damage or deterioration that would have been prevented by good maintenance practice. Notwithstanding the foregoing, if this Lease is for 12 months or less, then Lessee shall surrender the Premises in the same condition as delivered to Lessee on the Start Date with NO allowance for ordinary wear and tear. Lessee shall repair any damage occasioned by the installation, maintenance or removal of Trade Fixtures, Lessee owned Alterations and/or Utility Installations, furnishings, and equipment as well as the removal of any storage tank installed by or for Lessee. Lessee shall also completely remove from the Premises any and all Hazardous Substances brought onto the Premises by or for Lessee, or any third party (except Hazardous Substances which were deposited via underground migration from areas outside of the Premises) even if such removal would require Lessee to perform or pay for work that exceeds statutory requirements. Trade Fixtures shall remain the property of Lessee and shall be removed by Lessee. Any personal property of Lessee not removed on or before the Expiration Date or any earlier termination date shall be deemed to have been abandoned by Lessee and may be disposed of or retained by Lessor as Lessor may desire. The failure by Lessee to timely vacate the Premises pursuant to this Paragraph 7.4(c) without the express written consent of Lessor shall constitute a holdover under the provisions of Paragraph 26 below.


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8. Insurance; Indemnity.

8.1 Insurance Premiums. The cost of the premiums for the insurance policies maintained by Lessor pursuant to paragraph 8 are included as Operating Expenses (see paragraph 4.2 (c)(iv)). Said costs shall include increases in the premiums resulting from additional coverage related to requirements of the holder of a mortgage or deed of trust covering the Premises, Building and/or Project, increased valuation of the Premises, Building and/or Project, and/or a general premium rate increase. Said costs shall not, however, include any premium increases resulting from the nature of the occupancy of any other tenant of the Building. If the Project was not insured for the entirety of the Base Year, then the base premium shall be the lowest annual premium reasonably obtainable for the required insurance as of the Start Date, assuming the most nominal use possible of the Building and/or Project. In no event, however, shall Lessee be responsible for any portion of the premium cost attributable to liability insurance coverage in excess of \$2,000,000 procured under Paragraph 8.2(b).

8.2 Liability Insurance.

(a) **Carried by Lessee.** Lessee shall obtain and keep in force a Commercial General Liability policy of insurance protecting Lessee and Lessor as an additional insured against claims for bodily injury, personal injury and property damage based upon or arising out of the ownership, use, occupancy or maintenance of the Premises and all areas appurtenant thereto. Such insurance shall be on an occurrence basis providing single limit coverage in an amount not less than \$1,000,000 per occurrence with an annual aggregate of not less than \$2,000,000. Lessee shall add Lessor as an additional insured by means of an endorsement at least as broad as the Insurance Service Organization's "Additional Insured-Managers or Lessors of Premises" Endorsement and coverage shall also be extended to include damage caused by heat, smoke or fumes from a hostile lke. The policy shall not contain any intra-insured exclusions as between insured persons or organizations, but shall include coverage for liability assumed under this Lease as an "**Insured contract**" for the performance of Lessee's indemnity obligations under this Lease. The limits of said insurance shall not, however, limit the liability of Lessee nor relieve Lessee of any obligation hereunder. Lessee shall provide an endorsement on its liability policy(ies) which provides that its insurance shall be primary to and not contributory with any similar insurance carried by Lessor, whose insurance shall be considered excess insurance only.

(b) **Carried by Lessor.** Lessor shall maintain liability insurance as described in Paragraph 8.2(a), in addition to, and not in lieu of, the insurance required to be maintained by Lessee. Lessee shall not be named as an additional insured therein.

8.3 Property Insurance - Building, Improvements and Rental Value.

(a) **Building and Improvements.** Lessor shall obtain and keep in force a policy or policies of insurance in the name of Lessor, with loss payable to Lessor, any ground-lessor, and to any Lender insuring loss or damage to the Building and/or Project. The amount of such insurance shall be equal to the full insurable replacement cost of the Building and/or Project, as the same shall exist from time to time, or the amount required by any Lender, but in no event more than the commercially reasonable and available insurable value thereof. Lessee Owned Alterations and Utility Installations, Trade Fixtures, and Lessee's personal property shall be insured by Lessee not by Lessor. If the coverage is available and commercially appropriate, such policy or policies shall insure against all risks of direct physical loss or damage (except the perils of flood and/or earthquake unless required by a Lender), including coverage for debris removal and the enforcement of any Applicable Requirements requiring the upgrading, demolition, reconstruction or replacement of any portion of the Premises as the result of a covered loss. Said policy or policies shall also contain an agreed valuation provision in lieu of any coinsurance clause, waiver of subrogation, and inflation guard protection causing an increase in the annual property insurance coverage amount by a factor of not less than the adjusted U.S. Department of Labor Consumer Price Index for All Urban Consumers for the city nearest to where the Premises are located. If such insurance coverage has a deductible clause, the deductible amount shall not exceed \$5,000 per occurrence.

(b) **Rental Value.** Lessor shall also obtain and keep in force a policy or policies in the name of Lessor with loss payable to Lessor and any Lender, insuring the loss of the full Rent for one year with an extended period of indemnity for an additional 180 days ("Rental Value Insurance"). Said insurance shall contain an agreed valuation provision In lieu of any coinsurance clause, and the amount of coverage shall be adjusted annually to reflect the projected Rent otherwise payable by Lessee, for the next 12 month period.

(c) **Adjacent Premises.** Lessee shall pay for any increase in the premiums for the property insurance of the Building and for the Common Areas or other buildings in the Project if said increase is caused by Lessee's acts, omissions, use or occupancy of the Premises.

(d) **Lessee's Improvements.** Since Lessor is the Insuring Party, Lessor shall not be required to insure Lessee Owned Alterations and Utility Installations unless the item in question has become the property of Lessor under the terms of this Lease.


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8.4 Lessee's Property; Business Interruption insurance; Worker's Compensation Insurance.

(a) **Property Damage.** Lessee shall obtain and maintain insurance coverage on all of Lessee's personal property, Trade Fixtures, and Lessee Owned Alterations and Utility Installations. Such insurance shall be full replacement cost coverage with a deductible of not to exceed \$1,000 per occurrence. The proceeds from any such insurance shall be used by Lessee for the replacement of personal property, Trade Fixtures and Lessee Owned Alterations and Utility Installations. Lessee shall provide Lessor with written evidence that such insurance is in force.

(b) **Worker's Compensation Insurance.** Lessee shall obtain and maintain Worker's Compensation Insurance in such amount as may be required by Applicable Requirements,

(c) **Business Interruption.** Lessee shall obtain and maintain loss of income and extra expense insurance in amounts as will reimburse Lessee for direct or indirect loss of earnings attributable to all perils commonly insured against by prudent lessees in the business of Lessee or attributable to prevention of access to the Premises as a result of such perils,

(d) **No Representation of Adequate Coverage.** Lessor makes no representation that the limits or forms of coverage of insurance specified herein are adequate to cover Lessee's property, business operations or obligations under this Lease.

8.5 Insurance Policies. Insurance required herein shall be by companies maintaining during the policy term a "General Policyholders Rating" of at least A-, VII, as set forth in the most current issue of "Best's Insurance Guide", or such other rating as may be required by a Lender. Lessee shall not do or permit to be done anything which invalidates the required insurance policies. Lessee shall, prior to the Start Date, deliver to Lessor certified copies of policies of such insurance or certificates with copies of the required endorsements evidencing the existence and amounts of the required insurance. No such policy shall be cancelable or subject to modification except after 10 days prior written notice to Lessor. Lessee shall, at least 30 days prior to the expiration of such policies, furnish Lessor with evidence of renewals or "insurance binders" evidencing renewal thereof, or Lessor may order such insurance and charge the cost thereof to Lessee, which amount shall be payable by Lessee to Lessor upon demand. Such policies shall be for a term of at least one year, or the length of the remaining term of this Lease, whichever is less. If either Party shall fail to procure and maintain the insurance required to be carried by it, the other Party may, but shall not be required to, procure and maintain the same.

8.6 Waiver of Subrogation. Without affecting any other rights or remedies, Lessee and Lessor each hereby release and relieve the other, and waive their entire right to recover damages against the other, for loss of or damage to its property arising out of or Incident to the perils required to be insured against herein. The effect of such releases and waivers is not limited by the amount of insurance carried or required, or by any deductibles applicable hereto. The Parties agree to have their respective property damage insurance carriers waive any right to subrogation that such companies may have against Lessor or Lessee, as the case may be, so long as the Insurance is not invalidated thereby.

8.7 Indemnity. Except for Lessor's gross negligence or willful misconduct, Lessee shall indemnify, protect, defend and hold harmless the Premises, Lessor and its agents, Lessor's master or ground lessor, partners and Lenders, from and against any and all claims, loss of rents and/or damages, liens, judgments, penalties, attorneys' and consultants' fees, expenses and/or liabilities arising out of, involving, or in connection with, the use and/or occupancy of the Premises by Lessee. If any action or proceeding is brought against Lessor by reason of any of the foregoing matters, Lessee shall upon notice defend the same at Lessee's expense by counsel reasonably satisfactory to Lessor and Lessor shall cooperate with Lessee in such defense. Lessor need not have first paid any such claim in order to be defended or indemnified.

8.8 Exemption of Lessor and Its Agents from Liability. Notwithstanding the negligence or breach of this Lease by Lessor or its agents, neither Lessor nor its agents shall be liable under any circumstances for; (I) Injury or damage to the person or goods, wares, merchandise or other property of Lessee, Lessee's employees, contractors, invitees, customers, or any other person in or about the Premises, whether such damage or injury is caused by or results from fire, steam, electricity, gas, water or rain, indoor air quality, the presence of mold or from the breakage, leakage, obstruction or other defects of pipes, fire sprinklers, wires, appliances, plumbing, HVAC or lighting fixtures, or from any other cause, whether the said injury or damage results from conditions arising upon the Premises or upon other portions of the Building, or from other sources or places, (ii) any damages arising from any act or neglect of any other tenant of Lessor or from the failure of Lessor or its agents to enforce the provisions of any other lease in the Project, or (iii) injury to Lessee's business or for any loss of income or profit therefrom. Instead, it is intended that Lessee's sole recourse in the event of such damages or injury be to file a claim on the insurance policy(ies) that Lessee is required to maintain pursuant to the provisions of paragraph 8.



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8.9 **Failure to Provide Insurance.** Lessee acknowledges that any failure on its part to obtain or maintain the insurance required herein will expose Lessor to risks and potentially cause Lessor to incur costs not contemplated by this Lease, the extent of which will be extremely difficult to ascertain. Accordingly, for any month or portion thereof that Lessee does not maintain the required insurance and/or does not provide Lessor with the required binders or certificates evidencing the existence of the required insurance, the Base Rent shall be automatically increased, without any requirement for notice to Lessee, by an amount equal to 10% of the then existing Base Rent or \$100, whichever is greater. The parties agree that such increase in Base Rent represents fair and reasonable compensation for the additional risk/costs that Lessor will incur by reason of Lessee's failure to maintain the required insurance. Such increase in Base Rent shall in no event constitute a waiver of Lessee's Default or Breach with respect to the failure to maintain such insurance. prevent the exercise of any of the other rights and remedies granted hereunder, nor relieve Lessee of its obligation to maintain the insurance specified in this Lease.

9. **Damage or Destruction.**

9.1 **Definitions.**

(a) **"Premises Partial Damage"** shall mean damage or destruction to the improvements on the Premises, other than Lessee Owned Alterations and Utility Installations, which can reasonably be repaired in 3 months or less from the date of the damage or destruction, and the cost thereof does not exceed a sum equal to 6 month's Base Rent. Lessor shall notify Lessee in writing within 30 days from the date of the damage or destruction as to whether or not the damage is Partial or Total.

(b) **"Premises Total Destruction"** shall mean damage or destruction to the improvements on the Premises, other than Lessee Owned Alterations and Utility Installations and Trade Fixtures, which cannot reasonably be repaired in 3 months or less from the date of the damage or destruction and/or the cost thereof exceeds a sum equal to 6 month's Base Rent. Lessor shall notify Lessee in writing within 30 days from the date of the damage or destruction as to whether or not the damage is Partial or Total.

(c) **"Insured Loss"** shall mean damage or destruction to improvements on the Premises, other than Lessee Owned Alterations and Utility Installations and Trade Fixtures, which was caused by an event required to be covered by the insurance described in Paragraph 8.3(a), irrespective of any deductible amounts or coverage limits involved.

(d) **"Replacement Cost"** shall mean the cost to repair or rebuild the improvements owned by Lessor at the time of the occurrence to their condition existing immediately prior thereto, including demolition, debris removal and upgrading required by the operation of Applicable Requirements, and without deduction for depreciation.

(e) **"Hazardous Substance Condition"** shall mean the occurrence or discovery of a condition involving the presence of, or a contamination by, a Hazardous Substance, in, on, or under the Premises which requires restoration.

9.2 **Partial Damage - Insured Loss.** If a Premises Partial Damage that is an Insured Loss occurs, then Lessor shall, at Lessor's expense, repair such damage (but not Lessee's Trade Fixtures or Lessee Owned Alterations and Utility Installations) as soon as reasonably possible and this Lease shall continue in full force and effect; provided, however, that Lessee shall, at Lessor's election, make the repair of any damage or destruction the total cost to repair of which is \$5,000 or less, and, in such event, Lessor shall make any applicable insurance proceeds available to Lessee on a reasonable basis for that purpose. Notwithstanding the foregoing, if the required insurance was not in force or the insurance proceeds are not sufficient to effect such repair, the Insuring Party shall promptly contribute the shortage in proceeds as and when required to complete said repairs. In the event, however, such shortage was due to the fact that, by reason of the unique nature of the Improvements, full replacement cost insurance coverage was not commercially reasonable and available, Lessor shall have no obligation to pay for the shortage in insurance proceeds or to fully restore the unique aspects of the Premises unless Lessee provides Lessor with the funds to cover same, or adequate assurance thereof, within 10 days following receipt of written notice of such shortage and request therefor. If Lessor receives said funds or adequate assurance thereof within said 10 day period, the party responsible for making the repairs shall complete them as soon as reasonably possible and this Lease shall remain in full force and effect. If such funds or assurance are not received, Lessor may nevertheless elect by written notice to Lessee within 10 days thereafter to: (i) make such restoration and repair as is commercially reasonable with Lessor paying any shortage in proceeds, in which case this Lease shall remain in full force and effect, or (ii) have this Lease terminate 30 days thereafter. Lessee shall not be entitled to reimbursement of any funds contributed by Lessee to repair any such damage or destruction. Premises Partial Damage due to flood or earthquake shall be subject to Paragraph 9.3, notwithstanding that there may be some insurance coverage, but the net proceeds of any such insurance shall be made available for the repairs if made by either Party.

9.3 **Partial Damage - Uninsured Loss.** If a Premises Partial Damage that is not an Insured Loss occurs, unless caused by a negligent or willful act of Lessee (in which event Lessee shall make the repairs at Lessee's expense), Lessor may either: (i) repair such damage as soon as reasonably possible at Lessor's expense, in which event this Lease shall continue in full force and effect, or (ii) terminate this Lease by giving written notice to Lessee within 30 days after receipt by Lessor of knowledge of the occurrence of such damage. Such termination shall be effective 60 days following the date of such notice. In the event Lessor elects to terminate this Lease, Lessee shall have the right within 10 days after receipt of the termination notice to give written notice to Lessor of Lessee's commitment to pay for the repair of such damage without reimbursement from Lessor. Lessee shall provide Lessor with said funds or satisfactory assurance thereof within 30 days after making such commitment. In such event this Lease shall continue in full force and effect, and Lessor shall proceed to make such repairs as soon as reasonably possible after the required funds are available. If Lessee does not make the required commitment, this Lease shall terminate as of the date specified in the termination notice.



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9.4 **Total Destruction.** Notwithstanding any other provision hereof, if a Premises Total Destruction occurs, this Lease shall terminate 60 days following such Destruction. If the damage or destruction was caused by the gross negligence or willful misconduct of Lessee, Lessor shall have the right to recover Lessor's damages from Lessee, except as provided in Paragraph 8.6.

9.5 **Damage Near End of Term.** If at any time during the last 6 months of this Lease there is damage for which the cost to repair exceeds one month's Base Rent, whether or not an Insured Loss, Lessor may terminate this Lease effective 60 days following the date of occurrence of such damage by giving a written termination notice to Lessee within 30 days after the date of occurrence of such damage. Notwithstanding the foregoing, if Lessee at that time has an exercisable option to extend this Lease or to purchase the Premises, then Lessee may preserve this Lease by, (a) exercising such option and (b) providing Lessor with any shortage in insurance proceeds (or adequate assurance thereof) needed to make the repairs on or before the earlier of (i) the date which is 10 days after Lessee's receipt of Lessor's written notice purporting to terminate this Lease, or (ii) the day prior to the date upon which such option expires. If Lessee duly exercises such option during such period and provides Lessor with funds (or adequate assurance thereof) to cover any shortage in insurance proceeds, Lessor shall, at Lessor's commercially reasonable expense, repair such damage as soon as reasonably possible and this Lease shall continue in full force and effect. If Lessee fails to exercise such option and provide such funds or assurance during such period, then this Lease shall terminate on the date specified in the termination notice and Lessee's option shall be extinguished.

9.6 **Abatement of Rent; Lessee's Remedies.**

(a) **Abatement.** In the event of Premises Partial Damage or Premises Total Destruction or a Hazardous Substance Condition for which Lessee is not responsible under this Lease, the Rent payable by Lessee for the period required for the repair, remediation or restoration of such damage shall be abated in proportion to the degree to which Lessee's use of the Premises is impaired, but not to exceed the proceeds received from the Rental Value insurance. All other obligations of Lessee hereunder shall be performed by Lessee, and Lessor shall have no liability for any such damage, destruction, remediation, repair or restoration except as provided herein.

(b) **Remedies.** If Lessor is obligated to repair or restore the Premises and does not commence, in a substantial and meaningful way, such repair or restoration within 90 days after such obligation shall accrue, Lessee may, at any time prior to the commencement of such repair or restoration, give written notice to Lessor and to any Lenders of which Lessee has actual notice, of Lessee's election to terminate this Lease on a date not less than 60 days following the giving of such notice. If Lessee gives such notice and such repair or restoration is not commenced within 30 days thereafter, this Lease shall terminate as of the date specified in said notice. If the repair or restoration is commenced within such 30 days, this Lease shall continue in full force and effect. "Commence" shall mean either the unconditional authorization of the preparation of the required plans, or the beginning of the actual work on the Premises, whichever first occurs.

9.7 **Termination; Advance Payments.** Upon termination of this Lease pursuant to Paragraph 6.2(g) or Paragraph 9, an equitable adjustment shall be made concerning advance Base Rent and any other advance payments made by Lessee to Lessor. Lessor shall, in addition, return to Lessee so much of Lessee's Security Deposit as has not been, or is not then required to be, used by Lessor.

10. **Real Property Taxes.**

10.1 **Definitions.** As used herein, the term "Real Property Taxes" shall include any form of assessment; real estate, general, special, ordinary or extraordinary, or rental levy or tax (other than inheritance, personal income or estate taxes); improvement bond; and/or license fee imposed upon or levied against any legal or equitable interest of Lessor in the Project, Lessor's right to other income therefrom, and/or Lessor's business of leasing, by any authority having the direct or indirect power to tax and where the funds are generated with reference to the Project address and where the proceeds so generated are to be applied by the city, county or other local taxing authority of a jurisdiction within which the Project is located. "Real Property Taxes" shall also include any tax, fee, levy, assessment or charge, or any increase therein: (i) Imposed by reason of events occurring during the term of this Lease, including but not limited to, a change in the ownership of the Project, (ii) a change in the improvements thereon, and/or (iii) levied or assessed on machinery or equipment provided by Lessor to Lessee pursuant to this Lease.

10.2 **Payment of Taxes.** Except as otherwise provided in Paragraph 10.3, Lessor shall pay the Real Property Taxes applicable to the Project, and said payments shall be included in the calculation of Operating Expenses in accordance with the provisions of Paragraph 4.2.



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10.3 Additional Improvements. Operating Expenses shall not include Real Property Taxes specified in the tax assessor's records and work sheets as being caused by additional improvements placed upon the Project by other lessees or by Lessor for the exclusive enjoyment of such other lessees. Notwithstanding Paragraph 10.2 hereof, Lessee shall, however, pay to Lessor at the time Operating Expenses are payable under Paragraph 4.2, the entirety of any increase in Real Property Taxes if assessed solely by reason of Alterations, Trade Fixtures or Utility Installations placed upon the Premises by Lessee or at Lessee's request or by reason of any alterations or improvements to the Premises made by Lessor subsequent to the execution of this Lease by the Parties.

10.4 Joint Assessment. If the Building is not separately assessed, Real Property Taxes allocated to the Building shall be an equitable proportion of the Real Property Taxes for all of the land and improvements included within the tax parcel assessed, such proportion to be determined by Lessor from the respective valuations assigned in the assessor's work sheets or such other information as may be reasonably available. Lessor's reasonable determination thereof, in good faith, shall be conclusive.

10.5 Personal Property Taxes. Lessee shall pay prior to delinquency all taxes assessed against and levied upon Lessee Owned Alterations and Utility Installations, Trade Fixtures, furnishings, equipment and all personal property of Lessee contained in the Premises. When possible, Lessee shall cause its Lessee Owned Alterations and Utility Installations, Trade Fixtures, furnishings, equipment and all other personal property to be assessed and billed separately from the real property of Lessor. If any of Lessee's said property shall be assessed with Lessor's real property, Lessee shall pay Lessor the taxes attributable to Lessee's property within 10 days after receipt of a written statement setting forth the taxes applicable to Lessee's property.

11. Utilities and Services.

11.1 Services Provided by Lessor. Lessor shall provide heating, ventilation, air conditioning, reasonable amounts of electricity for normal lighting and office machines, water for reasonable and normal drinking and lavatory use in connection with an office, and replacement light bulbs and/or fluorescent tubes and ballasts for standard overhead fixtures. Lessor shall also provide janitorial services to the Premises and Common Areas 5 times per week, excluding Building Holidays, or pursuant to the attached janitorial schedule, if any. Lessor shall not, however, be required to provide janitorial services to kitchens or storage areas included within the Premises.

11.2 Services Exclusive to Lessee. Lessee shall pay for all water, gas, light, power, telephone and other utilities and services specially or exclusively supplied and/or metered exclusively to the Premises or to Lessee, together with any taxes thereon. If a service is deleted by Paragraph 1.13 and such service is not separately metered to the Premises, Lessee shall pay at Lessor's option, either Lessee's Share or a reasonable proportion to be determined by Lessor of all charges for such jointly metered service.

11.3 Hours of Service. Said services and utilities shall be provided during times set forth in Paragraph 1,12. Utilities and services required at other times shall be subject to advance request and reimbursement by Lessee to Lessor of the cost thereof.

11.4 Excess Usage by Lessee. Lessee shall not make connection to the utilities except by or through existing outlets and shall not install or use machinery or equipment in or about the Premises that uses excess water, lighting or power, or suffer or permit any act that causes extra burden upon the utilities or services, including but not limited to security and trash services, over standard office usage for the Project. Lessor shall require Lessee to reimburse Lessor for any excess expenses or costs that may arise out of a breach of this subparagraph by Lessee. Lessor may, in its sole discretion, install at Lessee's expense supplemental equipment and/or separate metering applicable to Lessee's excess usage or loading.

11.5 Interruptions. There shall be no abatement of rent and Lessor shall not be liable in any respect whatsoever for the inadequacy, stoppage, interruption or discontinuance of any utility or service due to riot, strike, labor dispute, breakdown, accident, repair or other cause beyond Lessor's reasonable control or in cooperation with governmental request or directions.

12. Assignment and Subletting.

12.1 Lessor's Consent Required.

(a) Lessee shall not voluntarily or by operation of law assign, transfer, mortgage or encumber (collectively, "**assign or assignment**") or sublet all or any part of Lessee's interest in this Lease or in the Premises without Lessor's prior written consent. Which will not be unreasonably withheld.

(b) Unless Lessee is a corporation and its stock is publicly traded on a national stock exchange, a change in the control of Lessee shall constitute an assignment requiring consent. The transfer, on a cumulative basis, of 25% or more of the voting control of Lessee shall constitute a change in control for this purpose.

(c) The involvement of Lessee or its assets in any transaction, or series of transactions (by way of merger, sale, acquisition, financing, transfer, leveraged buyout or otherwise), whether or not a formal assignment or hypothecation of this Lease or Lessee's assets occurs, which results or will result in a reduction of the Net Worth of Lessee by an amount greater than 25% of such Net Worth as it was represented at the time of the execution of this Lease or at the time of the most recent assignment to which Lessor has consented, or as it exists immediately prior to said transaction or transactions constituting such reduction, whichever was or is greater, shall be considered an assignment of this Lease to which Lessor may withhold its consent. "**Net Worth of Lessee**" shall mean the net worth of Lessee (excluding any guarantors) established under generally accepted accounting principles.



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(d) An assignment or subletting without consent shall, at Lessor's option, be a Default curable after notice per Paragraph 13.1(c), or a noncurable Breach without the necessity of any notice and grace period, If Lessor elects to treat such unapproved assignment or subletting as a noncurable Breach, Lessor may either: (i) terminate this Lease, or (ii) upon 30 days written notice, increase the monthly Base Rent to 110% of the Base Rent then in effect. Further, in the event of such Breach and rental adjustment, (i) the purchase price of any option to purchase the Premises held by Lessee shall be subject to similar adjustment to 110% of the price previously in effect, and (ii) all fixed and non-fixed rental adjustments scheduled during the remainder of the Lease term shall be increased to 110% of the scheduled adjusted rent.

(e) Lessee's remedy for any breach of Paragraph 12.1 by Lessor shall be limited to compensatory damages and/or injunctive relief.

(f) Lessor may reasonably withhold consent to a proposed assignment or subletting if Lessee is in Default at the time consent is requested.

(g) Notwithstanding the foregoing, allowing a de minimis portion of the Premises, i.e. 20 square feet or less, to be used by a third party vendor in connection with the installation of a vending machine or payphone shall not constitute a subletting.

12.2 Terms and Conditions Applicable to Assignment and Subletting.

(a) Regardless of Lessors consent, no assignment or subletting shall: (i) be effective without the express written assumption by such assignee or sublessee of the obligations of Lessee under this Lease, (ii) release Lessee of any obligations hereunder, EXCEPT IN THE EVENT OF AN ASSIGNMENT, WHERE LANDLORD FULLY APPROVED ASSIGNEE AND GUARNTORS SHALL BE FULLY OBLIGATED UNDER THE ASSIGNMENT OF LEASE or (iii) alter the primary liability of Lessee for the payment of Rent or for the performance of any other obligations to be performed by Lessee.

(b) Lessor may accept Rent or performance of Lessee's obligations from any person other than Lessee pending approval or disapproval of an assignment. Neither a delay in the approval or disapproval of such assignment nor the acceptance of Rent or performance shall constitute a waiver or estoppel of Lessor's right to exercise its remedies for Lessee's Default or Breach.

(c) Lessor's consent to any assignment or subletting shall not constitute a consent to any subsequent assignment or subletting.

(d) In the event of any Default or Breach by Lessee, Lessor may proceed directly against Lessee, any Guarantors or anyone else responsible for the performance of Lessee's obligations under this Lease, Including any assignee or sublessee, without first exhausting Lessors remedies against any other person or entity responsible therefore to Lessor, or any security held by Lessor.

(e) Each request for consent to an assignment or subletting shall be in writing, accompanied by information relevant to Lessor's determination as to the financial and operational responsibility and appropriateness of the proposed assignee or sublessee, including but not limited to the intended use and/or required modification of the Premises, if any, together with a fee of \$500 as consideration for Lessor's considering and processing said request. Lessee agrees to provide Lessor with such other or additional information and/or documentation as may be reasonably requested. (See also Paragraph 36)

(f) Any assignee of, or sublessee under, this Lease shall, by reason of accepting such assignment, entering into such sublease, or entering into possession of the Premises or any portion thereof, be deemed to have assumed and agreed to conform and comply with each and every term, covenant, condition and obligation herein to be observed or performed by Lessee during the term of said assignment or sublease, other than such obligations as are contrary to or inconsistent with provisions of an assignment or sublease to which Lessor has specifically consented to in writing.

(g) Lessor's consent to any assignment or subletting shall not transfer to the assignee or sublessee any Option granted to the original Lessee by this Lease unless such transfer is specifically consented to by Lessor in writing. (See Paragraph 39.2)

12.3 Additional Terms and Conditions Applicable to Subletting. The following terms and conditions shall apply to any subletting by Lessee of all or any part of the Premises and shall be deemed included in all subleases under this Lease whether or not expressly incorporated therein:

(a) Lessee hereby assigns and transfers to Lessor all of Lessee's interest in all Rent payable on any sublease, and Lessor may collect such Rent and apply same toward Lessee's obligations under this Lease; provided, however, that until a Breach shall occur in the performance of Lessee's obligations, Lessee may collect said Rent. In the event that the amount collected by Lessor exceeds Lessee's then outstanding obligations any such excess shall be refunded to Lessee, Lessor shall not, by reason of the foregoing or any assignment of such sublease, nor by reason of the collection of Rent, be deemed liable to the sublessee for any failure of Lessee to perform and comply with any of Lessee's obligations to such sublessee. Lessee hereby irrevocably authorizes and directs any such sublessee, upon receipt of a written notice from Lessor stating that a Breach exists in the performance of Lessee's obligations under this Lease, to pay to Lessor all Rent due and to become due under the sublease. Sublessee shall rely upon any such notice from Lessor and shall pay all Rents to Lessor without any obligation or right to inquire as to whether such Breach exists, notwithstanding any claim from Lessee to the contrary.

(b) In the event of a Breach by Lessee, Lessor may, at its option, require sublessee to attom to Lessor, In which event Lessor shall undertake the obligations of the sublessor under such sublease from the time of the exercise of said option to the expiration of such sublease; provided, however, Lessor shall not be liable for any prepaid rents or security deposit paid by such sublessee to such sublessor or for any prior Defaults or Breaches of such sublessor.



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(c) Any matter requiring the consent of the sublessor under a sublease shall also require the consent of Lessor.

(d) No sublessee shall further assign or sublet all or any part of the Premises without Lessors prior written consent.

(e) Lessor shall deliver a copy of any notice of Default or Breach by Lessee to the sublessee, who shall have the right to cure the Default of Lessee within the grace period, if any, specified In such notice. The sublessee shall have a right of reimbursement and offset from and against Lessee for any such Defaults cured by the sublessee.

13. Default; Breach; Remedies.

13.1 **Default; Breach.** A "Default" is defined as a failure by the Lessee to comply with or perform any of the terms, covenants, conditions or Rules and Regulations under this Lease. A "Breach" Is defined as the occurrence of one or more of the following Defaults, and the failure of Lessee to cure such Default within any applicable grace period:

(a) The abandonment of the Premises; or the vacating of the Premises without providing a commercially reasonable level of security, or where the coverage of the property insurance described in Paragraph 8.3 Is jeopardized as a result thereof, or without providing reasonable assurances to minimize potential vandalism.

(b) The failure of Lessee to make any payment of Rent or any Security Deposit required to be made by Lessee hereunder, whether to Lessor or to a third party, when due, to provide reasonable evidence of insurance or surety bond, or to fulfill any obligation under this Lease which endangers or threatens life or property, where such failure continues for a period of 3 business days following written notice to Lessee. THE ACCEPTANCE BY LESSOR OF A PARTIAL PAYMENT OF RENT OR SECURITY DEPOSIT SHALL NOT CONSTITUTE A WAIVER OF ANY OF LESSOR'S RIGHTS, INCLUDING LESSOR'S RIGHT TO RECOVER POSSESSION OF THE PREMISES.

(c) The failure of Lessee to allow Lessor and/or its agents access to the Premises or the commission of waste, act or acts constituting public or private nuisance, and/or an illegal activity on the Premises by Lessee, where such actions continue for a period of 3 business days following written notice to Lessee.

(d) The failure by Lessee to provide (I) reasonable written evidence of compliance with Applicable Requirements, (ii) the service contracts, (iii) the rescission of an unauthorized assignment or subletting, (iv) an Estoppel Certificate or financial statements, (v) a requested subordination, (vi) evidence concerning any guaranty and/or Guarantor, (vii) any document requested under Paragraph 41, (viii) material data safety sheets (MSDS), or (ix) any other documentation or information which Lessor may reasonably require of Lessee under the terms of this Lease, where any such failure continues for a period of 10 days following written notice to Lessee.

(e) A Default by Lessee as to the terms, covenants, conditions or provisions of this Lease, or of the rules adopted under Paragraph 2.9 hereof, other than those described in subparagraphs 13.1(a), (b) or (c), above, where such Default continues for a period of 30 days after written notice; provided, however, that if the nature of Lessee's Default is such that more than 30 days are reasonably required for its cure, then it shall not be deemed to be a Breach if Lessee commences such cure within said 30 day period and thereafter diligently prosecutes such cure to completion.

(f) The occurrence of any of the following events: (i) the making of any general arrangement or assignment for the benefit of creditors; (ii) becoming a "debtor" as defined in 11 U.S.C. § 101 or any successor statute thereto (unless, in the case of a petition filed against Lessee, the same is dismissed within 60 days); (iii) the appointment of a trustee or receiver to take possession of substantially all of Lessee's assets located at the Premises or of Lessee's Interest In this Lease, where possession is not restored to Lessee within 30 days; or (iv) the attachment, execution or other judicial seizure of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, where such seizure is not discharged within 30 days; provided, however, in the event that any provision of this subparagraph is contrary to any applicable law, such provision shall be of no force or effect, and not affect the validity of the remaining provisions.

(g) The discovery that any financial statement of Lessee or of any Guarantor given to Lessor was materially false.

(h) If the performance of Lessee's obligations under this Lease is guaranteed: (i) the death of a Guarantor, (ii) the termination of a Guarantor's liability with respect to this Lease other than in accordance with the terms of such guaranty, (iii) a Guarantor's becoming insolvent or the subject of a bankruptcy filing, (iv) a Guarantor's refusal to honor the guaranty, or (v) a Guarantor's breach of its guaranty obligation on an anticipatory basis, and Lessee's failure, within 60 days following written notice of any such event, to provide written alternative assurance or security, which, when coupled with the then existing resources of Lessee, equals or exceeds the combined financial resources of Lessee and the Guarantors that existed at the time of execution of this Lease.



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13.2 **Remedies.** If Lessee fails to perform any of its affirmative duties or obligations, within 10 days after written notice (or in case of an emergency, without notice), Lessor may, at its option, perform such duty or obligation on Lessee's behalf, including but not limited to the obtaining of reasonably required bonds, insurance policies, or governmental licenses, permits or approvals. Lessee shall pay to Lessor an amount equal to 115% of the costs and expenses incurred by Lessor in such performance upon receipt of an invoice therefor. In the event of a Breach, Lessor may, with or without further notice or demand, and without limiting Lessor in the exercise of any right or remedy which Lessor may have by reason of such Breach:

(a) Terminate Lessee's right to possession of the Premises by any lawful means, in which case this Lease shall terminate and Lessee shall immediately surrender possession to Lessor. In such event Lessor shall be entitled to recover from Lessee: (i) the unpaid Rent which had been earned at the time of termination; (ii) the worth at the time of award of the amount by which the unpaid rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that the Lessee proves could have been reasonably avoided; (iii) the worth at the time of award of the amount by which the unpaid rent for the balance of the term after the time of award exceeds the amount of such rental loss that the Lessee proves could be reasonably avoided; and (iv) any other amount necessary to compensate Lessor for all the detriment proximately caused by the Lessee's failure to perform its obligations under this Lease or which in the ordinary course of things would be likely to result therefrom, including but not limited to the cost of recovering possession of the Premises, expenses of reletting, including necessary renovation and alteration of the Premises, reasonable attorneys' fees, and that portion of any leasing commission paid by Lessor in connection with this Lease applicable to the unexpired term of this Lease. The worth at the time of award of the amount referred to in provision (iii) of the immediately preceding sentence shall be computed by discounting such amount at the discount rate of the Federal Reserve Bank of the District within which the Premises are located at the time of award plus one percent. Efforts by Lessor to mitigate damages caused by Lessee's Breach of this Lease shall not waive Lessor's right to recover damages under Paragraph 12. If termination of this Lease is obtained through the provisional remedy of unlawful detainer, Lessor shall have the right to recover in such proceeding any unpaid Rent and damages as are recoverable therein, or Lessor may reserve the right to recover all or any part thereof in a separate suit. If a notice and grace period required under Paragraph 13.1 was not previously given, a notice to pay rent or quit, or to perform or quit given to Lessee under the unlawful detainer statute shall also constitute the notice required by Paragraph 13.1. In such case, the applicable grace period required by Paragraph 13.1 and the unlawful detainer statute shall run concurrently, and the failure of Lessee to cure the Default within the greater of the two such grace periods shall constitute both an unlawful detainer and a Breach of this Lease entitling Lessor to the remedies provided for in this Lease and/or by said statute.

(b) Continue the Lease and Lessee's right to possession and recover the Rent as it becomes due, in which event Lessee may sublet or assign, subject only to reasonable limitations. Acts of maintenance, efforts to relet, and/or the appointment of a receiver to protect the Lessor's interests, shall not constitute a termination of the Lessee's right to possession.

(c) Pursue any other remedy now or hereafter available under the laws or judicial decisions of the state wherein the Premises are located. The expiration or termination of this Lease and/or the termination of Lessee's right to possession shall not relieve Lessee from liability under any indemnity provisions of this Lease as to matters occurring or accruing during the term hereof or by reason of Lessee's occupancy of the Premises.

13.3 **Inducement Recapture.** Any agreement for free or abated rent or other charges, or for the giving or paying by Lessor to or for Lessee of any cash or other bonus, inducement or consideration for Lessee's entering into this Lease, all of which concessions are hereinafter referred to as "**Inducement Provisions**", shall be deemed conditioned upon Lessee's full and faithful performance of all of the terms, covenants and conditions of this Lease. Upon Breach of this Lease by Lessee, any such Inducement Provision shall automatically be deemed deleted from this Lease and of no further force or effect, and any rent, other charge, bonus, inducement or consideration theretofore abated, given or paid by Lessor under such an Inducement Provision shall be immediately due and payable by Lessee to Lessor, notwithstanding any subsequent cure of said Breach by Lessee. The acceptance by Lessor of rent or the cure of the Breach which initiated the operation of this paragraph shall not be deemed a waiver by Lessor of the provisions of this paragraph unless specifically so stated in writing by Lessor at the time of such acceptance.

13.4 **Late Charges.** Lessee hereby acknowledges that late payment by Lessee of Rent will cause Lessor to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult to ascertain. Such costs include, but are not limited to, processing and accounting charges, and late charges which may be imposed upon Lessor by any Lender. Accordingly, if any Rent shall not be received by Lessor within 5 days after such amount shall be due, then, without any requirement for notice to Lessee, Lessee shall immediately pay to Lessor a one-time late charge equal to 10% of each such overdue amount or \$100, whichever is greater. The parties hereby agree that such late charge represents a fair and reasonable estimate of the costs Lessor will incur by reason of such late payment. Acceptance of such late charge by Lessor shall in no event constitute a waiver of Lessee's Default or Breach with respect to such overdue amount, nor prevent the exercise of any of the other rights and remedies granted hereunder. In the event that a late charge is payable hereunder, whether or not collected, for 3 consecutive installments of Base Rent, then notwithstanding any provision of this Lease to the contrary, Base Rent shall, at Lessor's option, become due and payable quarterly in advance.



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13.5 **Interest.** Any monetary payment due Lessor hereunder, other than late charges, not received by Lessor, when due as to scheduled payments (such as Base Rent) or within 30 days following the date on which it was due for nonscheduled payment, shall bear interest from the date when due, as to scheduled payments, or the 31st day after it was due as to nonscheduled payments. The interest ("**Interest**") charged shall be computed at the rate of 10% per annum but shall not exceed the maximum rate allowed by law. Interest is payable in addition to the potential late charge provided for in Paragraph 13.4.

13.6 **Breach by Lessor.**

(a) **Notice of Breach.** Lessor shall not be deemed in breach of this Lease unless Lessor fails within a reasonable time to perform an obligation required to be performed by Lessor. For purposes of this Paragraph, a reasonable time shall in no event be less than 30 days after receipt by Lessor, and any Lender whose name and address shall have been furnished Lessee in writing for such purpose, of written notice specifying wherein such obligation of Lessor has not been performed; provided, however, that if the nature of Lessor's obligation is such that more than 30 days are reasonably required for its performance, then Lessor shall not be in breach if performance is commenced within such 30 day period and thereafter diligently pursued to completion.

(b) **Performance by Lessee on Behalf of Lessor.** In the event that neither Lessor nor Lender cures said breach within 30 days after receipt of said notice, or if having commenced said cure they do not diligently pursue it to completion, then Lessee may elect to cure said breach at Lessee's expense and offset from Rent the actual and reasonable cost to perform such cure, provided however, that such offset shall not exceed an amount equal to the greater of one month's Base Rent or the Security Deposit, reserving Lessee's right to seek reimbursement from Lessor for any such expense in excess of such offset. Lessee shall document the cost of said cure and supply said documentation to Lessor.

14. **Condemnation.** If the Premises or any portion thereof are taken under the power of eminent domain or sold under the threat of the exercise of said power (collectively "**Condemnation**"), this Lease shall terminate as to the part taken as of the date the condemning authority takes title or possession, whichever first occurs. If more than 10% of the rentable floor area of the Premises, or more than 25% of Lessee's Reserved Parking Spaces, if any, are taken by Condemnation, Lessee may, at Lessee's option, to be exercised in writing within 10 days after Lessor shall have given Lessee written notice of such taking (or in the absence of such notice, within 10 days after the condemning authority shall have taken possession) terminate this Lease as of the date the condemning authority takes such possession. If Lessee does not terminate this Lease in accordance with the foregoing, this Lease shall remain in full force and effect as to the portion of the Premises remaining, except that the Base Rent shall be reduced in proportion to the reduction in utility of the Premises caused by such Condemnation. Condemnation awards and/or payments shall be the property of Lessor, whether such award shall be made as compensation for diminution in value of the leasehold, the value of the part taken, or for severance damages; provided, however, that Lessee shall be entitled to any compensation paid by the condemnor for Lessee's relocation expenses, loss of business goodwill and/or Trade Fixtures, without regard to whether or not this Lease is terminated pursuant to the provisions of this Paragraph. All Alterations and Utility Installations made to the Premises by Lessee, for purposes of Condemnation only, shall be considered the property of the Lessee and Lessee shall be entitled to any and all compensation which is payable therefor. In the event that this Lease is not terminated by reason of the Condemnation. Lessor shall repair any damage to the Premises caused by such Condemnation.

15. **Brokerage Fees.**

~~15.1 **Ackfitional-Commi.** if a separate brokerage fee agreement is attached then in addition to the payments owed pursuant to Paragraph 1.10 above, and unless lessor and the Brokers otherwise agree in writing, Lessor agrees that: (a) if Lessee exercises any Option. (b) if Lessee or anyone affiliated with Lessee acquires from Lessor any rights to the Premises owned by Lessor and located within the Project. (c) if Lessee remains in possession of the Premises with the consent of Lessor after the expiration of this Lease, or (d) if Base Rent is increased, whether by agreement or operation of an escalation clause herein, then, Lessor shall pay Brokers a fee in accordance with the schedule attached to such brokerage fee agreement.~~

15.2 **Assumption of Obligations.** Any buyer or transferee of Lessor's interest in this Lease shall be deemed to have assumed Lessor's obligation hereunder. Brokers shall be third party beneficiaries of the provisions of Paragraphs 1.10, 15, 22 and 31. If Lessor fails to pay to Brokers any amounts due as and for brokerage fees pertaining to this Lease when due, then such amounts shall accrue Interest. In addition, if Lessor fails to pay any amounts to Lessee's Broker when due, Lessee's Broker may send written notice to Lessor and Lessee of such failure and if Lessor fails to pay such amounts within 10 days after said notice, Lessee shall pay said monies to its Broker and offset such amounts against Rent. In addition, Lessee's Broker shall be deemed to be a third party beneficiary of any commission agreement entered into by and/or between Lessor and Lessor's Broker for the limited purpose of collecting any brokerage fee owed.

15.3 **Representations and Indemnities of Broker Relationships.** Lessee and Lessor each represent and warrant to the other that it has had no dealings with any person, firm, broker or finder (other than the Brokers, if any) in connection with this Lease, and that no one other than said named Brokers is entitled to any commission or finder's fee in connection herewith. Lessee and Lessor do each hereby agree to indemnify, protect, defend and hold the other harmless from and against liability for compensation or charges which may be claimed by any such unnamed broker, finder or other similar party by reason of any dealings or actions of the indemnifying Party, including any costs, expenses, attorneys' fees reasonably incurred with respect thereto.



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16. **Estoppel Certificates.**

(a) Each Party (as “**Responding Party**”) shall within 10 days after written notice from the other Party (the “**Requesting Party**”) execute, acknowledge and deliver to the Requesting Party a statement in writing in form similar to the then most current “**Estoppel Certificate**” form published by the AIR Commercial Real Estate Association, plus such additional information, confirmation and/or statements as may be reasonably requested by the Requesting Party.

(b) If the Responding Party shall fail to execute or deliver the Estoppel Certificate within such 10 day period, the Requesting Party may execute an Estoppel Certificate stating that: (i) the Lease is in full force and effect without modification except as may be represented by the Requesting Party, (ii) there are no uncured defaults in the Requesting Party’s performance, and (iii) if Lessor is the Requesting Party, not more than one month’s rent has been paid in advance. Prospective purchasers and encumbrancers may rely upon the Requesting Party’s Estoppel Certificate, and the Responding Party shall be estopped from denying the truth of the facts contained in said Certificate.

(c) If Lessor desires to finance, refinance, or sell the Premises, or any part thereof, Lessee and all Guarantors shall within 10 days after written notice from Lessor deliver to any potential lender or purchaser designated by Lessor such financial statements as may be reasonably required by such lender or purchaser, including but not limited to Lessee’s financial statements for the past 3 years. All such financial statements shall be received by Lessor and such lender or purchaser in confidence and shall be used only for the purposes herein set forth.

17. **Definition of Lessor.** The term “**Lessor**” as used herein shall mean the owner or owners at the time in question of the fee title to the Premises, or, if this is a sublease, of the Lessee’s interest in the prior lease. In the event of a transfer of Lessor’s title or interest in the Premises or this Lease, Lessor shall deliver to the transferee or assignee (in cash or by credit) any unused Security Deposit held by Lessor. Upon such transfer or assignment and delivery of the Security Deposit, as aforesaid, the prior Lessor shall be relieved of all liability with respect to the obligations and/or covenants under this Lease thereafter to be performed by the Lessor. Subject to the foregoing, the obligations and/or covenants in this Lease to be performed by the Lessor shall be binding only upon the Lessor as hereinabove defined.

18. **Severability.** The invalidity of any provision of this Lease, as determined by a court of competent jurisdiction, shall in no way affect the validity of any other provision hereof.

19. **Days.** Unless otherwise specifically indicated to the contrary, the word “**days**” as used in this Lease shall mean and refer to calendar days.

20. **Limitation on Liability.** The obligations of Lessor under this Lease shall not constitute personal obligations of Lessor or its partners, members, directors, officers or shareholders, and Lessee shall look to the Project, and to no other assets of Lessor, for the satisfaction of any liability of Lessor with respect to this Lease, and shall not seek recourse against Lessor’s partners, members, directors, officers or shareholders, or any of their personal assets for such satisfaction.

21. **Time of Essence.** Time is of the essence with respect to the performance of all obligations to be performed or observed by the Parties under this Lease.

22. **No Prior or Other Agreements; Broker Disclaimer.** This Lease contains all agreements between the Parties with respect to any matter mentioned herein, and no other prior or contemporaneous agreement or understanding shall be effective. Lessor and Lessee each represents and warrants to the Brokers that it has made, and is relying solely upon, its own investigation as to the nature, quality, character and financial responsibility of the other Party to this Lease and as to the use, nature, quality and character of the Premises. Brokers have no responsibility with respect thereto or with respect to any default or breach hereof by either Party.

23. **Notices.**

23.1 **Notice Requirements.** All notices required or permitted by this Lease or applicable law shall be in writing and may be delivered in person (by hand or by courier) or may be sent by regular, certified or registered mail or U.S. Postal Service Express Mail, with postage prepaid, or by facsimile transmission, and shall be deemed sufficiently given if served in a manner specified in this Paragraph 23, The addresses noted adjacent to a Party’s signature on this Lease shall be that Party’s address for delivery or mailing of notices. Either Party may by written notice to the other specify a different address for notice, except that upon Lessee’s taking possession of the Premises, the Premises shall constitute Lessee’s address for notice. A copy of all notices to Lessor shall be concurrently transmitted to such party or parties at such addresses as Lessor may from time to time hereafter designate in writing.


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23.2 **Date of Notice.** Any notice sent by registered or certified mail, return receipt requested, shall be deemed given on the date of delivery shown on the receipt card, or if no delivery date is shown, the postmark thereon. If sent by regular mail the notice shall be deemed given 72 hours after the same is addressed as required herein and mailed with postage prepaid. Notices delivered by United States Express Mail or overnight courier that guarantees next day delivery shall be deemed given 24 hours after delivery of the same to the Postal Service or courier. Notices transmitted by facsimile transmission or similar means shall be deemed delivered upon telephone confirmation of receipt (confirmation report from fax machine is sufficient), provided a copy is also delivered via delivery or mail. If notice is received on a Saturday, Sunday or legal holiday, it shall be deemed received on the next business day.

24. Waivers.

(a) No waiver by Lessor of the Default or Breach of any term, covenant or condition hereof by Lessee, shall be deemed a waiver of any other term, covenant or condition hereof, or of any subsequent Default or Breach by Lessee of the same or of any other term, covenant or condition hereof. Lessor's consent to, or approval of, any act shall not be deemed to render unnecessary the obtaining of Lessors consent to, or approval of, any subsequent or similar act by Lessee, or be construed as the basis of an estoppel to enforce the provision or provisions of this Lease requiring such consent.

(b) The acceptance of Rent by Lessor shall not be a waiver of any Default or Breach by Lessee. Any payment by Lessee may be accepted by Lessor on account of moneys or damages due Lessor, notwithstanding any qualifying statements or conditions made by Lessee in connection therewith, which such statements and/or conditions shall be of no force or effect whatsoever unless specifically agreed to in writing by Lessor at or before the time of deposit of such payment.

(c) THE PARTIES AGREE THAT THE TERMS OF THIS LEASE SHALL GOVERN WITH REGARD TO ALL MATTERS RELATED THERETO AND HEREBY WAIVE THE PROVISIONS OF ANY PRESENT OR FUTURE STATUTE TO THE EXTENT THAT SUCH STATUTE IS INCONSISTENT WITH THIS LEASE.

25. Disclosures Regarding The Nature of a Real Estate Agency Relationship.

(a) When entering into a discussion with a real estate agent regarding a real estate transaction, a Lessor or Lessee should from the outset understand what type of agency relationship or representation it has with the agent or agents in the transaction. Lessor and Lessee acknowledge being advised by the Brokers in this transaction, as follows:

(i) Lessor's Agent. A Lessors agent under a listing agreement with the Lessor acts as the agent for the Lessor only. A Lessor's agent or subagent has the following affirmative obligations: To the Lessor: A fiduciary duty of utmost care, integrity, honesty, and loyalty in dealings with the Lessor. To the Lessee and the Lessor: a. Diligent exercise of reasonable skills and care in performance of the agents duties. b. A duty of honest and fair dealing and good faith. c. A duty to disclose all facts known to the agent materially affecting the value or desirability of the property that are not known to, or within the diligent attention and observation of, the Parties. An agent is not obligated to reveal to either Party any confidential information obtained from the other Party which does not involve the affirmative duties set forth above.

(ii) Lessee's Agent. An agent can agree to act as agent for the Lessee only. In these situations, the agent is not the Lessor's agent, even if by agreement the agent may receive compensation for services rendered, either in full or in part from the Lessor. An agent acting only for a Lessee has the following affirmative obligations. To the Lessee: A fiduciary duty of utmost care, integrity, honesty, and loyalty in dealings with the Lessee. To the Lessee and the Lessor: a. Diligent exercise of reasonable skits and care in performance of the agent's duties. b. A duty of honest and fair dealing and good faith. c. A duty to disclose all facts known to the agent materially affecting the value or desirability of the property that are not known to, or within the diligent attention and observation of, the Parties. An agent is not obligated to reveal to either Party any confidential information obtained from the other Party which does not involve the affirmative duties set forth above.

(iii) Agent Representing Both Lessor and Lessee. A real estate agent, either acting directly or through one or more associate licenses, can legally be the agent of both the Lessor and the Lessee in a transaction, but only with the knowledge and consent of both the Lessor and the Lessee. In a dual agency situation, the agent has the following affirmative obligations to both the Lessor and the Lessee: a. A fiduciary duty of utmost care, integrity, honesty and loyalty in the dealings with either Lesser or the Lessee. b. Other duties to the Lessor and the Lessee as stated above in subparagraphs (i) or (ii). In representing both Lessor and Lessee, the agent may not without the express permission of the respective Party, disclose to the other Party that the Lessor will accept rent in an amount less than that indicated in the listing or that the Lessee is willing to pay a higher rent than that offered, The above duties of the agent in a real estate transaction do not relieve a Lessor or Lessee from the responsibility to protect their own interests. Lessor and Lessee should carefully read all agreements to assure that they adequately express their understanding of the transaction. A real estate agent is a person qualified to advise about real estate. If legal or tax advise is desired, consult a competent professional.

(b) Brokers have no responsibility with respect to any default or breach hereof by either Party. The Parties agree that no lawsuit or other legal proceeding involving any breach of duty, error or omission relating to this Lease may be brought against Braker more than one year after the Start Date and that the liability (including court costs and attorneys' fees), of any Broker with respect to any such lawsuit and/or legal proceeding shall not exceed the fee received by such Broker pursuant to this Lease; provided, however, that the foregoing limitation on each Broker's liability shall not be applicable to any gross negligence or willful misconduct of such Broker.

(c) Lessor and Lessee agree to identify to Brokers as "Confidential" any communication or information given Brokers that is considered by such Party to be confidential.



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26. **No Right To Holdover.** Lessee has no right to retain possession of the Premises or any part thereof beyond the expiration or termination of this Lease. In the event that Lessee holds over, then the Base Rent shall be increased to 150% of the Base Rent applicable immediately preceding the expiration or termination. Nothing contained herein shall be construed as consent by Lessor to any holding over by Lessee.

27. **Cumulative Remedies.** No remedy or election hereunder shall be deemed exclusive but shall, wherever possible, be cumulative with all other remedies at law or in equity.

28. **Covenants and Conditions; Construction of Agreement.** All provisions of this Lease to be observed or performed by Lessee are both covenants and conditions. In construing this Lease, all headings and titles are for the convenience of the Parties only and shall not be considered a part of this Lease. Whenever required by the context, the singular shall include the plural and vice versa. This Lease shall not be construed as if prepared by one of the Parties, but rather according to its fair meaning as a whole, as if both Parties had prepared it.

29. **Binding Effect; Choice of Law.** This Lease shall be binding upon the Parties, their personal representatives, successors and assigns and be governed by the laws of the State in which the Premises are located. Any litigation between the Parties hereto concerning this Lease shall be initiated in the county in which the Premises are located.

30. **Subordination; Attornment; Non-Disturbance.**

30.1 **Subordination.** This Lease and any Option granted hereby shall be subject and subordinate to any ground lease, mortgage, deed of trust, or other hypothecation or security device (collectively, "**Security Device**"), now or hereafter placed upon the Premises, to any and all advances made on the security thereof, and to all renewals, modifications, and extensions thereof. Lessee agrees that the holders of any such Security Devices (in this Lease together referred to as "**Lender**") shall have no liability or obligation to perform any of the obligations of Lessor under this Lease. Any Lender may elect to have this Lease and/or any Option granted hereby superior to the lien of its Security Device by giving written notice thereof to Lessee, whereupon this Lease and such Options shall be deemed prior to such Security Device, notwithstanding the relative dates of the documentation or recordation thereof.

30.2 **Attornment.** In the event that Lessor transfers title to the Premises, or the Premises are acquired by another upon the foreclosure or termination of a Security Device to which this Lease is subordinated (i) Lessee shall, subject to the non-disturbance provisions of Paragraph 30.3, attorn to such new owner, and upon request, enter into a new lease, containing all of the terms and provisions of this Lease, with such new owner for the remainder of the term hereof, or, at the election of the new owner, this Lease will automatically become a new lease between Lessee and such new owner, and (ii) Lessor shall thereafter be relieved of any further obligations hereunder and such new owner shall assume all of Lessor's obligations, except that such new owner shall not: (a) be liable for any act or omission of any prior lessor or with respect to events occurring prior to acquisition of ownership; (b) be subject to any offsets or defenses which Lessee might have against any prior lessor, (c) be bound by prepayment of more than one month's rent, or (d) be liable for the return of any security deposit paid to any prior lessor which was not paid or credited to such new owner.

30.3 **Non-Disturbance.** With respect to Security Devices entered into by Lessor after the execution of this Lease, Lessee's subordination of this Lease shall be subject to receiving a commercially reasonable non-disturbance agreement (a "**Non-Disturbance Agreement**") from the Lender which Non-Disturbance Agreement provides that Lessee's possession of the Premises, and this Lease, including any options to extend the term hereof, will not be disturbed so long as Lessee is not in Breach hereof and attorns to the record owner of the Premises. Further, within 60 days after the execution of this Lease, Lessor shall, if requested by Lessee, use its commercially reasonable efforts to obtain a Non-Disturbance Agreement from the holder of any pre-existing Security Device which is secured by the Premises. In the event that Lessor is unable to provide the Non-Disturbance Agreement within said 60 days, then Lessee may, at Lessee's option, directly contact Lender and attempt to negotiate for the execution and delivery of a Non-Disturbance Agreement.

30.4 **Self-Executing.** The agreements contained in this Paragraph 30 shall be effective without the execution of any further documents; provided, however, that, upon written request from Lessor or a Lender in connection with a sale, financing or refinancing of the Premises, Lessee and Lessor shall execute such further writings as may be reasonably required to separately document any subordination, attornment and/or Non-Disturbance Agreement provided for herein.



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31. **Attorneys' Fees.** If any Party or Broker brings an action or proceeding involving the Premises whether founded in tort, contract or equity, or to declare rights hereunder, the Prevailing Party (as hereafter defined) in any such proceeding, action, or appeal thereon, shall be entitled to reasonable attorneys' fees. Such fees may be awarded in the same suit or recovered in a separate suit, whether or not such action or proceeding is pursued to decision or judgment. The term, "**Prevailing Party**" shall include, without limitation, a Party or Broker who substantially obtains or defeats the relief sought, as the case may be, whether by compromise, settlement, judgment, or the abandonment by the other Party or Broker of its claim or defense. The attorneys' fees award shall not be computed in accordance with any court fee schedule, but shall be such as to fully reimburse all attorneys' fees reasonably incurred. In addition, Lessor shall be entitled to attorneys' fees, costs and expenses incurred in the preparation and service of notices of Default and consultations in connection therewith, whether or not a legal action is subsequently commenced in connection with such Default or resulting Breach (\$200 is a reasonable minimum per occurrence for such services and consultation).

32. **Lessor's Access; Showing Premises; Repairs.** Lessor and Lessor's agents shall have the right to enter the Premises at any time, in the case of an emergency, and otherwise at reasonable times after reasonable prior notice for the purpose of showing the same to prospective purchasers, lenders, or tenants, and making such alterations, repairs, improvements or additions to the Premises as Lessor may deem necessary or desirable and the erecting, using and maintaining of utilities, services, pipes and conduits through the Premises and/or other premises as long as there is no material adverse effect on Lessee's use of the Premises. All such activities shall be without abatement of rent or liability to Lessee.

33. **Auctions.** Lessee shall not conduct, nor permit to be conducted, any auction upon the Premises without Lessor's prior written consent. Lessor shall not be obligated to exercise any standard of reasonableness in determining whether to permit an auction.

34. **Signs.** Lessor may place on the Premises ordinary "For Sale" signs at any time and ordinary "For Lease" signs during the last 6 months of the term hereof. Lessor may not place any sign on the exterior of the Building that covers any of the windows of the Premises. Except for ordinary "For Sublease" signs which may be placed only on the Premises, Lessee shall not place any sign upon the Project without Lessor's prior written consent. All signs must comply with all Applicable Requirements.

35. **Termination; Merger.** Unless specifically stated otherwise in writing by Lessor, the voluntary or other surrender of this Lease by Lessee, the mutual termination or cancellation hereof, or a termination hereof by Lessor for Breach by Lessee, shall automatically terminate any sublease or lesser estate in the Premises; provided, however, that Lessor may elect to continue any one or all existing subtenancies. Lessor's failure within 10 days following any such event to elect to the contrary by written notice to the holder of any such lesser interest, shall constitute Lessor's election to have such event constitute the termination of such interest.

36. **Consents.** Except as otherwise provided herein, wherever in this Lease the consent of a Party is required to an act by or for the other Party, such consent shall not be unreasonably withheld or delayed. Lessor's actual reasonable costs and expenses (including but not limited to architects', attorneys', engineers' and other consultants' fees) incurred in the consideration of, or response to, a request by Lessee for any Lessor consent, including but not limited to consents to an assignment, a subletting or the presence or use of a Hazardous Substance, shall be paid by Lessee upon receipt of an invoice and supporting documentation therefor. Lessor's consent to any act, assignment or subletting shall not constitute an acknowledgment that no Default or Breach by Lessee of this Lease exists, nor shall such consent be deemed a waiver of any then existing Default or Breach, except as may be otherwise specifically stated in writing by Lessor at the time of such consent. The failure to specify herein any particular condition to Lessor's consent shall not preclude the imposition by Lessor at the time of consent of such further or other conditions as are then reasonable with reference to the particular matter for which consent is being given. In *the* event that either Party disagrees with any determination made by the other hereunder and reasonably requests the reasons for such determination, the determining party shall furnish its reasons in writing and in reasonable detail within 10 business days following such request.

37. **Guarantor.**

37.1 **Execution.** The Guarantors, if any, shall each execute a guaranty in the form most recently published by the AIR Commercial Real Estate Association.

37.2 **Default.** It shall constitute a Default of the Lessee if any Guarantor fails or refuses, upon request to provide: (a) evidence of the execution of the guaranty, including the authority of the party signing on Guarantor's behalf to obligate Guarantor, and in the case of a corporate Guarantor, a certified copy of a resolution of its board of directors authorizing the making of such guaranty, (b) current financial statements, (c) an Estoppel Certificate, or (d) written confirmation that the guaranty is still in effect.

38. **Quiet Possession.** Subject to payment by Lessee of the Rent and performance of all of the covenants, conditions and provisions on Lessee's part to be observed and performed under this Lease, Lessee shall have quiet possession and quiet enjoyment of the Premises during the term hereof.

39. **Options.** If Lessee is granted an Option, as defined below, then the following provisions shall apply.

39.1 **Definition.** "Option" shall mean: (a) the right to extend or reduce the term of or renew this Lease or to extend or reduce the term of or renew any lease that Lessee has on other property of Lessor; (b) the right of first refusal or first offer to lease either the Premises or other property of Lessor; (c) the right to purchase, the right of first offer to purchase or the right of first refusal to purchase the Premises or other property of Lessor,



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39.2 **Options Personal To Original Lessee.** Any Option granted to Lessee in this Lease is personal to the original Lessee, and cannot be assigned or exercised by anyone other than said original Lessee and only while the original Lessee is in full possession of the Premises and, if requested by Lessor, with Lessee certifying that Lessee has no intention of thereafter assigning or subletting.

39.3 **Multiple Options.** In the event that Lessee has any multiple Options to extend or renew this Lease, a later Option cannot be exercised unless the prior Options have been validly exercised.

39.4 **Effect of Default on Options.**

(a) Lessee shall have no right to exercise an Option: (i) during the period commencing with the giving of any notice of Default and continuing until said Default is cured, (ii) during the period of time any Rent is unpaid (without regard to whether notice thereof is given Lessee), (iii) during the time Lessee is in Breach of this Lease, or (iv) in the event that Lessee has been given 3 or more notices of separate Default, whether or not the Defaults are cured, during the 12 month period immediately preceding the exercise of the Option.

(b) The period of time within which an Option may be exercised shall not be extended or enlarged by reason of Lessee's inability to exercise an Option because of the provisions of Paragraph 39.4(a).

(c) An Option shall terminate and be of no further force or effect, notwithstanding Lessee's due and timely exercise of the Option, if, after such exercise and prior to the commencement of the extended term or completion of the purchase, (i) Lessee fails to pay Rent for a period of 30 days after such Rent becomes due (without any necessity of Lessor to give notice thereof), or (ii) if Lessee commits a Breach of this Lease.

40. **Security Measures.** Lessee hereby acknowledges that the Rent payable to Lessor hereunder does not include the cost of guard service or other security measures, and that Lessor shall have no obligation whatsoever to provide same. Lessee assumes all responsibility for the protection of the Premises, Lessee, its agents and invitees and their property from the acts of third parties. In the event, however, that Lessor should elect to provide security services, then the cost thereof shall be an Operating Expense.

41. **Reservations.**

(a) Lessor reserves the right: (i) to grant, without the consent or joinder of Lessee, such easements, rights and dedications that Lessor deems necessary, (ii) to cause the recordation of parcel maps and restrictions, (it) to create and/or install new utility raceways, so long as such easements, rights, dedications, maps, restrictions, and utility raceways do not unreasonably interfere with the use of the Premises by Lessee. Lessor may also: change the name, address or title of the Building or Project upon at least 90 days prior written notice; provide and install, at Lessee's expense, Building standard graphics on the door of the Premises and such portions of the Common Areas as Lessor shall reasonably deem appropriate; grant to any lessee the exclusive right to conduct any business as long as such exclusive right does not conflict with any rights expressly given herein; and to place such signs, notices or displays as Lessor reasonably deems necessary or advisable upon the roof, exterior of the Building or the Project or on signs in the Common Areas. Lessee agrees to sign any documents reasonably requested by Lessor to effectuate such rights. The obstruction of Lessee's view, air, or light by any structure erected in the vicinity of the Building, whether by Lessor or third parties, shall in no way affect this Lease or impose any liability upon Lessor.

(b) Lessor also reserves the right to move Lessee to other space of comparable size in the Building or Project. Lessor must provide at least 45 days prior written notice of such move, and the new space must contain improvements of comparable quality to those contained within the Premises. Lessor shall pay the reasonable out of pocket costs that Lessee incurs with regard to such relocation, including the expenses of moving and necessary stationary revision costs. In no event, however, shall Lessor be required to pay an amount in excess of two months Base Rent. Lessee may not be relocated more than once during the term of this Lease.

(c) Lessee shall not: (i) use a representation (photographic or otherwise) of the Building or Project or their name(s) in connection with Lessee's business; or (ii) suffer or permit anyone, except in emergency, to go upon the roof of the Building.

42. **Performance Under Protest.** If at any time a dispute shall arise as to any amount or sum of money to be paid by one Party to the other under the provisions hereof, the Party against whom the obligation to pay the money is asserted shall have the right to make payment "under protest" and such payment shall not be regarded as a voluntary payment and there shall survive the right on the part of said Party to institute suit for recovery of such sum. If it shall be adjudged that there was no legal obligation on the part of said Party to pay such sum or any part thereof, said Party shall be entitled to recover such sum or so much thereof as it was not legally required to pay. A Party who does not initiate suit for the recovery of sums paid "under protest" within 6 months shall be deemed to have waived its right to protest such payment.



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43. Authority; Multiple Parties; Execution

- (a) If either Party hereto is a corporation, trust, limited liability company, partnership, or similar entity, each individual executing this Lease on behalf of such entity represents and warrants that he or she is duly authorized to execute and deliver this Lease on its behalf. Each Party shall, within 30 days after request, deliver to the other Party satisfactory evidence of such authority.
- (b) If this Lease is executed by more than one person or entity as "Lessee", each such person or entity shall be jointly and severally liable hereunder. It is agreed that any one of the named Lessees shall be empowered to execute any amendment to this Lease, or other document ancillary thereto and bind all of the named Lessees, and Lessor may rely on the same as if all of the named Lessees had executed such document.
- (c) This Lease may be executed by the Parties in counterparts, each of which shall be deemed an original and all of which together shall constitute one and the same instrument.

44. Conflict. Any conflict between the printed provisions of this Lease and the typewritten or handwritten provisions shall be controlled by the typewritten or handwritten provisions.

45. Offer. Preparation of this Lease by either party or their agent and submission of same to the other Party shall not be deemed an offer to lease to the other Party. This Lease is not intended to be binding until executed and delivered by all Parties hereto.

46. Amendments. This Lease may be modified only in writing, signed by the Parties in interest at the time of the modification. As long as they do not materially change Lessee's obligations hereunder, Lessee agrees to make such reasonable nonmonetary modifications to this Lease as may be reasonably required by a Lender in connection with the obtaining of normal financing or refinancing of the Premises.

47. Waiver of Jury Trial. THE PARTIES HEREBY WAIVE THEIR RESPECTIVE RIGHTS TO TRIAL BY JURY IN ANY ACTION OR PROCEEDING INVOLVING THE PROPERTY OR ARISING OUT OF THIS AGREEMENT.

48. Arbitration of Disputes. An Addendum requiring the Arbitration of all disputes between the Parties and/or Brokers arising out of this Lease is is not attached to this Lease.

49. Americans with Disabilities Act. Since compliance with the Americans with Disabilities Act (ADA) is dependent upon Lessee's specific use of the Premises, Lessor makes no warranty or representation as to whether or not the Premises comply with ADA or any similar legislation. In the event that Lessee's use of the Premises requires modifications or additions to the Premises in order to be in ADA compliance, Lessee agrees to make any such necessary modifications and/or additions at Lessee's expense.

LESSOR AND LESSEE HAVE CAREFULLY READ AND REVIEWED THIS LEASE AND EACH TERM AND PROVISION CONTAINED HEREIN, AND BY THE EXECUTION OF THIS LEASE SHOW THEIR INFORMED AND VOLUNTARY CONSENT THERETO. THE PARTIES HEREBY AGREE THAT, AT THE TIME THIS LEASE IS EXECUTED, THE TERMS OF THIS LEASE ARE COMMERCIALY REASONABLE AND EFFECTUATE THE INTENT AND PURPOSE OF LESSOR AND LESSEE WITH RESPECT TO THE PREMISES.

ATTENTION: NO REPRESENTATION OR RECOMMENDATION IS MADE BY THE AIR COMMERCIAL REAL ESTATE ASSOCIATION OR BY ANY BROKER AS TO THE LEGAL SUFFICIENCY, LEGAL EFFECT, OR TAX CONSEQUENCES OF THIS LEASE OR THE TRANSACTION TO WHICH IT RELATES. THE PARTIES ARE URGED TO:

- 1. SEEK ADVICE OF COUNSEL AS TO THE LEGAL AND TAX CONSEQUENCES OF THIS LEASE.**
- 2. RETAIN APPROPRIATE CONSULTANTS TO REVIEW AND INVESTIGATE THE CONDITION OF THE PREMISES. SAID INVESTIGATION SHOULD INCLUDE BUT NOT BE LIMITED TO: THE POSSIBLE PRESENCE OF HAZARDOUS SUBSTANCES, THE ZONING AND SIZE OF THE PREMISES, THE STRUCTURAL INTEGRITY, THE CONDITION OF THE ROOF AND OPERATING SYSTEMS, COMPLIANCE WITH THE AMERICANS WITH DISABILITIES ACT AND THE SUITABILITY OF THE PREMISES FOR LESSEE'S INTENDED USE.**

WARNING: IF THE PREMISES ARE LOCATED IN A STATE OTHER THAN CALIFORNIA, CERTAIN PROVISIONS OF THE LEASE MAY NEED TO BE REVISED TO COMPLY WITH THE LAWS OF THE STATE IN WHICH THE PREMISES ARE LOCATED.



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The parties hereto have executed this Lease at the place and on the dates specified above their respective signatures.

Executed at: Calabasas, CA

Executed at: Calabasas, CA

On: 1-31-18

on: 1-31-18

By LESSOR:

By LESSEE:

Camp Granada LLC

Petrobloq LLC

By: /s/ Mireille Neumann
Name Printed: Mireille Neumann
Title: Property Manager

By: /s/ Alex Blyumkin
Name Printed: Alex Blyumkin
Title: CEO

By: _____
Name Printed: _____
Title: _____
Address: P.O. Box 9149
Calabasas, CA 91302

By: _____
Name Printed: Greg Rubin
Title: CEO
Address: 4768 Park Granada, Suite 200
Calabasas, CA 91302

Telephone: (818) 913-9728
Facsimile: ()
Federal ID No. _____

Email: grerub@gmail.com
Telephone: (818) 324-1196
Facsimile: ()
Federal ID No. _____

LESSOR'S BROKER:

LESSEE'S BROKER:

MAM Commercial

Peak Commercial

Attn: Brock Burnett
Address: 4910 Van Nuys Blvd
Suite 209 Sherman Oaks, CA 91403
Telephone (818) 925-5200
Facsimile: ()
Broker/Agent ORE License #: 01814211

Attn: Kevin Levine
Address: 5900 Canoga Avenue Suite 280
Woodland Hills, CA 91367
Telephone (818) 225-5800
Facsimile: ()
Broker/Agent ORE License #: 01330855

NOTICE: These forms are often modified to meet changing requirements of law and industry needs. Always write or call to make sure you are utilizing the most current form: AIR Commercial Real Estate Association, 800 W 6th Street, Suite 800, Los Angeles, CA 90017. Telephone No. (213) 687-8777. Fax No.: (213) 687-8616.

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Addendum

This addendum is made apart of the Standard Multi Tenant Office Lease Gross AIR Commercial Real Estate Form dated January 17, 2018 made by and between **Camp Granada LLC (LESSOR) and Petrobloq LLC referred to as (LESSEE)** for the property located at **4768 Park Granada, Suite #200, Calabasas, CA 91302**. In the event of any conflict between Lease and this addendum, this Addendum shall supersede and control.

50. Neither Lessor nor Lessee shall record this Lease without the prior written consent of the other party. However, either party shall, upon request of the other, execute, acknowledge and deliver to the other a short-form memorandum of this Lease for recording purposes.
51. Lessor shall at its sole cost install directory signage. Lessee at its sole cost shall install Suite Door Signage. Lessee shall present all signage names to Lessor and must be approved by Lessor prior to installation and shall conform to already existing building signage. Should Lessee be allowed building signage, said signage shall be at the sole cost of Lessee. Signage must be fully approved by Lessor prior to installation and must conform to the existing park signage criteria and any City Codes. Lessee shall be solely responsible for removal of any signage upon default of Lease and or non renewal.
52. Lessee shall pay Lessor a charge of \$50.00 for each check returned from the bank unpaid for any reason plus appropriate late charge from the due date until good funds are received. These additional charges shall be collectable as rent. If a check has been returned from the bank for any reason, the Lessor reserves the right to demand that all sums due under this Agreement be paid in the form of a cashier's check or money order and to return any personal or company check previously accepted by Lessor and demand a cashier's check or money order in its place. If the cashier's check or money order is not received by the fifth (5th) of the month a late fee of 10% of your total rent or \$100.00 whichever is greater will be charged. In the event a three (3) day notice or notice to perform covenant or quit is served Lessee shall pay Lessor a processing and service fee of \$350.00 per notice served.
53. Lessee expressly authorizes Lessor to dispose of abandoned property left on the premises by Lessee before or after tenancy has terminated, in any manner Lessor deems fit, where the Lessor reasonably determines that the value of said property is so low that the cost of moving, storing and conducting a public sale exceeds the amount that would be realized from the sale. Lessee holds Lessor harmless for loss of property and/or value of said property disposed of under these circumstances.
54. With reference to paragraphs 1.2(b) and 2.6 of the Lease:

In order to provide ample parking space for clients and customers, Lessor shall have the right to designate certain areas for employee parking and certain areas for customers only. Initially, Lessor will designate all parking abutting the building for customers and clients only. All other parking will be on a non-exclusive and non-reserved basis. Should Lessor elect to assign specific parking spaces to specific users, then Lessor will assign specific parking to the Lessee in the same ratio to the -then-existing total number of parking spaces as the gross area of Lessee's premises bears to the then-existing gross building area of the "Project" as defined in subparagraph 1.2(a) of the Lease. Nothing in this provision will require Lessor to assign specific parking places to specific users, nor will it otherwise limit Lessor's right pursuant to Paragraph 2 of the Lease. In the event that Lessee, its employees or agents park their cars in a restricted or assigned portion of the parking lot, damages will result to Lessor which Lessee and Lessor agree are extremely difficult and impractical to determine and that; therefore, the sum of Fifty Dollars (\$50.00) per day per car parked in any space other than those designated is hereby agreed to be liquidated damages resulting there from, which Lessor, at its option, may collect as additional rent due hereunder and as its sole monetary damage for such breach. If the lot becomes congested, Lessor will have the right to require that Lessee's employees, agents, sales people, and relatives park off the lot in order to maximize customer parking. In the event that no parking is provided for the building, the above clause is non-applicable. Valet parking is provided 5 days a week free of charge to Tenants and their guests from the hours of 10 a.m to 4 p.m.



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55. Assignment and Subletting.

- (a) **Bonus Rental.** If for any assignment or sublease, Lessee receives rent or other consideration, either initially or over the term of the assignment or sublease, in excess of the Base Rent called for hereunder, or in the event of the sublease of a portion of the Premises, in excess of such Base Rent fairly allocable to such portion (and actual out of pocket brokerage fees expended by Lessee in obtaining such assignment or sublease), Lessee shall pay to Lessor, monthly as additional rent hereunder, 50% of the excess of each such payment of rent or other consideration received by Lessee within 10 days after its receipt. For purposes of this Paragraph 13, the term "rent or other consideration" shall include, without limitation, all monies or their consideration of any kind if such sums are related to Lessee's interest in the Lease or in the Premises, including but not limited to, bonus money, key money and payments (in excess of book value thereof) of Lessee's assets, fixtures, inventory, accounts, good will, equipment furniture, general intangibles and any capitol stock or other equity ownership of Lessee.
- (b) **Scope.** Unless Lessor requires atonement in the event of a sublease, at Lessors option, any sublease shall terminate upon termination of the Lease due to Lessee's Breach and such Sub Lessee shall immediately vacate the Premises upon such termination. If Lessee's obligations under this Lease have been guaranteed by third parties, then at Lessors option a sublease, and Lessors consent thereto, shall not be effective unless and until said guarantors give their written consent to such sublease and the terms thereof. Lessee immediately and irrevocably assigns to Lessor, as security for Lessee's obligations under this Lease, all rent from any subletting of all or part of the Premises as permitted by this Lease, and Lessor, as assignee and as attorney-in-tact for Lessee, or a receiver for Lessee appointed on Lessors application may collect such rent and apply it toward Lessee's obligations under this Lease; provided that, until the occurrence of an act of default by Lessee, Lessee shall have the right to collect such rent; and provided further that no such collection shall be construed to constitute a novation or release of Lessee from the further performance of Lessee's obligations hereunder.
56. **Foul, Noxious Gas or Substance and Animals** Lessee shall not use or permit to be used in the Premises any foul, noxious gas or substance; or permit or allow the Premises to occupied or used in any manner offensive or objectionable to Lessor or other occupants of the Center by reason of noise, odors, vibrations; nor shall Lessee bring into or keep in or about the Premises any birds or animals (except seeing eye dogs when accompanied by their masters). Lessee further agrees that the Premises shall be kept in a clean and wholesome condition, and that all Health Regulations and policies shall in all respects and at all times be fully complied with by Lessee.
57. **Notice by Lessee.** Lessee shall immediately notify Lessor in writing of any alleged default by Lessor of its obligations hereunder. If Lessee does not give Lessor any such written notice of violation within thirty (30) days after Lessee's actual notice, the correction of such violation shall thereafter be Lessee's obligation, to be performed at Lessee's sole cost and expense. Lessee shall also immediately notify Lessor in writing of any problems with the Premises which Lessee becomes aware, including but not limited to any water intrusion, mold contamination and abnormal odors. Lessee hereby agrees to notify Lessor of all leaks and floods that occur at the premises, even if Lessee fixes the problem on its own. Lessee is advised that after a leak or flood has occurred, moisture may remain and may lead to the growth of hazardous molds. If Lessee does not give Lessor and such written notice of such problems within thirty (30) days after Lessee's actual notice, the correction of such problem(s) shall thereafter be Lessee's obligation, to be performed at Lessee's sole cost and expense.
58. **HVAC:** Landlord will work with Tenant and to the best of its ability, accommodate through programming the system, to meet the comfortability of the working environment for the Tenant by Programing their thermostat to accommodate any afterhours work times.
59. Lessee is taking the space as is except for Lessor work which will be finished prior to Lessee occupation. All Lessor work is specifically Building Standard. Anything above and beyond Building Standard is the Sole and Absolute Responsibility of the Lessee.

Lessor work defined:

- **Repaint entire Suite**
- **Remove Carpet in the entire Suite**
- **Install New Carpet in Conference Room only**
- **Install Vinyl flooring throughout remainder of suite**
- **Make Ready for move in**



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60. Payment of Rent: Per section 4.3 of the Lease Lessor has set up an ACH Electronic payment with Wells Fargo Bank. The Banking information is attached hereto for the purpose of payments.

61. Disclosures Regarding the Nature of Agency Relationships:

1. When entering into a discussion with a real estate agent regarding a real estate transaction, a Tenant or Landlord should from the outset understand what type of agency relationship or representation it has with the agent or agents in the transaction. Tenant and Landlord acknowledge being advised by the Brokers in this transaction as follows:

2. A real estate agent, either acting directly or through one or more associate licenses, can legally be the agent of both the Landlord and the Tenant in a transaction, but only with the knowledge and consent of both the Landlord and the Tenant. In a dual agency situation, the agent has the following affirmative obligations to both the Landlord and the Tenant: A fiduciary duty of utmost care, integrity, honesty, and loyalty in dealing with the Landlord and Tenant. A diligent exercise of reasonable skills and care in performance of the agent's duties. A duty of honest and fair dealing and good faith. A duty to disclose all facts, known to the agent, materially affecting the value or desirability of the property that are not known to, or within the diligent attention and observation of, the Parties. An agent is not obligated to reveal to either Party any confidential information obtained from the other Party which does not involve the affirmative duties set forth above.

3. In representing both Landlord and Tenant, the agent may not without the express written permission of the respective party, disclose to the other party that the Landlord will accept rent in an amount less than indicated in the listing or that the Tenant is willing to pay a higher rent than that offered. The above duties of the agent in the real estate transaction do not relieve Landlord or Tenant from the responsibility to protect their own interests. Landlord and Tenant should carefully read all agreements to assure that they adequately express their understanding of the transaction. A real estate agent is a person qualified to advise about real estate. If legal or tax advice is desired, consult a competent professional.

4. Brokers have no responsibility with respect to any default or breach hereof by either Party. The Parties agree that no lawsuit or other legal proceeding involving any breach of duty, error or omission relating to the proposed Lease may be brought against Broker, except where Broker is found liable for gross negligence or wrongful misconduct. The liability (including court costs and attorney's fees), shall not exceed the fee received by such Broker pursuant to the proposed Lease

62. Indemnity:

Tenant acknowledges that Medical Asset Management has made no representations, oral, written, or implied as to whether or not the Lease Documents contain the terms as agreed upon between Landlord and Tenant and Tenant is not relying upon any statement or fact or opinion from Medical Asset Management as to the contents of the lease documents and/or the legal effects.

Medical Asset Management is hereby advising Tenant to have the Lease documents reviewed by your attorney, accountant(s), and/or insurance agents for professional advice. Tenant agrees to indemnify and hold harmless Medical Asset Management its representatives, agents, and employees for any liability or loss, including without limitations, attorney fees and cost that may be occasioned as a result of the execution of this Lease.

63. Lessee has received 2 set of keys that must be returned upon termination of the lease or non renewal.



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RENT ADJUSTMENT(S)
STANDARD LEASE ADDENDUM

Dates: January 17, 2018
By and Between (Lessor): Camp Granada LLC
(Lessee): Petrobloq LLC
Address of Premises: 4768 Park Granada Suite #200
Calabasas, CA 91302

Paragraph 65

A. RENT ADJUSTMENTS:

The monthly rent for each month of the adjustment period(s) specified below shall be increased using the method(s) indicated below:

(Check Method(s) to be Used and Fill in Appropriately)

I. Cost of Living Adjustment(s) (COLA)

a. On (Fill in COLA Dates):

the Base Rent shall be adjusted by the change, if any, from the Base Month specified below, in the Consumer Price Index of the Bureau of Labor Statistics of the U.S. Department of Labor for (select one): CPI-W (Urban Wage Earners and Clerical Workers) or CPI-U (All Urban Consumers):

For (Fill in Urban Area):

All Items (1982-1984 = 100), herein referred to as "CPI":

b. The monthly rent payables in accordance with paragraph A.1.a of this Addendum shall be calculated as follows: the Base Rent set forth in paragraph 1.5 of the attached Lease, shall be multiplied by a fraction the numerator of which shall be the CPI of the calendar month 2 months prior to the month(s) specified in paragraph A.1.a above during which the adjustment is to take effect, and the denominator of which shall be the CPI of the calendar month which is 2 months prior to (select one): the first month of the term of this Lease as set forth in paragraph 1.3 ("Base Month") or (Fill in the Other "Base Month"). The sum be calculated shall constitute the new monthly rent hereunder, but in no event, shall any such new monthly rent be less than the rent payable for the month immediately preceding the rent adjustment.

e. In the event the compilation and/or publication of the CPI shall be transferred to any other government department or bureau or agency or shall be discontinued, then the index most nearly the same as the CPI shall be used to make such calculation. In the event that the Parties cannot agree on such alternative index, then the matter shall be submitted for decision to the American Arbitration Association with the then rules of said Association and the decision of the arbitrators shall be binding upon the parties. The cost of said Arbitration shall be paid equally by the Parties.

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II. Market Rental Value Adjustment(s) (MRV)

a. On (Fill in MRV Adjustment Date(s): _____

the Base Rent shall be adjusted to the "Market Rental Value" of the property as follows:

1) Four months prior to each Market Rental Value Adjustment Date described above, the Parties shall attempt to agree upon what the new MRV will be on the adjustment date. If agreement cannot be reached within thirty days, then:

(a) Lessor and Lessee shall immediately appoint a mutually acceptable appraiser or broker to establish the new MRV within the next 30 days. Any associated costs will be split equally between the Parties, or

(b) Both Lessor and Lessee shall each immediately make a reasonable determination of the MRV and submit such determination, in writing, to arbitration in accordance with the following provisions:

(i) Within 15 days thereafter, Lessor and Lessee shall each select an appraiser or broker ("Consultant" check one) of their choice to act as an arbitrator. The two arbitrators so appointed shall immediately select a third acceptable Consultant to act as a third arbitrator.

(ii) The 3 arbitrators shall within 30 days of the appointment of the third arbitrator reach a decision as to what the actual MRV for the Premises is, and whether Lessor's or Lessee's submitted MRV is the closest thereto. The decision of majority of the arbitrators shall be binding on the Parties. The submitted MRV which is determined to be the closest to the actual MRV shall thereafter be used by Parties.

(iii) If either of the Parties fails to appoint an arbitrator within the specified 15 days, the arbitrator timely appointed by one of them shall reach a decision on his or her own, and said decision shall be binding on the Parties.

(iv) The entire cost of such arbitration shall be paid by the party whose submitted MRV is not selected, i.e., the one that is NOT the closest to the actual MRV.

2) Notwithstanding the foregoing, the new MRV shall not be less than the rent payable for the month immediately preceding the rent adjustment.

b. Upon the establishment of each New Market Rental Value:

1) the new MRV will become the new "Base Rent" for the purpose of calculating any further Adjustment, and

2) the first month of each Market Rental Value term shall become the new 'Base Month' for the purpose of calculating any further Adjustments.

III. Fixed Rental Adjustment(s) (FRA)

The Base Rent shall be increased to the following amounts on the dates set forth below:

On (Fill in FRA Adjustment Date(s):	The New Base Rent shall be:
March 1, 2019	\$3,986.10
March 1, 2020	\$4,105.68

B. NOTICE:

Unless specified otherwise herein, notice of any such adjustments, other than Fixed Adjustments, shall be made as specified in paragraph 23 of the Lease.

C. BROKER'S FEE

The Brokers shall be paid a Brokerage Fee for each adjustment specified above in accordance with paragraph 15 of the Lease.

NOTICE: These forms are often modified to meet changing requirements of law and Industry needs. Always write or call to make sure you are utilizing the most current form: AIR Commercial Real Estate Association, 800 W 6th Street, Suite 800, Los Angeles, CA 90017. Telephone No. (213) 687-8777. Fax No.: (213) 687-8616.


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**OPTION(S) TO EXTEND
STANDARD LEASE ADDENDUM**

Dated January 17, 2018
By and Between (Lessor) Camp Granada LLC
By and Between (Lessee) Petrobloq LLC
Address of Premises: 4768 Park Granada, Suite #200, Calabasas CA 91302

Paragraph 66

A. OPTION(S) TO EXTEND:

Lessor hereby grants to Lessee the option to extend the term of this Lease for One (1) additional Thirty Six(36) month period(s) commencing when the prior term expires upon each and all of the following terms and conditions:

(i) In order to exercise an option to extend, Lessee must give written notice of such election to Lessor and Lessor must receive the same at least 6 but not more than 9 months prior to the date that the option period would commence, time being of the essence. If proper notification of the exercise of an option is not given and/or received, such option shall automatically expire. Options (if there are more than one) may only be exercised consecutively.

(ii) The provisions of paragraph 39, including those relating to Lessee's Default set forth in paragraph 39.4 of this Lease, are conditions of this Option.

(iii) Except for the provisions of this Lease granting an option or options to extend the term, all of the terms and conditions of this Lease except where specifically modified by this option shall apply.

(iv) This Option is personal to the original Lessee, and cannot be assigned or exercised by anyone other than said original Lessee and only while the original Lessee is in full possession of the Premises and without the intention of thereafter assigning or subletting.

(v) The monthly rent for each month of the option period shall be calculated as follows, using the method(s) indicated below: (Check Method(s) to be Used and Fill in Appropriately)

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I. Cost of Living Adjustment(s) (COLA)

a. On (Fill in COLA Dates): _____

the Base Rent shall be adjusted by the change, if any, from the Base Month specified below, in the Consumer Price Index of the Bureau of Labor Statistics of the U.S. Department of Labor for (select one): CPI-W (Urban Wage Earners and Clerical Workers) or CPI-U (All Urban Consumers), for (Fill in Urban Area): _____

All Items (1982-1984=100), herein referred to as "CPI".

b. The monthly rent payable in accordance with paragraph A.1.a. of this Addendum shall be calculated as follows: the Base Rent set forth in paragraph 1.5 of the attached Lease, shall be multiplied by a fraction the numerator of which shall be the CPI of the calendar month 2 months prior to the month(s) specified in paragraph A.1.a. above during which the adjustment is to take effect, and denominator of which shall be the CPI of the calendar month which is 2 months prior to (select one): the first month of the term of this Lease as set forth in paragraph 1.3 ("Base Month") or (Fill in Other "Base Month"):

The sum so calculated shall constitute the new monthly rent hereunder, but in no event, shall any such new monthly rent be less than the rent payable for the month immediately preceding the rent adjustment.

~~e. In the event the compilation and/or publication of the CPI shall be transferred to any other governmental department of bureau or agency or shall be discontinued, then the index most nearly the same as the CPI shall be used to make such calculation. In the event that the Parties cannot agree on such alternative index, then the matter shall be submitted for decision to the American Arbitration in accordance with the then rules of said Association and the decision of the arbitrators shall be binding upon the parties. The cost of said Arbitration shall be paid equally by the Parties.~~

II. Market Rental Value Adjustment(s) (MRV)

a. On (Fill in MRV Adjustment Date(s)) February 28, 2021
the Base Rent shall be adjusted to the "Market Rental Value" of the property as follows:

1) Four months prior to each Market Rental Value Adjustment Date described above, the Parties shall attempt to agree upon what the new MRV will be on the adjustment date. If agreement cannot be reached, within thirty days, then:

(a) Lessor and Lessee shall immediately appoint a mutually acceptable appraiser or broker to establish the new MRV within the next 30 days. Any associated costs will be split equally between the Parties, or

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(b) Both Lessor and Lessee shall each immediately make a reasonable determination of the MRV and submit such determination, in writing, to arbitration in accordance with the following provisions:

(i) Within 15 days thereafter, Lessor and Lessee shall each select an appraiser or broker ("**Consultant**" - check one) of their choice to act as an arbitrator, The two arbitrators so appointed shall immediately select a third mutually acceptable Consultant to act as a third arbitrator.

(ii) The 3 arbitrators shall within 30 days of the appointment of the third arbitrator reach a decision as to what the actual MRV for the Premises is, and whether Lessor's or Lessee's submitted MRV is the closest thereto. The decision of a majority of the arbitrators shall be binding on the Parties. The submitted MRV which is determined to be the closest to the actual MRV shall thereafter be used by the Parties.

(iii) If either of the Parties fails to appoint an arbitrator within the specified 15 days, the arbitrator timely appointed by one of them shall reach a decision on his or her own, and said decision shall be binding on the Parties.

(iv) The entire cost of such arbitration shall be paid by the party whose submitted MRV is not selected, ie. the one that is NOT the closest to the actual MRV.

2) Notwithstanding the foregoing, the new MRV shall not be less than the rent payable for the month immediately preceding the rent adjustment.

b. Upon the establishment of each New Market Rental Value:

1) the new MRV will become the new "Base Rent" for the purpose of calculating any further Adjustments, and

2) the first month of each Market Rental Value term shall become the new "Base Month" for the purpose of calculating any further

Adjustments.

III. Fixed Rental Adjustment(s) (FRA)

~~The Base Rent shall be increased to the following amounts on the dates set forth below:~~

On (Fill in FRA Adjustment Date(s)):	The New Base Rent shall be:
-	-
_____	_____
_____	_____
_____	_____
_____	_____

B. NOTICE:

Unless specified otherwise herein, notice of any rental adjustments, other than Fixed Rental Adjustments, shall be made as specified in paragraph 23 of the Lease.

C. BROKER'S FEE:

~~The Brokers shall be paid a Brokerage Fee for each adjustment specified above in accordance with paragraph 15 of the Lease.~~

NOTICE: These forms are often modified to meet changing requirements of law and Industry needs. Always write or call to make sure you are utilizing the most current form: AIR Commercial Real Estate Association, 800 W 6th Street, Suite 800, Los Angeles, CA 90017. Telephone No. (213) 687-8777. Fax No.: (213) 687-8616.



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ARBITRATION AGREEMENT
Standard Lease Addendum

Dated January 17, 2018
By and Between (Lessor) Camp Granada LLC
(Lessee) Petrobloq LLC
Address of Premises: 4768 Park Granada Suite #200
Calabasas, CA 91302

Paragraph 67

A. ARBITRATION OF DISPUTES:

Except as provided in Paragraph B below, the Parties agree to resolve any and all claims, disputes or disagreements arising under this Lease, including, but not limited to any matter relating to Lessor's failure to approve an assignment, sublease or other transfer of Lessee's interest in the Lease under Paragraph 12 of this Lease, any other defaults by Lessor, or any defaults by Lessee by and through arbitration as provided below and irrevocably waive any and all rights to the contrary. The Parties agree to at all times conduct themselves in strict, full, complete and timely accordance with the terms hereof and that any attempt to circumvent the terms of this Arbitration Agreement shall be absolutely null and void and of no force or effect whatsoever.

B. DISPUTES EXCLUDED FROM ARBITRATION:

The following claims, disputes or disagreements under this Lease are expressly excluded from the arbitration procedures set forth herein: 1. Disputes for which a different resolution determination is specifically set forth in this Lease, 2. All claims by either party which (a) seek anything other than enforcement or determination of rights under this Lease, or (b) are primarily founded upon matters of fraud, willful misconduct, bad faith or any other allegations of tortious action, and seek the award of punitive or exemplary damages, 3. Claims relating to (a) Lessor's exercise of any unlawful detainer rights pursuant to applicable law or (b) rights or remedies used by Lessor to gain possession of the Premises or terminate Lessee's right of possession to the Premises, all of which disputes shall be resolved by suit filed in the applicable court of jurisdiction, the decision of which court shall be subject to appeal pursuant to applicable law and 4. All claims arising under Paragraph 39 of this Lease.

C. APPOINTMENT OF AN ARBITRATOR:

All disputes subject to this Arbitration Agreement, shall be determined by binding arbitration before: a retired judge of the applicable court of jurisdiction (e.g., the Superior Court of the State of California) affiliated with Judicial Arbitration & Mediation Services, Inc. ("JAMS"), the American Arbitration Association ("AAA") under its commercial arbitration rules, _____, or as may be otherwise mutually agreed by Lessor and Lessee (the "Arbitrator"). Such arbitration shall be initiated by the Parties, or either of them, within ten (10) days after either party sends written notice (the "Arbitration Notice") of a demand to arbitrate by registered or certified mail to the other party and to the Arbitrator. The Arbitration Notice shall contain a description of the subject matter of the arbitration, the dispute with respect thereto, the amount involved, if any, and the remedy or determination sought. If the Parties have agreed to use JAMS they may agree on a retired judge from the JAMS panel, if they are unable to agree within ten days, JAMS will provide a list of three available judges and each party may strike one. The remaining judge (or if there are two, the one selected by JAMS) will serve as the Arbitrator. If the Parties have elected to utilize AAA or some other organization, the Arbitrator shall be selected in accordance with said organization's rules. In the event the Arbitrator is not selected as provided for above for any reason, the party initiating arbitration shall apply to the appropriate Court for the appointment of a qualified retired judge to act as the Arbitrator.



INITIALS



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D. ARBITRATION PROCEDURE:

1. PRE-HEARING ACTIONS. The Arbitrator shall schedule a pre-hearing conference to resolve procedural matters, arrange for the exchange of information, obtain stipulations, and narrow the issues, The Parties will submit proposed discovery schedules to the Arbitrator at the pre-hearing conference. The scope and duration of discovery will be within the sole discretion of the Arbitrator. The Arbitrator shall have the discretion to order a pre-hearing exchange of information by the Parties, including, without limitation, production of requested documents, exchange of summaries of testimony of proposed witnesses, and examination by deposition of parties and third-party witnesses. This discretion shall be exercised in favor of discovery reasonable under the circumstances. The Arbitrator shall issue subpoenas and subpoenas duces tecum as provided for in the applicable statutory or case law (e.g., in California Code of Civil Procedure Section 1282.6).

2. THE DECISION. The arbitration shall be conducted in the city or county within which the Premises are located at a reasonably convenient site, Any Party may be represented by counsel or other authorized representative. In rendering a decision(s), the Arbitrator shall determine the rights and obligations of the Parties according to the substantive laws and the terms and provisions of this Lease. The Arbitrator's decision shall be based on the evidence introduced at the hearing, including all logical and reasonable inferences therefrom. The Arbitrator may make any determination and/or grant any remedy or relief that is just and equitable. The decision must be based on, and accompanied by, a written statement of decision explaining the factual and legal basis for the decision as to each of the principal controverted issues. The decision shall be conclusive and binding, and it may thereafter be confirmed as a judgment by the court of applicable jurisdiction, subject only to challenge on the grounds set forth in the applicable statutory or case law (e.g., in California Code of Civil Procedure Section 1286.2). The validity and enforceability of the Arbitrator's decision is to be determined exclusively by the court of appropriate jurisdiction pursuant to the provisions of this Lease. The Arbitrator may award costs, including without limitation, Arbitrator's fees and costs, attorneys' fees, and expert and witness costs, to the prevailing party, if any, as determined by the Arbitrator in his discretion.

Whenever a matter which has been submitted to arbitration involves a dispute as to whether or not a particular act or omission (other than a failure to pay money) constitutes a Default, the time to commence or cease such action shall be tolled from the date that the Notice of Arbitration is served through and until the date the Arbitrator renders his or her decision. Provided, however, that this provision shall NOT apply in the event that the Arbitrator determines that the Arbitration Notice was prepared in bad faith.

Whenever a dispute arises between the Parties concerning whether or not the failure to make a payment of money constitutes a default, the service of an Arbitration Notice shall NOT toll the time period in which to pay the money. The Party allegedly obligated to pay the money may, however, elect to pay the money "under protest" by accompanying said payment with a written statement setting forth the reasons for such protest. If thereafter, the Arbitrator determines that the Party who received said money was not entitled to such payment, said money shall be promptly returned to the Party who paid such money under protest together with Interest thereon as defined in Paragraph 13.5. If a Party makes a payment "under protest" but no Notice of Arbitration is filed within thirty days, then such protest shall be deemed waived. (See also Paragraph 42 or 43)

NOTICE: These forms are often modified to meet changing requirements of law and industry needs. Always write or call to make sure you are utilizing the most current form: AIR Commercial Real Estate Association, 800 W 6th Street, Suite 800, Los Angeles, CA 90017. Telephone No. (213) 687-8777. Fax No.: (213) 687-8616.



INITIALS

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**AIR COMMERCIAL REAL ESTATE ASSOCIATION
GUARANTY OF LEASE**

WHEREAS, Camp Granada LLC , hereinafter "Lessor", and Petrobloq LLC , hereinafter "Lessee", are about to execute a document entitled "Lease" dated January 17, 2018 concerning the premises commonly known as 4768 Park Granada, Suite #200, Calabasas, CA 91302 wherein Lessor will lease the premises to Lessee, and

WHEREAS, Alex Blyurnk in and Greg Rubin hereinafter "Guarantors" have a financial interest in Lessee, and

WHEREAS, Lessor would not execute the Lease if Guarantors did not execute and deliver to Lessor this Guaranty of Lease.

NOW THEREFORE, in consideration of the execution of said Lease by Lessor and as a material inducement to Lessor to execute said Lease, Guarantors hereby jointly, severally, unconditionally and irrevocably guarantee the prompt payment by Lessee of all rents and all other sums payable by Lessee under said Lease and the faithful and prompt performance by Lessee of each and every one of the terms, conditions and covenants of said Lease to be kept and performed by Lessee.

It is specifically agreed by Lessor and Guarantors that: (i) the terms of the foregoing Lease may be modified by agreement between Lessor and Lessee, or by a course of conduct, and (ii) said Lease may be assigned by Lessor or any assignee of Lessor without consent or notice to Guarantors and that this Guaranty shall guarantee the performance of said Lease as so modified.

This Guaranty shall not be released, modified or affected by the failure or delay on the part of Lessor to enforce any of the rights or remedies of the Lessor under said Lease.

No notice of default by Lessee under the Lease need be given by Lessor to Guarantors, it being specifically agreed that the guarantee of the undersigned is a continuing guarantee under which Lessor may proceed immediately against Lessee and/or against Guarantors following any breach or default by Lessee or for the enforcement of any rights which Lessor may have as against Lessee under the terms of the Lease or at law or in equity.

Lessor shall have the right to proceed against Guarantors following any breach or default by Lessee under the Lease without first proceeding against Lessee and without previous notice to or demand upon either Lessee or Guarantors.

Guarantors hereby waive (a) notice of acceptance of this Guaranty, (b) demand of payment, presentation and protest, (c) all right to assert or plead any statute of limitations relating to this Guaranty or the Lease, (d) any right to require the Lessor to proceed against the Lessee or any other Guarantor or any other person or entity liable to Lessor, (e) any right to require Lessor to apply to any default any security deposit or other security it may hold under the Lease, (f) any right to require Lessor to proceed under any other remedy Lessor may have before proceeding against Guarantors, (g) any right of subrogation that Guarantors may have against Lessee.

Guarantors do hereby subordinate all existing or future indebtedness of Lessee to Guarantors to the obligations owed to Lessor under the Lease and this Guaranty.

If a Guarantor is married, such Guarantor expressly agrees that recourse may be had against his or her separate property for all of the obligations hereunder.

The obligations of Lessee under the Lease to execute and deliver estoppel statements and financial statements, as therein provided, shall be deemed to also require the Guarantors to do and provide the same to Lessor. The failure of the Guarantors to provide the same to Lessor shall constitute a default under the Lease.

The term "Lessor" refers to and means the Lessor named in the Lease and also Lessor's successors and assigns. So long as Lessor's interest in the Lease, the leased premises or the rents, issues and profits therefrom, are subject to any mortgage or deed of trust or assignment for security, no acquisition by Guarantors of the Lessor's interest shall affect the continuing obligation of Guarantors under this Guaranty which shall nevertheless continue in full force and effect for the benefit of the mortgagee, beneficiary, trustee or assignee under such mortgage, deed of trust or assignment and their successors and assigns.

The term "Lessee" refers to and means the Lessee named in the Lease and also Lessee's successors and assigns.

Any recovery by Lessor from any other guarantor or insurer shall first be credited to the portion of Lessee's indebtedness to Lessor which exceeds the maximum liability of Guarantors under this Guaranty.

Any recovery by Lessor from any other guarantor or insurer shall first be credited to the portion of Lessee's indebtedness to Lessor which exceeds the maximum liability of Guarantors under this Guaranty.

No provision of this Guaranty or right of the Lessor can be waived, nor can the Guarantors be released from their obligations except in writing signed by the Lessor.

Any litigation concerning this Guaranty shall be initiated in a state court of competent jurisdiction in the county in which the leased premises are located and the Guarantors consent to the jurisdiction of such court. This Guaranty shall be governed by the laws of the State in which the leased premises are located and for the purposes of any rules regarding conflicts of law the parties shall be treated as if they were all residents or domiciles of such State.

In the event any action be brought by said Lessor against Guarantors hereunder to enforce the obligation of Guarantors hereunder, the unsuccessful party in such action shall pay to the prevailing party therein a reasonable attorney's fee. The attorney's fee award shall not be computed in accordance with any court fee schedule, but shall be such as to full reimburse all attorney's fees reasonably incurred.

If any Guarantor is a corporation, partnership, or limited liability company, each individual executing this Guaranty on said entity's behalf represents and warrants that he or she is duly authorized to execute this Guaranty on behalf of such entity.

If this Form has been filled in, it has been prepared for submission to your attorney for his approval. No representation or recommendation is made by the AIR Commercial Real Estate Association, the real estate broker or its agents or employees as to the legal sufficiency, legal effect, or tax consequences of this Form or the transaction relating thereto.

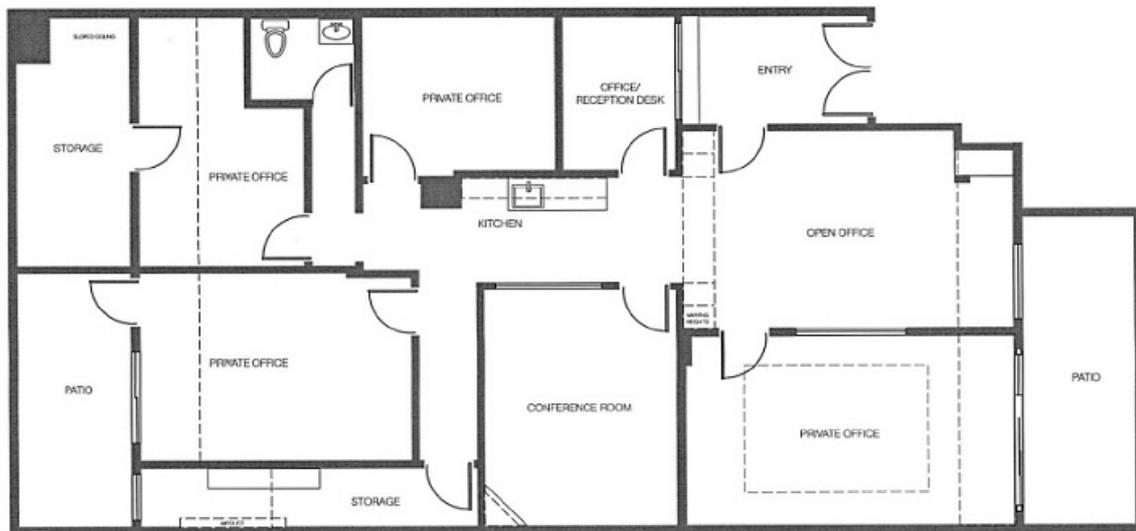
Executed at: Calabasas, CA
On: 1-31-18
Address: 4768 Park Granada Suite #200
Calabasas, CA 91302

/s/Alex Blyumkin
Alex Blyumkin

/s/Greg Rubin
Greg Rubin

"GUARANTORS"

me



FLOOR PLAN
4768 PARK GRANADA
SUITE 200

DATE: 4/14/15

SCALE: 1/4" = 1'

CALABASAS
GARDENS
CALABASAS, CA

PREPARED BY:
J. VACCARO, CID, NCIDQ
M. FISHER, CID, LEED AP
BD + C



DESIGN IN REAL LIFE
INTERIOR DESIGN STUDIO

4766 PARK GRANADA, SUITE 210 • CALABASAS, CA
818.225.1100 • mfisher@designinrealife.com
jvaccaro@designinrealife.com • www.designinrealife.com

MSD

**THIRD AMENDMENT TO
MINING AND MINERAL LEASE AGREEMENT**

This **THIRD AMENDMENT TO MINING & MINERAL LEASE AGREEMENT** ("Third Amendment"), dated and made effective as of February 21, 2018, is made and entered into by and between **ASPHALT RIDGE, INC.**, a Utah corporation having offices at 6083 Carriage House Way, Reno, NV 89519 ("Lessor"), and **TMC CAPITAL, LLC**, a Utah limited liability company having offices at: do Petroteq Energy, Inc., 4370 Tujunga Ave Ste #320, Studio City, CA 91604 ("Lessee") (the parties are sometimes referred to herein individually as a "Party" or collectively as the "Parties").

RECITALS

A. Lessor and Lessee are Parties to that certain "Mining and Mineral Lease Agreement" dated as of July 1, 2013, as amended by the First Amendment to Mining & Mineral Lease Agreement dated as of October 15, 2015 and the Reinstatement of and Second Amendment to Mining & Mineral Lease Agreement dated March 1, 2016 (collectively, the "Lease"), whereby Lessor granted to Lessee an exclusive right to explore for, mine, produce, extract and sell or otherwise dispose of Tar Sands and any Minerals which are associated with or contained in any Tar Sands (as defined in the Lease), subject to a depth limitation of above 3,000 feet above Mean Sea Level (MSL), located in and under the Properties in Uintah County, Utah more particularly described in Amended Exhibit A of the Lease and to use in connection therewith the Water Rights described in Exhibit B of the Lease attached hereto;

B. On March 1, 2016, the Lease automatically terminated in accordance with the terms of the Lease as a result of Lessee's failure to obtain a written letter by that date from a funding source as required by Paragraph 11 of the Lease ("Financial Commitment"), and Lessor and Lessee executed the Reinstatement of and Second Amendment to Mining & Mineral Lease Agreement dated March 1, 2016, reinstating and amending the Lease in various respects and allowing Lessee a period of time from March 1, 2016, and to and including, but in no event after, March 1, 2018;

C. Lessor and Lessee desire to amend the Lease effective as of February 21, 2018, upon the terms and conditions set forth in this Third Amendment.

NOW, THEREFORE, in consideration of the covenants, promises and obligations contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

1. LESSEE PAYMENTS. On or before the dates indicated below, Lessee shall have paid in full the following payments. All other payments required in the Lease as amended must be made in a timely fashion by Lessee.

(a) the sum of \$20,000 to Lessor on or before February 21, 2018 and \$80,000 on or before April 1, 2018, as the 2nd quarter payment for advance royalty due under Paragraph 4) of the Lease;

Third Amendment
February 21, 2018

(b) the sum of \$500.00 to Lessor in reimbursement of Lessor's attorney's fees incurred by Lessor in connection with the negotiation and preparation of this Third Amendment to Mining & Mineral Lease Agreement dated as of February 21, 2018;

(c) Not having received the Financial Commitment in a timely fashion, TMC shall pay the sum of \$4,000.00 to Lessor on or before February 21, 2018, and \$30,000 on or before May 1, 2018 as Lessor's 20% share of the sum of \$170,000 received by TMC from Blackrock Petroleum;

Note: The combined payment due February 21, 2018, is \$24,500.

2. AMENDMENT OF LEASE. If any sum required to be paid by Lessee under Paragraph 1 of this Third Amendment is not paid in full on the date such payment is due as specified above, the Lease shall automatically terminate on the date such payment is due and is not received in accordance with Paragraph 1 of this Third Amendment.

(a) Amendment of Paragraph 11 of the Lease. Paragraph 11 of the Lease is hereby amended in its entirety and replaced with the following:

11) Termination.

a) Lack of Financial Commitment. Lessee intends to construct a minimum of two similar processing facilities to the 1,000 barrel per day facility currently under construction. This Lease shall automatically terminate without notice, if a written letter from a financially capable institution or individual providing a binding commitment, satisfactory to Lessor, in Lessor's sole discretion, to fund the full cost of second 1,000 barrel/day processing facility to be constructed for the benefit of the Properties (the "Financial Commitment") is not obtained or secured by Lessee and a true and accurate copy of the Financial Commitment is received by Lessor on or before March 1, 2019 for the 2nd processing facility and a similar Financial Commitment for the 3rd processing facility by March 1, 2020. The period of time between March 1, 2018 and the earlier of (i) March 1, 2019 or (ii) the date on which a true and accurate copy of the Financial Commitment is received by Lessor shall be referred to herein as the "Extension Period."

b) Cessation of Operations or Inadequate Production. If the technology, techniques or process deployed by Lessee in the development of the Lease prove to be uneconomic and operations cease due to increased operating costs or decreased marketability, this Lease shall automatically terminate without notice if operations are not resumed at 80% of capacity within three (3) months of any such cessation.

If the proposed three 1,000 barrel/day processing facilities to be constructed for the benefit of the Properties fails to produce an average at a minimum of 80% of its rated capacity for at least 180 calendar days during the Lease Year commencing July 1, 2020 plus the Extension Period, or any successive Lease Year, this Lease shall terminate within thirty (30) days after Lessor delivers to Lessee a written notice of termination. The 3,000 barrel/day combined rated capacity is determined solely by the quantity of ore processed from the Property to produce 3,000 barrels/day prior to being diluted by condensate or any other dilutant.

c) Surrender by Lessee. Lessee may at any time after the Effective Date surrender this Lease provided thirty (30) days advance written notice of termination is given to Lessor, after which all rights and obligations of Lessee hereunder shall cease, save and excepting all accrued obligations and any reclamation and similar obligations that were occasioned by Lessee's operations and Lessee's environmental obligations, which shall survive any termination. Lessee shall leave the Properties in a clean, good and safe condition and in accordance with all applicable laws and regulations. Upon termination of this Lease, Lessee shall comply with all DOGM and/or BLM reclamation requirements and shall have a continuing right to enter upon the Properties to complete required reclamation and to remove from the Properties all equipment, machinery, facilities and other items belonging to Lessee in accordance with DOGM's standards, in accordance with all relevant operating permits and reclamation plans, and to DOGM's satisfaction. Lessee's reclamation obligations hereunder shall be deemed complete upon final release by DOGM and/or the BLM of Lessee's surety bond or other financial guarantee.

d) Breach of Lease by Lessee. In the event of Lessee's failure to comply with any material provision of this Lease, Lessor shall provide Lessee with written notice setting forth the nature of such non-compliance after receipt of which, if the non-compliance relates to the payment of money, Lessee shall within thirty (30) days of receipt of notice cure such non-compliance. If the non-compliance relates other than to the payment of money, Lessee shall within thirty (30) days of receipt of notice pursue diligently all appropriate actions to cure the non-compliance within one hundred fifty (150) days of receipt of notice. If the non-compliance is not timely cured, Lessor may thereupon terminate this Lease by giving Lessee written notice to that effect. However, should there be a dispute as to whether or not non-compliance has occurred or remained, then the provisions of paragraph 12 below shall apply.

In the event of any breach of this Lease by Lessee and the failure to cum after notice as provided above, Lessor, in addition to the other rights or remedies it may have, shall have the immediate right of reentry and may remove all persons and property from the premises; such property may be removed and stored in a public warehouse or elsewhere at the cost of, and for the account of Lessee. Should Lessor elect to reenter, as herein provided, or should it take possession pursuant to legal proceedings or pursuant to any notice provided for by law, Lessor may terminate this Lease. Should Lessor at any time terminate this Lease for any breach, in addition to any other remedy it may have, Lessor may recover from Lessee all damages incurred by reason of such breach, including the cost of recovering the premises. If Lessee doesn't remove personal property, after six (6) months it will become Lessor's property.

(b) Amendment of Paragraph 2 of the Lease. Paragraph 2 of the Lease is hereby amended in its entirety and replaced with the following:

a) Term. This Lease is granted for a primary term of six (6) years plus the Extension Period provided in Paragraph 11 (the "Primary Term") commencing July 1, 2013 (the "Effective Date"). If at any time during the Primary Term, Lessee fails to achieve (or exceed) the requirements of Continuous Operations (as defined below), this Lease shall terminate unless mutually agreed in writing by both Parties. If within the Primary Term, Lessee meets or exceeds the applicable requirements of Continuous Operations, then this Lease shall continue after the Primary Term, for so long as such requirements continue to be met or maintained. If, at any time following the Primary Term, the operations conducted by Lessee cease for longer than 180 days during any Lease Year or 600 days in any, three consecutive Lease Years, Lessor shall be entitled, upon complying with the provisions contained in Paragraphs 12 (Termination) and 14 (Notices), respectively, to terminate this Lease. a) Definition of "Continuous Operations". For purposes of this Lease, the term "Continuous Operations" means:

(i) the construction or operation of one or more facilities having the capacity to produce, from bituminous ores, sands and compounds mined or extracted from the Properties, an average daily quantity ("ADO") of bitumen, synthetic crude oil and/or bitumen products (excluding blending agents and dilutant) that, in the aggregate, equals or exceeds the following:

By 07-01-2018 plus the Extension Period, at 80% of the ADQ of 1,000 bbls/day;

By 07-01-2020 plus the Extension Period, at 80% of the ADQ of 3,000 bbls/day; and

By 07-01-2022 plus the Extension Period, and thereafter during the remainder of this Lease, at 80% of the ADQ of 5,000 bbls/day or greater; and

(ii) from and after 07-01-2018 plus the Extension Period, the continuation of operations for a minimum period of 180 days during each Lease Year or 600 days in any period of three consecutive Lease Years at (or in excess of) the applicable ADQ specified hereinabove.

b) Offsite Operations. Operations conducted by Lessee off the Properties shall be included in determining whether the applicable requirements of Continuous Operations have been met if they are conducted in connection with an integrated mining operation involving the Properties and other properties in which Lessee holds an interest, provided that, during any period of three (3) Lease Years, at least fifty percent (50%) percent of the ores, tar sands, or fee stock of whatever nature mined or otherwise extracted from or in the integrated mining operation comes from the Properties.

c) Smaller Operations. In the event that the operation of any facility or facility constructed or deployed by Lessee to produce bitumen, synthetic crude oil and/or bitumen products from the Properties fails to achieve (or exceed) the requirements for Continuous Operations in or for any Lease Year (or any period of three consecutive Lease Years), Lessor shall be entitled, upon complying with the provisions contained in Paragraphs 12 (Termination) and 14 (Notices), respectively, to terminate this Lease."

c. **Amendment of Paragraph 4 of the Lease.** Paragraph 4) of the Lease is hereby amended in its entirety and replaced with the following:

4) Royalties and Minimum Expenditures. As part of the consideration for the granting of this Lease, Lessee agrees to pay Lessor the following advance royalties and production royalties. As used herein, the term "Lease Quarter" shall mean a period of three months commencing on the Effective Date or any three-month period thereafter:

a) Advance Royalties. Lessee agrees to make advance royalty payments to Lessor during the term of this Lease as provided in this Paragraph 4(a) ("Advance Royalties").

(i) Lessor and Lessee each acknowledge and agree that all Advance Royalties payable to Lessor under this Lease from and after the Effective Date through "April 1, 2018 have been paid in full.

(ii) Effective as of July 1, 2018, Lessee shall pay Advance Royalties to Lessor as follows:

For the Lease Quarter beginning 7-01-2018 and each, of the next ensuing seven (7) successive Lease Quarters (ending 6-30-2020) Advance Royalty of \$100,000 shall be paid quarterly, with payment made on or before the first day of each such Lease Quarter

For the Lease Quarter commencing 07-01-2020 and each ensuing successive Lease Quarter during the remaining term of this Lease Advance Royalty of \$150,000 shall be paid quarterly, subject to a CPI Adjustment as provided below, with payment made within 30 days after the end of each such Lease Year

(iii) The Advance Royalty payable to Lessor for the Lease Year commencing on July 1, 2020 and for each successive Lease Year thereafter shall be adjusted on each anniversary of the Effective Date (7-1-2013) by a percentage equal to the percentage change in the Consumer Price Index (all Urban Areas), U.S. City Average, published by the U.S. Department of Labor, for and during the prior calendar year (the "CPI Adjustment"). Any Advance Royalty payable to Lessor under this Lease prior to the Lease Year commencing on July 1, 2020 shall not be subject to the CPI Adjustment.

b) Accrual and Credit of Advance Royalties. Payments of Advance Royalties may accrue and be utilized as a credit against (and a reduction of) Production Royalties for a maximum of two years following the year for which the Advance Royalties have been paid. Upon any assignment, merger, or transfer of the Lease the credit for all accrued Advance Royalty payments shall be forfeited and will no longer be recoverable from Production Royalties.

c) Production Royalties. Lessee agrees to make production royalty payments to Lessor during the term of this Lease as provided in this paragraph 4(c) ("Production Royalties").

(i) From and after the February 15, 2018 through the Lease Year ending June 30, 2020, the Production Royalty for Bitumen Oil Product produced from Tar Sands mined or otherwise extracted from the Properties shall be eight (8%) percent of the gross sales revenue received by Lessee from the sale of such Bitumen Oil Product, less actual transportation costs incurred post-processing to the point of sale to a third party unrelated to and unaffiliated with Lessee. As used herein, the term "Bitumen Oil Product" means natural occurring oil in the Tar Sands that is sold in whatever form, including run-of-mine, screened or processed, or after the addition of any additives and/or the upgrading of, Bitumen Oil Product; it being the intent of the parties hereto that calculation of Production Royalty for the Bitumen Oil Product sold shall be determined solely by the actual number of tons, cubic yards, or barrels of Bitumen Oil Product produced and sold from the Tar Sands deposits contained within the Properties.

It is the intention of the Parties that the Production Royalty payable to Lessor on any Bitumen Oil Product, or other products or by-products (see paragraph 4 c) (iii)) that have been generated, processed or extracted from deposits of Tar Sands mined or otherwise extracted from the Properties shall be based upon the gross sales price. Adjustments for diluent shall be made if properly accounted for and verified to Lessor. No deduction may be made for any process chemicals, including but not limited to the 15% condensate component. Example: If 80% of the "Bitumen Oil Product" sold is diluent (condensate or other blending agent), 65% (80% -15%) shall be deductible from the gross sales price. Likewise, if 40% is diluent, 25% (40%-15%) shall be deductible from the gross sales price.

A division order, or similar agreement or contract may be entered into from time to time by (i) Lessor, Lessee and other future owners of working interests or royalty interests under other leases, and (ii) the buyer of Bitumen Oil Product or an independent person or entity retained by Lessee for the purpose of calculating the payment of Production Royalties hereunder, in each case for the purpose of directing the buyer or such independent person or entity, as the case may be, to (A) calculate Production Royalties in accordance with the provisions hereof based on information and data provided by Lessee and reviewed by Lessors and such other future owners of interests, and then (B) disburse Production Royalties to all persons entitled thereto.

Effective with the Lease Year commencing July 1, 2020 and for each successive Lease Year thereafter, the rate for determining Production Royalties payable under this Paragraph 4(c)(i) shall be subject to adjustment based on changes in the average monthly “spot” price for West Texas Intermediate Crude Oil as specified in Table 1 below. In each case and for each such royalty payment period, the royalty rate used in determining or calculating Production Royalties for such period shall be the applicable percentage rate specified in Table 1.

TABLE 1	
CRUDE OIL PRICE Quoted Average Monthly West Texas Intermediate Crude (WTI) ¹	PRODUCTION ROYALTY (PR%) Percentage
\$60.00 and below	8%
\$60.01 to \$65.00	9%
\$65.01 to \$70.00	10%
\$70.01 to \$75.00	11%
\$75.01 to \$80.00	12%
\$80.01 to \$85.00	13%
\$85.01 to \$90.00	14%
\$90.01 to \$95.00	15%
\$95.01 and Above	16%

¹ The average monthly WTI “Spot Price”, FOB Cushing, OK (in U.S. Dollars per barrel) as reported by the U.S. Energy Information Administration.

(ii) Lessee shall be required to pay Production Royalties on any Minerals used or consumed by Lessee in the conduct of its operations. The purchase price shall be based upon the market price for screened cold asphalt road mix.

(iii) The Production Royalty for all other Minerals produced from the Bitumen Oil Products taken from the Properties and sold shall be five percent (5%) of the amount received by Lessee. Subject to the provisions of Paragraph 1(a) wherein sales of products and byproducts are wholly accounted for, should sales occur to a third party purchaser that is engaged in marketing a variety of products or by-products and payments to Lessee are measurably greater than comparable sales by others (this may be due to the variety of high end by-products such as frac sands produced by the third party), the Production Royalty to Lessor shall be the greater of a 5% royalty on the gross value of the product and by-products sold by the third party or 50% of the gross revenue received by the Lessee from the sale of such products or byproducts, as the case may be.

(iv) Subject to the provisions contained in Paragraph 3(c), all Minerals shall be deemed sold at the time payment is actually received by Lessee but not more than 60 days after the minerals leave the Property.

(v) Should oil and gas be discovered and subject to being produced using standard oil and gas recovery techniques within and above 3000 feet above Mean Seal Level (MSL), Lessee shall have the exclusive right during the Term of this Lease (which right may not be assigned without prior written consent of Lessor) to produce, market and sell all such oil and gas existing or discovered within the Lease boundaries upon the condition that the Production Royalty payable to Lessor for all such oil and gas produced, saved and sold shall be 1/6 of the gross market value thereof.

(vi) In order to avoid potential conflicts, unnecessary or burdensome calculations and misunderstandings, Lessee shall not assign, convey or otherwise transfer to any third person or entity, whether by assignment, sublease, merger or otherwise, any right, title or interest in and to the Leases, place a burden on any potential third party, sub-lessee, merger party, or any other form of assignment of Lessee's interest in this Lease wherein the actual retained interest of whatever nature exceeds 2% gross royalty/overriding royalty during the period when any third party is recovering their capital, thereafter, the burden shall, not exceed a 4% gross royalty. This interest of whatever nature will be subject to the split (80% Lessee and 20% Lessor) as provided for in Paragraph 7 — Assignment of the Lease.

d) Production Royalty Payments. All payments of Production Royalty shall be made no later than forty-five (45) days after the end of each calendar month in which Bitumen Oil Product or any byproducts or other Minerals have been sold. Such payment shall be accompanied by a royalty settlement statement that will show the mathematical calculation of how the payment amount was calculated, including the credit for Advance Royalties paid, and will be accompanied by appropriate documentation, including copies of sales records, monthly mining and processing records, actual transportation costs to third party buyers, and annual summaries. If Lessor does not give Lessee written notice objecting to any Production Payment within six months of receipt of the statement, it shall be conclusively deemed correct except if during the quarterly measurement of mined Minerals there is a discrepancy between what was stockpiled, processed, or sold, the review period is extended to obtain the correct balance (See Section f(i)). All royalty settlement statements shall be delivered to Lessor and payments to the designated Depository Agent.

e) Depository Agent. All payments due under the terms of this Lease shall be made by Lessee to Wells Fargo Bank, NA, 1200 Disc Drive, Sparks, NV 89436, (“Agent”), which Lessor hereby appoints as Lessor’s agent for the receipt of such payments, or to such other organization as Lessor may from time to time designate by written notice to Lessee. All payments made to Agent shall be considered to have been made to Lessor and, upon making payment to such Agent, Lessee shall be relieved of all responsibility or liability for the’ isbursement thereof. In the event that payments should be made to a transferee because of any transfer of Lessor’s interest in this Lease or the Properties, payments tendered to the Agent shall conclusively be deemed payment to such transferee until Lessee receives notice and sufficient documentation from both Agent and Lessor that Lessor’s interest has been transferred and that payments should be made to any such transferee. Documentation of payments shall be sent directly to Lessor.

f) Commingling and Area of Mutual Interest. Lessee shall have ‘the right to commingle Minerals removed from the Properties or products derived therefrom after treatment, with other minerals or products from other properties, before or after processing. Consequently, Lessor acknowledges that part or all of Lessee’s Gross Revenue may come from minerals extracted from other properties and not from Minerals subject to this Lease.

- (i) In order to determine the split of Production Royalties to be paid to Lessor and to other lessors of other properties, aerial photographic and photogrammetric techniques combined with other methods for determining volume and grade to be agreed upon by Lessor and Lessee will be used by Lessee to calculate ore volumes processed from the various properties. The Production Royalty paid to Lessor shall be based on the proportionate volume and grade of ore calculated to have come from Lessor’s Properties. ‘Calculations shall be performed a minimum of once per calendar quarter and ore removal volumetric and grade calculations shall be performed monthly by a land surveyor licensed in the State of Utah. Techniques used may include photogrammetry, lidar or other techniques which meet National Mapping Standards to measure quantities (not quality) of material mined, stockpiled, and removed from the Properties as a secondary and supportive measure.

Currently, there is no adequate measure of the resources (minerals) removed from the Properties. Immediate measures must be taken to satisfactorily quantify the tonnage and grade of all minerals removed from the Property. The Lessee shall provide a summary of current and future techniques to accomplish this goal within the next 30 days and notify Lessor of any changes’ thereafter to any established and approved protocol. Additionally, the Lessee shall engage an independent third party to further validate an accurate measurement of all minerals/resources so removed.

- (ii) The Area of Mutual Interest is defined as that property ‘which may be currently controlled by or subsequently acquired by either Lessor, Lessee, tor their agents, affiliates, subsidiaries, divisions, or any person or entity under common control that lies within one mile of the external boundary (perimeter) of the Leased Properties. Lessee agrees to pay Lessor a one and one half percent (1 1/2%) production royalty, as defined above, on all Minerals produced from the Area of Mutual Interest. Lessor owns other properties not described in Exhibit A which are excluded from the Lease. Any properties subsequently acquired by Lessor within the “Area of Mutual Interest” for which Lessee has not reimbursed Lessor for the cost of the acquisition and subsequent assignment to Lessee are also excluded from the “Area of Mutual Interest”. Upon any termination, Lessee shall reassign to Lessor any properties acquired after the Effective Date.

Third Amendment
February 21, 2018

g) Minimum Expenditures. During the Lease Year commencing July 1, 2020 plus the Extension Period, and each year thereafter in which Lessee fails to achieve (or exceed) an ADQ of at least 3,000 bbls/day during a 180-day period, Lessee shall make expenditures (which shall include operational costs but shall not include depreciation or corporate overhead) for the benefit of the Properties of not less than \$2,000,000 per year. Expenditures in excess of those stated above in or during any Lease Year may be carried forward to the next Lease Year. The term "benefit" shall mean expenditures for exploration, mapping, developing or acquiring water rights (Any acquisition of water rights shall be made in the name of the Lessor with Lessee's right to utilize said water rights during the Term of the Lease. Lessee is responsible for maintaining and/or perfecting any newly acquired water rights and the existing Water Right in Exhibit B.), assaying, metallurgical testing, permitting, preparing feasibility studies, and construction of plant and surface facilities, including facilities constructed and/or operated on property located near the Properties. Lessee will provide Lessor with copies of all acquired data relating to such expenditures, other than data considered proprietary to Lessee or that are or include the trade secrets of Lessee, which shall become the sole property of the Lessor on termination for any reason including copies of expenditures made for those qualifying categories above.

3. EFFECT OF THIRD AMENDMENT. Except as amended by this. Third Amendment, the terms of the Lease shall continue in full force and effect in accordance with the terms thereof.

IN WITNESS WHEREOF, the Parties have executed this Third Amendment as of the date(s) written below.

ASPHALT RIDGE, INC.

By: /s/ Sam Arentz, III
Name: Sam Arentz, III
Title: President
Date: February 16, 2018

TMC CAPITAL, LLC

By: /s/ Aleksandr Blyumkin
Name: Aleksandr Blyumkin
Title: Manager
Date: February 20, 2018

Third Amendment
February 21, 2018

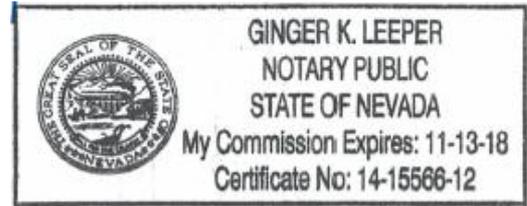
ACKNOWLEDGEMENTS

STATE OF NEVADA)
) ss
COUNTY OF)

The foregoing instrument was acknowledged before me on the 16th day of February, 2018, by Sam S. Arentz, III, the President of Asphalt Ridge, Inc., a Utah corporation.

/s/ Ginger k. Leeper
Notary Public

My commission expires on 11/13/18.



STATE OF CALIFORNIA)
) ss
COUNTY OF LOS ANGELES)

On February 20, 2018, before me, RAFFI DILSIZIAN NOTARY PUBLIC personally appeared ALEKSANDR BLYUMKIN, who proved to me on the basis of satisfactory evidence to be the person(s) whose name(S) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

[Seal]

RAFFI DILSIZIAN
Notary Public's Name

Notary Public, State of California

My commission expires on November 10, 2019.



Exhibit A
PROPERTIES

Township 5 South, Range 21 East, SLM, Uintah County, Utah

- Section 25: SW4
(Cameron No. 7 patented mining claim)
- Section 25: Lots 9 & 10, W1/2SE4
(Cameron No. 5 patented mining claim)
- Section 25: Lots 4 & 5, S1/2NW4
(Cameron No. 8 patented mining claim)

Township 5 South, Range 22 East, SLM, Uintah County, Utah

- Section 31: Lot 3, SW4SE4, E1/2SW4
- Section 31: N1/2SE4, SE4SE4
(Cameron No. 1 patented mining claim)
- Section 32: SW4

(containing 916.15 acres, more or less)

Third Amendment
February 21, 2018

EXHIBIT B

WATER RIGHTS

Asphalt Ridge, Inc. has a 100% interest in the following Water Rights as denoted by the Utah Division of Water Rights indicating that the Type of Right is an Adjudicated Right dating back to 1871. The Water Right identification numbers are:

45-1421
45-1426
45-1718

Each is for Equivalent Animal Unit (ELU), Equivalent Domestic Unit (EDU)

EXECUTIVE EMPLOYMENT AGREEMENT

THIS AGREEMENT made as of the 15th day of March, 2018, the (“Executed Date”) and is effective as of March 15th, 2018, the (“Effective Date”), between:

Mr. David Sealock, of Calgary, Alberta (the “Executive”)

and

Petroteq Energy Inc., a body corporate formed under the laws of Canada (“Petroteq” or the “Corporation”).

WHEREAS Petroteq is a Canadian-registered holding company, publicly trading on the TSX Venture Exchange (Symbol: PQE) and the OTCQX trading platform (Symbol: PQEFF). Its offices are located in Toronto, Ontario, Canada, Los Angeles, California and its initial plant location in Vernal, Utah. Petroteq is focused on value creation through the development and implementation of proprietary technologies for the environmentally safe extraction of heavy oils from oil sands, oil shale deposits and shallow oil deposits;

AND WHEREAS Petroteq wishes to retain the services of the Executive to assist Petroteq in the furtherance of its heavy oils from oil sands, oil shale deposits and shallow oil deposits operations, and equity and debt financing, engineering and development and other energy related businesses;

NOW THEREFORE THIS AGREEMENT WITNESSES THAT IN CONSIDERATION of the mutual covenants and agreements herein contained and for other good and valuable consideration, it is agreed by the parties hereto as set forth below.

ARTICLE 1
DEFINITIONS

1.1 In this agreement, the following terms shall have the following meanings.

- (a) “**Board**” means the board of directors of the Corporation.
 - (b) “**Base Salary**” shall mean the Executive’s current annual base salary provided for in Article 3.1 as increased from time to time.
 - (c) “**Change of Control**” means either
 - (i) the sale to a person or acquisition by a person not affiliated with the Corporation of net assets of the Corporation having a value greater than 50% of the fair market value of the net assets of the Corporation determined on a consolidated basis prior to such sale whether such sale or acquisition occurs by way of reconstruction, reorganization, recapitalization, consolidation, amalgamation, arrangement, merger, transfer, sale or otherwise;
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- (ii) any change in the holding, direct or indirect, of shares of the Corporation by a person not affiliated with the Corporation as a result of which such person, or a group of persons, or persons acting in concert, or persons associated or affiliated with any such person or group, are in a position to exercise effective control of the Corporation whether such change in the holding of such shares occurs by way of takeover bid, reconstruction, reorganization, recapitalization, consolidation, amalgamation, arrangement, merger, transfer, sale or otherwise; and for the purposes of this Agreement, a person or group of persons holding shares or other securities in excess of the number which, directly or following conversion thereof, would entitle the holders thereof to cast 50% or more of the votes attaching to all shares of the Corporation which, directly or following conversion of the convertible securities forming part of the holdings of the person or group of persons noted above, may be cast to elect directors of the Corporation shall be deemed, to be in a position to exercise effective control of the Corporation;
 - (iii) any reconstruction, reorganization, recapitalization, consolidation, amalgamation, arrangement, merger, transfer, sale or other transaction involving the Corporation where all of the shareholders of the Corporation immediately prior to such reconstruction, reorganization, recapitalization, consolidation, amalgamation, arrangement, merger, transfer, sale or other transaction hold greater than 50% of the shares of the Corporation or of the continuing corporation following completion of such reconstruction, reorganization, recapitalization, consolidation, amalgamation, arrangement, transfer, sale or other transaction; or
 - (iv) any event or transaction which the Board, in its discretion, deems to be a Change of Control.
- (d) “**Confidential Information**” has the meaning ascribed thereto in section 5.1.
- (e) “**Constructive Dismissal**” means any material reduction in the responsibilities, salary or benefits of the Executive without the Executive’s consent.
- (f) “**Copies or Representations**” means copies, versions, representations or depictions of any kind or produced in any manner, including photocopies, facsimile or telefax copies, electromagnetic and electronic versions, computerized versions and any media on which such versions are recorded or stored, plans, diagrams, schematics, blue prints, technical drawings, technical specifications, graphics or other representations, lists, maps or charts.
- (g) “**Disclosure Statement**” has the meaning ascribed thereto in section **Error! Reference source not found.**
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- (h) **“Good Reason”** which only applies to Change of Control situation means:
- (i) a significant change (other than a change that is clearly consistent with a promotion) in the Executive’s position or duties (including any position or duties as a director of the Corporation), responsibilities (including without limitation, to whom the Executive reports and who reports to the Executive), title or office held by the Executive in the Corporation, including any removal of the Executive from or any failure to re-elect or re-appoint the Executive to any such positions or offices; or
 - (ii) a material reduction by the Corporation of the Executive’s salary, benefits or any other form of remuneration or any change in the basis upon which the Executive’s salary, benefits or any other form of remuneration payable by the Corporation is determined or any failure by the Corporation to increase the Executive’s salary, benefits or any other forms of remuneration payable by the Corporation in a manner consistent (both as to frequency and percentage increase) with practices in effect from time to time with respect to the senior executives of the Corporation, whichever is more favourable to the Executive; or
 - (iii) any failure by the Corporation to continue in effect any benefit, bonus, profit sharing, incentive, remuneration or compensation plan, stock ownership or purchase plan, pension plan or retirement plan in which the Executive is participating or entitled to participate from time to time, or the Corporation taking any action or failing to take any action that would adversely affect the Executive’s participation in or reduce his rights or benefits under or pursuant to any such plan, or the Corporation failing to increase or improve such rights or benefits on a basis consistent with practices with respect to the senior executives of the Corporation, whichever is more favourable to the Executive; or
 - (iv) any breach by the Corporation of any material provision of this Agreement; or
 - (v) the failure by the Corporation to obtain, in a form satisfactory to the Executive, an effective assumption of the Corporation’s obligations hereunder by any successor to the Corporation, including a successor to a material portion of its business; or
 - (vi) the good faith determination by the Executive that the Corporation has requested he misrepresent information to external parties, vendors, shareholders or any other party.
- (i) **“Just Cause”**, when used in relation to the termination of employment of the Executive, includes: (i) any matter that would constitute lawful just cause for dismissal from employment at common law; (ii) conviction of the Executive of a criminal offence involving dishonesty or fraud or which is likely to injure Petroteq business or reputation; (iii) misappropriation of any of Petroteq property or assets; (iv) any breach by the Executive of any term of his employment or this Agreement which has not been cured within ten days of notice to the Executive of such breach; (v) any information, reports, documents or certificates being intentionally furnished by the Executive to the Board or any committee thereof which the Executive knows to be either false or misleading either because they include or fail to include material facts; (vi) failure to perform his duties in a diligent and reasonable manner.
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- (j) “**Payout Period**”, means for the purposes of ARTICLE 10 and 13, a period of twelve (12) months.
- (k) “**Termination Date**”, means that date at which the Executive is severed from the Corporation in accordance with the articles of this Agreement, and which constitutes the Executive’s final day of active work on Petroteq behalf.

ARTICLE 2
EMPLOYMENT & DUTIES

- 2.1 The Executive shall be employed as Chief Executive Officer and of Petroteq as of March 15, 2018, without a probation period, and such employment shall continue indefinitely until terminated or altered in accordance with this agreement.
 - 2.2 The Executive shall carry out such duties and responsibilities as directed by the Board, which duties shall be in keeping with the Executive’s employment as Chief Executive Officer and.
 - 2.3 Unless prevented by ill health, the Executive shall devote full time and attention to the business of Petroteq and discharge and carry out such duties, functions and powers as are incidental to the position of Chief Executive Officer, however, it shall not be a violation of this Section 2.3 for the Executive to engage in a voluntary activity, other public service or private and public Director and or Board designations that does not interfere or are in conflict with the Executive’s duties under this agreement. In the performance of his duties, the Executive shall act honestly, in good faith and in the best interests of Petroteq, and shall disclose all interests and activities, and exercise the degree of diligence and responsibility that a person having the Executive’s expertise and knowledge of the affairs of Petroteq would reasonably be expected to exercise in comparable circumstances.
 - 2.4 The Executive recognizes that his primary business obligation is to Petroteq and agrees not to permit the pursuit of other interests to interfere with the fulfillment of his duties in that position, other than business obligations disclosed to Petroteq at the time of this agreement. The Executive shall, in accordance with applicable law, disclose actual or potential business conflicts of interest to the Board. Any uncertainty as to whether such a conflict exists shall be raised by the Executive for determination by the Board, acting reasonably. The Executive shall conduct himself so as to avoid an actual or potential conflict of interest.
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ARTICLE 3
REMUNERATION

- 3.1 The Executive will be paid an annual Base Salary of CDN\$120,000.00, starting on March 1st, 2018, less required Canadian statutory withholdings. The Base Salary shall be payable in arrears in equal bi-monthly instalments, unless otherwise agreed upon.
- 3.2 The Executive shall be entitled to participate in all benefit plans available to senior management of Petroteq.
- 3.3 The Executive shall initially be entitled to five (5) weeks paid vacation yearly, subject to increase from time to time, in accordance with the Corporation's policies applicable to senior management. Vacation may be taken in such manner and at such times as the Executive and the Corporation may mutually agree.
- 3.4 The Executive shall be eligible to grants of Stock Options as determined from time to time by the Board, or any committee thereof administering Petroteq's Stock Option plan.
- 3.5 The Executive shall be eligible to participate in Petroteq bonus plan, the terms of which are set by the Board, or any committee thereof administering Petroteq bonus plan when and if the Board institutes a bonus plan.
- 3.6 The Executive shall be eligible to participate in any retirement plan, pension plan, benefits or incentives, whether or not embodied in a formal plan, offered by Petroteq to its senior management, in the manner and to the extent, if any, authorized by the Board, or any committee thereof administering Petroteq retirement plan, pension plan, benefits or incentives.
- 3.7 The Executive's Base Salary shall be reviewed annually by the Board, or any committee thereof administering Petroteq executive compensation.

ARTICLE 4
EXPENSES

- 4.1 Petroteq shall reimburse the Executive for all reasonable travel and other expenses actually and reasonably incurred in the performance of his duties on behalf of Petroteq. Reimbursement will be made upon the submission of a written itemized expense claim and proper supporting documentation whenever practical and in any event for all expenses. Any expenses in excess of \$2,500US shall be submitted to Petroteq for pre-approval.
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ARTICLE 5
NON-DISCLOSURE & CONFIDENTIALITY

- 5.1 The Executive acknowledges that, as a result of the Executive's employment by Petroteq, the Executive shall be making use of or acquiring information about certain matters and things which are confidential to Petroteq and which information is the exclusive property of Petroteq, including all confidential information acquired by or made available to the Executive by Petroteq or its representatives, which shall include the terms of this agreement, any other agreements entered into (or proposed by or to) the Corporation and any security holder's investment or potential investment in the Corporation and any information, technology, material or other property of any kind which is confidential or proprietary to the Corporation or to any supplier, customer, client, agent, employee, director, officer or security holder of the Corporation, including without limitation: (i) the names, addresses, and purchasing history of, relationship with or investment by (as applicable), and any other information about the customers, clients, security holders, directors, officers, employees, consultants, agents, suppliers, private investors, joint venture partners, limited or general partners or other business associates of, the Corporation; (ii) information related to the Corporation's intellectual property, proprietary rights and employee inventions and developments; (iii) information relating to the past, present and contemplated business plans, engineering reports, environmental reports, geological information, land and lease information, well data, project data, seismic information, financial condition or financial results, practices, resolutions, products, strategies, pricing policies and lists, services, methods of production and operation, business processes, gas processing and marketing terms and conditions, general marketing and marketing plans, distribution, installations, facilities, machinery and equipment, and research and development of the Corporation; (iv) data, correspondence, notes, memoranda, offering memoranda or other offering document, manuals, financial statements, books and records, documents, financing programs, credit terms, banking arrangements, legal opinions or other contracts, terms or negotiations of any kind whatsoever related to the assets, financial condition or business of the Corporation; (v) information which is contained in instructional or informational materials or manuals; (vi) any information, the disclosure of which could be reasonably expected to affect the competitive position of the Corporation; (vii) any and all analyses, compilations, notes, data, studies or other material documents derived from the above, and (viii) originals, and Copies or Representations, of any of the foregoing; but only to the extent that such information is confidential (collectively, the "**Confidential Information**").
- 5.2 Confidential Information shall not include any information that (i) was in the possession of or known to the Executive, without any obligation to keep it confidential, before it was disclosed to the Executive by Petroteq or through the Executive's involvement with Petroteq; (ii) is or becomes public knowledge through no fault of the Executive; (iii) is disclosed by Petroteq to another person without any express restriction on its use or disclosure; (iv) is or becomes available to the Executive from a source other than Petroteq, which source, to the best of the Executive's knowledge, is legally permitted to disclose such information and is not under confidentiality restrictions. As a material inducement to Petroteq to employ the Executive and to pay to the Executive compensation for such services to be rendered to Petroteq by the Executive (it being understood and agreed by the parties that the compensation shall also be paid and received in consideration), the Executive agrees that the Executive shall not, except with the prior written consent of Petroteq, or except if the Executive is acting as an employee of Petroteq solely for the benefit of Petroteq in connection with Petroteq's business and in accordance with Petroteq's business practices and employment policies, at any time during or following the term of the Executive's employment by Petroteq, directly or indirectly, disclose, reveal, report, publish, transfer or use for any purpose any of the Confidential Information which has been obtained or disclosed to the Executive as a result of the Executive's employment by Petroteq.
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- 5.3 The Executive hereby waives all moral rights and shall assign to Petroteq any interest in any and all inventions, improvements and ideas (whether or not patentable) which the Executive may make or conceive during the period and in the course of and related to his employment with Petroteq, and which relate or are applicable to any phase of Petroteq's business, and the Executive hereby agrees to execute any reasonable document and do any reasonable act reasonably necessary to perform the Executive's duties under this Section 5.3. Any such invention, improvement, or idea shall be the exclusive property of Petroteq and its successors and assigns. The Executive also affirms that if any such invention, improvement, or idea shall be deemed confidential by Petroteq, he will not disclose any such invention, improvement, or idea without prior written authorization from Petroteq.
- 5.4 Disclosure of any Confidential Information shall not be prohibited if the disclosure is directly pursuant to an order of a court or other governmental body or agency within Canada; provided, however, that the Executive shall first have given prompt notice to Petroteq of any possible or prospective order (or proceeding pursuant to which any order may result).

ARTICLE 6
FIDUCIARY OBLIGATIONS

- 6.1 The Executive agrees to be bound by his fiduciary obligations arising pursuant to common law or equity during his employment with Petroteq and following his resignation or termination from Petroteq for any reason.

ARTICLE 7
NON SOLICITATION

- 7.1 If the Executive's employment with Petroteq is terminated by Petroteq at any time, for any reason, the Executive will be restricted from hiring, or introducing to any third party for the purpose of that party hiring, current or former employees of Petroteq for a period of twelve months from the date of the Executive's resignation or termination, unless such former employee has been out of the employ of Petroteq for at least four months or was terminated by Petroteq excluding any unsolicited response to a general advertisement.

ARTICLE 8
POST TERMINATION RESTRICTIONS REGARDING CORPORATE OPPORTUNITIES

- 8.1 If the Executive's employment with Petroteq is terminated by Petroteq or the Executive at any time for any reason, the Executive will be restricted from pursuing specific business opportunities that he was aware that Petroteq was actively pursuing at the time of termination for a period equivalent to his severance, but not to exceed a maximum of twelve months.
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ARTICLE 9
TERMINATION BY EMPLOYER FOR JUST CAUSE

- 9.1 Petroteq may terminate this agreement and the Executive's employment for Just Cause with 30 days' notice to the Executive and without payment to the Executive of any compensation or severance in lieu of notice past the 30 day notice period.
- 9.2 Upon termination of employment for Just Cause, the Executive shall only be entitled to any Base Salary due and owing up to the date of termination, all expenses properly incurred up to the date of termination in the carrying out of his duties and any accrued but unused vacation pay due and outstanding.

ARTICLE 10
TERMINATION BY EMPLOYER WITHOUT JUST CAUSE

- 10.1 If the Executive's employment is terminated by Petroteq as a result of a Constructive Dismissal or for any reason other than Just Cause and other than in accordance with Section 12, Petroteq will provide to the Executive within fifteen business days of the Termination Date:
- (a) all Base Salary earned, but not yet paid up to the Termination Date, less required withholdings;
 - (b) the Corporation shall pay a lump sum amount that equals \$1,000 for each month in the Payout Period, to the Executive for the failure to continue all benefits;
 - (c) the Corporation shall maintain for the benefit of the Executive its current directors' and officers' insurance policy or an equivalent policy, subject in either case to terms and conditions no less advantageous to the Executive than those contained in the policy in effect on the date hereof, covering claims made at any time prior to or within two years after the Executive ceases to be employed by the Corporation; and
 - (d) subject to section 4.1, reimbursement of out-of-pocket expenses incurred but not yet paid up to the Termination Date;

provided that the Executive shall deliver to Petroteq a duly executed full and final release in favour of Petroteq, in a form reasonably satisfactory to Petroteq, acting reasonably and limited to employment obligations and specifically excluding indemnity obligations and written resignations of all officer and director positions held on the Corporation or its subsidiaries.

ARTICLE 11
PERMANENT DISABILITY OF EXECUTIVE

11.1 “Permanent Disability” means the mental or physical state of the Executive is such, that:

- (a) the Executive has to a substantial degree been unable, due to illness, disease, affliction, mental or physical disability or similar cause, to fulfill his obligations as an employee or officer of the Corporation either for any consecutive two (2) month period or for any period of three (3) months (whether or not consecutive) in any consecutive twelve (12) month period; or
- (b) a court of competent jurisdiction has declared the Executive to be mentally incompetent or incapable of managing his affairs;

provided that, in either case, the Permanent Disability shall be acknowledged and accepted by the Corporation’s long-term disability insurer, if any.

11.2 Termination Upon Permanent Disability of Executive

- (a) If the Executive shall suffer a Permanent Disability, the employment of the Executive may be terminated by the Corporation upon giving of notice of at least thirty (30) days; provided that such termination does not adversely affect the Executive’s entitlement to long-term disability benefits under the Corporation’s benefit plan, if applicable. Notwithstanding anything contained in this Agreement or elsewhere, in the event of termination pursuant to the provisions of Article 11, the Corporation shall pay to the Executive (or his trustee) a sum equal to one quarter (¼) his annual Base Salary, together with payment of accrued but unpaid salary and vacation pay to the Termination Date, and the Executive shall continue to be entitled to such insurance and other benefits which may be provided pursuant to any long-term disability plan or the benefits plan of the Corporation in effect at the time, provided the Executive (or his trustee) provides the Corporation with full and final, duly executed release in favour of Petroteq, in a form reasonably satisfactory to substantiate a written resignation of all officer and director positions held in the Corporation and its subsidiaries.

ARTICLE 12
TERMINATION - DEATH OF THE EXECUTIVE

12.1 This Agreement and the Executive’s employment shall be deemed to have terminated upon the death of the Executive. Petroteq shall only be obligated to pay to the Executive’s designated beneficiary, within fifteen (15) business days of receipt of notice of the Executive’s death, the following payments:

- (a) all Base Salary earned but not yet paid up to the date of the Executive’s death, less required withholdings;
 - (b) all vacation pay that is associated with vacation time carried over from any previous period(s) and appropriately approved, and all accrued but unused vacation pay, less required withholdings; and
 - (c) subject to section 4.1, reimbursement of out-of-pocket expenses incurred but not yet paid up to the date of the Executive’s death;
 - (d) any bonus or other incentive which has been declared and earned but not yet paid.
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ARTICLE 13
CHANGE OF CONTROL

13.1 In the event of a Change of Control, together with a Good Reason, the Executive may elect to terminate this Agreement within fifteen days of the later of the date of the Change of Control or the date of the event of Good Reason (the "Termination Date") and Petroteq will provide to the Executive within fifteen (15) business days of the Termination Date:

- (a) all Base Salary earned, but not yet paid up to the Termination Date, less required withholdings;
- (b) all accrued but unused vacation pay, less required withholdings;
- (c) the Corporation shall maintain for the benefit of the Executive its current directors' and officers' insurance policy or an equivalent policy, subject in either case to terms and conditions no less advantageous to the Executive than those contained in the policy in effect on the date hereof, covering claims made at any time prior to or within two years after the Executive ceases to be employed by the Corporation; and
- (d) subject to section 4.1, reimbursement of out-of-pocket expenses incurred but not yet paid up to the Termination Date;

provided that the Executive shall deliver to Petroteq a duly executed full and final release in favour of Petroteq, in a form reasonably satisfactory to Petroteq, acting reasonably and limited to employment obligations and specifically excluding indemnity obligations, and written resignation of all officer and director positions held in the Corporation and its subsidiaries.

ARTICLE 14
CORPORATE INDEMNITY

14.1 The Executive will be indemnified by Petroteq in accordance with the provisions of Petroteq's Bylaws and the indemnity agreement, executed by the parties on the Effective Date, for actions brought against him for the performance of the Executive's duties and such indemnity agreement shall indemnify the executive to the fullest extent permitted by law. The Corporation will maintain Directors and Officers Liability Insurance and Errors and Omissions Insurance with a minimum coverage of up to \$3,000,000.00 per occurrence.

ARTICLE 15
RESIGNATION

15.1 The Executive shall provide Petroteq with twelve weeks advance written notice of resignation. If Petroteq materially breaches this Agreement, and such breach is not cured within fifteen business days of Petroteq receiving notice of such breach, the Executive may resign immediately without any further prior written notice to Petroteq under the terms set out in this Agreement. Internal changes such as a corporate reorganization, variation in reporting structures other than Senior Executive assignments, consolidation, or any other internal corporate arrangement, or otherwise, for the purposes of this Agreement, does not constitute a breach of this Agreement.

ARTICLE 16
GENERAL

- 16.1 This Agreement shall be construed and enforced in accordance with, and the rights of the parties hereto shall be governed by, the laws of the Province of Alberta and the federal laws of Canada applicable therein. Each of the parties hereto hereby irrevocably attorns to the jurisdiction of the courts of the Province of Alberta.

ARTICLE 17
NOTICES

- 17.1 Any notice or written communication which must be given or sent under this Agreement shall be given or sent by hand or courier delivery or by email, facsimile transmission and if delivered:

- (a) by hand or courier, it shall be deemed to have been validly given or received on the day of delivery to the current address under this Section 17, provided that any delivery made after 4:00 p.m. (local time) on a business day or on a day other than a business day shall be deemed to be received on the next following business day; or
- (b) by email, facsimile, it shall be deemed to have been validly given or received on the day sent, if sent prior to 4:00 p.m. (local time) at the place of receipt on a business day, and otherwise on the business day following the day of transmission by email or facsimile, to the current fax number or email under this Section 17 as it may be changed pursuant to Section 17.2.

- 17.2 A party may, at any time, change its named recipient, address, email or facsimile number for the purposes of service by written notice to the other party hereto; provided that, until changed, the contact details shall be:

- (a) in the case of the Executive, to the last address on the personnel records of Petroteq; or

Mr. David Sealock

Email: #####

- (b) in the case of Petroteq Resources:

Petroteq Energy Inc.
4370 Tujunga Ave., Suite 320
Studio City, CA 91604
Attention: Mr. Aleksandr Blyumkin, Chairman of the Board
Fax: 310-358-3148
Email: #####

ARTICLE 18
ENTIRE AGREEMENT

- 18.1 This Agreement constitutes the entire agreement between the parties hereto with respect to the employment of the Executive with Petroteq, and cancels and supersedes all prior agreements and understandings between the parties hereto with respect to the subject matter hereof. This Agreement may not be amended or modified in any way except by written instrument signed by the parties hereto;

ARTICLE 19
SEVERABILITY

- 19.1 In the event that any provisions of this Agreement shall be held by a court or another tribunal of competent jurisdiction to be unenforceable, such provision will be eliminated to the minimum extent necessary so that this Agreement shall otherwise remain in full force and effect.

ARTICLE 20
SURVIVAL

- 20.1 Executive's obligations under Section 5 through Section 8 and shall survive the termination of this Agreement, and the Corporation's obligations under Section 14 shall survive the termination of this Agreement.

ARTICLE 21
TIME

- 21.1 Time shall in all respects be of the essence of this Agreement.

ARTICLE 22
NO ASSIGNMENT

- 22.1 This Agreement is a personal services agreement and may not be assigned by either party without the prior written consent of the other party.

ARTICLE 23
NO WAIVERS

- 23.1 The waiver by either party of any breach of the terms of this Agreement shall not operate or be construed as a waiver by that party of any other breach of the same or any other term of this Agreement.
-

ARTICLE 24
PERSONAL DATA AND PRIVACY

- 24.1 The Executive consents that:
- (a) the personal data relating to the Executive may be maintained and stored by the Corporation electronically or in any other form; and
 - (b) the personal data relating to the Executive may be freely transferred and shared between the Corporation and its subsidiaries irrespective of where the offices of such entities are physically located.
- 24.2 The Executive acknowledges and agrees that the Corporation has the right to collect, use and disclose the Executive's personal information for purposes relating to the Executive's employment with the Corporation, including:
- (a) ensuring that the Executive is paid for the services performed for the Corporation;
 - (b) administering any benefits to which the Executive is or may become entitled to, including medical, dental, disability, and life insurance benefits and/or share options. This shall include the disclosure of the Executive's personal information to any insurance company and/or broker or to any entity that manages or administers the Corporation's benefits on behalf the Corporation;
 - (c) compliance with any regulatory reporting and withholding requirements relating to the Executive's employment, including required disclosure to shareholders;
 - (d) enforcing the Corporation's policies including those relating to the proper use of electronic communications network and to comply with applicable laws; and
 - (e) in the event of a potential sale or transfer of all or part of the shares or assets of the Corporation, disclosing to any potential acquiring organizations the Executive's personal information solely for the purpose of determining the value of the Corporation and its assets and liabilities and to evaluate the Executive's position in the Corporation. If the Executive's personal information is disclosed to any potential acquiring organization, the Corporation will require the potential acquiring organization to agree to protect the privacy of the Executive's personal information in a manner that is consistent with any policy of the Corporation dealing with privacy that may be in effect from time to time and/or any applicable law that may be in effect from time to time.
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ARTICLE 25
JURISDICTION AND VENUE

23.1 This Agreement and all matters arising out of or relating to this Agreement and the Executive's employment by Petroteq, for all purposes, shall be governed by and construed in accordance with the laws of California without regard to conflicts of law principles that would require the laws of any other jurisdiction to apply. Any action or proceeding by either of the Parties to enforce this Agreement shall be brought only in any state or federal court located in the state of California, county of Los Angeles. The Parties irrevocably submit to the exclusive jurisdiction of these courts and waive the defense of inconvenient forum to the maintenance of any action or proceeding in these venues.

ARTICLE 26
COUNTERPARTS

26.1 This Agreement may be executed in several counterparts, each of which shall be an original, and such counterpart shall together constitute one and the same instrument.

IN WITNESS WHEREOF the parties have executed this Agreement as of the date first written above.

Witness

/s/ David Sealock

David Sealock

Petroteq Energy Inc.

Per: /s/ Aleksandr Blyumkin

Name: Mr. Aleksandr Blyumkin,

Title: Chairman of the Board

Schedule A

Committee Appointments



DEBT CONVERSION AGREEMENT
(United States Lender)

Made as of the 3rd day of August, 2018.

B E T W E E N :

PETROTEQ ENERGY INC.
(the “**Company**”)

- and -

ALEX BLYUMKIN
(the “**Lender**”)

WHEREAS the Company is indebted to the Lender in the aggregate amount of US\$249,284.76 for reimbursement of expenses of the Company paid for by the Lender (the “**Debt**”);

AND WHEREAS the Lender has agreed to accept 336,871 common shares of the Company (the “**Debt Shares**”) at a deemed price per share of US\$0.74 in full and final satisfaction and repayment of the Debt.

NOW THEREFORE THIS AGREEMENT WITNESSETH THAT for and in consideration of the mutual premises and agreements hereinafter contained, the sum of \$1.00 now paid by each party to the other and other good and valuable consideration (the receipt and sufficiency of which is hereby irrevocably acknowledged), the parties hereto hereby agree as follows:

1. Subject to the terms and conditions hereafter contained, the Lender agrees to accept, in full and final satisfaction of the Debt, the Debt Shares. The Lender further agrees that, upon the issuance and delivery of the Debt Shares to the Lender, or as the Lender may direct, the Lender shall fully release the Company in respect of the Debt and acknowledges the full repayment thereof by the Company.
2. The issuance of the Debt Shares shall be conditional on (i) the issuance of the Debt Shares being exempt from the prospectus and registration requirements under applicable securities laws, the United States Securities Act of 1933, as amended (the “**U.S. Securities Act**”) and applicable state securities laws, (ii) approval of this Agreement by the directors of the Company, (iii) the Company receiving final approval from the TSX Venture Exchange (the “**TSXV**”) or any other applicable stock exchange for the issuance and listing of the Debt Shares, and (iv) the closing of this Agreement (the “**Closing**”) taking place no later than thirty (30) business days subsequent to the date hereof, or such later time the parties hereto agree.
3. The Company hereby represents and warrants to and covenants with the Lender as follows, and acknowledges that the Lender is relying thereon, both at the date hereof and at the Closing:
 - (a) The execution and delivery of this Agreement is within the corporate power and authority of the Company and has been duly authorized by all necessary corporate action and this Agreement constitutes a valid and binding obligation of the Company enforceable against it and its successors in accordance with its terms, subject to the usual qualification as to enforceability being limited by bankruptcy and other laws effecting the enforcement of creditors’ rights generally, equitable remedies being discretionary remedies and rights to indemnification and contribution being limited by applicable laws.
 - (b) None of the execution and delivery of this Agreement, the consummation of the transactions contemplated hereby or the fulfillment of or compliance with the terms and provisions hereof do or will, with the giving of notice, or the lapse of time or both (i) to the best of the knowledge of the Company, violate any provision of any law or administrative regulation or any administrative orders, award, judgment or decree applicable to the Company, (ii) conflict with any of the terms, conditions or provisions of the memorandum of association or articles of the Company or any resolution of its directors or shareholders, or (iii) conflict with, result in a breach or constitute a default under, or accelerate or permit the acceleration of the performance required by, any material agreement, covenant, undertaking, commitment, instrument, judgment, order, decree or award to which the Company is a party or by which it is bound or to which the property of it is subject.

- (c) The Debt Shares will, upon issuance and delivery, be validly issued and outstanding as fully paid and non-assessable common shares.
 - (d) It is a company duly amalgamated and organized under the laws of the Province of Ontario and is presently in good standing thereunder with full corporate power to own its properties and carry on its business as now being conducted.
4. The Lender hereby represents and warrants to and covenants with the Company as follows, and acknowledges that the Company is relying thereon, both at the date hereof and at the Closing:
- (a) The Lender is a resident in the jurisdiction set out on Schedule "A", attached hereto. Such address was not created and is not used solely for the purpose of acquiring the Debt Shares and the Lender was solicited to purchase the Debt Shares in such jurisdiction.
 - (b) The Lender has properly completed, executed and delivered to the Company Schedule "A", attached hereto, and the information contained therein is true and correct.
 - (c) The Lender acknowledges that: (i) the Debt Shares have not been and will not be registered under the U.S. Securities Act or the securities laws of any state of the United States, and (ii) the offer and sale of Debt Shares contemplated hereby is being made in reliance on an exemption from such registration requirements in reliance on Rule 506(b) of Regulation D and/or Section 4(a)(2) of the U.S. Securities Act.
 - (d) The information, representations, warranties and covenants contained herein and in Schedule "A" will be true and correct both as of the date of execution of this Agreement and as of the time of Closing.
 - (e) The execution and delivery of this Agreement, the performance and compliance with the terms hereof, the issuance of the Debt Shares and the completion of the transactions described herein by the Lender will not result in any material breach of, or be in conflict with or constitute a material default under, or create a state of facts which, after notice or lapse of time, or both, would constitute a material default under any term or provision, if applicable, of the constating documents, by laws or resolutions of the Lender, of applicable securities laws or any other laws applicable to the Lender, any agreement to which the Lender is a party, or any judgment, decree, order, statute, rule or regulation applicable to the Lender.
 - (f) The Lender is acquiring the Debt Shares as principal for the Lender's own account and not for the benefit of any other person (within the meaning of applicable securities laws) and not with a view to the resale or distribution of all or any of the Debt Shares.
 - (g) This Agreement has been duly authorized, executed and delivered by, and constitutes a legal, valid and binding agreement of, the Lender. This Agreement is enforceable in accordance with its terms against the Lender.
 - (h) If the Lender is (i) a corporation, it is duly incorporated and is validly subsisting under the laws of its jurisdiction of incorporation and has all requisite legal and corporate power and authority to execute and deliver this Agreement, to acquire the Debt Shares as contemplated herein and to carry out and perform its obligations under the terms of this Agreement, (ii) a partnership, syndicate or other form of unincorporated organization, it has the necessary legal capacity and authority to execute and deliver this Agreement and to observe and perform its covenants and obligations hereunder and has obtained all necessary approvals in respect thereof, or (iii) an individual, it is of the full age of majority and is legally competent to execute this Agreement and to observe and perform his or her covenants and obligations hereunder.

- (i) If required by applicable securities laws or the Company, the Lender will execute, deliver and file or assist the Company in filing such reports, undertakings and other documents with respect to the issue of the Debt Shares as may be required by any securities commission, stock exchange or other regulatory authority.
- (j) The Lender has been advised to consult their own legal advisors with respect to trading in the Debt Shares and with respect to the resale restrictions imposed by applicable securities laws of the jurisdiction in which the Lender resides and other applicable securities laws, and acknowledges that no representation has been made respecting the applicable hold periods imposed by applicable securities laws or other resale restrictions applicable to such securities which restrict the ability of the Lender to resell such securities, that the Lender is solely responsible to find out what these restrictions are and the Lender is solely responsible (and the Company is in no way responsible) for compliance with applicable resale restrictions and the Lender is aware that it may not be able to resell such securities except in accordance with limited exemptions under applicable securities laws.
- (k) The Lender has not received or been provided with a prospectus or offering memorandum, within the meaning of applicable securities laws, or any sales or advertising literature in connection with the issuance of the Debt Shares to the Lender and the Lender's decision to acquire the Debt Shares was not based upon, and the Lender has not relied upon, any verbal or written representations as to facts made by or on behalf of the Company.
- (l) The Lender is not acquiring the Debt Shares with knowledge of material information concerning the Company which has not been generally disclosed.
- (m) No person has made any written or oral representations (i) that any person will resell or repurchase the Debt Shares, or (ii) as to the future price or value of the Debt Shares.
- (n) It has not purchased the Debt Shares as a result of any form of general solicitation or general advertising (as such terms are used in Regulation D under the U.S. Securities Act), including, without limitation, advertisements, articles, notices or other communications published in any newspaper, magazine or similar media or on the internet, or broadcast over radio, internet, television or other form of telecommunications, or any seminar or meeting whose attendees have been invited by general solicitation or general advertising.

5. The Lender acknowledges and agrees as follows:

- (a) The Debt Shares have not been recommended by the United States Securities and Exchange Commission or by any state securities commission or regulatory authority.
- (b) The Debt Shares will be issued to the Lender as "restricted securities" (as defined in Rule 144(a)(3) under the U.S. Securities Act), and the Lender is not acquiring the Debt Shares with a view to any resale, distribution or other disposition of such securities in violation of United States federal or state securities laws. The Debt Shares shall be subject to additional statutory resale restrictions under applicable securities laws, and the Lender covenants that it will not resell the Debt Shares except in compliance with such laws. The Lender acknowledges that it is solely responsible (and the Company is in no way responsible) for such compliance, and it is the responsibility of the Lender to find out what those restrictions are and to comply with them before selling the Debt Shares.

- (c) The certificates representing the Debt Shares will bear legends substantially in the following form and with the necessary information inserted:

“UNLESS PERMITTED UNDER SECURITIES LEGISLATION, THE HOLDER OF THIS SECURITY MUST NOT TRADE THE SECURITY BEFORE <INSERT THE DATE THAT IS FOUR (4) MONTHS AND ONE (1) DAY AFTER THE DATE OF CLOSING>.”

“THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “U.S. SECURITIES ACT”), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. THE HOLDER HEREOF, BY PURCHASING SUCH SECURITIES, AGREES FOR THE BENEFIT OF THE COMPANY THAT SUCH SECURITIES MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED, DIRECTLY OR INDIRECTLY, ONLY (A) TO THE COMPANY; (B) OUTSIDE THE UNITED STATES IN ACCORDANCE WITH RULE 904 OF REGULATIONS UNDER THE U.S. SECURITIES ACT AND IN ACCORDANCE WITH ALL LOCAL LAWS AND REGULATIONS; (C) IN ACCORDANCE WITH THE EXEMPTION FROM REGISTRATION UNDER THE U.S. SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER, IF AVAILABLE, AND IN COMPLIANCE WITH ANY APPLICABLE STATE SECURITIES LAWS; OR (D) IN A TRANSACTION THAT DOES NOT REQUIRE REGISTRATION UNDER THE U.S. SECURITIES ACT AND ANY APPLICABLE STATE SECURITIES LAWS, AND, IN THE CASE OF CLAUSE (C) OR (D), THE SELLER FURNISHES TO THE COMPANY AN OPINION OF COUNSEL OF RECOGNIZED STANDING IN FORM AND SUBSTANCE SATISFACTORY TO THE COMPANY TO SUCH EFFECT. THE PRESENCE OF THIS LEGEND MAY IMPAIR THE ABILITY OF THE HOLDER HEREOF TO EFFECT “GOOD DELIVERY” OF THE SECURITIES REPRESENTED HEREBY ON A CANADIAN STOCK EXCHANGE.”

and subject to the policies of the TSXV may bear a legend substantially in the following form and with the necessary information inserted:

“WITHOUT PRIOR WRITTEN APPROVAL OF TSX VENTURE EXCHANGE AND COMPLIANCE WITH ALL APPLICABLE SECURITIES LEGISLATION, THE SECURITIES REPRESENTED BY THIS CERTIFICATE MAY NOT BE SOLD, TRANSFERRED, HYPOTHECATED OR OTHERWISE TRADED ON OR THROUGH THE FACILITIES OF TSX VENTURE EXCHANGE OR OTHERWISE IN CANADA OR TO OR FOR THE BENEFIT OF A CANADIAN RESIDENT UNTIL <INSERT THE DATE THAT IS FOUR (4) MONTHS AND ONE (1) DAY AFTER THE DATE OF CLOSING>.”

- (d) The Company may be deemed to be an issuer that at a previous time has been an issuer with no or nominal operations and no or nominal assets other than cash and cash equivalents (a “**Shell Company**”), and if the Company is deemed to have been a Shell Company at any time previously, Rule 144 under the U.S. Securities Act may not be available for resales of the Debt Shares except in very limited circumstances, and the Company is not obligated to make Rule 144 under the U.S. Securities Act available for resales of the Debt Shares.
- (e) The Lender shall execute, deliver, file and otherwise assist the Company with filing all documentation required by the applicable securities laws to permit the issuance of the Debt Shares.
- (f) The Company is relying on the representations, warranties and covenants contained herein and in Schedule “A”, attached hereto, to determine the Lender’s eligibility to acquire the Debt Shares under applicable securities laws and the Lender agrees to indemnify the Company and its directors and officers, employees and agents against all losses, claims, costs, expenses, damages or liabilities which any of them may suffer or incur as a result of or arising from reliance thereon. The Lender undertakes to immediately notify the Company of any change in any statement or other information relating to the Lender set forth herein and in Schedule “A”, attached hereto, which takes place prior to the time of Closing.

- (g) The Lender hereby waives (i) all prior and all existing breaches, defaults and events of defaults under or with respect to the Debt, and (ii) all penalty or default interest, late charges, fees, expenses and other similar amounts due under or with respect to the Debt. This waiver extends only to past and current matters and shall not extend to any future matter, whether or not similar in nature to any past matter.
 - (h) The Lender is responsible for obtaining such legal and tax advice as it considers appropriate in connection with the execution, delivery and performance of this Agreement.
 - (i) The Lender is knowledgeable of securities legislation in the Lender's jurisdiction of residence that may have application over the Lender or transactions contemplated herein which would apply to this Agreement and is satisfied that the Company and the Lender will not breach such laws by completing the transactions contemplated hereby.
 - (j) The issuance of the Debt Shares by the Company to the Lender requires the final approval of the TSXV.
6. All of the covenants, representations, and warranties contained herein and in Schedule "A", attached hereto, shall survive the issuance of the Debt Shares hereunder.
7. The Lender hereby consents to (a) the disclosure of Personal Information by the Company to the Exchange (as defined in Appendix 6A of the TSXV) pursuant to TSXV Form 4E *Shares for Debt Filing Form* ("**Form 4E**"), and (b) the collection, use and disclosure of Personal Information by the Exchange for the purposes described in Appendix 6A of the TSXV or as otherwise identified by the Exchange, from time to time. "**Personal Information**" means any information about an identifiable individual, and includes the information contained in the tables, as applicable, found in Form 4E.
8. Time shall in all respects be of the essence of this Agreement.
9. This Agreement shall be governed by and construed in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein and the parties hereby irrevocably attorn to the jurisdiction of the courts of the Province of Ontario.
10. Unless otherwise specified, all references to \$ refer to lawful currency of the United States.
11. The parties agree to execute and deliver to each other such further instruments and other written assurances and to do or cause to be done such further acts or things as may be necessary or convenient to carry out and give effect to the intent of this Agreement or as any of the parties may reasonably request in order to carry out the transactions contemplated herein.
12. This Agreement sets forth the entire agreement among the parties hereto pertaining to the specific subject matter hereof and replaces and supersedes all prior agreements, understandings, negotiations and discussions, whether oral or written, of the parties hereto, and there are no warranties, representations or other agreements, whether oral or written, express or implied, statutory or otherwise, between the parties hereto in connection with the subject matter hereof except as specifically set forth herein. No supplement, modification, waiver or termination of this Agreement shall be binding unless executed in writing by the party to be bound thereby.
13. In case any one or more of the provisions contained in this Agreement should be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained in this Agreement shall not in any way be affected or impaired thereby, and any such invalid, illegal or unenforceable provision shall be deemed to be severable, and the remainder of the provisions of this Agreement shall nevertheless remain in full force and effect.
14. This Agreement may be executed by the parties hereto in separate counterparts or duplicates each of which when so executed and delivered shall be an original, but all such counterparts or duplicates shall together constitute one and the same instrument. A signed facsimile, portable document format (PDF) or telecopied copy of this Agreement shall be effective and valid proof of execution and delivery.
15. This Agreement shall be binding upon and shall enure to the benefit of the parties hereto and their respective heirs, executors, administrators, successors, assigns and legal representatives. This Agreement may not be assigned without the prior written consent of the parties, which consent may not be unreasonably withheld.

[Signature page follows]

IN WITNESS WHEREOF the parties have executed this Agreement as of the date first above written.

PETROTEQ ENERGY INC.

By: /s/ Aleksandr Blyumkin

Name: Aleksandr Blyumkin

Title: Chairman

/s/ Aleksandr Blyumkin

ALEKSANDR BLYUMKIN

SCHEDULE "A"

U.S. ACCREDITED INVESTOR CERTIFICATE

A "**United States investor**" is: (a) any person who is, or is acting for the account of or benefit of, a U.S. Person (as such term is defined in Rule 902(k) of Regulation S under the United States *Securities Act of 1933*, as amended (the "**U.S. Securities Act**")) or a person in the United States, and who is acquiring common shares (the "**Common Shares**") in the capital of Petroteq Energy Inc. (the "**Company**"); (b) any person who was offered Common Shares in the United States; or (c) any person who executed or delivered the Agreement to which this Certificate is attached in the United States. A U.S. Person includes: (a) any natural person resident in the United States; (b) any partnership or corporation organized or incorporated under the laws of the United States; (c) any trust of which any trustee is a U.S. Person; (d) any partnership or corporation organized outside the United States by a U.S. Person principally for the purpose of investing in securities not registered under the U.S. Securities Act, unless it is organized or incorporated, and owned, by accredited investors (within the meaning assigned in Rule 501(a) of Regulation D under the U.S. Securities Act.) who are not natural persons, estates or trusts; (e) any estate of which any executor or administrator is a U.S. Person.

The undersigned (the "**Subscriber**") covenants, represents and warrants to the Company that:

- (a) it understands (A) that the Common Shares have not been and will not be registered under the U.S. Securities Act or the securities laws of any state of the United States; and (B) the offer and sale of Common Shares contemplated hereby is being made in reliance on an exemption from such registration requirements in reliance on Rule 506(b) of Regulation D under the U.S. Securities Act and/or Section 4(a)(2) of the U.S. Securities Act;
- (b) it has such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of an investment in the Common Shares and it is able to bear the economic risk of loss of its entire investment;
- (c) the Company has provided to it the opportunity to ask questions and receive answers concerning the terms and conditions of the issuance of the Common Shares, and it has had access to such information concerning the Company (including, if applicable, access to the Company's public filings available on the Internet at www.sedar.com) as it has considered necessary or appropriate in connection with its investment decision to acquire the Common Shares, and that any answers to questions and any request for information have been complied with to the Subscriber's satisfaction;
- (d) it is acquiring the Common Shares for its own account, or for the account of one or more persons for whom it is exercising sole investment discretion, (a "**Beneficial Purchaser**"), for investment purposes only and not with a view to resale or distribution and, in particular, neither it nor any Beneficial Purchaser for whose account it is acquiring the Common Shares has any intention to distribute either directly or indirectly the Common Shares in the United States or to, or for the account or benefit of, a U.S. Person or person in the United States; provided, however, that this paragraph shall not restrict the Subscriber from selling or otherwise disposing of such securities pursuant to registration thereof pursuant to the U.S. Securities Act and any applicable state securities laws, or under an exemption from such registration requirements;
- (e) the address of the Subscriber is **9903 Santa Monica Blvd. #3900, Beverly Hills, California 90212** which is the true and correct principal address of the Subscriber and can be relied on by the Company for the purposes of state blue-sky laws and the Subscriber has not been formed for the specific purpose of acquiring the Common Shares;
- (f) it will not be acquiring the Common Shares as a result of any form of general solicitation or general advertising (as those terms are used in Regulation D under the U.S. Securities Act), including advertisements, articles, press releases, notices or other communications published in any newspaper, magazine or similar media or on the Internet, or broadcast over radio or television, or the Internet or other form of telecommunications, including electronic display, or any seminar or meeting whose attendees have been invited by general solicitation or general advertising;

- (g) it acknowledges that the Common Shares will be issued as “restricted securities”, as such term is defined in Rule 144(a)(3) under the U.S. Securities Act, and may not be offered, sold, pledged, or otherwise transferred, directly or indirectly, without prior registration under the U.S. Securities Act and applicable state securities laws, and it agrees that if it decides to offer, sell, pledge or otherwise transfer, directly or indirectly, any of the securities absent such registration, it will not offer, sell, pledge or otherwise transfer, directly or indirectly, such securities, directly or indirectly, except (i) to the Company, (ii) outside the United States in an “offshore transaction” meeting the requirements of Rule 904 of Regulation S under the U.S. Securities Act, if available, and in compliance with applicable local laws and regulations, (iii) in compliance with the exemption from the registration requirements under the U.S. Securities Act provided by Rule 144 thereunder, if available, and in accordance with any applicable state securities or “blue sky” laws, or (iv) in a transaction that does not require registration under the U.S. Securities Act or any applicable state laws and regulations governing the offer and sale of securities, and, in the case of each of (iii) and (iv) it has prior to such sale furnished to the Company an opinion of counsel in form and substance reasonably satisfactory to the Company stating that such transaction is exempt from registration under applicable securities laws and that the legend referred to in paragraph (h) below may be removed;
- (h) it acknowledges that the certificates representing the Common Shares, as well as all certificates issued in exchange therefor or in substitution thereof, until such time as is no longer required under the applicable requirements of the U.S. Securities Act or applicable state securities laws, will bear, on the face of such certificate, the following legend:
- “THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “U.S. SECURITIES ACT”), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. THE HOLDER HEREOF, BY PURCHASING SUCH SECURITIES, AGREES FOR THE BENEFIT OF THE COMPANY THAT SUCH SECURITIES MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED, DIRECTLY OR INDIRECTLY, ONLY (A) TO THE COMPANY; (B) OUTSIDE THE UNITED STATES IN ACCORDANCE WITH RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT AND IN ACCORDANCE WITH ALL LOCAL LAWS AND REGULATIONS; (C) IN ACCORDANCE WITH THE EXEMPTION FROM REGISTRATION UNDER THE U.S. SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER, IF AVAILABLE, AND IN COMPLIANCE WITH ANY APPLICABLE STATE SECURITIES LAWS; OR (D) IN A TRANSACTION THAT DOES NOT REQUIRE REGISTRATION UNDER THE U.S. SECURITIES ACT AND ANY APPLICABLE STATE SECURITIES LAWS, AND, IN THE CASE OF CLAUSE (C) OR (D), THE SELLER FURNISHES TO THE COMPANY AN OPINION OF COUNSEL OF RECOGNIZED STANDING IN FORM AND SUBSTANCE SATISFACTORY TO THE COMPANY TO SUCH EFFECT. THE PRESENCE OF THIS LEGEND MAY IMPAIR THE ABILITY OF THE HOLDER HEREOF TO EFFECT “GOOD DELIVERY” OF THE SECURITIES REPRESENTED HEREBY ON A CANADIAN STOCK EXCHANGE.”
- (i) it understands and acknowledges that (A) if the Company is deemed to have been at any time previously an issuer with no or nominal operations and no or nominal assets other than cash and cash equivalents, Rule 144 under the U.S. Securities Act may not be available for resales of the Common Shares and (B) the Company is not obligated to make Rule 144 under the U.S. Securities Act available for resales of the Common Shares;

- (j) it understands and agrees that there may be material tax consequences to the Subscriber of an acquisition, disposition or exercise of any of the Common Shares. The Company gives no opinion and makes no representation with respect to the tax consequences to the Subscriber under United States, state, local or foreign tax law of the undersigned's acquisition or disposition of such securities. In particular, no determination has been made whether the Company will be a "passive foreign investment company" within the meaning of Section 1297 of the United States Internal Revenue Code of 1986, as amended;
- (k) it understands and agrees that the financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles or International Financial Reporting Standards and therefore may be materially different from financial statements prepared under U.S. generally accepted accounting principles and therefore may not be comparable to financial statements of United States companies;
- (l) it consents to the Company making a notation on its records or giving instruction to the registrar and transfer agent of the Company in order to implement the restrictions on transfer set forth and described herein;
- (m) it understands and acknowledges that the Company is incorporated outside the United States, consequently, it may be difficult to provide service of process on the Company and it may be difficult to enforce any judgment against the Company;
- (n) the Company does not have any obligation to register the Common Shares under the U.S. Securities Act or any applicable state securities laws or to take action so as to permit resales of the Common Shares. Accordingly, the Subscriber understands that absent registration, the Subscriber may be required to hold the Common Shares indefinitely. As a consequence, the Subscriber understands that it must bear the economic risks of the investment in the Common Shares for an indefinite period of time; and
- (o) it, and if applicable, each Beneficial Purchaser for whose account it is acquiring the Common Shares, is an "accredited investor" as defined in Rule 501(a) of Regulation D by virtue of satisfying one or more of the categories indicated below **(please hand-write your initial on the appropriate lines and write "SUB" for the criteria the Subscriber meets and "BEN" for the criteria any persons for whose account or benefit the Subscriber is acquiring the Common Shares meets):**

- | | | |
|-------|-------------|---|
| _____ | Category 1. | A bank, as defined in Section 3(a)(2) of the U.S. Securities Act, whether acting in its individual or fiduciary capacity; or |
| _____ | Category 2. | A savings and loan association or other institution as defined in Section 3(a)(5)(A) of the U.S. Securities Act, whether acting in its individual or fiduciary capacity; or |
| _____ | Category 3. | A broker or dealer registered pursuant to Section 15 of the <i>U.S. Securities Exchange Act of 1934</i> ; or |
| _____ | Category 4. | An insurance company as defined in Section 2(a)(13) of the U.S. Securities Act; or |
| _____ | Category 5. | An investment company registered under the <i>Investment Company Act of 1940</i> ; or |
| _____ | Category 6. | A business development company as defined in Section 2(a)(48) of the <i>Investment Company Act of 1940</i> ; or |
| _____ | Category 7. | A small business investment company licensed by the U.S. Small Business Administration under Section 301(c) or (d) of the <i>Small Business Investment Act of 1958</i> ; or |

- _____ Category 8. A plan established and maintained by a state, its political subdivision or any agency or instrumentality of a state or its political subdivisions, for the benefit of its employees, with assets in excess of U.S. \$5,000,000; or
- _____ Category 9. An employee benefit plan within the meaning of the *Employee Retirement Income Security Act of 1974* in which the investment decision is made by a plan fiduciary, as defined in Section 3(21) of such act, which is either a bank, savings and loan association, insurance company or registered investment advisor, or an employee benefit plan with total assets in excess of U.S. \$5,000,000 or, if a self-directed plan, the investment decisions are made solely by persons who are accredited investors; or
- _____ Category 10. A private business development company as defined in Section 202(a)(22) of the *Investment Advisers Act of 1940*; or
- _____ Category 11. An organization described in Section 501(c)(3) of the *Internal Revenue Code*, a corporation, a Massachusetts or similar business trust, or a partnership, not formed for the specific purpose of acquiring the Common Shares, with total assets in excess of U.S. \$5,000,000; or
- _____ Category 12. A director, executive officer or general partner of the Company; or
- _____ Category 13. A natural person whose individual net worth, or joint net worth with that person's spouse, exceeds U.S. \$1,000,000 (for the purposes of calculating net worth, (i) the person's primary residence shall not be included as an asset; (ii) indebtedness that is secured by the person's primary residence, up to the estimated fair market value of the primary residence at the time of the sale of the securities, shall not be included as a liability (except that if the amount of such indebtedness outstanding at the time of the sale of the securities exceeds the amount outstanding 60 days before such time, other than as a result of the acquisition of the primary residence, the amount of such excess shall be included as a liability); and (iii) indebtedness that is secured by the person's primary residence in excess of the estimated fair market value of the primary residence shall be included as a liability); or
- _____ Category 14. A natural person who had an individual income in excess of U.S. \$200,000 in each year of the two most recent years or joint income with that person's spouse in excess of U.S. \$300,000 in each of those years and has a reasonable expectation of reaching the same income level in the current year; or
- _____ Category 15. A trust, with total assets in excess of U.S. \$5,000,000, not formed for the specific purpose of acquiring the securities offered, whose purchase is directed by a sophisticated person as described in Rule 506(b)(2)(ii) under Regulation D; or

Category 16.

An entity in which each of the equity owners meets the requirements of one of the above categories – if this alternative is selected, identify each equity owner and provide statements from each demonstrating how they qualified as an accredited investor.

Dated _____

 X
Signature of individual (if Subscriber is an individual)

 X
Authorized signatory (if Subscriber is **not** an individual)

Name of Subscriber (**please print**)

Name of authorized signatory (**please print**)

Official capacity of authorized signatory (**please print**)

Affirmation by Seller's Broker-Dealer
(Required for sales pursuant to Section (B)(2)(b) in Appendix "A" above)

We have read the representation letter of _____ (the "**Seller**") dated _____, pursuant to which the Seller has requested that we sell, for the Seller's account, _____ common shares of the Company represented by certificate number _____ (the "**Common Shares**"). We have executed sales of the Common Shares pursuant to Rule 904 of Regulation S under the United States Securities Act of 1933, as amended (the "**U.S. Securities Act**"), on behalf of the Seller. In that connection, we hereby represent to you as follows:

- (1) no offer to sell the Common Shares was made to a person in the United States;
- (2) the sale of the Common Shares was executed in, on or through the facilities of the Toronto Stock Exchange, the TSX Venture Exchange or another "designated offshore securities market" (as defined in Regulation S under the U.S. Securities Act), and, to the best of our knowledge, the sale was not pre-arranged with a buyer in the United States;
- (3) no "directed selling efforts" were made in the United States by the undersigned, any affiliate of the undersigned, or any person acting on behalf of the undersigned; and
- (4) we have done no more than execute the order or orders to sell the Common Shares as agent for the Seller and will receive no more than the usual and customary broker's commission that would be received by a person executing such transaction as agent.

For purposes of these representations: "**affiliate**" means a person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the undersigned; "**directed selling efforts**" means any activity undertaken for the purpose of, or that could reasonably be expected to have the effect of, conditioning the market in the United States for the Common Shares (including, but not be limited to, the solicitation of offers to purchase the Common Shares from persons in the United States); and "**United States**" means the United States of America, its territories or possessions, any State of the United States, and the District of Columbia.

Legal counsel to the Company shall be entitled to rely upon the representations, warranties and covenants contained in this letter to the same extent as if this letter had been addressed to them.

Dated _____.

Name of Firm

By: _____

Title: _____

**DISTRIBUTED LEDGER TECHNOLOGY SERVICES AGREEMENT
[Petroteq Energy Inc.]**

This SUPPLY CHAIN TECHNOLOGY SERVICES AGREEMENT (“Agreement”), dated and made effective as of November 1, 2017 (“Effective Date”), is entered into by and between PETROTEQ ENERGY INC., a Canadian (Ontario) corporation, having a registered office at 181 Bay Street, Suite 4400, Toronto, Ontario, Canada M5J 2T3 (“Petroteq” or “Company”), and FIRST BITCOIN CAPITAL CORP., a Canadian (British Columbia) corporation, having a registered office at Royal Centre, Suite 1500, 1055 West Georgia Street, Vancouver, British Columbia, Canada V6E 4N7 (“First Bitcoin” or “FBCC”) (the parties hereto sometimes referred to individually as a “Party” and collectively as the “Parties”).

RECITALS

A. Petroteq is engaged in the exploration, production and sale of crude oil and hydrocarbon products derived primarily from mining, producing and processing oil sands and associated minerals and is interested in developing a supply and distribution software platform that is based on and deploys distributed ledger (blockchain) technologies;

B. First Bitcoin is a distributed ledger software and technology company and deploys various distributed ledger technologies, know-how and expertise in performing services relating to the development of blockchain-based supply-side management systems; and

C. Petroteq desires to retain First Bitcoin for the purpose of designing and building a blockchain-based platform for Petroteq that may be used by Petroteq and other companies engaged in businesses and operations in the international oil and gas industry.

NOW, THEREFORE, in consideration of the mutual benefits, promises and covenants contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by each of the Parties, the Parties agree as follows:

1. Definitions; Usage; Procedural Conventions.

1.1 Defined Terms. Unless the context shall otherwise require, terms used and not defined herein shall have the meanings assigned thereto and set forth in Schedule X hereto.

1.2 Interpretation; Protocols. The name assigned to this Agreement and the Section (or subsection) captions used herein are for reference only and shall not be construed to affect the meaning or construction of the text hereof. Terms defined in the singular shall have a comparable meaning when used in the plural, and vice versa. Unless otherwise specified:

(a) The terms “hereof,” “herein” and similar terms refer to this Agreement as a whole and references herein to Sections refer to Sections of this Agreement;

(b) Pronouns in masculine, feminine, and neuter genders will be construed to include any other gender, and words in the singular form will be construed to include the plural and vice versa, unless the context otherwise requires; and

(c) The words, “include,” “includes” and “including,” when used herein, shall be deemed in each case to be followed by the words “without limitation”.

1.3 Currency. Unless stated otherwise, references to money herein shall mean and refer to the currency (U.S. Dollars) of the United States of America.

2. Term of Agreement.

2.1 Primary Term. The term of this Agreement shall commence as of the Effective Date and shall continue in full force and effect for a continuous period of five (5) years (the “Primary Term”) unless earlier terminated and canceled by a written agreement of the Parties or as otherwise may be specified in this Agreement.

2.2 Extension of Term. Prior to expiration of the Primary Term, the Parties shall be entitled to extend the terms of this Agreement for such period and under such terms as they may agree upon in writing. Any extension to the term of this Agreement shall be set forth in an amendment hereto that must be executed by each Party.

3. Scope of Technology & Related Services.

3.1 Technology Services; Platform Development.

(a) First Bitcoin shall, using expertise provided by its own personnel and by such independent consultants and contractors as it may elect to employ from time to time, design, develop and build for Petroteq a digitally-based architecture and platform MVP (A minimum viable product (MVP) is a software development protocol in which a new product or website is developed with sufficient features to satisfy early adopters. The final, complete set of features is only designed and developed after considering feedback from the product’s initial users. (the “Architecture & Platform”) that will utilize or be based upon distributed ledger or “blockchain” technologies, the purpose and design of which shall be to establish or create a supply-side chain management system that Petroteq and its Affiliates, in the exercise of Petroteq’s sole judgment and determination, may (1) utilize or deploy in connection with their own respective businesses and operations, and/or (2) offer or make available to other companies and businesses in the international oil and gas industry and in other industries, in each case pursuant to such terms and conditions as Petroteq may determine from time to time.

(b) Unless otherwise agreed by the Parties in any initial design package developed by First Bitcoin, the Architecture & Platform developed by First Bitcoin hereunder shall be an enterprise-based digital system, supported by both solution and enterprise architecture, consisting of one or more software development platforms, with each platform having multi-channel capabilities that use application programming interface (API) management, peer-to-peer networks, and public, private or hybrid networks for the purpose of deploying distributed ledger (blockchain) technologies to provide communications, contract administration, project, supply, product, financial and other blockchain-based management systems, applications and solutions for Petroteq and its Affiliates and/or for any Third Person to which Petroteq may elect to make any such platform, system or application available from time to time.

3.2 **Maintenance; Management Services.** During the term of this Agreement (including any extension thereof), First Bitcoin shall provide to Petroteq, as Petroteq may request from time to time, technological, management, maintenance and other services relating to the design, installation, operation or expansion of the Architecture & Platform. All such services provided by First Bitcoin shall be performed or conducted in a good and professional manner and shall use or deploy, to the extent reasonably practicable, “best blockchain practices” in managing and maintaining each such platform for Petroteq under the terms of this Agreement.

4. Ownership of Platform; Technology License.

4.1 **Ownership of Architecture/Platform.** Subject to only to the compensation, fees and royalty payable to First Bitcoin under the provisions of this Agreement, Petroteq shall have the exclusive ownership of the Architecture & Platform developed by First Bitcoin under the terms of this Agreement, including without limitation the right without reservation or limitation to manage and control all decisions with respect to its configuration, structure and operation. Petroteq shall further own all improvements, modifications, changes and enhancements that may be made to the Architecture & Platform at any time, whether such improvements, modifications, changes or enhancements are conceived, developed and/or made by Petroteq or by First Bitcoin, or by any Third Person.

4.2 **Technology License.** In connection with the Architecture & Platform developed by First Bitcoin for Petroteq hereunder, and subject only to the royalty payable to First Bitcoin under this Agreement, First Bitcoin hereby grants to Petroteq a permanent, non-exclusive license and right to use any proprietary technology, software, method, process, know-how and technical information developed and owned or controlled by First Bitcoin, including rights held by First Bitcoin under any patent, copyright or trademark, or any applications or registrations corresponding or applicable thereto (collectively, the “FBCC Technology”) in connection with the ownership, management, operation and/or use of the Architecture & Platform.

4.3 Technology Improvements. First Bitcoin shall own all right, title and interest in and to any improvement, modification or enhancement that may be made at any time to the FBCC Technology (collectively, the “Technology Improvements”), or any part, component or aspect thereof, regardless of whether any Technology Improvement is conceived, discovered, invented or developed by First Bitcoin or by Petroteq, or any of their respective Affiliates or contractors. Any such Technology Improvement may, at the option of Petroteq, be included or incorporated into the Architecture & Platform or any iteration thereof and shall be deemed within the scope of the FBCC Technology and subject to the permanent, non-exclusive license and rights of use granted to Petroteq under this Agreement.

4.4 Reservations by First Bitcoin. Except with respect to the permanent, non-exclusive license and right of use granted to Petroteq herein, First Bitcoin shall reserve all ownership of, together with all intellectual property rights in, the FBCC Technology, including the right to make or conduct any improvements, modifications or enhancement thereto and to control or conduct any and all research and development thereto, and shall further reserve the right to develop any software, architecture or platform using or deploying the FBCC Technology, or any open source software or technology that may be available to First Bitcoin, for any Third Person anywhere in the world under such circumstances, and pursuant to such terms and conditions, as First Bitcoin may determine from time to time in its sole discretion.

4.5 Restrictions: Open Code. Certain of the software developed or deployed by First Bitcoin in the development of the Architecture & Platform will be based on open code as to which neither of the Parties shall have nor retain any proprietary rights other than the non-exclusive right to control or manage the deployment and use thereof and to make any improvements, modifications or enhancements thereto.

5. Compensation, License Fees & Royalty.

5.1 Compensation Package. Petroteq shall pay or remit to First Bitcoin, as the total compensation paid or payable to First Bitcoin for the development of the Architecture & Platform and the associated services provided by First Bitcoin to Petroteq under the terms of this Agreement, the following:

(a) Base Compensation. Petroteq shall pay to First Bitcoin cash compensation of five hundred thousand dollars (\$500,000) (the “Base Compensation”) payable in five (5) equal and consecutive monthly installments, with the initial installment of \$100,000 becoming due and payable on or before the first (1st) day of the calendar month following the Effective Date and each remaining installment becoming due and payable on or before the first (1st) day of each calendar month thereafter until the Base Compensation is fully paid.

(b) Adjustments; Base Compensation. If at any time First Bitcoin determines in good faith that the costs associated with the initial design and development of the Architecture & Platform shall require an increase in the Base Compensation, First Bitcoin shall so advise Petroteq in writing and the Parties thereafter shall agree upon any adjustments to the Base Compensation that the Parties reasonably believe will be necessary to compensate First Bitcoin for all of the costs and expenses it will incur in designing and developing the Architecture & Platform under the terms of this Agreement; provided, however, notwithstanding the foregoing, any adjustment(s) that may be agreed upon by the Parties hereunder shall not result in Base Compensation that, in the aggregate, exceeds a total amount of _____ hundred thousand dollars (\$_____).

(c) License Fees & Royalty; Term of Agreement. In addition to the cash compensation payable to First Bitcoin hereunder, beginning on January 1, 2018 and following the end of each calendar year thereafter during the term of this Agreement (including any extended term), Petroteq agrees to pay to First Bitcoin, on an annual basis as provided hereafter, the greater of the following:

(1) An annual license fee (“License Fee”) of ten thousand dollars (\$10,000);

(2) A royalty (“Royalty”) equal to five percent (5%) of all “Net Revenue” received by Petroteq from time to time from any Third Person during such calendar year.

(c) Royalty; Post-Agreement. Following the expiration or termination of this Agreement, Petroteq shall pay to First Bitcoin, as compensation for Petroteq’s continued use of the Architecture & Platform and the FBC Technology, a Royalty equal to five percent (5%) of all “Net Revenue ” received by Petroteq during each calendar year.

5.2 Net Revenue; Definition

For purposes of determining the Royalty that may be owed to First Bitcoin under this Agreement, the term “Net Revenue” shall mean all revenue received by Petroteq from or as a result of:

(1) making the Architecture & Platform available to any Third Person, whether on or through a public or private network, either in whole or in part;

(2) any grant to any Third Person or to the public-at-large, under such terms as Petroteq may determine, of any license, lease or other right to use the Architecture & Platform or any of the services or products available thereon or thereunder, or

(3) any assignment or transfer of all or any part of Petroteq's ownership rights or interests in the Architecture & Platform to any Third Person, including without limitation any sale, transfer and/or acquisition effectuated or achieved by (A) merger, consolidation or otherwise, or by or through the acquisition of a controlling interest in Petroteq or in connection with the acquisition of Petroteq's business or assets, or (B) any joint venture or co-venture with respect to which this Agreement and/or any interest in the Architecture & Platform, is assigned, conveyed, licensed, leased or otherwise transferred, in whole or in part, to such joint venture or co-venture,

LESS AND REDUCED BY any (x) applicable sales, ad valorem, value added or similar taxes that may be assessed against any of the above and foregoing transactions, and (y) any license fees, royalties or other amounts that Petroteq may owe or be required to pay any Third Person in connection with or as a result of any such transaction.

5.3 Royalty Statements; Payment.

(a) Within thirty (30) days after the end of each calendar year following the Effective Date, Petroteq shall deliver a written statement (each a "Royalty Statement") to First Bitcoin stating the Royalty determined to be payable to First Bitcoin for and during each such calendar year, together with calculations used in the calculation of Net Revenue for such period. At the time that each Royalty Statement is delivered to First Bitcoin hereunder, Petroteq shall pay to First Bitcoin an amount that in each case shall be determined as follows:

- (1) During the term of this Agreement, Petroteq shall pay to First Bitcoin an amount equal to the greater of the License Fee and the Royalty determined to be payable during and for each calendar year; and
- (2) Following the expiration or termination of this Agreement, Petroteq shall pay to First Bitcoin the Royalty determined to be payable during and for each calendar year.

(b) All payments and other amounts owed by Petroteq to First Bitcoin hereinunder shall, at Petroteq's option, be paid by corporate check or by a wire transfer of immediately available U.S. funds to an account in First Bitcoin's name or its affiliate company at a banking institution designated by First Bitcoin to Petroteq in writing from time to time. Any License Fee or Royalty that is not paid to First Bitcoin on or before the thirtieth (30th) days following the close of each calendar year hereunder shall bear and accrue interest until paid in full at an annual rate equal to the lesser of (1) ten percent (10%), simple interest, or (2) the maximum rate of interest allowed by law.

6. Recordkeeping, Inspections & Audits.

6.1 Retention of Records/Data. Petroteq shall maintain, at its offices or at a location agreed upon by the Parties, originals or copies of all records and documents relating to any revenue that Petroteq may receive from time to time from Third Persons that may form the basis of the Royalty paid or payable to First Bitcoin under this Agreement.

6.2 Inspection & Audit. First Bitcoin or its Affiliates, acting by or through their respective representatives or contractors, shall have the right, at their sole cost and expense, to inspect the books and records maintained by Petroteq for the purpose of verifying the Royalty payable to First Bitcoin during any calendar year. Each such inspection and audit may, upon First Bitcoin giving Petroteq at least fourteen (14) days prior written notice, be conducted by First Bitcoin at any time within 180 days following the end of the calendar year as to which any such inspection and audited is to be conducted.

6.3 Confidentiality: Non-Public Data. All records, information and data maintained by Petroteq or by First Bitcoin, or by any of their respective Affiliates, relating to this Agreement or which are to be made available for inspection and audit under the terms of this Agreement shall be treated as strictly confidential by the receiving Party and shall not be published or disclosed to any Third Person without the written consent of the non-disclosing Party.

7. Governing Law.

THIS AGREEMENT SHALL BE GOVERNED, CONSTRUED AND ENFORCED IN ACCORDANCE WITH THE LAWS OF THE PROVINCE OF ONTARIO (CANADA) WITHOUT REGARD TO THE CONFLICTS OF LAWS OR CHOICE OF LAWS PRINCIPLES THEREOF.

8. Dispute Resolution.

8.1 Disputes: Procedure. Any claim, controversy or dispute between or among the Parties, or any of them, arising out of or in any way relating to this Agreement (each a “Dispute”) shall be resolved exclusively by the dispute resolution provisions contained in Schedule Y hereto.

8.2 Limitations on Remedies. NOTWITHSTANDING ANYTHING TO THE CONTRARY IN THIS AGREEMENT, NEITHER PARTY SHALL HAVE ANY LIABILITY TO THE OTHER FOR ANY SPECIAL, INDIRECT, INCIDENTAL, PUNITIVE OR EXEMPLARY DAMAGES, INCLUDING LOST PROFITS, REVENUE OR SAVINGS, REGARDLESS OF THE FORM OF ACTION GIVING RISE TO ANY CLAIM FOR SUCH DAMAGES, WHETHER IN CONTRACT OR IN TORT, OR OTHERWISE, EVEN IF PARTY HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES.

9. Confidentiality.

9.1 Confidentiality Obligations. The Parties agree that this Agreement, together with any other non-public or proprietary information or data disclosed by one Party to the other in connection with this Agreement, shall be treated and strictly confidential during the term of this Agreement and for a period of seven (7) years after the expiration or termination hereof (the "Confidentiality Period") and shall not be published or disclosed to any Third Person without the prior consent of the non-disclosing Party except (1) as may be authorized or contemplated by or under this Agreement, or (2) as may be necessary or convenient in managing or advertising the existence of the Architecture & Platform and the purposes and objectives thereof and the blockchain services and products that may be made available to any Third Person or to the public-at-large.

9.2 Exceptions: Mandatory Disclosure. Notwithstanding the foregoing, this Agreement and any information or data relating to the Architecture & Platform may be disclosed by either Party during the Confidentiality Period as may be compelled, requested or required to be disclosed by any (1) any Third Person that has expressed a bona fide interest in acquiring a license or other right or interest in using the Architecture & Platform and the services and products thereunder as may be made available by Petroteq from time to time, (2) any governmental authority, agency or instrumentality or by any stock exchange or over-the-counter market on or as to which the securities of either Party are registered or being publicly traded, or (3) by applicable law, rules or regulations.

9.3 Exclusions. The confidentiality obligations of the Parties contained herein shall not apply to any open source code embedded in or included as part of any software utilized in the development, management or use of the Architecture & Platform or any of the services or products that may be used or offered in connection therewith.

10. General Provisions

10.1 Amendments: Waiver.

(a) No course of dealing and no delay by either Party in exercising any right, power or remedy shall operate as a waiver thereof or otherwise prejudice its rights, powers or remedies. No waiver actually made by either Party of any breach of the terms of this Agreement by the other Party shall be a waiver of any other term hereof. No right, power or remedy conferred hereby or available at law or in equity shall be exclusive of any other right, power or remedy.

(b) All amendments and other modifications hereof shall be in writing and signed by each of the Parties. Any Party may by written instrument (1) waive compliance by the other Party with, or modify any of, the covenants or agreements made by the other Party in this Agreement or any document or instrument delivered to such Party pursuant to this Agreement, or (2) waive or modify performance of any of the obligations or other acts of the other Party. Any delay or failure on the part of a Party to insist, in one or more instances, upon strict performance of any of the terms or conditions of this Agreement, or to exercise any right or privilege granted herein, shall not be construed as a waiver of any such terms, conditions, rights or privileges but the same shall continue and remain in full force and effect.

10.2 Notices. Any notice authorized or required under this Sublease shall be in writing and shall be deemed to have been duly given upon (a) personal delivery to the Party to be notified, (b) transmittal if sent by facsimile transmission with confirmation that the message was received by the facsimile machine of the Party to be notified, (c) delivery if sent by a private courier or delivery service, or (d) transmittal if sent by email or electronic communication, in each case delivered, mailed or transmitted to the Party to be notified at the address, facsimile number or email address set forth below (although notice to any copy recipient that may be listed below shall not constitute notice to the Party unless otherwise agreed). Either Party may change its address, facsimile number or copy recipient upon written notice to the other Party.

If to Petroteq:

Petroteq Energy, Inc.
Attn: Secretary
181 Bay Street, Suite 4400
Toronto, ON, Canada M5J 2T3
Telephone: +1 (310) 990-0119
Email: exodus_investments@yahoo.com

If to First Bitcoin:

First Bitcoin Capital Corp.
Attn: President
1500-1055 W. Georgia Street
Vancouver, BC V6E 4N7
Telephone: +1 (240) 232-5754
Email: gregrubin@bitcoincapitalcorp.com

10.3 Third Parties. The Parties intend to confer no benefit or right on any Person not a party to this Agreement and no Third Person shall have the right to claim the benefit of any provision hereof as a third-party beneficiary of this Agreement.

10.4 Relationship of Parties. Nothing in this Agreement shall be deemed to create an agency, joint venture, partnership, franchise or similar relationship between the Parties. Each Party shall conduct all business in its own name as an independent contractor. Neither Party shall be liable for the representations, acts, or omission of the other Party or shall have any right or power to act for or on behalf of the other or to bind the other in any respect except as specifically authorized herein.

10.5 Assignability.

(a) This Agreement shall be binding upon and inure to the benefit of the successors and assigns of the Parties; provided, however, this Agreement shall be considered personal in nature and shall not be assigned or transferred by any Party, either in whole or in part, without the prior written consent of the other Party.

(b) Notwithstanding anything to the contrary herein, Petroteq shall be entitled, without the written consent of First Bitcoin, to (1) grant to any Third Person or to the public-at-large, under such terms as Petroteq may determine, a license, lease or other right to use the Architecture & Platform or any of the services or products available thereon or associated therewith, (2) assign, convey or otherwise transfer all or any part of its rights under this Agreement and/or its right, title and ownership interests in the Architecture & Platform to (i) any Affiliate of Petroteq, (ii) any Third Person that acquires or purchases Petroteq, whether by merger, consolidation or otherwise, or by the acquisition of a controlling interest in Petroteq or in connection with the acquisition of all or substantially all of Petroteq's business or assets, or (iii) any joint or co-venture with respect to which Petroteq retains or receives at least a twenty-five percent (25%) economic or equity interest, together with a right to participate in the management of any such venture through or under voting rights that correspond to its economic or equity interest.

10.6 Survival of Royalty Obligations. The provisions governing the determination and payment of Royalty contained in Sections 5.1(c), 5.2 and 5.3 hereof shall survive the expiration or termination of this Agreement.

10.7 Rights, Powers, Remedies Cumulative; Waiver. Each and every right, power and remedy specified in this Agreement shall be cumulative and in addition to every other right, power and remedy existing now or hereafter at law or in equity. Each and every right, power and remedy may be exercised from time to time and as often and in such order as may be deemed expedient by a Party. The exercise of any right, power or remedy shall not be construed as a waiver of the right to exercise at the same time or thereafter any other right, power or remedy. No delay or omission by a Party in the exercise of any right or power, or in the pursuit of any remedy, shall impair any right, power or remedy, or be construed to be a waiver thereof, nor shall the acceptance by a Party of any payment hereunder be deemed a waiver of any right, power or remedy in the future.

10.8 Severability. If any provision or clause of this Agreement is held to be invalid or unenforceable by any court, the invalidity or unenforceability of such clause or provision shall not affect the remaining provisions of this Agreement, and this Agreement shall be construed and enforced as if such invalid or unenforceable clause or provision had not been contained herein.

10.9 Section Headings. The section and subsection headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

10.10 Entirety of Agreement. This Agreement, together with the Schedules attached hereto, contains the entire agreement between the Parties with respect to the subject matter hereof and thereof and supersedes all prior agreements and undertakings between the Parties relating to the subject matter of this Agreement. No course of prior dealings between the Parties or their predecessors shall be relevant to supplement or explain any terms used herein.

10.11 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same instrument.

[Signatures of Parties on Following Page]

IN WITNESS WHEREOF, the Parties hereto have executed this Agreement as of the dates written below.

PETROTEQ ENERGY INC.

By: /s/ Alex Blyumkin

Name: Alex Blyumkin

Title: Chairman of the Board

Date: Nov 03, 2017

FIRST BITCOIN CAPITAL CORP.

By: /s/ Greg Rubin

Name: Greg Rubin

Title: CEO

Date: Nov 03, 2017

SCHEDULE X INDEX OF DEFINED TERMS

1.01 Definitions. Certain capitalized terms used in this Agreement, except where and to the extent that they may be defined in the text of this Agreement, shall be defined as follows:

“Affiliate” means any company or other entity that (i) controls, (ii) is controlled by or

(iii) is under common control with one of the Parties. For the purpose of this definition, control shall mean the ownership, directly or indirectly, of Fifty Percent (50%) or more of the stock or other units of ownership having the right to vote for the election of directors of such company or other entity.

“Architecture & Platform” has the meaning specified in Section 3.1 of this Agreement.

“Base Compensation” has the meaning specified in Section 5.1 of this Agreement.

“Confidentiality Period” has the meaning specified in Section 9.1 of this Agreement.

“Dispute” means, with respect to Section 8.1 of this Agreement, any dispute, controversy or claim (of any and every kind or type, whether based on contract, tort, statute, regulation, or otherwise) between or among the Parties or their respective Affiliates arising out of, relating to, or connected with this Agreement, including any dispute as to the construction, validity, interpretation, enforceability or breach thereof.

“FBCC Technology” means any patent right or patent, copyright, invention, technology, discovery, software, method, process, technical data, trade secret or know-how developed and owned by First Bitcoin or any of its Affiliates, or that may be controlled, practiced or used under licenses with Third Persons, used or deployed by First Bitcoin in the design or development of distributed ledger technology.

“Licensee Fee” has the meaning specified in Section 5.1(b) of this Agreement.

“Net Revenue” has the meaning set forth in Section 5.2 of this Agreement.

“Person” means and shall be deemed to include any natural person, corporation, company, partnership (general and limited), limited liability company, joint stock company (open or closed), joint venture, trust, and any other incorporated or unincorporated entity or association, and any governmental authority, agency or instrumentality.

“Primary Term” has the meaning specified in Section 2.1 of this Agreement.

“Royalty” means the annual royalty, expressed as a percentage of Net Revenue, that may be owed or determined to be owed to First Bitcoin as provided in Sections 5.1(b)(2) and 5.1(c) of this Agreement.

“Royalty Statement” has the meaning specified in Section 5.3 of this Agreement.

“Technology Improvements” means, as specified in Section 4.2 of this Agreement, any improvements, modifications or enhancements to the FBCC Technology.

“Third Person” means any Person other than the Parties and their respective Affiliates and each of their respective shareholders, members, owners, managers, directors, officers and employees.

**SCHEDULE Y
DISPUTE RESOLUTION**

1.01 Duty to Negotiate; Exception.

In the event of any Dispute, the Parties shall, during a period of thirty (30) days after a Party notifies the other Party in writing of the existence of any such Dispute (the “Negotiation Period”), attempt in good faith to resolve the Dispute amicably and without litigation or arbitration hereunder; provided, however, if a Party reasonably believes that any threat or potential threat exists of (1) damage, harm or loss, in whole or in part, of any of its property, (2) an unauthorized disclosure, publication or misappropriation of its Confidential Information, or (3) a material violation or breach of any obligation contained in this Agreement or any agreement executed hereunder or pursuant to the terms hereof may cause irreparable harm to such Party if not restrained or abated, such Party shall not be constrained or limited by the duty to negotiate during the Negotiation Period as specified herein, but shall have the immediate right, exercisable in its sole discretion and at its option, to invoke mandatory arbitration as provided in Section 1.02 below.

1.02 Mandatory Arbitration.

(a) Subject to the provisions contained in Section 1.01 hereof, if the Parties are unable to resolve a Dispute during the Negotiation Period (or to any extension thereof that may be agreed upon by the Parties in writing), then and upon expiration of such period, the Dispute shall be finally and exclusively resolved by binding arbitration administered by the American Arbitration Association’s International Centre for Dispute Resolution (“ICDR”) under the ICDR’s International Dispute Resolution Procedures (English) (“ICDR Rules”).

(b) In addition to the ICDR Rules, or in supplementation or as an exception thereto, as the case may be, the following rules and procedures shall govern any arbitration of a Dispute conducted hereunder:

(1) Unless otherwise agreed by the parties to the Dispute, the place of the arbitration shall be _____ and the arbitration shall be conducted in the English language.

(2) Unless otherwise agreed by the parties to the Dispute, the arbitration shall be conducted by a three (3) arbitrators (the "Arbitral Tribunal"). One arbitrator shall be nominated by the claimant(s) and the second arbitrator shall be nominated by the respondent(s). The two nominated arbitrators shall then jointly nominate the third arbitrator, who shall act as chairman of the Arbitral Tribunal and shall be a licensed to practice law in _____ and shall have expertise in the matters involved in the Dispute. If the claimant(s) or the respondent(s) fails to nominate an arbitrator to the Arbitral Tribunal within thirty (30) calendar days after the date on which a Notice of Arbitration has been received by the ICDR to commence the arbitration under the ICDR Rules (the "Arbitration Commencement Date"), or the two arbitrators nominated by the claimant(s) and respondent(s), respectively, fail to designate the third arbitrator to the Arbitral Tribunal within thirty (30) calendar days after the Arbitration Commencement Date, the ICDR shall appoint any arbitrator or arbitrators required to complete the Arbitral Tribunal, including the third arbitrator that is to act as the chairman of the Arbitral Tribunal.

(3) The appointing authority shall be the ICDR.

(4) No arbitrator selected or appointed to the Arbitral Tribunal shall be older than seventy (70) years of age at the time of his/her appointment.

(c) The decision or award of the arbitrator(s) shall be in writing and shall state its detailed reasoning for the award. Discovery of evidence shall be conducted expeditiously by the Parties, bearing in mind the Parties' desire to limit discovery and to expedite the decision or award of the arbitrator(s) at the most reasonable cost and expense of the Parties. Judgment upon an award rendered pursuant to such arbitration may be entered in any court having jurisdiction or application may be made to such court for a judicial confirmation of the award and/or an order of enforcement, as the case may be.

(d) Any decision or award of the Arbitral Tribunal (including any assessment of the costs and expenses of the arbitration) shall be final, conclusive and binding on the Parties, and any right of application or appeal to the U.S. courts or to the courts in any other jurisdiction in connection with any question of law or fact arising in the arbitration or in connection with any award or decision made by the Arbitral Tribunal or the arbitrator(s) shall, so far as lawfully possible, be and shall be waived and excluded (except as may be necessary to enforce such award or decision).

1.03 Emergency Measures; Remedies.

(a) Each Party acknowledges and agrees that any material default under any binding and enforceable provisions contained in this Agreement may cause irreparable harm and substantial economic injury that may be difficult to ascertain or to remedy in damages. Each Party therefore agrees that emergency relief and measures (including temporary restraining orders, temporary or permanent injunctive relief, specific performance and other similar relief), in addition to other legal and equitable relief, are and will be appropriate remedies for any actual or threatened breach or violation of this Agreement and may be obtained by a Party on an emergency basis from the Arbitral Tribunal or, if one has not been formed, from a single arbitrator or neutral designated by the ICDR, or as otherwise authorized or available under the ICDR Rules, or from any court having jurisdiction hereunder.

(b) All legal and equitable relief available hereunder, or that may be available under the ICDR Rules (including permanent injunctive relief and specific performance and similar relief) shall be available to any Party as an interim or permanent measure or remedy to interdict and arrest any material default and to require that a defaulting Party fully comply with the binding and enforceable terms contained in this Agreement.

(c) In any arbitral action or claim submitted to the ICDR for emergency or permanent relief hereunder, or for emergency relief to any court having jurisdiction hereunder, the Party initiating the claim or request for emergency relief shall not be required to demonstrate that it has no adequate remedy at law in respect of the relief sought and shall not be required to post a bond or other security.

1.04 Confidentiality.

Each Party in any arbitration conducted hereunder shall keep any Dispute and the proceedings relating thereto confidential and shall not publish or disclose to any person or entity, other than those persons or entities involved in the proceedings, the existence of the arbitration, any information submitted during or in the arbitration, any pleading or other document submitted in connection therewith, any oral submissions or testimony, transcripts, or any award, unless and to the extent that such disclosure is required by law or is necessary for the recognition or enforcement of any order or arbitration award. In addition thereto, the parties to any Dispute in any arbitration hereunder shall be subject to the confidentiality rules contained in the ICDR Rules.

1.05 Enforcement; Limitations on Remedies.

(a) Any order or award issued by the Arbitral Tribunal or other arbitrator or neutral appointed by the ICDR hereunder, including any interim measure or emergency relief granted to a Party, shall be considered an international award under the U.S. Federal Arbitration Act and the 1958 U.N. Convention on the Recognition and Enforcement of Foreign Arbitral Awards (New York Convention) and may be confirmed and enforced in accordance therewith. Any such order or award may be enforced, and any interim measures or emergency relief required by a Party may be obtained in aid of arbitration or to protect the status quo or the interests or property of the Parties prior to or during the pendency of arbitration, in or from the courts located in the United States or Canada or in any other court having jurisdiction over the subject matter hereof and of the Parties.

(b) Each of the Parties hereby submits to the ICDR in _____ as the forum for the resolution of any Dispute and to the jurisdiction of the courts sitting in the United States for the enforcement of any order or award issued by the Arbitral Tribunal or by any arbitrator or neutral appointed by the ICDR or the issuance of interim measures or emergency relief. Service of process in any arbitral or judicial action or proceeding instituted hereunder may be made upon the Parties, or any of them, by delivering a request for arbitration or other pleading or document, using the methods set forth in the "Notice" provisions contained in this Agreement, to a Party at the address for such Party as listed therein.

(c) In any arbitration (or other legal action) involving a Dispute, no Party shall be liable for or assert any claim for consequential, incidental, special or punitive damages. Each Party shall pay its own costs and expenses incurred in any arbitration hereunder or in any civil action to enforce arbitration, including attorneys' fees and the fees and expenses of its experts and witnesses.

Fourth Amendment
November 21, 2018

**FOURTH AMENDMENT TO
MINING AND MINERAL LEASE AGREEMENT**

This **FOURTH AMENDMENT TO MINING & MINERAL LEASE AGREEMENT** (“Fourth Amendment”), dated and made effective as of November 21, 2018, is made and entered into by and between **ASPHALT RIDGE, INC.**, a Utah corporation having offices at 6083 Carriage House Way, Reno, NV 89519 (“Lessor”), and **TMC CAPITAL, LLC**, a Utah limited liability company having offices at: c/o Petroteq Energy, Inc., 4370 Tujunga Ave Ste. #320, Studio City, CA 91604 (“Lessee”) (the parties are sometimes referred to herein individually as a “Party” or collectively as the “Parties”).

RECITALS

A. Lessor and Lessee are Parties to that certain “Mining and Mineral Lease Agreement” dated as of July 1, 2013, as amended by the First Amendment to Mining & Mineral Lease Agreement dated as of October 15, 2015, the Reinstatement of and Second Amendment to Mining & Mineral Lease Agreement dated March 1, 2016, and the Third Amendment to Mining & Mineral Lease Agreement dated February 21, 2018 (collectively, the “Lease”), whereby Lessor granted to Lessee an exclusive right to explore for, mine, produce, extract and sell or otherwise dispose of Tar Sands and any Minerals which are associated with or contained in any Tar Sands (as defined in the Lease), subject to a depth limitation of above 3,000 feet above Mean Sea Level (MSL), located in and under the Properties in Uintah County, Utah more particularly described in Exhibit A of the Lease and to use in connection therewith the Water Rights described in Exhibit B of the Lease attached hereto;

B. Lessor and Lessee desire to amend the Lease effective as of November 21, 2018 in order to (1) add to and include in the Lease certain Properties that were excluded from the Lease under the Third Amendment to Mining & Minerals Lease Agreement dated February 21, 2018, and (2) modify and revise certain other provisions of the Lease upon the terms and conditions set forth in this Fourth Amendment.

NOW, THEREFORE, in consideration of the covenants, promises and obligations contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

1. AMENDMENT TO LANDS UNDER LEASE. Lessor and Lessee hereby agree to amend the Lease to include the Properties described in Exhibit A attached hereto and further agree that the Properties described in Exhibit A hereto shall constitute all of the Properties made subject to and included in and as part of the Lease effective as of the date of the Third Amendment.

2. OTHER AMENDMENTS TO LEASE. The Lease shall be and is hereby further amended in accordance with and as set forth below.

(a) Amendment of Paragraph 11 of the Lease. Paragraph 11 of the Lease is hereby amended in its entirety and replaced with the following:

11) Termination.

Lack of Financial Commitment. Lessee intends to construct a minimum of two similar processing facilities to the 1,000 barrel per day facility currently under construction. This Lease shall automatically terminate without notice, if a written letter from a financially capable institution or individual providing a binding commitment, satisfactory to Lessor, in Lessor’s sole discretion, to fund the full cost of the second 1,000 barrel/day processing facility to be constructed for the benefit of the Properties (the “Financial Commitment”) is not obtained or secured by Lessee and a true and accurate copy of the Financial Commitment is received by Lessor on or before July 1, 2019 for the 2nd processing facility and a similar Financial Commitment for the 3rd processing facility by July 1, 2020. The period of time between March 1, 2018 and the earlier of (i) March 1, 2019 or (ii) the date on which a true and accurate copy of the Financial Commitment is received by Lessor shall be referred to herein as the “Extension Period.”

For the avoidance of doubt, the requirement hereinabove that Lessee obtain Financial Commitments for a second 1,000 barrel/day processing facility and a third 1,000 barrel/day processing facility may be satisfied, as may be determined by Lessee, by one or more Financial Commitments for (1) any expansion (or series of expansions) to any existing or future processing facility, or (2) the construction of one or more new or additional processing facilities, in each (or either) case that will achieve (or exceed) the increases in processing capacity required under this Lease.

b) Cessation of Operations or Inadequate Production. If the technology, techniques or process deployed by Lessee in the development of the Lease prove to be uneconomic and operations cease due to increased operating costs or decreased marketability, this Lease shall automatically terminate without notice if operations are not resumed at 80% of capacity within three (3) months of any such cessation.

If the proposed 3,000 barrel/day processing facility to be constructed for the benefit of the Properties fails to produce an average at a minimum of 80% of its rated capacity for at least 180 calendar days during the Lease Year commencing July 1, 2021, or any successive Lease Year, this Lease shall terminate within thirty (30) days after Lessor delivers to Lessee a written notice of termination. The 3,000 barrel/day rated capacity is determined solely by the quantity of ore processed from the Property to produce 3,000 barrels/day prior to being diluted by condensate or any other dilutant.

c) Surrender by Lessee. Lessee may at any time after the Effective Date surrender this Lease provided thirty (30) days advance written notice of termination is given to Lessor, after which all rights and obligations of Lessee hereunder shall cease, save and excepting all accrued obligations and any reclamation and similar obligations that were occasioned by Lessee's operations and Lessee's environmental obligations, which shall survive any termination. Lessee shall leave the Properties in a clean, good and safe condition and in accordance with all applicable laws and regulations. Upon termination of this Lease, Lessee shall comply with all DOGM and/or BLM reclamation requirements and shall have a continuing right to enter upon the Properties to complete required reclamation and to remove from the Properties all equipment, machinery, facilities and other items belonging to Lessee in accordance with DOGM's standards, in accordance with all relevant operating permits and reclamation plans, and to DOGM's satisfaction. Lessee's reclamation obligations hereunder shall be deemed complete upon final release by DOGM and/or the BLM of Lessee's surety bond or other financial guarantee.

d) Breach of Lease by Lessee. In the event of Lessee's failure to comply with any material provision of this Lease, Lessor shall provide Lessee with written notice setting forth the nature of such non-compliance after receipt of which, if the non-compliance relates to the payment of money, Lessee shall within thirty (30) days of receipt of notice cure such non-compliance. If the noncompliance relates other than to the payment of money, Lessee shall within thirty (30) days of receipt of notice pursue diligently all appropriate actions to cure the non-compliance within one hundred fifty (150) days of receipt of notice. If the non-compliance is not timely cured, Lessor may thereupon terminate this Lease by giving Lessee written notice to that effect. However, should there be a dispute as to whether or not non-compliance has occurred or remained, then the provisions of paragraph 12 below shall apply.

In the event of any breach of this Lease by Lessee and the failure to cure after notice as provided above, Lessor, in addition to the other rights or remedies it may have, shall have the immediate right of reentry and may remove all persons and property from the premises; such property may be removed and stored in a public warehouse or elsewhere at the cost of, and for the account of Lessee. Should Lessor elect to reenter, as herein provided, or should it take possession pursuant to legal proceedings or pursuant to any notice provided for by law, Lessor may terminate this Lease. Should Lessor at any time terminate this Lease for any breach, in addition to any other remedy it may have, Lessor may recover from Lessee all damages incurred by reason of such breach, including the cost of recovering the premises. If Lessee doesn't remove personal property, after six (6) months it will become Lessor's property.

(b) Amendment of Paragraph 2 of the Lease. Paragraph 2 of the Lease is hereby amended in its entirety and replaced with the following:

a) Term. This Lease is granted for a primary term of six (6) years plus the Extension Period provided in Paragraph 11 (the "Primary Term") commencing July 1, 2013 (the "Effective Date"). If at any time during the Primary Term, Lessee fails to achieve (or exceed) the requirements of Continuous Operations (as defined below), this Lease shall terminate unless mutually agreed in writing by both Parties. If within the Primary Term, Lessee meets or exceeds the applicable requirements of Continuous Operations, then this Lease shall continue after the Primary Term for so long as such requirements continue to be met or maintained. If, at any time following the Primary Term, the operations conducted by Lessee cease for longer than 180 days during any Lease Year or 600 days in any three consecutive Lease Years, Lessor shall be entitled, upon complying with the provisions contained in Paragraphs 12 (Termination) and 14 (Notices), respectively, to terminate this Lease. a) Definition of "Continuous Operations". For purposes of this Lease, the term "Continuous Operations" means:

- (i) the construction or operation of one or more facilities having the capacity to produce, from bituminous ores, sands and compounds mined or extracted from the Properties, an average daily quantity ("ADQ") of bitumen, synthetic crude oil and/or bitumen products (excluding blending agents and dilutant) that, in the aggregate, equals or exceeds the following:

By 07-01-2019, at 80% of the ADQ of 1,000 bbls/day;
By 07-01-2020, at 80% of the ADQ of 2,000 bbls/day; and
By 07-01-2021, and thereafter during the remainder of this Lease, at 80% of the ADQ of 3,000 bbls/day or greater; and
- (ii) from and after 07-01-2019, the continuation of operations for a minimum period of 180 days during each Lease Year or 600 days in any period of three consecutive Lease Years at (or in excess of) the applicable ADQ specified hereinabove.
- (iii) The requirement that Lessee construct or operate facilities having specified (or minimum) processing capacities as provided herein may be satisfied by (A) any expansion (or series of expansions) to any existing or future processing facility located on or near the Properties, or (B) the construction of any new or additional processing facility, in each (or either) case that satisfies (or exceeds) the applicable processing capacity requirement. If permitting allows for further increases in the capacity of the processing facilities constructed for the benefit of the leasehold in Exhibit A beyond an ADQ of 3,000 bbls/day, the site(s) of any additional processing facilities shall be given priority for any additional capital expenditure by TMC Capital for expanding the rate of production from the Properties.

b) Offsite Operations. Operations conducted by Lessee off the Properties shall be included in determining whether the applicable requirements of Continuous Operations have been met if they are conducted in connection with an integrated mining operation involving the Properties and other properties in which Lessee holds an interest, provided that, during any period of three (3) Lease Years, at least fifty percent (50%) percent of the ores, tar sands, or feed stock of whatever nature mined or otherwise extracted from or in the integrated mining operation comes from the Properties.

c) Smaller Operations. In the event that the operation of any facility or facility constructed or deployed by Lessee to produce bitumen, synthetic crude oil and/or bitumen products from the Properties fails to achieve (or exceed) the requirements for Continuous Operations in or for any Lease Year (or any period of three consecutive Lease Years), Lessor shall be entitled, upon complying with the provisions contained in Paragraphs 12 (Termination) and 14 (Notices), respectively, to terminate this Lease.”

(c) Amendment solely to Paragraph 4(g) of the Lease. Paragraph 4(g) of the Lease is hereby amended in its entirety and replaced with the following:

g) Minimum Expenditures. During the Lease Year commencing July 1, 2021, and each year thereafter in which Lessee fails to achieve (or exceed) an ADQ of at least 3,000 bbls/day during a 180-day period, Lessee shall make expenditures (which shall include operational costs but shall not include depreciation or corporate overhead) for the benefit of the Properties of not less than \$2,000,000 per year. Any amount of Expenditures in excess of those stated above in or during any Lease Year may be carried forward to the next Lease Year. The term “benefit” shall mean expenditures for exploration, mapping, developing or acquiring water rights, assaying, metallurgical testing, permitting, preparing feasibility studies, and construction of plant and surface facilities, including facilities constructed and/or operated on property located near the Properties. (Any acquisition of water rights shall be made in the name of the Lessor with Lessee’s right to utilize said water rights during the Term of the Lease. Lessee is responsible for maintaining and/or perfecting any newly acquired water rights and the existing Water Right in Exhibit B.) Lessee will provide Lessor with copies of all acquired data relating to such expenditures, other than data considered proprietary to Lessee or that are or include the trade secrets of Lessee, which shall become the sole property of the Lessor on termination for any reason including copies of expenditures made for those qualifying categories above.

3. EFFECT OF FOURTH AMENDMENT. Except as amended by this Fourth Amendment, the terms of the Lease shall continue in full force and effect in accordance with the terms thereof.

IN WITNESS WHEREOF, the Parties have executed this Fourth Amendment as of the date(s) written below.

TMC CAPITAL, LLC

By: /s/ Aleksandr Blyumkin
Name: Aleksandr Blyumkin
Title: Manager
Date: November 21, 2018

ASPHALT RIDGE, INC.

By: /s/ Sam Arentz
Name: Sam Arentz, III
Title: President
Date: November 21, 2018

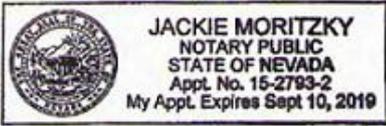
ACKNOWLEDGEMENTS

STATE OF NEVADA)
) ss
COUNTY OF WASHOE)

The foregoing instrument was acknowledged before me on November 21st, 2018, by Sam S. Arentz, III, the President of Asphalt Ridge, Inc., a Utah corporation.

/s/ Jackie Moritzky

Notary Public



CALIFORNIA ACKNOWLEDGEMENT

A notary public or other officer completing this certificate verifies only the identity of the individual who signed the document to which this certificate is attached, and not the truthfulness, accuracy, or validity of that document.

STATE OF CALIFORNIA)
)
COUNTY OF LOS ANGELES)

On November __, 2018, before me, _____, Notary Public in and for _____, State of California, personally appeared Aleksandr Blyumkin, who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signatures(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature _____(Seal)

**EXHIBIT A
THE PROPERTIES**

Certain lands and property situated and lying in Uintah County (SLM), State of Utah, being and comprising all of the lands and property described in Exhibit A to that certain Mining and Mineral Lease Agreement dated July 1, 2013, executed between Asphalt Ridge, Inc., as lessor, and TMC Capital, LLC, as lessee, all as more particularly described as follows:

Township 4 South, Range 20 East (SLM), Uintah County, Utah. This property, also owned by Asphalt Ridge, Inc. and the Telecommunication sites are not included in this Lease.

Section 25: Lots 1 & 2, W $\frac{1}{2}$ NE $\frac{1}{4}$
(Enterprise No. 6 patented mining claim)

Township 4 South, Range 21 East (SLM), Uintah County, Utah. This property, also owned by Asphalt Ridge, Inc. and the Telecommunication sites are not included in this Lease.

Section 30: Lots 1 & 2, W $\frac{1}{2}$ NE $\frac{1}{4}$ NW $\frac{1}{4}$, SE $\frac{1}{4}$ NE $\frac{1}{4}$ NW $\frac{1}{4}$, SE $\frac{1}{4}$ NW $\frac{1}{4}$
(Enterprise No. 5 patented mining claim)

Township 5 South, Range 21 East (SLM), Uintah County, Utah.

Section 4: SW $\frac{1}{4}$ NW $\frac{1}{4}$, NW $\frac{1}{4}$ SW $\frac{1}{4}$, E $\frac{1}{2}$ SW $\frac{1}{4}$

Section 15: W $\frac{1}{2}$ NW $\frac{1}{4}$, SE $\frac{1}{4}$ NW $\frac{1}{4}$, SW $\frac{1}{4}$ NE $\frac{1}{4}$

Section 25: SW $\frac{1}{4}$
(Cameron No. 7 patented mining claim)

Section 25: Lots 9 & 10, W $\frac{1}{2}$ SE $\frac{1}{4}$
(Cameron No. 5 patented mining claim)

Section 25: Lots 4 & 5, S $\frac{1}{2}$ NW $\frac{1}{4}$
(Cameron No. 8 patented mining claim)

Township 5 South, Range 22 East (SLM), Uintah County, Utah.

Section 31: Lot 3, SW $\frac{1}{4}$ SE $\frac{1}{4}$, E $\frac{1}{2}$ SW $\frac{1}{4}$

Section 31: N $\frac{1}{2}$ SE $\frac{1}{4}$, SE $\frac{1}{4}$ SE $\frac{1}{4}$
(Cameron No. 1 patented mining claim)

Section 32: SW $\frac{1}{4}$

[containing 1,229.82 acres, more or less].

Director's Actions Date (office use only): 5/14/2018MINERAL LEASE NO. 53806

GRANT: SCH

**UTAH STATE MINERAL LEASE FOR
BITUMINOUS – ASPHALTIC SANDS**

This Mining Lease and Agreement (the "Lease") is entered into effective the 1st day of June, 2018, (the "Effective Date"), by and between the State of Utah, acting by and through the School and Institutional Trust Lands Administration, 675 East 500 South, Suite 500, Salt Lake City, Utah 84102, (hereinafter "Lessor"), and

Petroteq Oil Recovery, LLC
4370 Tujunga Ave, Ste #320
Studio City, CA 91640

having a business address as shown above (hereinafter "Lessee", whether one or more).

WITNESSETH:

That the State of Utah, as Lessor, in consideration of the rentals, royalties, and other financial consideration paid or required to be paid by Lessee, and the covenants of Lessee set forth below, does hereby GRANT AND LEASE to Lessee the exclusive right and privilege to explore for, drill for, mine, remove, transport, convey, cross-haul, commingle, and sell the leased substances (defined below) covered by this lease and located within the boundaries of the following-described tract of land (the "Leased Premises") located in UINTAH County, State of Utah:

T5S, R21E, SLB&M

SEC. 23: Lots 1(9.63), 2(38.14), 3(38.37), 6(40.00), 7(11.69), 8(13.27), 9(40.00), 10(40.00),
11(14.87), SW¹/₄NE¹/₄, W¹/₂SE¹/₄ [Lots aka E¹/₂E¹/₂, NW¹/₄NE¹/₄]

SEC. 24: W¹/₂NW¹/₄, SE¹/₄NW¹/₄, SW¹/₄, W¹/₂SE¹/₄, SE¹/₄SE¹/₄

SEC. 25: Lots 1(14.47), 7(16.67), 8(17.53), 11(18.39)

containing 833.03 acres, more or less.

Together with the right and privilege to make use of the surface and subsurface of the Leased Premises for uses reasonably incident to the mining of leased substances by Lessee on the Leased Premises or on other lands under the control of Lessee or mined in connection with operations on the Leased Premises, including, but not limited to, conveying, storing, loading, hauling and otherwise transporting leased substances; excavating; removing, stockpiling, depositing and redepositing of surface materials; developing and utilizing mine portals and adjacent areas for access, staging and other purposes incident to mining; and the subsidence, mitigation, restoration and reclamation of the surface.

This Lease is subject to, and Lessee hereby agrees to and accepts, the following covenants, terms, and conditions:

1. LEASED SUBSTANCES.

- 1.1 Leased Substances. This Lease grants the right to extract the following substances ("leased substances"): "Bituminous Sands - Asphaltic Sands " as classified and defined in Utah Administrative Code R850-22-200, means rock or sand impregnated with asphalt or heavy oil and is synonymous with the term "tar sands." This lease does not cover any substances, either combustible or non-combustible, which are produced in a gaseous or rarefied state at ordinary temperature and pressure conditions other than gas which results from artificial introduction of heat. Nor does this lease embrace any right to recover any liquid hydrocarbon substance which occurs naturally in a liquid form in the earth regardless of depth, including drip gasoline or other natural condensate recovered from gas, nor does this lease authorize recovery of any gilsonite, oil shale, elaterite, ozocerite, or any other hydrocarbons, or bituminous compounds excepting rock or sand impregnated with asphalt or heavy oil which dries to a viscous or solid bitumen near the surface of the earth.

This lease includes as part of the leased substances any deposits of nahcolite (sodium bicarbonate), dawsonite (di-hydroxy sodium aluminum carbonate) or other sodium minerals found in association with the tar sands deposits. Should the Lessee plan to develop any deposit of said nahcolite, dawsonite or other sodium minerals prior to the commencement of said operations Lessor will require a showing of facts relative to the extent of any deposit which a Lessee proposes to mine to demonstrate to Lessor that the operations by the Lessee will not damage or prevent future mining of other minerals from the State lands.. Any deposit of nahcolite or dawsonite found in association with tar sands deposits on the leased lands will be mined or removed contemporaneously with the tar sands or subsequent to the mining or removal of the tar sands.

In the event that minerals or materials other than the leased substances are discovered during lease operations, Lessee shall promptly notify the Lessor and shall not further disturb or remove the other minerals or materials without Lessor's written permission. Upon notifying Lessor of such discovery the Lessee shall have preference in making application to the Lessor for a lease or permit covering the unleased minerals or materials that are discovered.

- 1.2 No Warranty of Title. Lessor claims title to the mineral estate covered by this Lease. Lessor does not warrant title nor represent that no one will dispute the title asserted by Lessor. It is expressly agreed that Lessor shall not be liable to Lessee for any alleged deficiency in title to the mineral estate, nor shall Lessee become entitled to any refund for any rentals, bonuses, or royalties paid under this Lease in the event of title failure.

2. RESERVATIONS TO LESSOR. Subject to the exclusive rights and privileges granted to Lessee under this Lease, and further provided that Lessor shall refrain from taking actions with respect to the Leased Premises that may unreasonably interfere with Lessee's operations, Lessor hereby excepts and reserves from the operation of this Lease the following rights and privileges (to the extent that Lessor has the right to grant such rights and privileges):

- 2.1 Rights-of-Way and Easements. Lessor reserves the right, following consultation with the Lessee, to establish rights-of-way and easements upon, through or over the Leased Premises, under terms and conditions that will not unreasonably interfere with operations under this Lease, for roads, pipelines, electric transmission lines, transportation and utility corridors, mineral access, and any other purpose deemed reasonably necessary by Lessor.
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- 2.2 Other Mineral Leases. Lessor reserves the right to enter into mineral leases and agreements with third parties covering minerals other than the leased substances, under terms and conditions that will not unreasonably interfere with operations under this Lease in accordance with Lessor's regulations, if any, governing multiple mineral development.
- 2.3 Use and Disposal of Surface. To the extent that Lessor owns the surface estate of the Leased Premises and subject to the rights granted to the Lessee pursuant to this Lease, Lessor reserves the right to use, lease, sell, or otherwise dispose of the surface estate or any part thereof, provided that any such actions will not unreasonably interfere with operations under this Lease. Lessor shall notify Lessee of any such sale, lease, or other disposition of the surface estate.
- 2.4 Rights Not Expressly Granted. Lessor further reserves all rights and privileges of every kind and nature, except as specifically granted in this Lease, provided that any actions under such reservations will not unreasonably interfere with operations under this Lease.

3. TERM OF LEASE; MINIMUM ROYALTIES; READJUSTMENT.

- 3.1 Primary Term. This Lease is granted for a "primary term" of ten (10) years from the Effective Date.
- 3.2 Extension beyond Primary Term by Production. Subject to Lessee's compliance with the other provisions of this Lease, this Lease shall remain in effect beyond the primary term so long as leased substances are being produced in paying quantities, as delivered herein, from the Leased Premises, or from lands constituting a mining unit approved by Lessor in its reasonable discretion. For purposes of this lease, production of leased substances in paying quantities shall mean mining and sale of the leased substances during the lease-year in an amount sufficient to cover all operating expenses accruing to the lessee pursuant to the leasehold for that lease year, including the payment of all taxes and the payment of rentals and royalties accruing to the Lessor.
- 3.3 Extension beyond Primary Term by Diligent Development, Financial Investment and Minimum Royalty. In the absence of actual production in paying quantities as set forth in paragraph 3.2, Extension Beyond Primary Term, this Lease shall remain in effect beyond the primary term only if the Lessee is engaged in diligent operations, exploration or development activity which in Lessor's sole discretion is calculated to advance development or production of leased substances from the Leased Premises or lands constituting an approved mining unit which includes the Leased Premises, has made a substantial financial investment for the direct purpose of advancing development or production of leased substances from the Leased Premises or lands constituting an approved mining unit which includes the Leased Premises, and Lessee pays the annual minimum royalty set forth in Paragraph 3.4, Minimum Royalty, in advance before the anniversary date of the date first written hereinabove.
- 3.4 Minimum Royalty. Commencing with the with the effective date of the lease to and including the tenth (10th) year of this lease the Lessee shall pay Lessor, before the Effective Date and each anniversary thereof, an advanced annual minimum royalty in the amount of Ten Dollars (\$10.00) per acre and for any fractional part of an acre. Beginning with the eleventh (11th) year of this lease, if the lease remains in effect, minimum royalties shall be set by Lessor pursuant to the readjustment provisions contained in paragraph 3.6 Lessee may credit each lease-year's minimum royalty payment against actual production royalties accruing during that lease year, but such credit shall not carry over beyond the lease year in which the advance royalty was paid. Minimum royalties may not be credited against the annual rentals or bonus bids.
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- 3.5 Expiration; Cessation of Production. This Lease may not be extended pursuant to paragraph 3.3, Diligent Operations, beyond the end of the twentieth year after the Effective Date except by the actual production of leased substances in commercial quantities from the Leased Premises or from lands constituting an approved mining unit which includes the Leased Premises, or except by suspension of the Lease pursuant to Article 17.3, unless otherwise specifically approved in writing by the Director of the Trust Lands Administration in the interest of the trust beneficiaries. After expiration of the primary term, this Lease will expire of its own terms, without the necessity of any notice or action by Lessor, if: (a) Lessee fails to produce leased substances in accordance with Article 3.2; (b) Lessee ceases to engage in exploration, development, or operations or fails to pay annual advance minimum royalties in accordance with Article 3.4; or, (c) the Director fails to make a written determination that it is in the interest of the trust beneficiaries to extend this lease.
- 3.6 Readjustment. At the end of the primary term and at the end of each period of five (5) years thereafter (“Readjustment Period”), Lessor may exercise its option to readjust the terms and conditions of this Lease (including without limitation rental rates, minimum royalties, royalty rates and valuation methods, and provisions concerning reclamation). Notice of intent to exercise the right to readjust is timely given by Lessor if mailed prior to the end of the Readjustment Period to the last address set forth for Lessee in Lessor’s files. Lessor shall have up to one year after exercising its option to readjust to review and communicate in writing the final readjusted terms of the lease. If within thirty (30) days after submission of the readjusted lease terms to the Lessee, the Lessee determines that any or all of the proposed readjusted terms and conditions are unreasonable, then Lessee shall so notify Lessor in writing and the parties, acting reasonably, shall attempt to resolve the objectionable term or condition. If the parties are unable, acting reasonably, to resolve the matter and agree upon the readjusted terms and conditions as submitted by Lessor at the end of the Readjustment Period, Lessee shall forfeit any right to the continued extension of this lease, and the lease shall automatically terminate, provided that nothing herein shall be deemed to preclude Lessee from appealing any readjustment by Lessor pursuant to applicable law.
4. BONUS BID. Lessee agrees to pay Lessor an initial bonus bid in the sum of \$12,510.00 dollars as partial consideration for Lessor’s issuance of this Lease, payable in cash prior to execution of this lease. The initial bonus bid may not be credited against annual rentals, annual minimum royalties or production royalties accruing pursuant to this lease.
5. RENTALS/MINIMUM RENTALS. Lessee agrees to pay Lessor an annual rental equal to the greater of: (a) \$1.00 for each acre and fractional part thereof within the Leased Premises; or (b) \$500.00, irrespective of acreage. Lessee shall promptly pay annual rentals each year in advance before the anniversary date of the Effective Date. The rental payment for a mineral lease year may be credited against production royalties only as they accrue for that lease year. The Lessee may not credit rentals paid for one lease year against production royalties accruing to another lease year. Rental payments may not be credited against minimum royalties or bonus bids accruing to any lease year.
6. ROYALTIES.
- 6.1 Production Royalties. Lessee shall pay lessor a production royalty on the basis of 8% of the market price, including all bonuses and allowances received by Lessee, at the point of shipment from the leased premises of the first marketable product or products produced from the leased substances and sold under a bonafide arms length contract of sale, whether or not such product or products are produced through chemical or mechanical treating or processing of the leased substances raw material. The Lessee may deduct the reasonable actual cost of transportation to the first point of sale. In no event shall the production royalty be less than three dollars (\$3.00) per barrel of produced substance. The royalty may, at the discretion of Lessor, be increased after the first ten (10) years of production at a rate of not in excess of one percent (1%) per annum until a maximum of twelve and one-half percent (12¹/₂%) royalty is reached; provided, that notwithstanding the foregoing provision, the royalty which Lessee shall pay at any time under this lease, after notice and hearing, may be fixed by Lessor up to the highest royalty rate then being paid by any tar sands Lessee under any Federal or State tar sands or combined hydrocarbon lease within the State of Utah, but not in excess of a royalty rate of twelve and one-half percent (12¹/₂%) during the primary term.
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- 6.2 Non-Arm's Length Transactions. In the event that Lessee uses, sells or otherwise disposes of leased substances without a non-arm's length contract or bill of sale, Lessee shall promptly notify Lessor of such use, sale or disposal. The Director may then determine and assign the Gross Value to the leased substances for royalty purposes after taking into account spot market prices, the value of similar or like leased substances reported by other trust lands lessees, the value of like mineral commodities as reported by the United States Geological Survey, and other pertinent economic data regarding the fair market value of the leased substances, f.o.b. the mine.
- 6.3 No Deductions. It is expressly understood and agreed that none of Lessee's mining costs, including but not limited to costs for materials, labor, overhead, distribution, loading, crushing, or general and administrative activities, may be deducted in computing Lessor's royalty. All such costs shall be entirely borne by Lessee and are anticipated by the rate of royalty set forth in this Lease.
- 6.4 Royalty Payment. For all leased substances that are sold or transported from the leased lands during a particular month, Lessee shall pay royalties to Lessor before the end of the next succeeding month. Royalty payments shall be accompanied by a verified statement, in a form approved by Lessor, stating the amount of leased substances sold or transported, the gross proceeds accruing to Lessee, and any other information reasonably required by Lessor to verify production and disposition of the leased substances or leased substances products. Delinquent royalties may be subject to late fees and penalties in accordance with Lessor's Rules.
- 6.5 Suspension, Waiver or Reduction of Rents or Royalties. Lessor, to the extent not prohibited by applicable law, is authorized to waive, suspend, or reduce the rental or minimum royalty, or reduce the royalty applicable with respect to the entire Lease, whenever in Lessor's sole judgment it is necessary to do so in order to promote development, or whenever in the Lessor's sole judgment the Lease cannot be successfully operated under the terms provided herein and continued operations are in the trust land beneficiaries best interest.

7. RECORDKEEPING; INSPECTION; AUDITS.

- 7.1 Registered Agent; Records. Lessee shall maintain a registered agent within the State of Utah to whom any and all notices may be sent by Lessor and upon whom process may be served. Lessee shall also maintain an office within the State of Utah containing originals or copies of all maps, engineering data, permitting materials, books, records or contracts (whether such documents are in paper or electronic form) generated by Lessee that pertain in any way to leased substances production, output and valuation; mine operations; assays; processing returns; leased substances sales and dispositions; and calculation of royalties from the Leased Premises. Lessee shall maintain such documents for at least seven years after the date of the leased substances production to which the documents pertain.
- 7.2 Inspection. Lessor's employees and authorized agents at Lessor's sole risk and expense shall have the right to enter the Leased Premises to check scales as to their accuracy, and to go on any part of the Leased Premises to examine, inspect, survey and take measurements for the purposes of verifying production amounts and proper lease operations. Upon reasonable notice to Lessee, Lessor's employees and authorized agents shall further have the right to audit, examine and copy (at Lessor's expense) all documents described in paragraph 7.1, Registered Agent; Records, whether such documents are located at the mine site or elsewhere. Lessee shall furnish all conveniences necessary for said inspection, survey, or examination; provided, however, that such inspections shall be conducted in a manner that is in conformance with all applicable mine safety regulations and does not unreasonably interfere with Lessee's operations.
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- 7.3 Geologic Information. In the event Lessee conducts core-drilling operations or other geologic evaluation of the Leased Premises, Lessor may inspect core samples, evaluations thereof, and proprietary geologic information concerning the Leased Premises. Upon request by Lessor, Lessee shall timely provide Lessor with a true and correct copy of all such evaluations, geological reports, drilling logs, assays and interpretive maps of the leased substances within the leased lands.
- 7.4 Confidentiality. Any and all documents and geologic data obtained by Lessor through the exercise of its rights as set forth in paragraphs 7.2, Inspection., and 7.3, Geologic Information., may be declared confidential information by Lessee, in which event Lessor and its authorized agents shall maintain such documents and geologic data as protected records under the Utah Governmental Records Access Management Act or other applicable privacy statute, and shall not disclose the same to any third party without the written consent of Lessee, or as required under the order of a court of competent jurisdiction requiring such disclosure, provided that Lessor's obligations of confidentiality to Lessee shall cease upon termination of this Lease.

8. USE OF SURFACE ESTATE.

- 8.1 Lessor-Owned Surface. If Lessor owns the surface estate of all or some portion of the Leased Premises, at the time of the execution of this Lease, Lessee may use such lands to the extent reasonably necessary and expedient for the economic operation of the leasehold, subject to paragraph 13.2, PLAN OF OPERATIONS. Lessee may not use the surface estate of the Leased Premises prior to complying with the requirements of paragraph 13.2. Lessee's right to surface use of Lessor-owned surface estate shall include the right to subside the surface. Such surface uses shall be exercised subject to the rights reserved to Lessor as provided in paragraph 2, RESERVATIONS TO LESSOR, and without unreasonable interference with the rights of any prior or subsequent lessee of Lessor.
- 8.2 Split-Estate Lands. If Lessor does not own the surface estate of any portion of the Leased Premises, Lessee's access to and use of the surface of such lands shall be determined by applicable law governing mineral development on split-estate lands, including without limitation applicable statutes governing access by mineral owners to split estate lands, and reclamation and bonding requirements. Lessee shall indemnify, defend and hold Lessor harmless for all claims, causes of action, damages, costs and expenses (including attorney's fees and costs) arising out of or related to damage caused by Lessee's operations to surface lands or improvements owned by third parties.

9. APPLICABLE LAWS AND REGULATIONS; HAZARDOUS SUBSTANCES

- 9.1 Trust Lands Statute and Regulations. This Lease is issued pursuant to, and is subject to, the provisions of Title 53C, Utah Code Annotated, 1953, as amended. Further, Lessee and this lease are subject to and shall comply with all current and future rules and regulations adopted by the School and Institutional Trust Lands Administration and its successor agencies.
- 9.2 Other Applicable Laws and Regulations. Lessee shall comply with all applicable federal, state and local statutes, regulations, and ordinances, including without limitation the Utah Mined Land Reclamation Act, applicable statutes and regulations relating to mine safety and health, and applicable statutes, regulations and ordinances relating to public health, pollution control, management of hazardous substances, cultural resources, and environmental protection.
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- 9.3 Hazardous Substances. Lessee [or other occupant pursuant to any agreement authorizing mining] shall not keep on or about the premises any hazardous substances, as defined under 42 U.S.C. § 9601(14) or any other Federal environmental law, any regulated substance contained in or released from any underground storage tank, as defined by the Resource Conservation and Recovery Act, 42 U.S.C. § 6991, *et seq.*, or any substances defined and regulated as “hazardous” by applicable State law, (hereinafter, for the purposes of this Lease, collectively referred to as “Hazardous Substances”) unless such substances are reasonably necessary in Lessee’s mining operations, and the use of such substances or tanks is noted and approved in the Lessee’s mining plan, and unless Lessee fully complies with all Federal, State and local laws, regulations, statutes, and ordinances, now in existence or as subsequently enacted or amended, governing Hazardous Substances. Lessee shall immediately notify Lessor, the surface management agency, and any other Federal, State and local agency with jurisdiction over the Leased Premises, of contamination thereon, of (i) all reportable spills or releases of any Hazardous Substance affecting the Leased Premises, (ii) all failures to comply with any applicable Federal, state or local law, regulation or ordinance governing Hazardous Substances, as now enacted or as subsequently enacted or amended, (iii) all inspections of the Leased Premises by, or any correspondence, order, citations, or notifications from any regulatory entity concerning Hazardous Substances affecting the Leased Premises, (iv) all regulatory orders or fines or all response or interim cleanup actions taken by or proposed to be taken by any government entity or private Party concerning the Leased Premises.
- 9.4 Hazardous Substances Indemnity. Lessee [or other occupant pursuant to any agreement authorizing mining] shall indemnify, defend, and hold harmless Lessor, employees, officers, and agents with respect to any and all damages, costs, liabilities, fees (including reasonable attorneys’ fees and costs), penalties (civil and criminal), and cleanup costs arising out of or in any way related to Lessee’s use, disposal, transportation, generation, sale or location upon or affecting the Leased Premises of Hazardous Substances, as defined in paragraph 9.3 of this Lease. This indemnity shall extend to the actions of Lessee’s employees, agents assigns, sublessees, contractors, subcontractors, licensees and invitees. Lessee shall further indemnify, defend and hold harmless Lessor from any and all damages, costs, liabilities, fees (including reasonable attorneys’ fees and costs), penalties (civil and criminal), and cleanup costs arising out of or in any way related to any breach of the provisions of this Lease concerning Hazardous Substances. This indemnity is in addition to, and in no way limits, the general indemnity contained in paragraph 17.1 of this Lease.
- 9.5 Waste Certification. The Lessee shall provide upon abandonment, transfer of operation, assignment of rights, sealing-off of a mined area, and prior to lease relinquishment, certification to the Lessor that, based upon a complete search of all the operator’s records for the Lease, and upon its knowledge of past operations, there have been no reportable quantities of hazardous substances as defined in 40 Code of Federal Regulations §302.4, or used oil as defined in Utah Administrative Code R315-15, discharged (as defined at 33 U.S.C. §1321(a)(2)), deposited or released within the Leased Premises, either on the surface or underground, and that all remedial actions necessary have been taken to protect human health and the environment with respect to such substances. Lessee shall additionally provide to Lessor a complete list of all hazardous substances, hazardous materials, and their respective Chemical Abstracts Service Registry Numbers, used or stored on, or delivered to, the Leased Premises. Such disclosure will be in addition to any other disclosure required by law or agreement.
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10. BONDING.

- 10.1 Lease Bond May Be Required. At the time this Lease is executed, Lessor may require Lessee to execute and file with the Lessor a good and sufficient bond or other financial guarantee acceptable to Lessor in order to: (a) guarantee Lessee's performance of all covenants and obligations under this Lease, including Lessee's obligation to pay royalties; and (b) ensure compensation for damage, if any, to the surface estate and any surface improvements.
- 10.2 Reclamation Bonding. The bond required by and filed with the Utah Division of Oil, Gas and Mining ("UDOGM") in connection with the issuance of a mine permit which includes the Leased Premises shall be deemed to satisfy Lessor's bonding requirements with respect to Lessee's reclamation obligations under this Lease; provided, however, upon notice to Lessee and a public hearing with respect to the basis for its decision, the Lessor may, in its reasonable discretion, determine that the bond filed with UDOGM is insufficient to protect Lessor's interests. In such an event the Lessor shall enter written findings as to the basis for its calculation of the perceived insufficiency and enter an order establishing the amount of additional bonding required. Lessee shall file any required additional bond with Lessor within thirty (30) days after demand by Lessor. Lessor may increase or decrease the amount of any additional bond from time to time in accordance with the same procedure.
- 10.3 Release of Additional Bond. Any additional bond required by Lessor pursuant to 10.2, Reclamation Bonding, may be released by Lessor at any time and shall be released no later than the time of final bond release by UDOGM with respect to the Leased Premises.

5. WATER RIGHTS.

- 11.1 Water Rights in Name of Lessor. If Lessee files to appropriate water for use in association with this lease or operations upon the Leased Premises, the filing for such water right shall be made by Lessee in the name of Lessor at no cost to Lessor, and such water right shall become an appurtenance to the Leased Premises, subject to Lessee's right to use such water right at no cost during the term of this Lease.
- 11.2 Option to Purchase. If Lessee purchases or acquires an existing water right for use in association with this lease or operations upon the Leased Premises, Lessor shall have the option to acquire that portion of such water right as was used on the Leased Premises upon expiration or termination of this Lease. The option price for such water right shall be the fair market value of the water right as of the date of expiration or termination of this Lease. Upon expiration or termination of this Lease, Lessee shall notify Lessor in writing of all water rights purchased or acquired by Lessee for leased substances mining operations on the Leased Premises and its estimate of the fair market value of such water right. Lessor shall then have forty-five (45) days to exercise its option to acquire the water by payment to Lessee of the estimated fair market value. If Lessor disagrees with Lessee's estimate of fair market value, Lessor shall notify Lessee of its disagreement within the 45 day option exercise period. The fair market value of the water right shall then be appraised by a single appraiser mutually acceptable to both parties, which appraisal shall be final and not subject to review or appeal. If the parties cannot agree upon the choice of an appraiser, the fair market value of the water right shall be determined by a court of competent jurisdiction. Conveyance of any water right pursuant to this paragraph shall be by quit claim deed.
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12. ASSIGNMENT OR SUBLEASE: OVERRIDING ROYALTIES.

- 12.1 Consent Required. Lessee shall not assign or sublease this Lease in whole or in part, or otherwise assign or convey any rights or privileges granted by this Lease, including, without limitation, creation of overriding royalties or production payments, without the prior written consent of Lessor, which shall not be unreasonably withheld. Lessee agrees that Lessor, in determining whether to consent to any proposed assignment, may reasonably consider the proposed assignee's financial capacity, ability to market and process leased substances, and may refuse to consent to such assignment if, in the Lessor's reasonable opinion, the proposed assignee lacks the necessary financial or technical capacity to mine, market and/or process leased substances in a manner comparable to Lessee. Any assignment, sublease or other conveyance made without prior written consent of Lessor shall have no legal effect unless and until approved in writing by Lessor. Exercise of any right with respect to the Leased Premises in violation of this provision shall constitute a default under this Lease.
- 12.2 Binding Effect. All of the terms and provisions of this Lease shall be binding upon and shall inure to the in accordance with standard industry operating practices, and shall avoid waste of economically recoverable benefit of their respective successors, assigns, and sublessees.
- 12.3 Limitation on Overriding Royalties. No overriding royalty, production payment or other similar interest may be granted without the express written consent of Lessor, which may be granted or withheld in Lessor's sole discretion.

13. OPERATIONS.

- 13.1 Permitting. Before Lessee commences exploration, drilling, or mining operations on the Leased Premises, it shall have obtained such permits and posted such bonds as may be required under applicable provisions of the Utah Mined Land Reclamation Act and associated regulations. Lessee shall maintain any required permits in place for the duration of mining operations and reclamation. Upon request, Lessee shall provide Lessor with a copy of all regulatory filings relating to permitting matters.
- 13.2 Plan of Operations. Lessee does not have the right to conduct surface disturbing operations or any operations that have the potential to affect historic properties without first obtaining Lessor's approval pursuant to *Utah Administrative Code* R850-24-700. Prior to the commencement of any such activities on the Leased Premises, Lessee shall obtain Lessor's approval of a plan of operations for the Leased Premises. Lessor may modify the proposed plan of operations as is needed to insure that there is no waste of economically recoverable mineral reserves contained on the Leased Premises. In this context "waste" shall mean the inefficient utilization of, or the excessive or improper loss of an otherwise economically recoverable mineral resource. Lessor shall notify Lessee in writing of its approval or modifications of the plan of operations. The plan of operations submitted by Lessee shall be deemed approved by Lessor if Lessor has not otherwise notified Lessee within sixty (60) days of filing.
- 13.3 Plan of Operations - Modification. In the event that material changes are required to the plan of operations during the course of mining, Lessee shall submit a modification of the plan of operations to the Lessor. Routine adjustments to the plan of operations based upon geologic circumstances encountered during day-to-day mining operations that do not result in increased surface disturbance do not require the submission of a modification. If the proposed changes require emergency action by Lessee, then the Lessee shall so notify the Lessor at the time of submission of the modification and the parties shall use their best efforts to meet the Lessee's time schedule regarding implementation of the changes. Non-emergency modifications will be reviewed promptly by Lessor to insure that there is no waste of economically recoverable mineral reserves pursuant to the plan of operations, as modified, and Lessor shall notify lessee in writing of its approval or modification of the proposed modification. Modifications shall be deemed approved by Lessor if Lessor has not otherwise notified Lessee within thirty (30) days of filing.
- 13.4 Mine Maps. Lessee shall maintain at the mine office clear, accurate, and detailed maps of all actual and planned operations. Such maps shall be certified by an engineer or geologist who is professionally licensed by the State of Utah or by a state having a reciprocal licensing agreement with the State of Utah. Lessee shall provide copies of such maps to Lessor upon request.
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- 13.5 Good Mining Practices. Lessee shall conduct exploration and mining operations on the Leased Premises in accordance with standard industry operating practices, and shall avoid waste of economically recoverable leased substances. Lessee shall comply with all regulations and directives of the Mine Safety and Health Administration or successor agencies for the health and safety of employees and workers.
- 13.6 Mining Units. Lessor may approve the inclusion of the Leased Premises in a mining unit with federal, private or other non-state lands upon terms and conditions that it deems necessary to protect the interests of the Lessor, including without limitation segregation of production, accounting for commingled leased substances production, and minimum production requirements or minimum royalties for the Leased Premises.
- 13.7 Cultural Resources. Prior to commencing any surface disturbing operations or any operations that have the potential to affect historic properties, Lessee shall complete a cultural resource inventory prepared in accordance with applicable laws and regulations, or otherwise provide evidence of compliance with *Utah Administrative Code* R850-60-800. Lessee shall provide such cultural resource compliance materials to Lessor prior to the approval of the mining permit. Lessor will review all cultural resource compliance materials provided by Lessee, and may approve, condition, or deny its consent to the mining permit based upon impacts to cultural resources. Lessor may require Lessee to complete appropriate cultural resources mitigation measures as a condition of permit approval.
14. EQUIPMENT; RESTORATION.
- 14.1 Equipment. Upon termination of this Lease, Lessee shall remove, and shall have the right to remove, all improvements, equipment, stockpiles, and dumps from the Leased Premises within six (6) months; provided, however, that Lessor may, at Lessor's sole risk and expense, and subject to Lessee's compliance with requirements imposed by UDOGM and MSHA, require Lessee to retain in place underground timbering supports, shaft linings, rails, and other installations reasonably necessary for future mining of the Leased Premises. All improvements and equipment remaining on the Leased Premises after six (6) months may be deemed forfeited to Lessor upon written notice of such forfeiture to Lessee. Lessee may abandon underground improvements, equipment of any type, stockpiles and dumps in place if such abandonment is in compliance with applicable law, and further provided that Lessee provides Lessor with financial or other assurances sufficient in Lessor's reasonable discretion to protect Lessor from future environmental liability with respect to such abandonment or any associated hazardous waste spills or releases. Lessee shall identify and locate on the mine map the location of all equipment abandoned on the Lease Premises.
- 14.2 Restoration and Reclamation. Upon termination of this Lease, Lessee shall reclaim the Leased Premises in accordance with the requirements of applicable law, including mine permits and reclamation plans on file with UDOGM. Lessee shall further abate any hazardous condition on or associated with the Leased Premises. Lessee and representatives of all governmental agencies having jurisdiction shall have the right to re-enter the Leased Premises for reclamation purposes for a reasonable period after termination of the Lease.
15. MULTIPLE MINERAL DEVELOPMENT. The Utah School and Institutional Trust Lands Administration may designate any lands under its authority as a Multiple Mineral Development Area (MMD). In designated MMDs the Lessor may require in addition to the terms and conditions of this lease such stipulations or restrictions as may be necessary in the discretion of the Director to integrate and coordinate the operations of lessees having an interest in the lands in order to conserve natural resources and optimize revenues to the trust-land beneficiaries.
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16. DEFAULT

- 16.1 Notice of Default; Termination. Upon Lessee's violation of or failure to comply with any of the terms, conditions or covenants set forth in this Lease, Lessor shall notify Lessee of such default by registered or certified mail, return receipt requested, at the last address for Lessee set forth in Lessor's files. Lessee shall then have thirty (30) days, or such longer period as may be granted in writing by Lessor, to either cure the default or request a hearing pursuant to the Lessor's administrative adjudication rules. In the event Lessee fails to cure the default or request a hearing within the specified time period, Lessor may cancel this Lease without further notice to or appeal by Lessee.
- 16.2 Effect of Termination. The termination of this Lease for any reason, whether through expiration, cancellation or relinquishment, shall not limit the rights of the Lessor to recover any royalties and/or damages for which Lessee may be liable, to recover on any bond on file, or to seek injunctive relief to enjoin continuing violations of the Lease terms. No remedy or election under this Lease shall be deemed exclusive, but shall, wherever possible, be cumulative with all other remedies available under this Lease, at law, or in equity. Lessee shall surrender the Leased Premises upon termination; however, the obligations of Lessee with respect to reclamation, indemnification and other continuing covenants imposed by this Lease shall survive the termination. All fees, rentals and monies of any type previously paid by the Lessee to the Lessor are forfeited to the trust.

17. MISCELLANEOUS PROVISIONS.

- 17.1 Indemnity. Except as limited by paragraph 7.2, Inspection, Lessee shall indemnify and hold Lessor harmless for, from and against each and every claim, demand, liability, loss, cost, damage and expense, including, without limitation, attorneys' fees and court costs, arising in any way out of Lessee's occupation and use of the Leased Premises, including without limitation claims for death, personal injury, property damage, and unpaid wages and benefits. Lessee further agrees to indemnify and hold Lessor harmless for, from and against all claims, demands, liabilities, damages and penalties arising out of any failure of Lessee to comply with any of Lessee's obligations under this Lease, including without limitation reasonable attorneys' fees and court costs. Lessee may be required to obtain insurance in a type and in an amount acceptable to Lessor, naming the Trust Lands Administration, its employees, its Board of Trustees and the State of Utah as co-insured parties under the policy.
- 17.2 Interest. Interest shall accrue and be payable on all obligations arising under this Lease at such rate as may be set from time to time by rule enacted by Lessor. Interest shall accrue and be payable, without necessity of demand, from the date each such obligation shall arise.
- 17.3 Suspension. In the event that Lessor in its reasonable discretion determines that suspension is necessary in the interests of conservation of the leased substances; that prevailing market conditions for the leased substances render continued operation of the subject property uneconomic, or if Lessee has been prevented from performing any of its obligations or responsibilities under this Lease or from conducting mining operations by labor strikes, fires, floods, explosions, riots, acts of terrorism, any unusual mining casualties or conditions, Acts of God, government restrictions or orders, severe weather conditions, or other extraordinary events beyond its control, then the time for performance of this Lease by Lessee shall be suspended during the continuance of such conditions or acts which prevent performance, excepting any payments due and owing to Lessor.
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- 17.4 Consent to Suit; Jurisdiction. This Lease shall be governed by the laws of the State of Utah. Lessor and Lessee agree that all disputes arising out of this Lease shall be litigated only in the Third Judicial District Court for Salt Lake County, Utah, and Lessee consents to the jurisdiction of such court. Lessee shall not bring any action against Lessor without exhaustion of available administrative remedies and compliance with applicable requirements of the Utah Governmental Immunity Act.
- 17.5 No Waiver. No waiver of the breach of any provision of this Lease shall be construed as a waiver of any preceding or succeeding breach of the same or any other provision of this Lease, nor shall the acceptance of rentals or royalties by Lessor during any period of time in which Lessee is in default be deemed to be a waiver of such default.
- 17.6 Severability. The invalidity of any provision of this Lease, as determined by a court of competent jurisdiction, shall in no way affect the validity of any other provision hereof.
- 17.7 Entire Lease. This Lease together with any attached stipulations, sets forth the entire agreement between Lessor and Lessee with respect to the subject matter of this lease. No subsequent alteration or amendment to this Lease shall be binding upon Lessor and Lessee unless in writing and signed by each of them.
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IN WITNESS WHEREOF, the parties have executed this Lease as of the Effective Date.

THE STATE OF UTAH, acting by and through the
SCHOOL AND INSTITUTIONAL TRUST LANDS
ADMINISTRATION ("LESSOR")

APPROVED AS TO FORM

SEAN D. REYES
ATTORNEY GENERAL

DAVID URE, DIRECTOR

By: /s/ Sean D. Reyes
Special Assistant Attorney General

By: /s/ Thomas B. Faddies
THOMAS B. FADDIES
ASSISTANT DIRECTOR/MINERALS

Form Approved: October 21, 2016

LESSEE: Petroteq Oil Recovery, LLC

By: /s/ Aleksandr Blyumkin

Title: Manager

STATE OF UTAH)
 :
COUNTY OF SALT LAKE)

The foregoing instrument was acknowledged before me this ____ day of _____ 20____, by Thomas B. Faddies, in his capacity as Assistant Director/Minerals of the School and Institutional Trust Lands Administration.

Notary Public

STATE OF _____)
 :
COUNTY OF _____)

The foregoing instrument was acknowledged before me this ____ day of _____ 20____, by _____, in his capacity as _____ of _____ the Lessee.

Notary Public

STATE OF _____)
 :
COUNTY OF _____)

The foregoing instrument was acknowledged before me this ____ day of _____ 20____, by _____, Lessee.

Notary Public

Director's Actions Date (office use only): 5/14/2018

MINERAL LEASE NO. 53807

GRANT: SCH

**UTAH STATE MINERAL LEASE FOR
BITUMINOUS – ASPHALTIC SANDS**

This Mining Lease and Agreement (the "Lease") is entered into effective the 1st day of June, 2018, (the "Effective Date"), by and between the State of Utah, acting by and through the School and Institutional Trust Lands Administration, 675 East 500 South, Suite 500, Salt Lake City, Utah 84102, (hereinafter "Lessor"), and

Petroteq Oil Recovery, LLC
4370 Tujunga Ave, Ste #320
Studio City, CA 91640

having a business address as shown above (hereinafter "Lessee", whether one or more).

WITNESSETH:

That the State of Utah, as Lessor, in consideration of the rentals, royalties, and other financial consideration paid or required to be paid by Lessee, and the covenants of Lessee set forth below, does hereby GRANT AND LEASE to Lessee the exclusive right and privilege to explore for, drill for, mine, remove, transport, convey, cross-haul, commingle, and sell the leased substances (defined below) covered by this lease and located within the boundaries of the following-described tract of land (the "Leased Premises") located in UINTAH County, State of Utah:

T5S, R22E, SLB&M

SEC. 30: Lots 2(39.70), 3(39.74), 4(39.78), SE¹/₄SW¹/₄ [Lots aka SW¹/₄NW¹/₄, W¹/₂SW¹/₄]

SEC. 31: Lots 1(39.82), 2(39.87), NE¹/₄, E¹/₂NW¹/₄ [Lots aka W¹/₂NW¹/₄]

containing 478.91 acres, more or less.

Together with the right and privilege to make use of the surface and subsurface of the Leased Premises for uses reasonably incident to the mining of leased substances by Lessee on the Leased Premises or on other lands under the control of Lessee or mined in connection with operations on the Leased Premises, including, but not limited to, conveying, storing, loading, hauling and otherwise transporting leased substances; excavating; removing, stockpiling, depositing and redepositing of surface materials; developing and utilizing mine portals and adjacent areas for access, staging and other purposes incident to mining; and the subsidence, mitigation, restoration and reclamation of the surface.

This Lease is subject to, and Lessee hereby agrees to and accepts, the following covenants, terms, and conditions:

1. LEASED SUBSTANCES.

1.1 Leased Substances. This Lease grants the right to extract the following substances (“leased substances”):

“Bituminous Sands - Asphaltic Sands” as classified and defined in Utah Administrative Code R850-22-200, means rock or sand impregnated with asphalt or heavy oil and is synonymous with the term “tar sands.” This lease does not cover any substances, either combustible or non-combustible, which are produced in a gaseous or rarefied state at ordinary temperature and pressure conditions other than gas which results from artificial introduction of heat. Nor does this lease embrace any right to recover any liquid hydrocarbon substance which occurs naturally in a liquid form in the earth regardless of depth, including drip gasoline or other natural condensate recovered from gas, nor does this lease authorize recovery of any gilsonite, oil shale, elaterite, ozocerite, or any other hydrocarbons, or bituminous compounds excepting rock or sand impregnated with asphalt or heavy oil which dries to a viscous or solid bitumen near the surface of the earth.

This lease includes as part of the leased substances any deposits of nahcolite (sodium bicarbonate), dawsonite (di-hydroxy sodium aluminum carbonate) or other sodium minerals found in association with the tar sands deposits. Should the Lessee plan to develop any deposit of said nahcolite, dawsonite or other sodium minerals prior to the commencement of said operations Lessor will require a showing of facts relative to the extent of any deposit which a Lessee proposes to mine to demonstrate to Lessor that the operations by the Lessee will not damage or prevent future mining of other minerals from the State lands. Any deposit of nahcolite or dawsonite found in association with tar sands deposits on the leased lands will be mined or removed contemporaneously with the tar sands or subsequent to the mining or removal of the tar sands.

In the event that minerals or materials other than the leased substances are discovered during lease operations, Lessee shall promptly notify the Lessor and shall not further disturb or remove the other minerals or materials without Lessor’s written permission. Upon notifying Lessor of such discovery the Lessee shall have preference in making application to the Lessor for a lease or permit covering the unleased minerals or materials that are discovered.

1.2 No Warranty of Title. Lessor claims title to the mineral estate covered by this Lease. Lessor does not warrant title nor represent that no one will dispute the title asserted by Lessor. It is expressly agreed that Lessor shall not be liable to Lessee for any alleged deficiency in title to the mineral estate, nor shall Lessee become entitled to any refund for any rentals, bonuses, or royalties paid under this Lease in the event of title failure.

2. RESERVATIONS TO LESSOR. Subject to the exclusive rights and privileges granted to Lessee under this Lease, and further provided that Lessor shall refrain from taking actions with respect to the Leased Premises that may unreasonably interfere with Lessee’s operations, Lessor hereby excepts and reserves from the operation of this Lease the following rights and privileges (to the extent that Lessor has the right to grant such rights and privileges):

2.1 Rights-of-Way and Easements. Lessor reserves the right, following consultation with the Lessee, to establish rights-of-way and easements upon, through or over the Leased Premises, under terms and conditions that will not unreasonably interfere with operations under this Lease, for roads, pipelines, electric transmission lines, transportation and utility corridors, mineral access, and any other purpose deemed reasonably necessary by Lessor.

- 2.2 Other Mineral Leases. Lessor reserves the right to enter into mineral leases and agreements with third parties covering minerals other than the leased substances, under terms and conditions that will not unreasonably interfere with operations under this Lease in accordance with Lessor's regulations, if any, governing multiple mineral development.
- 2.3 Use and Disposal of Surface. To the extent that Lessor owns the surface estate of the Leased Premises and subject to the rights granted to the Lessee pursuant to this Lease, Lessor reserves the right to use, lease, sell, or otherwise dispose of the surface estate or any part thereof, provided that any such actions will not unreasonably interfere with operations under this Lease. Lessor shall notify Lessee of any such sale, lease, or other disposition of the surface estate.
- 2.4 Rights Not Expressly Granted. Lessor further reserves all rights and privileges of every kind and nature, except as specifically granted in this Lease, provided that any actions under such reservations will not unreasonably interfere with operations under this Lease.

3. TERM OF LEASE; MINIMUM ROYALTIES; READJUSTMENT.

- 3.1 Primary Term. This Lease is granted for a "primary term" of ten (10) years from the Effective Date.
- 3.2 Extension beyond Primary Term by Production. Subject to Lessee's compliance with the other provisions of this Lease, this Lease shall remain in effect beyond the primary term so long as leased substances are being produced in paying quantities, as delivered herein, from the Leased Premises, or from lands constituting a mining unit approved by Lessor in its reasonable discretion. For purposes of this lease, production of leased substances in paying quantities shall mean mining and sale of the leased substances during the lease-year in an amount sufficient to cover all operating expenses accruing to the lessee pursuant to the leasehold for that lease year, including the payment of all taxes and the payment of rentals and royalties accruing to the Lessor.
- 3.3 Extension beyond Primary Term by Diligent Development, Financial Investment and Minimum Royalty.

In the absence of actual production in paying quantities as set forth in paragraph 3.2, Extension Beyond Primary Term, this Lease shall remain in effect beyond the primary term only if the Lessee is engaged in diligent operations, exploration or development activity which in Lessor's sole discretion is calculated to advance development or production of leased substances from the Leased Premises or lands constituting an approved mining unit which includes the Leased Premises, has made a substantial financial investment for the direct purpose of advancing development or production of leased substances from the Leased Premises or lands constituting an approved mining unit which includes the Leased Premises, and Lessee pays the annual minimum royalty set forth in Paragraph 3.4, Minimum Royalty, in advance before the anniversary date of the date first written hereinabove.

- 3.4 Minimum Royalty. Commencing with the with the effective date of the lease to and including the tenth (10th) year of this lease the Lessee shall pay Lessor, before the Effective Date and each anniversary thereof, an advanced annual minimum royalty in the amount of Ten Dollars (\$10.00) per acre and for any fractional part of an acre. Beginning with the eleventh (11th) year of this lease, if the lease remains in effect, minimum royalties shall be set by Lessor pursuant to the readjustment provisions contained in paragraph 3.6 Lessee may credit each lease-year's minimum royalty payment against actual production royalties accruing during that lease year, but such credit shall not carry over beyond the lease year in which the advance royalty was paid. Minimum royalties may not be credited against the annual rentals or bonus bids.
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- 3.5 Expiration; Cessation of Production. This Lease may not be extended pursuant to paragraph 3.3, Diligent Operations, beyond the end of the twentieth year after the Effective Date except by the actual production of leased substances in commercial quantities from the Leased Premises or from lands constituting an approved mining unit which includes the Leased Premises, or except by suspension of the Lease pursuant to Article 17.3, unless otherwise specifically approved in writing by the Director of the Trust Lands Administration in the interest of the trust beneficiaries. After expiration of the primary term, this Lease will expire of its own terms, without the necessity of any notice or action by Lessor, if: (a) Lessee fails to produce leased substances in accordance with Article 3.2; (b) Lessee ceases to engage in exploration, development, or operations or fails to pay annual advance minimum royalties in accordance with Article 3.4; or, (c) the Director fails to make a written determination that it is in the interest of the trust beneficiaries to extend this lease.
- 3.6 Readjustment. At the end of the primary term and at the end of each period of five (5) years thereafter (“Readjustment Period”), Lessor may exercise its option to readjust the terms and conditions of this Lease (including without limitation rental rates, minimum royalties, royalty rates and valuation methods, and provisions concerning reclamation). Notice of intent to exercise the right to readjust is timely given by Lessor if mailed prior to the end of the Readjustment Period to the last address set forth for Lessee in Lessor’s files. Lessor shall have up to one year after exercising its option to readjust to review and communicate in writing the final readjusted terms of the lease. If within thirty (30) days after submission of the readjusted lease terms to the Lessee, the Lessee determines that any or all of the proposed readjusted terms and conditions are unreasonable, then Lessee shall so notify Lessor in writing and the parties, acting reasonably, shall attempt to resolve the objectionable term or condition. If the parties are unable, acting reasonably, to resolve the matter and agree upon the readjusted terms and conditions as submitted by Lessor at the end of the Readjustment Period, Lessee shall forfeit any right to the continued extension of this lease, and the lease shall automatically terminate, provided that nothing herein shall be deemed to preclude Lessee from appealing any readjustment by Lessor pursuant to applicable law.
4. BONUS BID. Lessee agrees to pay Lessor an initial bonus bid in the sum of \$7,185.00 dollars as partial consideration for Lessor’s issuance of this Lease, payable in cash prior to execution of this lease. The initial bonus bid may not be credited against annual rentals, annual minimum royalties or production royalties accruing pursuant to this lease.
5. RENTALS/MINIMUM RENTALS. Lessee agrees to pay Lessor an annual rental equal to the greater of: (a) \$1.00 for each acre and fractional part thereof within the Leased Premises; or (b) \$500.00, irrespective of acreage. Lessee shall promptly pay annual rentals each year in advance before the anniversary date of the Effective Date. The rental payment for a mineral lease year may be credited against production royalties only as they accrue for that lease year. The Lessee may not credit rentals paid for one lease year against production royalties accruing to another lease year. Rental payments may not be credited against minimum royalties or bonus bids accruing to any lease year.
6. ROYALTIES.
- 6.1 Production Royalties. Lessee shall pay lessor a production royalty on the basis of 8% of the market price, including all bonuses and allowances received by Lessee, at the point of shipment from the leased premises of the first marketable product or products produced from the leased substances and sold under a bonafide arms length contract of sale, whether or not such product or products are produced through chemical or mechanical treating or processing of the leased substances raw material. The Lessee may deduct the reasonable actual cost of transportation to the first point of sale. In no event shall the production royalty be less than three dollars (\$3.00) per barrel of produced substance. The royalty may, at the discretion of Lessor, be increased after the first ten (10) years of production at a rate of not in excess of one percent (1%) per annum until a maximum of twelve and one-half percent (12¹/₂%) royalty is reached; provided, that notwithstanding the foregoing provision, the royalty which Lessee shall pay at any time under this lease, after notice and hearing, may be fixed by Lessor up to the highest royalty rate then being paid by any tar sands Lessee under any Federal or State tar sands or combined hydrocarbon lease within the State of Utah, but not in excess of a royalty rate of twelve and one-half percent (12¹/₂%) during the primary term.
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- 6.2 Non-Arm's Length Transactions. In the event that Lessee uses, sells or otherwise disposes of leased substances without a non-arm's length contract or bill of sale, Lessee shall promptly notify Lessor of such use, sale or disposal. The Director may then determine and assign the Gross Value to the leased substances for royalty purposes after taking into account spot market prices, the value of similar or like leased substances reported by other trust lands lessees, the value of like mineral commodities as reported by the United States Geological Survey, and other pertinent economic data regarding the fair market value of the leased substances, f.o.b. the mine.
- 6.3 No Deductions. It is expressly understood and agreed that none of Lessee's mining costs, including but not limited to costs for materials, labor, overhead, distribution, loading, crushing, or general and administrative activities, may be deducted in computing Lessor's royalty. All such costs shall be entirely borne by Lessee and are anticipated by the rate of royalty set forth in this Lease.
- 6.4 Royalty Payment. For all leased substances that are sold or transported from the leased lands during a particular month, Lessee shall pay royalties to Lessor before the end of the next succeeding month. Royalty payments shall be accompanied by a verified statement, in a form approved by Lessor, stating the amount of leased substances sold or transported, the gross proceeds accruing to Lessee, and any other information reasonably required by Lessor to verify production and disposition of the leased substances or leased substances products. Delinquent royalties may be subject to late fees and penalties in accordance with Lessor's Rules.
- 6.5 Suspension, Waiver or Reduction of Rents or Royalties. Lessor, to the extent not prohibited by applicable law, is authorized to waive, suspend, or reduce the rental or minimum royalty, or reduce the royalty applicable with respect to the entire Lease, whenever in Lessor's sole judgment it is necessary to do so in order to promote development, or whenever in the Lessor's sole judgment the Lease cannot be successfully operated under the terms provided herein and continued operations are in the trust land beneficiaries best interest.

7. RECORDKEEPING; INSPECTION; AUDITS.

- 7.1 Registered Agent; Records. Lessee shall maintain a registered agent within the State of Utah to whom any and all notices may be sent by Lessor and upon whom process may be served. Lessee shall also maintain an office within the State of Utah containing originals or copies of all maps, engineering data, permitting materials, books, records or contracts (whether such documents are in paper or electronic form) generated by Lessee that pertain in any way to leased substances production, output and valuation; mine operations; assays; processing returns; leased substances sales and dispositions; and calculation of royalties from the Leased Premises. Lessee shall maintain such documents for at least seven years after the date of the leased substances production to which the documents pertain.
- 7.2 Inspection. Lessor's employees and authorized agents at Lessor's sole risk and expense shall have the right to enter the Leased Premises to check scales as to their accuracy, and to go on any part of the Leased Premises to examine, inspect, survey and take measurements for the purposes of verifying production amounts and proper lease operations. Upon reasonable notice to Lessee, Lessor's employees and authorized agents shall further have the right to audit, examine and copy (at Lessor's expense) all documents described in paragraph 7.1, Registered Agent; Records, whether such documents are located at the mine site or elsewhere. Lessee shall furnish all conveniences necessary for said inspection, survey, or examination;

provided, however, that such inspections shall be conducted in a manner that is in conformance with all applicable mine safety regulations and does not unreasonably interfere with Lessee's operations.

- 7.3 Geologic Information. In the event Lessee conducts core-drilling operations or other geologic evaluation of the Leased Premises, Lessor may inspect core samples, evaluations thereof, and proprietary geologic information concerning the Leased Premises. Upon request by Lessor, Lessee shall timely provide Lessor with a true and correct copy of all such evaluations, geological reports, drilling logs, assays and interpretive maps of the leased substances within the leased lands.
- 7.4 Confidentiality. Any and all documents and geologic data obtained by Lessor through the exercise of its rights as set forth in paragraphs 7.2, Inspection., and 7.3, Geologic Information., may be declared confidential information by Lessee, in which event Lessor and its authorized agents shall maintain such documents and geologic data as protected records under the Utah Governmental Records Access Management Act or other applicable privacy statute, and shall not disclose the same to any third party without the written consent of Lessee, or as required under the order of a court of competent jurisdiction requiring such disclosure, provided that Lessor's obligations of confidentiality to Lessee shall cease upon termination of this Lease.

8. USE OF SURFACE ESTATE.

- 8.1 Lessor-Owned Surface. If Lessor owns the surface estate of all or some portion of the Leased Premises, at the time of the execution of this Lease, Lessee may use such lands to the extent reasonably necessary and expedient for the economic operation of the leasehold, subject to paragraph 13.2, PLAN OF OPERATIONS. Lessee may not use the surface estate of the Leased Premises prior to complying with the requirements of paragraph 13.2. Lessee's right to surface use of Lessor-owned surface estate shall include the right to subside the surface. Such surface uses shall be exercised subject to the rights reserved to Lessor as provided in paragraph 2, RESERVATIONS TO LESSOR, and without unreasonable interference with the rights of any prior or subsequent lessee of Lessor.
- 8.2 Split-Estate Lands. If Lessor does not own the surface estate of any portion of the Leased Premises, Lessee's access to and use of the surface of such lands shall be determined by applicable law governing mineral development on split-estate lands, including without limitation applicable statutes governing access by mineral owners to split estate lands, and reclamation and bonding requirements. Lessee shall indemnify, defend and hold Lessor harmless for all claims, causes of action, damages, costs and expenses (including attorney's fees and costs) arising out of or related to damage caused by Lessee's operations to surface lands or improvements owned by third parties.

9. APPLICABLE LAWS AND REGULATIONS; HAZARDOUS SUBSTANCES

- 9.1 Trust Lands Statute and Regulations. This Lease is issued pursuant to, and is subject to, the provisions of Title 53C, Utah Code Annotated, 1953, as amended. Further, Lessee and this lease are subject to and shall comply with all current and future rules and regulations adopted by the School and Institutional Trust Lands Administration and its successor agencies.
- 9.2 Other Applicable Laws and Regulations. Lessee shall comply with all applicable federal, state and local statutes, regulations, and ordinances, including without limitation the Utah Mined Land Reclamation Act, applicable statutes and regulations relating to mine safety and health, and applicable statutes, regulations and ordinances relating to public health, pollution control, management of hazardous substances, cultural resources, and environmental protection.
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- 9.3 Hazardous Substances. Lessee [or other occupant pursuant to any agreement authorizing mining] shall not keep on or about the premises any hazardous substances, as defined under 42 U.S.C. § 9601(14) or any other Federal environmental law, any regulated substance contained in or released from any underground storage tank, as defined by the Resource Conservation and Recovery Act, 42 U.S.C. § 6991, *et seq.*, or any substances defined and regulated as “hazardous” by applicable State law, (hereinafter, for the purposes of this Lease, collectively referred to as “Hazardous Substances”) unless such substances are reasonably necessary in Lessee’s mining operations, and the use of such substances or tanks is noted and approved in the Lessee’s mining plan, and unless Lessee fully complies with all Federal, State and local laws, regulations, statutes, and ordinances, now in existence or as subsequently enacted or amended, governing Hazardous Substances. Lessee shall immediately notify Lessor, the surface management agency, and any other Federal, State and local agency with jurisdiction over the Leased Premises, of contamination thereon, of (i) all reportable spills or releases of any Hazardous Substance affecting the Leased Premises, (ii) all failures to comply with any applicable Federal, state or local law, regulation or ordinance governing Hazardous Substances, as now enacted or as subsequently enacted or amended, (iii) all inspections of the Leased Premises by, or any correspondence, order, citations, or notifications from any regulatory entity concerning Hazardous Substances affecting the Leased Premises, (iv) all regulatory orders or fines or all response or interim cleanup actions taken by or proposed to be taken by any government entity or private Party concerning the Leased Premises.
- 9.4 Hazardous Substances Indemnity. Lessee [or other occupant pursuant to any agreement authorizing mining] shall indemnify, defend, and hold harmless Lessor, employees, officers, and agents with respect to any and all damages, costs, liabilities, fees (including reasonable attorneys’ fees and costs), penalties (civil and criminal), and cleanup costs arising out of or in any way related to Lessee’s use, disposal, transportation, generation, sale or location upon or affecting the Leased Premises of Hazardous Substances, as defined in paragraph 9.3 of this Lease. This indemnity shall extend to the actions of Lessee’s employees, agents assigns, sublessees, contractors, subcontractors, licensees and invitees. Lessee shall further indemnify, defend and hold harmless Lessor from any and all damages, costs, liabilities, fees (including reasonable attorneys’ fees and costs), penalties (civil and criminal), and cleanup costs arising out of or in any way related to any breach of the provisions of this Lease concerning Hazardous Substances. This indemnity is in addition to, and in no way limits, the general indemnity contained in paragraph 17.1 of this Lease.
- 9.5 Waste Certification. The Lessee shall provide upon abandonment, transfer of operation, assignment of rights, sealing-off of a mined area, and prior to lease relinquishment, certification to the Lessor that, based upon a complete search of all the operator’s records for the Lease, and upon its knowledge of past operations, there have been no reportable quantities of hazardous substances as defined in 40 Code of Federal Regulations §302.4, or used oil as defined in Utah Administrative Code R315-15, discharged (as defined at 33 U.S.C. §1321(a)(2)), deposited or released within the Leased Premises, either on the surface or underground, and that all remedial actions necessary have been taken to protect human health and the environment with respect to such substances. Lessee shall additionally provide to Lessor a complete list of all hazardous substances, hazardous materials, and their respective Chemical Abstracts Service Registry Numbers, used or stored on, or delivered to, the Leased Premises. Such disclosure will be in addition to any other disclosure required by law or agreement.

10. BONDING.

- 10.1 Lease Bond May Be Required. At the time this Lease is executed, Lessor may require Lessee to execute and file with the Lessor a good and sufficient bond or other financial guarantee acceptable to Lessor in order to:
- (a) guarantee Lessee’s performance of all covenants and obligations under this Lease, including Lessee’s obligation to pay royalties; and (b) ensure compensation for damage, if any, to the surface estate and any surface improvements.
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- 10.2 Reclamation Bonding. The bond required by and filed with the Utah Division of Oil, Gas and Mining (“UDOGM”) in connection with the issuance of a mine permit which includes the Leased Premises shall be deemed to satisfy Lessor’s bonding requirements with respect to Lessee’s reclamation obligations under this Lease; provided, however, upon notice to Lessee and a public hearing with respect to the basis for its decision, the Lessor may, in its reasonable discretion, determine that the bond filed with UDOGM is insufficient to protect Lessor’s interests. In such an event the Lessor shall enter written findings as to the basis for its calculation of the perceived insufficiency and enter an order establishing the amount of additional bonding required. Lessee shall file any required additional bond with Lessor within thirty (30) days after demand by Lessor. Lessor may increase or decrease the amount of any additional bond from time to time in accordance with the same procedure.
- 10.3 Release of Additional Bond. Any additional bond required by Lessor pursuant to 10.2, Reclamation Bonding, may be released by Lessor at any time and shall be released no later than the time of final bond release by UDOGM with respect to the Leased Premises.

5. WATER RIGHTS.

- 11.1 Water Rights in Name of Lessor. If Lessee files to appropriate water for use in association with this lease or operations upon the Leased Premises, the filing for such water right shall be made by Lessee in the name of Lessor at no cost to Lessor, and such water right shall become an appurtenance to the Leased Premises, subject to Lessee’s right to use such water right at no cost during the term of this Lease.
- 11.2 Option to Purchase. If Lessee purchases or acquires an existing water right for use in association with this lease or operations upon the Leased Premises, Lessor shall have the option to acquire that portion of such water right as was used on the Leased Premises upon expiration or termination of this Lease. The option price for such water right shall be the fair market value of the water right as of the date of expiration or termination of this Lease. Upon expiration or termination of this Lease, Lessee shall notify Lessor in writing of all water rights purchased or acquired by Lessee for leased substances mining operations on the Leased Premises and its estimate of the fair market value of such water right. Lessor shall then have forty-five (45) days to exercise its option to acquire the water by payment to Lessee of the estimated fair market value. If Lessor disagrees with Lessee’s estimate of fair market value, Lessor shall notify Lessee of its disagreement within the 45 day option exercise period. The fair market value of the water right shall then be appraised by a single appraiser mutually acceptable to both parties, which appraisal shall be final and not subject to review or appeal. If the parties cannot agree upon the choice of an appraiser, the fair market value of the water right shall be determined by a court of competent jurisdiction. Conveyance of any water right pursuant to this paragraph shall be by quit claim deed.

12. ASSIGNMENT OR SUBLEASE; OVERRIDING ROYALTIES.

- 12.1 Consent Required. Lessee shall not assign or sublease this Lease in whole or in part, or otherwise assign or convey any rights or privileges granted by this Lease, including, without limitation, creation of overriding royalties or production payments, without the prior written consent of Lessor, which shall not be unreasonably withheld. Lessee agrees that Lessor, in determining whether to consent to any proposed assignment, may reasonably consider the proposed assignee’s financial capacity, ability to market and process leased substances, and may refuse to consent to such assignment if, in the Lessor’s reasonable opinion, the proposed assignee lacks the necessary financial or technical capacity to mine, market and/or process leased substances in a manner comparable to Lessee. Any assignment, sublease or other conveyance made without prior written consent of Lessor shall have no legal effect unless and until approved in writing by Lessor. Exercise of any right with respect to the Leased Premises in violation of this provision shall constitute a default under this Lease.
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- 12.2 Binding Effect. All of the terms and provisions of this Lease shall be binding upon and shall inure to the benefit of their respective successors, assigns, and sublessees.
- 12.3 Limitation on Overriding Royalties. No overriding royalty, production payment or other similar interest may be granted without the express written consent of Lessor, which may be granted or withheld in Lessor's sole discretion.

13. OPERATIONS.

- 13.1 Permitting. Before Lessee commences exploration, drilling, or mining operations on the Leased Premises, it shall have obtained such permits and posted such bonds as may be required under applicable provisions of the Utah Mined Land Reclamation Act and associated regulations. Lessee shall maintain any required permits in place for the duration of mining operations and reclamation. Upon request, Lessee shall provide Lessor with a copy of all regulatory filings relating to permitting matters.
- 13.2 Plan of Operations. Lessee does not have the right to conduct surface disturbing operations or any operations that have the potential to affect historic properties without first obtaining Lessor's approval pursuant to *Utah Administrative Code* R850-24-700. Prior to the commencement of any such activities on the Leased Premises, Lessee shall obtain Lessor's approval of a plan of operations for the Leased Premises. Lessor may modify the proposed plan of operations as is needed to insure that there is no waste of economically recoverable mineral reserves contained on the Leased Premises. In this context "waste" shall mean the inefficient utilization of, or the excessive or improper loss of an otherwise economically recoverable mineral resource. Lessor shall notify Lessee in writing of its approval or modifications of the plan of operations. The plan of operations submitted by Lessee shall be deemed approved by Lessor if Lessor has not otherwise notified Lessee within sixty (60) days of filing.
- 13.3 Plan of Operations - Modification. In the event that material changes are required to the plan of operations during the course of mining, Lessee shall submit a modification of the plan of operations to the Lessor. Routine adjustments to the plan of operations based upon geologic circumstances encountered during day-to-day mining operations that do not result in increased surface disturbance do not require the submission of a modification. If the proposed changes require emergency action by Lessee, then the Lessee shall so notify the Lessor at the time of submission of the modification and the parties shall use their best efforts to meet the Lessee's time schedule regarding implementation of the changes. Non-emergency modifications will be reviewed promptly by Lessor to insure that there is no waste of economically recoverable mineral reserves pursuant to the plan of operations, as modified, and Lessor shall notify lessee in writing of its approval or modification of the proposed modification. Modifications shall be deemed approved by Lessor if Lessor has not otherwise notified Lessee within thirty (30) days of filing.
- 13.4 Mine Maps. Lessee shall maintain at the mine office clear, accurate, and detailed maps of all actual and planned operations. Such maps shall be certified by an engineer or geologist who is professionally licensed by the State of Utah or by a state having a reciprocal licensing agreement with the State of Utah. Lessee shall provide copies of such maps to Lessor upon request.
- 13.5 Good Mining Practices. Lessee shall conduct exploration and mining operations on the Leased Premises in accordance with standard industry operating practices, and shall avoid waste of economically recoverable leased substances. Lessee shall comply with all regulations and directives of the Mine Safety and Health Administration or successor agencies for the health and safety of employees and workers.
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- 13.6 Mining Units. Lessor may approve the inclusion of the Leased Premises in a mining unit with federal, private or other non-state lands upon terms and conditions that it deems necessary to protect the interests of the Lessor, including without limitation segregation of production, accounting for commingled leased substances production, and minimum production requirements or minimum royalties for the Leased Premises.
- 13.7 Cultural Resources. Prior to commencing any surface disturbing operations or any operations that have the potential to affect historic properties, Lessee shall complete a cultural resource inventory prepared in accordance with applicable laws and regulations, or otherwise provide evidence of compliance with *Utah Administrative Code* R850-60-800. Lessee shall provide such cultural resource compliance materials to Lessor prior to the approval of the mining permit. Lessor will review all cultural resource compliance materials provided by Lessee, and may approve, condition, or deny its consent to the mining permit based upon impacts to cultural resources. Lessor may require Lessee to complete appropriate cultural resources mitigation measures as a condition of permit approval.
14. EQUIPMENT; RESTORATION.
- 14.1 Equipment. Upon termination of this Lease, Lessee shall remove, and shall have the right to remove, all improvements, equipment, stockpiles, and dumps from the Leased Premises within six (6) months; provided, however, that Lessor may, at Lessor's sole risk and expense, and subject to Lessee's compliance with requirements imposed by UDOGM and MSHA, require Lessee to retain in place underground timbering supports, shaft linings, rails, and other installations reasonably necessary for future mining of the Leased Premises. All improvements and equipment remaining on the Leased Premises after six (6) months may be deemed forfeited to Lessor upon written notice of such forfeiture to Lessee. Lessee may abandon underground improvements, equipment of any type, stockpiles and dumps in place if such abandonment is in compliance with applicable law, and further provided that Lessee provides Lessor with financial or other assurances sufficient in Lessor's reasonable discretion to protect Lessor from future environmental liability with respect to such abandonment or any associated hazardous waste spills or releases. Lessee shall identify and locate on the mine map the location of all equipment abandoned on the Lease Premises.
- 14.2 Restoration and Reclamation. Upon termination of this Lease, Lessee shall reclaim the Leased Premises in accordance with the requirements of applicable law, including mine permits and reclamation plans on file with UDOGM. Lessee shall further abate any hazardous condition on or associated with the Leased Premises. Lessee and representatives of all governmental agencies having jurisdiction shall have the right to re-enter the Leased Premises for reclamation purposes for a reasonable period after termination of the Lease.
15. MULTIPLE MINERAL DEVELOPMENT. The Utah School and Institutional Trust Lands Administration may designate any lands under its authority as a Multiple Mineral Development Area (MMD). In designated MMDs the Lessor may require in addition to the terms and conditions of this lease such stipulations or restrictions as may be necessary in the discretion of the Director to integrate and coordinate the operations of lessees having an interest in the lands in order to conserve natural resources and optimize revenues to the trust-land beneficiaries.
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16. DEFAULT

- 16.1 Notice of Default: Termination. Upon Lessee's violation of or failure to comply with any of the terms, conditions or covenants set forth in this Lease, Lessor shall notify Lessee of such default by registered or certified mail, return receipt requested, at the last address for Lessee set forth in Lessor's files. Lessee shall then have thirty (30) days, or such longer period as may be granted in writing by Lessor, to either cure the default or request a hearing pursuant to the Lessor's administrative adjudication rules. In the event Lessee fails to cure the default or request a hearing within the specified time period, Lessor may cancel this Lease without further notice to or appeal by Lessee.
- 16.2 Effect of Termination. The termination of this Lease for any reason, whether through expiration, cancellation or relinquishment, shall not limit the rights of the Lessor to recover any royalties and/or damages for which Lessee may be liable, to recover on any bond on file, or to seek injunctive relief to enjoin continuing violations of the Lease terms. No remedy or election under this Lease shall be deemed exclusive, but shall, wherever possible, be cumulative with all other remedies available under this Lease, at law, or in equity. Lessee shall surrender the Leased Premises upon termination; however, the obligations of Lessee with respect to reclamation, indemnification and other continuing covenants imposed by this Lease shall survive the termination. All fees, rentals and monies of any type previously paid by the Lessee to the Lessor are forfeited to the trust.

17. MISCELLANEOUS PROVISIONS.

- 17.1 Indemnity. Except as limited by paragraph 7.2, Inspection, Lessee shall indemnify and hold Lessor harmless for, from and against each and every claim, demand, liability, loss, cost, damage and expense, including, without limitation, attorneys' fees and court costs, arising in any way out of Lessee's occupation and use of the Leased Premises, including without limitation claims for death, personal injury, property damage, and unpaid wages and benefits. Lessee further agrees to indemnify and hold Lessor harmless for, from and against all claims, demands, liabilities, damages and penalties arising out of any failure of Lessee to comply with any of Lessee's obligations under this Lease, including without limitation reasonable attorneys' fees and court costs. Lessee may be required to obtain insurance in a type and in an amount acceptable to Lessor, naming the Trust Lands Administration, its employees, its Board of Trustees and the State of Utah as co-insured parties under the policy.
- 17.2 Interest. Interest shall accrue and be payable on all obligations arising under this Lease at such rate as may be set from time to time by rule enacted by Lessor. Interest shall accrue and be payable, without necessity of demand, from the date each such obligation shall arise.
- 17.3 Suspension. In the event that Lessor in its reasonable discretion determines that suspension is necessary in the interests of conservation of the leased substances; that prevailing market conditions for the leased substances render continued operation of the subject property uneconomic, or if Lessee has been prevented from performing any of its obligations or responsibilities under this Lease or from conducting mining operations by labor strikes, fires, floods, explosions, riots, acts of terrorism, any unusual mining casualties or conditions, Acts of God, government restrictions or orders, severe weather conditions, or other extraordinary events beyond its control, then the time for performance of this Lease by Lessee shall be suspended during the continuance of such conditions or acts which prevent performance, excepting any payments due and owing to Lessor.
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- 17.4 Consent to Suit; Jurisdiction. This Lease shall be governed by the laws of the State of Utah. Lessor and Lessee agree that all disputes arising out of this Lease shall be litigated only in the Third Judicial District Court for Salt Lake County, Utah, and Lessee consents to the jurisdiction of such court. Lessee shall not bring any action against Lessor without exhaustion of available administrative remedies and compliance with applicable requirements of the Utah Governmental Immunity Act.
- 17.5 No Waiver. No waiver of the breach of any provision of this Lease shall be construed as a waiver of any preceding or succeeding breach of the same or any other provision of this Lease, nor shall the acceptance of rentals or royalties by Lessor during any period of time in which Lessee is in default be deemed to be a waiver of such default.
- 17.6 Severability. The invalidity of any provision of this Lease, as determined by a court of competent jurisdiction, shall in no way affect the validity of any other provision hereof.
- 17.7 Entire Lease. This Lease together with any attached stipulations, sets forth the entire agreement between Lessor and Lessee with respect to the subject matter of this lease. No subsequent alteration of amendment to this Lease shall be binding upon Lessor and Lessee unless in writing and signed by each of them.
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IN WITNESS WHEREOF, the parties have executed this Lease as of the Effective Date.

APPROVED AS TO FORM:

SEAN D. REYES
ATTORNEY GENERAL

THE STATE OF UTAH, acting by and through the
SCHOOL AND INSTITUTIONAL TRUST LANDS
ADMINISTRATION ("LESSOR")

DAVID URE, DIRECTOR

By: /s/ Sean D. Reyes
Special Assistant Attorney General

By: /s/ Thomas B. Faddies
THOMAS B. FADDIES
ASSISTANT DIRECTOR/MINERALS

Form Approved: October 21, 2016

LESSEE: Petroteq Oil Recovery, LLC

By: /s/ Aleksandr Blyumkin

Title: Manager

STATE OF UTAH)
 :
COUNTY OF SALT LAKE)

The foregoing instrument was acknowledged before me this ____ day of _____ 20____, by Thomas B. Faddies, in his capacity as Assistant Director/Minerals of the School and Institutional Trust Lands Administration.

Notary Public

STATE OF _____)
 :
COUNTY OF _____)

The foregoing instrument was acknowledged before me this ____ day of _____ 20____, by _____, in his capacity as _____ of the Lessee.

Notary Public

STATE OF _____)
 :
COUNTY OF _____)

The foregoing instrument was acknowledged before me this ____ day of _____ 20____, by _____, Lessee.

Notary Public

Subsidiaries

Petroteq Energy CA, Inc., a California corporation

Recruiter.com Oil and Gas Group, LLC, a Delaware limited liability company (25% ownership)

Petroteq Oil Sands Recovery, LLC, a Utah limited liability company

TMC Capital, LLC, a Delaware limited liability company

Petrobloq, LLC, a California limited liability company

Accord GR Energy, Inc., a Delaware corporation (44.7% ownership)