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

FORM 10-Q

☒ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the Quarterly Period Ended November 30, 2021

or

☐ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

Commission File Number: 000-55991

PETROTEQ ENERGY INC.
(Exact name of registrant as specified in its charter)

Ontario	**None**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
15315 W. Magnolia Blvd, Suite 120 Sherman Oaks, California	**91403**
(Address of principal executive offices)	*(Zip code)*

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

Securities registered pursuant to Section 12(b) of the act: None

Title of each class:	**Trading Symbol(s):**	**Name of each exchange on which registered:**
N/A	N/A	N/A

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

Common Shares, without par value
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☒	Smaller reporting company ☒
	Emerging growth company ☒

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Number of shares of common stock outstanding as of January 18, 2022 was 646,053,821.

Documents incorporated by reference: None.

PETROTEQ ENERGY INC.

NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). In particular, statements contained in this Quarterly Report on Form 10-Q, including but not limited to, the sufficiency of our cash, our ability to finance our operations and business initiatives and obtain funding for such activities, and our future results of operations and financial position, business strategy and plan prospects, or costs and objectives of management for future acquisitions, are forward-looking statements. These forward-looking statements relate to our future plans, objectives, expectations and intentions and may be identified by words such as "may," "will," "should," "expects," "plans," "anticipates," "intends," "targets," "projects," "contemplates," "believes," "seeks," "goals," "estimates," "predicts," "potential" and "continue" or similar words. Readers are cautioned that these forward-looking statements are based on our current beliefs, expectations and assumptions and are subject to risks, uncertainties, and assumptions that are difficult to predict. Therefore, actual results may differ materially and adversely from those expressed, projected or implied in any forward-looking statements. We undertake no obligation to revise or update any forward-looking statements for any reason.

NOTE REGARDING COMPANY REFERENCES

Throughout this Quarterly Report on Form 10-Q, "Petroteq Energy Inc," "Petroteq," the "Company," "we," "us" and "our" refer to Petroteq Energy Inc. and, if the context requires, its consolidated subsidiaries.

PETROTEQ ENERGY INC.

FORM 10-Q

TABLE OF CONTENTS

Item 1.

PETROTEQ ENERGY INC.

TABLE OF CONTENTS

November 30, 2021

PETROTEQ ENERGY, INC.
CONSOLIDATED BALANCE SHEETS
As at November 30, 2021 and August 31, 2021
Expressed in US dollars

	Notes	November 30, 2021	August 31, 2021
ASSETS			
Current assets			
Cash		$ 68,662	$ 1,012,929
Trade and other receivables		17,303	17,303
Ore inventory		16,800	16,800
Other inventory		90,176	90,176
Notes receivable – related party	4	93,907	92,959
Notes receivable	4	-	430,000
Prepaid expenses and other current assets	1,5	2,694,120	2,539,120
Total Current Assets		**2,980,968**	**4,199,287**
Non-Current assets			
Mineral leases	6	34,911,143	34,911,143
Property, plant and equipment	7	41,038,035	41,049,417
Right of use asset	8	155,402	167,048
Intangible assets	9	707,671	707,671
Total Non-Current Assets		**76,812,251**	**76,835,279**
Total Assets		**$ 79,793,219**	**$ 81,034,566**
LIABILITIES			
Current liabilities			
Accounts payable	10	$ 2,374,380	$ 2,105,449
Accrued expenses	10	1,579,460	1,564,616
Ore Sale advances		283,976	283,976
Promissory notes payable	11	23,298	23,298
Current portion of convertible debentures, net of discount of $498,203 and $529,372, respectively	12	1,023,371	5,255,874
Current portion of Federal relief loans	13	161,404	291,332
Finance lease liabilities	8	28,210	75,058
Current portion of operating lease liabilities	8	50,071	48,376
Related party payables	20	436,203	493,549
Derivative liability	14	-	322,186
Total Current Liabilities		**5,960,373**	**10,463,714**
Non-Current liabilities			
Convertible debentures, net of discount of $3,105,453 and $3,449,338, respectively	12	1,199,219	891,662
Federal relief loans	13	435,988	437,096
Operating lease liabilities	8	105,331	118,672
Reclamation and restoration provision	15	2,970,497	2,970,497
Total Non-Current Liabilities		**4,711,035**	**4,417,927**
Total Liabilities		**10,671,408**	**14,881,641**
Commitments and contingencies	24		
SHAREHOLDERS' EQUITY			
Share capital	16,17,18	171,805,651	166,291,517
Deficit		(102,683,840)	(100,138,592)
Total Shareholders' Equity		**69,121,811**	**66,152,925**
Total Liabilities and Shareholders' Equity		**$ 79,793,219**	**$ 81,034,566**

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

PETROTEQ ENERGY INC.
CONDENSED CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
For the three months ended November 30, 2021 and 2020
Expressed in US dollars

	Notes	Three months ended November 30, 2021 (Unaudited)	Three months ended November 30, 2020 (Unaudited)
Revenue from Licensing fees		$ -	$ 2,000,000
Production and maintenance costs		(284,953)	(345,286)
Gross (Loss) Profit		**(284,953)**	**1,654,714**
Expenses			
Depreciation, depletion and amortization	7	11,382	11,523
Selling, general and administrative expenses		1,393,754	1,044,857
Financing costs	20	626,018	621,387
Mark to market of derivative liability	14	(52,420)	(156,998)
Other expense (income), net	21	281,561	544,459
Total Expenses, net		2,260,295	2,065,228
Net loss before income taxes		**2,545,248**	**410,514**
Income tax expense		-	-
Net loss and Comprehensive loss		**$ 2,545,248**	**$ 410,514**
Weighted Average Number of Shares Outstanding	19	595,287,088	302,133,325
Basic and Diluted Loss per Share		$ 0.00	$ 0.00

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

PETROTEQ ENERGY INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the three months ended November 30,2021 and 2020
(Unaudited)
Expressed in US dollars

	Number of Shares Outstanding	Share Capital	Deficit	Shareholders' Equity
Balance at August 31, 2021	564,159,881	$ 166,291,517	$ (100,138,592)	$ 66,152,925
Conversion of convertible debt	81,893,940	4,300,000	-	4,300,000
Beneficial conversion feature on debt extinguishment	-	714,164	-	714,164
Restitution for conversion of convertible debt not in compliance with TSX Venture regulations	-	499,970	-	499,970
Net loss	-	-	(2,545,248)	(2,545,248)
Balance at November 30, 2021	646,053,821	$ 171,805,651	$ (102,683,840)	$ 69,121,811

	Number of Shares Outstanding	Share Capital	Deficit	Shareholders' Equity
Balance at August 31, 2020	274,450,337	$ 144,794,003	$ (90,664,349)	$ 54,129,654
Conversion of convertible debt	38,735,555	1,835,726	-	1,835,726
Settlement of liabilities	60,023,777	2,849,661	-	2,849,661
Common shares subscriptions	7,416,666	410,000	-	410,000
Warrants exercised	2,268,169	68,045	-	68,045
Share-based compensation	-	199,632	-	199,632
Fair value of convertible debt warrants issued	-	783,293	-	783,293
Net loss	-		(410,514)	(410,514)
Balance at November 30, 2020	382,894,504	$ 150,940,360	$ (91,074,863)	$ 59,865,497

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

PETROTEQ ENERGY INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the three months ended November 30, 2021 and 2020
Expressed in US dollars

	Three months ended November 30, 2021 (Unaudited)	Three months ended November 30, 2020 (Unaudited)
Cash flow used for operating activities:		
Net loss	$ (2,545,248)	$ (410,514)
Adjustments to reconcile net loss to net cash (used in) generated by operating activities		
Depreciation, depletion and amortization	11,382	11,523
Amortization of debt discount	375,054	333,748
Loss on debt extinguishment	444,398	330,256
Forgiveness of federal relief loans	(133,890)	-
Loss on conversion of debt	-	134,490
Loss (Gain) on settlement of liabilities	-	80,661
Share-based compensation	-	199,632
Mark to market of derivative liabilities	(52,420)	(156,998)
Other	(20,946)	(951)
Changes in operating assets and liabilities:		
Accounts payable	268,930	(22,623)
Accounts receivable	-	(304,473)
Accrued expenses	17,697	102,570
Prepaid expenses and deposits	(155,000)	2,021
Inventory	-	-
Net cash (used in) generated by operating activities	(1,790,043)	299,342
Cash flows used for investing activities:		
Purchase and construction of property and equipment	-	(1,673,448)
Proceeds from notes receivable	450,000	-
Net cash provided by (used in) investing activities	450,000	(1,673,448)
Cash flows from financing activities:		
Repayments to related parties	(57,346)	(28,311)
Proceeds on private equity placements	-	410,000
Repayment of long-term debt	-	(10,000)
Proceeds from promissory notes	-	20,000
Repayment of promissory notes	-	(28,000)
Restitution for conversion of convertible debt not in compliance with TSX Venture regulations	499,970	-
Repayment of finance lease liability	(46,848)	(41,022)
Proceeds from warrants exercised	-	68,045
Proceeds from convertible debt	-	1,069,500
Repayments of convertible debt	-	(50,000)
Net cash provided by financing activities	395,776	1,410,212
(Decrease) increase in cash	(944,267)	36,106
Cash, beginning of the period	1,012,929	62,404
Cash, end of the period	$ 68,662	$ 98,510
Supplemental disclosure of cash flow information		
Cash paid for interest	$ -	$ 140,481

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

1. GENERAL INFORMATION

Petroteq Energy Inc. (the "Company" or "Petroteq") is a holding company organized under the laws of Ontario, Canada, 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 ("PCA"), conducts our oil sands extraction business through two wholly owned operating companies, Petroteq Oil Recovery, LLC, a Utah limited liability company ("POR"), and TMC Capital, LLC, a Utah limited liability company ("TMC Capital").

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 15315 W. Magnolia Blvd, Suite 120, Sherman Oaks, California 91403, USA.

Through PCA, our wholly owned subsidiary, and PCA's two subsidiaries POR and TMC Capital, the Company is in the business of exploring for, extracting and producing oil and hydrocarbon products from oil sands deposits and sediments located in the Asphalt Ridge Are of Uintah County, Utah, utilizing our proprietary extraction technology (the "Petroteq Clean Oil Recovery Technology" or "Extraction Technology"). Our primary oil sands extraction and processing operations are conducted at our Asphalt Ridge processing facility (herein the "Asphalt Ridge Plant" or "Plant"), which is owned by POR.

Petroteq owns the intellectual property rights to the Petroteq Clean Oil Recovery Technology which is used at our Asphalt Ridge Plant to extract and produce crude oil from oil sands utilizing a closed-loop solvent based extraction system.

Mineral Rights

Through its acquisition of TMC Capital in June 2015, Petroteq indirectly acquired certain mineral rights under the TMC Mineral Lease, which encompassed approximately 1,229.82 acres of land in the Temple Mountain area of Asphalt Ridge in Uintah County, Utah. On or about August 10, 2020, the TMC Mineral Lease in its original form was terminated and a new Short-Term Mining Lease, dated the same date, was entered into between Asphalt Ridge, Inc., as lessor, and Valkor, LLC, ("Valkor") as lessee. Valkor and TMC Capital thereafter entered into a Short-Term Mining and Mineral Sublease dated August 20, 2020, in which all of Valkor's rights and interests under the Short-Term Mining Lease were subleased to TMC Capital.

In June 2018, Petroteq, acting through POR, acquired the record lease title and all of the operating rights to produce oil from oil sands resources under two mineral leases entitled "Utah State Mineral Lease for Bituminous-Asphaltic Sands", each dated June 1, 2018, between the State of Utah's School and Institutional Trust Land Administration ("SITLA"), as lessor, and POR, as lessee, covering lands consisting of approximately 1,351.91 acres that largely adjoin the lands covered by the TMC Mineral Lease. In March 2019, a third SITLA Lease was acquired by Petroteq that added 39.97 acres to the mix in the Temple Mountain area of Asphalt Ridge.

On January 18, 2019, the Company paid $10,800,000 for the acquisition of 50% of the operating rights under U.S. federal oil and gas leases, administered by the U.S. Department of Interior's Bureau of Land Management ("BLM"), covering approximately 5,960 gross acres (2,980 net acres) within the State of Utah. The total consideration of $10,800,000 was settled by the payment of $1,800,000 and by the issuance of 15,000,000 shares at an issue price of $0.60 per share.

On July 22, 2019, the Company acquired the remaining 50% of the operating rights under U.S. federal oil and gas leases, administered by the BLM, covering approximately 5,960 gross acres (2,980 net acres) within the State of Utah for a total consideration of $13,000,000 settled by the issuance of 30,000,000 shares at an issue price of $0.40 per share, and cash of $1,000,000, of which $900,000 has been paid to date.

Between March 14, 2019 and November 30, 2021, the Company made cash deposits of $1,907,000 (acting through TMC Capital), included in prepaid expenses and other current assets on the consolidated balance sheets for the acquisition of 100% of the operating rights under U.S. federal oil and gas leases in Garfield and Wayne Counties, Utah, covering approximately 8,480 gross acres in P.R. Springs and the Tar Sands Triangle within the State of Utah. The total consideration of $3,000,000 has been partially settled by a cash payment of $1,907,000, with the balance of $1,093,000 still outstanding.

1. GENERAL INFORMATION (continued)

Mineral Rights (continued)

In a letter agreement dated April 17, 2020 between the transferor of the oil and gas leases and TMC Capital, as transferee, the parties, due to uncertainty as to whether all of the 10 leases for which the Company had initially paid deposits would be considered active by BLM and included in new Combined Hydrocarbon Leases (CHLs) under the Combined Hydrocarbon Act of 1981 - agreed to adjust the purchase price as follows: (a) should all 10 of the leases be available and included in CHL's, the Company will pay the additional $1,093,000 for the rights under the leases; (b) if only a portion of the leases ranging from 4 to 9 of the leases are available and included in CHL's, the final purchase price of the leases will be between $1.5 million and $2.5 million; and (c) notwithstanding the above, if after a period of 7 years from April 17, 2020, at least six of the leases are not determined to be active and are not included in CHLs the Company shall be entitled to demand a refund of $1.2 million or instruct the Seller to acquire other leases in the same area for up to $1.2 million.

TMC Capital, POR and Valkor have entered into an Agreement Governing Reciprocal Assignment of mineral Leases dated October 15, 2021 (the "Exchange Agreement"), under which (a) TMC and POR agreed to assign to Valkor all of their respective rights and interests in the TMC Mineral Lease (and the Short-Term Mining Lease dated August 10, 2020 held by Valkor) and in the Temple Mountain SITLA Leases, and (b) Valkor agreed to assign to TMC Capital all of its rights and interests (including the record lease title and operating rights) in the Asphalt Ridge NW Leases consisting of three Utah state mineral leases located in the Asphalt Ridge Northwest area of Uintah County, Utah. Under this agreement, once the exchange of SITLA Leases is approved by SITLA, Petroteq (acting through TMC Capital) will hold three new SITLA Leases encompassing approximately 3,458.22 acres in an area called "Asphalt Ridge Northwest".

In addition, under other agreements entered into between or among TMC Capital, POR and Valkor in October 2021, (a) Valkor granted to TMC Capital the right to participate, up to a 50% working interest, in all exploratory, mining and production operations conducted by Valkor under its Short-Term Mining Lease encompassing the acreage that is subject to the TMC Mineral Sublease, and (b) TMC Capital granted to Valkor the operating rights in at or below 500 feet below the surface under the Asphalt Ridge NW Leases, with TMC Capital reserving the right to participate, at up to a 50% working interest, in all exploratory and production operations conducted by Valkor in deeper (below 500 feet subsurface or more) oil sands deposits and reservoirs.

Following completion of the exchange of mineral leases contemplated by the Exchange Agreement, TMC Capital, POR and Valkor, Petroteq (through POR) will continue to own the Asphalt Ridge Plant in the Temple Mountain area of Asphalt Ridge. It is anticipated that Petroteq (acting through TMC Capital) and Valkor will, during the ensuing year, determine whether a new 5,000 BPD oil sands processing plant utilizing Petroteq's Clean Oil Recovery Technology should be constructed and operated on lands covered by the Asphalt Ridge NW Leases.

The assignment of the Temple Mountain SITLA leases by Petroteq's subsidiaries to Valkor and Valkor's assignment of the Asphalt Ridge NW Leases to TMC Capital are subject to approval by SITLA before the transactions are considered final.

Management and Operations

Under the terms of a Management and Operations Services Agreement ("Management Agreement") entered into between the Company and Valkor dated November 22, 2020, effective May 1, 2020, Valkor will provide overall management and operations services at the oil sands recovery plant based in Utah. The agreement is for a period of one year and is renewable automatically for an additional four years unless either party provides the other party with written notice of non-renewal at least 90 days prior to the expiration of the original or renewal term. The company will reimburse Valkor for all costs and expenses incurred, as defined in the agreement, plus a Personnel Management Fee of 12% of the personnel costs and expenses and an operations Management Fee of 5% of the operations costs and expenses.

1. GENERAL INFORMATION (continued)

Management and Operations (continued)

Valkor will provide the Company with quarterly production reports, including the following; (i) the quantity of oil bearing ore and sediments mined, extracted and produced from each of the leases and delivered to the plant; (ii) the quantity of oil products produced, saved and sold at the plant; (iii) the quantity of consumables purchased and used or consumed in operations and (iv) the gross proceeds derived from the sale of the oil products including applicable taxes and transportation costs incurred by Valkor.

Valkor will also provide quarterly operating reports detailing; (i) revenue received by Valkor from oil products sold; (ii) a detailed accounting of all costs and expenses; (iii) the operations Management fee and the Personnel Management fee earned during the quarter.

Valkor will also prepare quarterly Royalty Reports to be delivered to a third party to calculate royalties payable to the holders of royalty interests under various mineral rights leases.

On November 24, 2020, the Company entered into a Technology License Agreement (“License Agreement”) with Greenfield Energy, LLC (“Greenfield”), whereby the Company grants to Greenfield a non-exclusive, non-transferable license under the patent rights and know-how for use in the design, construction and operation of any and all future oil sands plants in the US. Greenfield agrees to pay a license fee of $2,000,000 for oil sands plants designed, developed and constructed by Greenfield. The parties recognize that $1,500,000 has been invested in the Petroteq Oil Sands plant based in Utah and another $500,000 in further plant development and improvements. Greenfield will pay to the Company a 5% royalty based on net revenue received from production and disposition of licensed products unless the licensed product is not covered by a valid claim (in which case the royalty is reduced to 3%).

The Company has agreed to utilize Valkor as the exclusive provider of engineering, planning and construction for all oil sands plants built by Petroteq or Greenfield under this agreement, provided the fees charged by Valkor are reasonable and competitive.

The agreement between the Company and Valkor will remain in effect from November 14, 2020 until the expiration of the last valid patent claim, unless terminated by default or bankruptcy.

Suspension of trading on the TSX Venture Exchange

On August 6, 2021, the Ontario Securities Commission issued a cease trade order (the “CTO”) against the Company, as a result of its failure to file its quarterly report on Form 10-Q (and related certifications) for the period ended May 31, 2021 (the “2021 Q3 Filings”) on or before July 30, 2021, as required under Canadian National Instrument 51-102 – *Continuous Disclosure Obligations*.

The Company filed the 2021 Q3 Filings on SEDAR and with the Canadian Securities Administration on SEDAR, and with the United States Securities and Exchange Commission (the “SEC”) on EDGAR on August 19, 2021. As a result, the Ontario securities Commission revoked the CTO effective August 24,2021. In addition, on August 19, 2021, the Company’s amended financial statements and management’s discussion and analysis for the eight quarters from May 31, 2019 to February 28, 2021 were filed on SEDAR and with the SEC, as set forth in the Company’s amended annual reports on Form 10-K/A for the financial years ended August 31, 2019 and August 31, 2020, and in the Company’s amended quarterly reports on Form 10-Q/A for the periods ended May 31, 2019, November 30, 2019, February 29, 2020, May 31, 2020, November 30, 2020 and February 28, 2021. The Company’s amended financial statements and management discussion and analysis for the period ended February 28, 2019 were filed on SEDAR on August 23, 2021, and with the SEC on August 25, 2021, as exhibits to the Company’s current report on Form 8-K.

As a result of the issuance of the CTO on August 6, 2021, the TSX Venture Exchange (the “TSXV”) suspended trading of the Company’s Common Shares. As part of the TSXV’s review of the Company’s reinstatement application, the TSXV reviewed the Company’s financial statements for the three and nine months ended May 31, 2021 and raised concerns that certain transactions may not have been submitted to the TSXV for approval, as required under the TSXV’s policies. As a result of an internal investigation the Company identified several transactions (the “Transactions”) which although disclosed in the Company’s public filings on SEDAR and EDGAR, had not been submitted for approval by the TSXV.

1. GENERAL INFORMATION (continued)

Suspension of trading on the TSX Venture Exchange (continued)

Based on the Company's initial review of the Transactions, it is estimated that a total of 54,370,814 Common Shares were issued as a result of the Transactions. While some of the issued Common Shares, namely, 4,336,972, are estimated to have been issued at prices above what the TSXV would have otherwise approved, 50,033,842 are estimated to have been issued at share prices below what the TSXV generally approves for convertible securities. While the Company is now making the necessary submissions with the TSXV for the Transactions, they may not all be accepted for approval by the TSXV and as a condition of reinstatement to trading on the TSXV the Company may need to take remedial action to bring the Transactions into compliance.

The Transactions, described below, were all disclosed in the Company's financial statements (all dollar amounts are expressed in U.S. currency unless otherwise indicated):

- On May 7, 2020, the Company issued to an arm's length lender a $64,300 convertible note (including a 10% original issue discount) for a purchase price of $58,000, bearing interest at 12% per annum, maturing on May 7, 2021, and convertible into Common Shares. The note was ultimately converted on November 12, 2020 ($25,000 at $0.0308 for 811,688 Common Shares), November 13, 2020 ($20,000 at $0.0296 for 675,676 Common Shares) and November 13, 2020 ($22,780, including $3,480 of accrued and unpaid interest, at $0.0296 for 769,595 Common Shares). There is currently no principal or interest remaining on the note.

- On June 4, 2020, the Company issued to an arm's length lender a $69,900 convertible note (including a 10% original issue discount) for a purchase price of $63,000, bearing interest at 12% per annum, maturing on June 4, 2021, and convertible into Common Shares. The note was ultimately converted on December 15, 2020 ($18,000 at $0.0282 for 638,298 Common Shares), December 22, 2020 ($18,000 at $0.0338 for 532,544 Common Shares), December 28, 2020 ($20,000 at $0.0338 for 591,716 Common Shares), and January 4, 2021 ($17,680, including $3,780 of accrued and unpaid interest, at $0.0325 for 544,000 Common Shares). There is currently no principal or interest remaining on the note.

- On June 19, 2020, the Company issued to an arm's length lender a $82,500 convertible note (including a 10% original issue discount) for a purchase price of $75,000, bearing interest at 12% per annum, maturing on June 19, 2021, and convertible into Common Shares. The note was ultimately converted on January 7, 2021 ($20,000 at $0.0326 for 613,497 common shares), January 11, 2021 ($27,000 at $0.0326 for 828,221 Common Shares), January 13, 2021 ($22,000 at $0.0326 for 674,847 Common Shares) and January 20, 2021 ($18,000, including $4,500 of accrued and unpaid interest, at $0.0326 for 552,147 Common Shares). There is currently no principal or interest remaining on the note.

- On July 22, 2020, the Company issued to an arm's length lender a $150,000 convertible note (including a 15% original issue discount) for a purchase price of $135,000, bearing interest at 8% per annum, maturing on April 22, 2021, and convertible into Common Shares based on a discount to the market price of the Common Shares upon conversion. The note was ultimately converted on January 25, 2021 ($21,805 at $0.03115 for 700,000 Common Shares), January 28, 2021 ($46,725 at $0.03115 for 1,500,000 Common Shares), February 5, 2021 ($30,957.50 at $0.0309575 for 1,000,000 Common Shares), February 22, 2021 ($33,381.25 at $0.03338125 for 1,000,000 Common Shares) and March 2, 2021 ($34,011.25 at $0.03401125 for 1,000,000 Common Shares). There is currently $3,120 in principal remaining on the note.

- On August 26, 2020, a convertible debenture (which was originally approved by the TSXV), bearing interest at 10% per annum owing to an arm's length lender, which had matured on April 29, 2019, was acquired by another an arm's length lender pursuant to a Debt Assignment and Purchase Agreement. On August 26, 2020, pursuant to a Securities Exchange Agreement, the convertible promissory note was exchanged for a convertible redeemable note with an aggregate principal amount of $192,862, bearing interest at 10% per annum, maturing on August 26, 2021, and convertible into Common Shares. On October 1, 2020, the $192,862 convertible redeemable note was converted into 10,285,991 Common Shares at $0.01875 per share. There is currently no principal or interest remaining on the note.

1. GENERAL INFORMATION (continued)

Suspension of trading on the TSX Venture Exchange (continued)

- On November 6, 2020, the Company issued to an arm's length lender a $140,800 convertible note (including a 10% original issue discount) for a purchase price of $128,000, bearing interest at 12% per annum, maturing on November 6, 2021, and convertible into Common Shares. The note was ultimately converted on May 10, 2021 ($50,000 at $0.036 for 1,388,889 Common Shares), May 14, 2021 ($50,000 at $0.0326 for 1,533,742 Common Shares), May 19, 2021 ($48,480, including $7,680 of accrued and unpaid interest, at $0.0312 for 1,553,846 Common Shares). There is currently no principal or interest remaining on the note.

- Between August 2019 and March 2020, a director of the Company (Robert Dennewald), loaned $125,000 to the Company to assist the Company in meeting its financial obligations. Subsequently, on February 12, 2021, in exchange for the three non-convertible promissory notes issued to Mr. Dennewald, the Company issued a convertible promissory note with an aggregate principal amount of $125,000, bearing interest at 8% per annum, maturing on February 12, 2022, and convertible into Common Shares. On June 10, 2021, pursuant to an Assignment and Purchase of Debt Agreement, the $125,000 convertible promissory note was purchased and assigned by Mr. Dennewald to an arm's length lender. On June 15, 2021, the arm's length lender converted the $125,000 principal amount of the convertible promissory note into 3,048,780 Common Shares at $0.041 per share.

- On January 12, 2021, the Company issued an arm's length lender a $86,350 convertible note (including a 10% original issue discount) for a purchase price of $78,500, bearing interest at 12% per annum, maturing on January 12, 2022, and convertible into Common Shares. The note was ultimately converted on July 13, 2021 ($50,000 at $0.0871 for 574,053 Common Shares) and July 14, 2021 ($41,060, including $4,710 of accrued and unpaid interest, at $0.0863 for 475,782 Common Shares. There is currently no principal or interest remaining on the note.

- On February 25, 2021, the Company issued an arm's length lender a $86,350 convertible promissory note (including a 10% original issue discount) for a purchase price of $78,500, bearing interest at 12% per annum, maturing on February 24, 2022, and convertible into Common Shares. The Company has since repaid the convertible promissory note in full (including principal and interest) in cash.

- On March 22, 2021, the Company and an arm's length lender entered into an amending agreement extending the maturity date of a convertible debenture originally issued on September 17, 2018 from March 31, 2021 to October 31, 2021. The original issuance of the convertible debenture, including a prior amendment to the debenture, was approved by the TSXV. The current unpaid purchase price of the debenture ($2,900,000) is convertible at $0.055 per share.

- On April 21, 2021, the Company issued an arm's length lender a $92,125 convertible promissory note (including a 10% original issue discount) for a purchase price of $83,750, bearing interest at 12% per annum, maturing on April 21, 2022, and convertible into Common Shares based on a discount to the market price of the Common Shares upon conversion. No Common Shares have been issued in connection with this convertible promissory note, which remains outstanding.

- On May 20, 2021, the Company issued an arm's length lender a $141,625 convertible promissory note (including a 10% original issue discount) for a purchase price of $128,750, bearing interest at 12% per annum, maturing on May 20, 2022, and convertible into Common Shares based on a discount to the market price of the Common Shares upon conversion. No Common Shares have been issued in connection with this convertible promissory note, which remains outstanding.

- On October 30, 2018, an arm's length lender loaned $350,000 to the Company. Subsequently, on June 16, 2021, pursuant to an Exchange Agreement, the non-convertible promissory note was exchanged for a convertible redeemable note with an aggregate principal amount of $191,779 bearing interest at 10% per annum, maturing on June 16, 2022, and convertible into Common Shares. On June 16, 2021, pursuant to an Assignment and Purchase of Debt Agreement, the $191,779 convertible redeemable note was purchased and assigned to another arm's length lender and on the same day it was converted into 4,677,532 Common Shares at $0.04100004 per share.

1. GENERAL INFORMATION (continued)

Suspension of trading on the TSX Venture Exchange (continued)

- On June 24, 2021, a non-convertible secured debenture, bearing interest at 12% per annum owing to an arm's length lender with an aggregate amount outstanding of CAD$962,085 (including interest and penalty), which had matured, was acquired by another arm's length lender pursuant to an Assignment and Purchase of Corporate Debt Agreement. On June 30, 2021, pursuant to a Securities Exchange Agreement dated June 28, 2021, the debenture was exchanged for a convertible redeemable note with an aggregate principal amount of $771,610, bearing interest at 8% per annum, maturing on June 30, 2022, and convertible into Common Shares at $0.041 per share. On July 1, 2021, the convertible redeemable note was converted into 18,819,756 Common Shares at $0.041 per share.

- On June 24, 2021, a non-convertible secured debenture, bearing interest at 12% per annum and owing to an arm's length lender, with an aggregate amount outstanding of CAD$38,217 (including interest and penalty), which had matured, was acquired by another arm's length lender pursuant to an Assignment and Purchase of Corporate Debt Agreement. On June 30, 2021, pursuant to a Securities Exchange Agreement dated June 28, 2021, the debenture was exchanged for a convertible redeemable note with an aggregate principal amount of $30,652, bearing interest at 8% per annum, maturing on June 30, 2022 and convertible into Common Shares at $0.041 per share. On July 1, 2021, the convertible redeemable note was converted into 747,616 Common Shares at $0.041 per share.

- On July 2, 2021, the Company issued to an arm's length lender a $114,125 convertible promissory note (including a 10% original issue discount) for a purchase price of $103,750, bearing interest at 12% per annum, maturing on July 2, 2022 and principal and interest convertible into Common Shares based on a discount to the market price of the Common Shares upon conversion. No Common Shares have been issued in connection with this convertible promissory note.

The net proceeds of the Transactions that resulted in new funds to the Company were used for expansion of the Company's extraction plant and working capital.

The Company continues to work with the TSXV on a reinstatement of trading and will update the market as things progress. However, the TSXV has indicated that these matters and their review of the Transactions may take some time to resolve and that a reinstatement to trading is not expected in the near term.

Unsolicited takeover bid by Viston United swiss AG

On October 27, 2021, 2869889 Ontario Inc., an indirect, wholly-owned subsidiary of Viston United Swiss AG commenced a conditional, unsolicited takeover bid (the "Offer") to acquire all of the issued and outstanding Common Shares of the Company. Viston filed a Tender Offer Statement with the SEC relating to the Offer on Schedule TO under section 14(d)(1) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), on October 25, 2021, and an amendment to the Tender Offer Statement on October 27, 2021. As set forth in the Solicitation/Recommendation Statement on Schedule 14D-9 under section 14(d)(4) of the Exchange Act filed with the SEC on November 9, 2021, shareholders were advised that the Board of Directors was then not yet in a position to make a recommendation to shareholders to accept or reject the Offer, and that the Company had retained Haywood Securities Inc. as financial advisor to the Company and the Board of Directors.

As set forth in the amendment to the Solicitation/Recommendation Statement on Schedule 14D-9, as filed with the SEC on January 4, 2022, on December 29, 2021, after thorough consideration of all aspects of the Viston Offer, the advice provided by Haywood and consulting with its other advisors, the Board unanimously determined to recommend that Shareholders accept the Viston Offer and tender their Common Shares, for reasons that include the following:

Results of Strategic Review

Based on the results of the strategic review presented by Haywood, the Board believes that the immediate cash value offered to Shareholders under the Viston Offer is more favorable to Shareholders than the potential value that might otherwise result from other alternatives reasonably available to Petroteq, including remaining as a stand-alone entity and pursuing Petroteq's existing strategy, in each case taking into consideration the potential rewards, risks, timelines and uncertainties associated with those other alternatives.

1. GENERAL INFORMATION (continued)

Unsolicited takeover bid by Viston United swiss AG (continued)

Premium Over Market Price

The consideration of C$0.74 in cash per Common Share (the "Cash Consideration") under the Viston Offer represents a premium of approximately 279% over the closing price of the Common Shares on the TSXV on August 6, 2021, being the last trading day that the Common Shares were traded on the TSXV.

Unlikelihood of Superior Proposal

The Board, with the assistance of Haywood, has taken active steps to assess and solicit strategic alternatives and has attempted to secure a proposal that would be superior to the Viston Offer. However, no superior alternative to the Viston Offer has emerged and Petroteq does not expect a superior alternative to emerge in the near term.

Common Shares Remain Relatively Illiquid

Trading in the Common Shares on the TSXV remains suspended, and there is no certainty as to when the TSXV will resume trading in the Common Shares.

Certainty of Outcome

The Viston Offer provides 100% cash consideration for the Common Shares and offers Shareholders certainty of value and immediate liquidity.

Possible Decline in Market Price

If the Viston Offer is not successful and another alternative offer with superior financial terms does not emerge, the market price of the Common Shares in the public markets may decline significantly.

Reduces Inherent Business Risk

Based on the strategic review conducted with Haywood, the Viston Offer appears to provide Shareholders with the value inherent in Petroteq's portfolio of projects, assuming they are fully realized, without the long-term risks associated with the development and execution of those projects. Given the relatively early stage of Petroteq's projects, it will be several years before the projects in Petroteq's portfolio reach commercial production, if at all.

Significant Growth Funding Required

Petroteq's projects have significant funding requirements to prove and scale its technology. Petroteq currently has limited cash to fund its necessary capital projects and near-term debt maturities, which will be a further drain on cash. Equity financing sufficient to repay debt and fund the progress of Petroteq's business plan, if available, may be significantly dilutive to Shareholders.

Ability to Respond to Superior Proposals

Petroteq has not entered into a support or similar agreement with Viston in respect to the Viston Offer. The Board has reserved the ability to seek out or respond to proposals that may deliver greater value to Shareholders than the Viston Offer. There is nothing to prevent a third party from proposing or making a superior proposal or preclude Petroteq from changing its recommendation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial information with the instructions to Form 10-Q and Rule 8-03 of Regulation S-X. Accordingly, these unaudited condensed consolidated financial statements do not include all of the information and disclosures required by U.S. GAAP for complete financial statements. In the opinion of management, the accompanying unaudited condensed consolidated financial statements include all adjustments (consisting only of normal recurring adjustments), which the Company considers necessary, for a fair presentation of those financial statements. The results of operations and cash flows for the three months ended November 30, 2021 may not necessarily be indicative of results that may be expected for any succeeding quarter or for the entire fiscal year.

The unaudited condensed 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. Accordingly, all amounts referred to in the notes to the unaudited condensed consolidated financial statements are in U.S. dollars unless stated otherwise.

The Company is an "SEC Issuer" as defined under National Instrument 52-107 *"Accounting Principles and Audit Standards"* as adopted by the Canadian Securities Administrators and is relying on the exemptions of Section 3.7 of NI 52-107 and of Section 1.4(8) of the Companion Policy to National Instrument 51-102 *"Continuous Disclosure Obligations"* ("NI 51-102CP") which permits the Company to prepare its financial statements in accordance with U.S. GAAP for Canadian securities law reporting purposes.

The unaudited condensed consolidated financial statements were authorized for issue by the Board of Directors on January 19, 2022.

(b) Consolidation

The unaudited condensed consolidated financial statements include the financial statements of the Company and its subsidiaries in which it has at least a majority voting interest. All significant inter-company accounts and transactions have been eliminated in the unaudited condensed consolidated financial statements. The entities included in these unaudited condensed consolidated financial statements are as follows:

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Estimates

The preparation of these unaudited condensed consolidated financial statements in accordance with US GAAP requires the Company to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the unaudited condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The Company continually evaluates its estimates, including those related to recovery of long-lived assets. The Company bases its estimates on historical experience and on other assumptions that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Any future changes to these estimates and assumptions could cause a material change to the Company's reported amounts of revenues, expenses, assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions. The Company believes the following critical accounting policies affect its more significant judgments and estimates used in the preparation of the unaudited condensed consolidated financial statements. Significant estimates include the following;

- the useful lives and depreciation rates for intangible assets and property, plant and equipment;
- the carrying and fair value of oil and gas properties and product and equipment inventories;
- all provisions;
- the fair value of reporting units and the related assessment of goodwill for impairment, if applicable;
- the fair value of intangibles other than goodwill;
- income taxes and the recoverability of deferred tax assets
- legal and environmental risks and exposures; and
- general credit risks associated with receivables, if any.

(d) Foreign currency translation adjustments

The Company's reporting currency and the functional currency of all its operations is the U.S. dollar. Assets and liabilities of the Canadian parent company are translated to U.S. dollars using the applicable exchange rate as of the end of a reporting period. Income, expenses and cash flows are translated using an average exchange rate during the reporting period. Since the reporting currency as well as the functional currency of all entities is the U.S. Dollar there is no translation difference recorded.

(e) Revenue recognition

The Company recognizes revenue in terms of ASC 606 – Revenue from Contracts with Customers (ASC 606).

Revenue transactions are assessed using a five-step revenue recognition model to depict the transfer of goods or services to customers in an amount that reflects the consideration in exchange for those goods or services. The five steps are as follows:

i. identify the contract with a customer;

ii. identify the performance obligations in the contract;

iii. determine the transaction price;

iv. allocate the transaction price to performance obligations in the contract; and

v. recognize revenue as the performance obligation is satisfied.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Revenue recognition (continued)

Revenue from hydrocarbon sales

Revenue from hydrocarbon sales include the sale of hydrocarbon products and are recognized when production is sold to a purchaser at a fixed or determinable price, delivery has occurred, control has transferred and collectability of the revenue is probable. The Company's performance obligations are satisfied at a point in time. This occurs when control is transferred to the purchaser upon delivery of contract specified production volumes at a specified point. The transaction price used to recognize revenue is a function of the contract billing terms. Revenue is invoiced, if required, upon delivery based on volumes at contractually based rates with payment typically received within 30 days after invoice date. Taxes assessed by governmental authorities on hydrocarbon sales, if any, are not included in such revenues, but are presented separately in the consolidated comprehensive statements of loss and comprehensive loss.

Transaction price allocated to remaining performance obligations

The Company does not anticipate entering into long-term supply contracts, rather it expects all contracts to be short-term in nature with a contract term of one year or less. The Company intends applying the practical expedient in ASC 606 exempting the disclosure of the transaction price allocated to remaining performance obligations if the performance obligation is part of a contract that has an original expected duration of one year or less. For contracts with terms greater than one year, the Company will apply the practical expedient in ASC 606 exempting the disclosure of the transaction price allocated to remaining performance obligations if there is any variable consideration to be allocated entirely to a wholly unsatisfied performance obligation. The Company anticipates that with respect to the contracts it will enter into, each unit of product will typically represent a separate performance obligation; therefore, future volumes are wholly unsatisfied and disclosure of the transaction price allocated to remaining performance obligations is not required.

Contract balances

The Company does not anticipate that it will receive cash relating to future performance obligations. However if such cash is received, the revenue will be deferred and recognized when all revenue recognition criteria are met.

Disaggregation of revenue

The Company has limited revenues to date. Disaggregation of revenue disclosures can be found in Note 23.

Customers

The Company anticipates that it will have a limited number of customers which will make up the bulk of its revenues due to the nature of the oil and gas industry.

(f) General and administrative expenses

General and administrative expenses will be presented net of any working interest owners, if any, of the oil and gas properties owned or leased by the Company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Share-based payments

The Company may grant stock options to directors, officers, employees and others providing similar services. The fair value of these stock 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 on a straight-line basis 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.

(h) Income taxes

The Company utilizes ASC 740, Accounting for Income Taxes, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each period end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

The Company accounts for uncertain tax positions in accordance with the provisions of ASC 740, “Income Taxes”. Accounting guidance addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the consolidated financial statements, under which a company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position.

The tax benefits recognized in the consolidated financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. Accordingly, the Company would report a liability for unrecognized tax benefits resulting from uncertain tax positions taken or expected to be taken in a tax return. The Company elects to recognize any interest and penalties, if any, related to unrecognized tax benefits in tax expense.

(i) Net income (loss) per share

Basic net income (loss) per share is computed on the basis of the weighted average number of common shares outstanding during the period.

Diluted net income (loss) per share is computed on the basis of the weighted average number of common shares and common share equivalents outstanding. Dilutive securities having an anti-dilutive effect on diluted net income (loss) per share are excluded from the calculation.

Dilution is computed by applying the treasury stock method for stock options and share purchase warrants. Under this method, “in-the-money” stock options and share purchase warrants are assumed to be exercised at the beginning of the period (or at the time of issuance, if later), and as if funds obtained thereby were used to purchase common shares at the average market price during the period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Cash and cash equivalents

The Company considers all highly liquid investments with original contractual maturities of three months or less to be cash equivalents.

(k) Accounts receivable

The Company had minimal sales during the period of which all proceeds were collected therefore there are no accounts receivable balances.

(l) Oil and gas property and equipment

The Company follows the successful efforts method of accounting for its oil and gas properties. Exploration costs, such as exploratory geological and geophysical costs, and costs associated with delay rentals and exploration overhead are charged against earnings as incurred. Costs of successful exploratory efforts along with acquisition costs and the costs of development of surface mining sites are capitalized.

Site development costs are initially capitalized, or suspended, pending the determination of proved reserves. If proved reserves are found, site development costs remain capitalized as proved properties. Costs of unsuccessful site developments are charged to exploration expense. For site development costs that find reserves that cannot be classified as proved when development is completed, costs continue to be capitalized as suspended exploratory site development costs if there have been sufficient reserves found to justify completion as a producing site and sufficient progress is being made in assessing the reserves and the economic and operating viability of the project. If management determines that future appraisal development activities are unlikely to occur, associated suspended exploratory development costs are expensed. In some instances, this determination may take longer than one year. The Company reviews the status of all suspended exploratory site development costs quarterly.

Capitalized costs of proved oil and gas properties are depleted by an equivalent unit-of-production method. Proved leasehold acquisition costs, less accumulated amortization, are depleted over total proved reserves, which includes proved undeveloped reserves. Capitalized costs of related equipment and facilities, including estimated asset retirement costs, net of estimated salvage values and less accumulated amortization are depreciated over proved developed reserves associated with those capitalized costs. Depletion is calculated by applying the DD&A rate (amortizable base divided by beginning of period proved reserves) to current period production.

Costs associated with unproved properties are excluded from the depletion calculation until it is determined whether or not proved reserves can be assigned to such properties. The Company assesses its unproved properties for impairment annually, or more frequently if events or changes in circumstances dictate that the carrying value of those assets may not be recoverable.

Proved properties will be assessed for impairment annually, or more frequently if events or changes in circumstances dictate that the carrying value of those assets may not be recoverable. Individual assets are grouped for impairment purposes based on a common operating location. If there is an indication the carrying amount of an asset may not be recovered, the asset is assessed for potential impairment by management through an established process. If, upon review, the sum of the undiscounted pre-tax cash flows is less than the carrying value of the asset, the carrying value is written down to estimated fair value. Because there is usually a lack of quoted market prices for long-lived assets, the fair value of impaired assets is typically determined based on the present values of expected future cash flows using discount rates believed to be consistent with those used by principal market participants or by comparable transactions. The expected future cash flows used for impairment reviews and related fair value calculations are typically based on judgmental assessments of future production volumes, commodity prices, operating costs, and capital investment plans, considering all available information at the date of review.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Oil and gas property and equipment (continued)

Gains or losses are recorded for sales or dispositions of oil and gas properties which constitute an entire common operating field or which result in a significant alteration of the common operating field's DD&A rate. These gains and losses are classified as asset dispositions in the accompanying consolidated statements of loss and comprehensive loss. Partial common operating field sales or dispositions deemed not to significantly alter the DD&A rates are generally accounted for as adjustments to capitalized costs with no gain or loss recognized.

The Company capitalizes interest costs incurred and attributable to material unproved oil and gas properties and major development projects of oil and gas properties.

(m) Other property and equipment

Depreciation and amortization of other property and equipment, including corporate and leasehold improvements, are provided using the straight-line method based on estimated useful lives ranging from three to ten years. Interest costs incurred and attributable to major corporate construction projects are also capitalized.

(n) Asset retirement obligations and environmental liabilities

The Company recognizes liabilities for retirement obligations associated with tangible long-lived assets, such as producing sites when there is a legal obligation associated with the retirement of such assets and the amount can be reasonably estimated. The initial measurement of an asset retirement obligation is recorded as a liability at its fair value, with an offsetting asset retirement cost recorded as an increase to the associated property and equipment on the consolidated balance sheet. When the assumptions used to estimate a recorded asset retirement obligation change, a revision is recorded to both the asset retirement obligation and the asset retirement cost. The Company's asset retirement obligations also include estimated environmental remediation costs which arise from normal operations and are associated with the retirement of such long-lived assets. The asset retirement cost is depreciated using a systematic and rational method similar to that used for the associated property and equipment.

(o) Commitments and contingencies

Liabilities for loss contingencies arising from claims, assessments, litigation or other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Liabilities for environmental remediation or restoration claims resulting from allegations of improper operation of assets are recorded when it is probable that obligations have been incurred and the amounts can be reasonably estimated. Expenditures related to such environmental matters are expensed or capitalized in accordance with the Company's accounting policy for property and equipment.

(p) Fair value measurements

Certain of the Company's assets and liabilities are measured at fair value at each reporting date. Fair value represents the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants. This price is commonly referred to as the "exit price." Fair value measurements are classified according to a hierarchy that prioritizes the inputs underlying the valuation techniques. This hierarchy consists of three broad levels:

- Level 1 – Inputs consist of unadjusted quoted prices in active markets for identical assets and liabilities and have the highest priority. When available, the Company measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value.

- Level 2 – Inputs consist of quoted prices that are generally observable for the asset or liability. Common examples of Level 2 inputs include quoted prices for similar assets and liabilities in active markets or quoted prices for identical assets and liabilities in markets not considered to be active.

- Level 3 – Inputs are not observable from objective sources and have the lowest priority. The most common Level 3 fair value measurement is an internally developed cash flow model.

Expressed in US dollars

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) 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.

(r) Recent accounting standards

Issued accounting standards not yet adopted

The Company will evaluate the applicability of the following issued accounting standards and intends to adopt those which are applicable to its activities.

In August 2020, the FASB issued ASU No. 2020-06, debt with Conversion and Other Options (subtopic 470-20): and Derivatives and Hedging – Contracts in Entity's Own Equity (Subtopic 815-40). Certain accounting models for convertible debt instruments with beneficial conversion features or cash conversion features are removed from the guidance and for equity instruments the contracts affected are free standing instruments and embedded features that are accounted for as derivatives, the settlement assessment was simplified by removing certain settlement requirements.

This ASU is effective for fiscal years and interim periods beginning after December 15, 2021.

The effects of this ASU on the Company's condensed consolidated financial statements is currently being assessed and is expected to have an immaterial impact on the financial statements.

Any new accounting standards, not disclosed above, that have been issued or proposed by FASB that do not require adoption until a future date are not expected to have a material impact on the financial statements upon adoption.

3. GOING CONCERN

The Company has incurred losses for several years and, at November 30, 2021, has an accumulated deficit of $102,683,840 (August 31, 2021 - $100,138,592) and working capital (deficiency) of $2,979,405 (August 31, 2021 - $6,264,427). These unaudited condensed 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 unaudited condensed 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.

4. NOTES RECEIVABLE

The Company's notes receivables consist of:

	Maturity Date	Interest Rate	Principal due November 30, 2021	Principal due August 31, 2021
Notes Receivable – Related Party				
Manhatten Enterprises	March 16, 2020	5%	$ 76,000	$ 76,000
Interest accrued			17,907	16,959
			$ 93,907	**$ 92,959**
Notes Receivable				
Deweast Limited	January 31, 2022	-	$ -	$ 200,000
Unhide Inc	September 30, 2021	-	-	230,000
			$ -	$ 430,000

4. NOTES RECEIVABLE (continued)

Manhatten Enterprises – Related Party

The Company advanced Manhatten Enterprises the sum of $76,000 pursuant to a promissory note on March 16, 2017. The note, which bears interest at 5% per annum, matured on March 16, 2020. The Note has reached its maturity date, management has undertaken to enter into a new agreement or extend the terms of the existing agreement, there have been no successful negotiations to date.

Manhatten Enterprises is controlled by a director of the Company, Dr. Vladimir Podlipsky.

Deweast Limited

On August 31, 2021, in terms of an unsecured loan agreement entered into with Deweast Limited (“Deweast”) the Company advanced the sum of $200,000 to Deweast, maturing on January 31, 2022. On or before the maturity date Deweast agreed to repay the Company $220,000. In the event that Deweast fails to repay the amount due on maturity date the full balance owing at maturity will accrue interest at 10% per annum until paid in full.

The principal sum of $200,000 plus accrued interest of $20,000 was repaid during the current quarter.

Unhide, Inc.

On August 31, 2021, in terms of an unsecured loan agreement entered into with Unhide Inc. (“Unhide”) the Company advanced the sum of $230,000 to Unhid, maturing on September 30, 2021. On or before the maturity date Unhide agreed to repay the Company $238,000. In the event that Unhide fails to repay the amount due on maturity date the full balance owing at maturity will accrue interest at 10% per annum until paid in full.

The principal sum of $230,000 plus accrued interest thereon of $8,000 was repaid during the current quarter.

5. PREPAYMENTS AND OTHER CURRENT ASSETS

Included in prepayments and other current assets are cash deposits of $1,907,000 (acting through its wholly owned subsidiary, TMC Capital LLC (“TMC”), for the acquisition of 100% of the operating rights under U.S. federal oil and gas leases, administered by the U.S. department of Interiors’ Bureau of Land Management in Garfield and Wayne Counties covering approximately 8,480 gross acres in P.R. Springs and the Tar Sands Triangle within the State of Utah. The total consideration of $3,000,000 has been partially settled by a cash payment of $1,907,000, with the balance of $1,093,000 still outstanding.

In terms of a letter agreement dated April 17, 2020 between the transferor of the oil and gas leases and TMC, as transferee, due to uncertainty as to whether all of the 10 leases which the Company had initially paid deposits for are available, an adjustment to the purchase price has been agreed upon as follows: (i) should all 10 of the leases be available, the Company will pay the additional $1,093,000 for the rights under the leases; (ii) if only a portion of the leases ranging from 4 to 9 of the leases are available, the Company will adjust the final purchase price of the leases to between $1.5 million and $2.5 million; and (iii) notwithstanding the above, if after a period of 7 years from April 17, 2020, if at least six of the leases are not available to the Company, then the Company may demand a refund of $1.2 million or instruct the Seller to acquire other leases in the same area for up to $1.2 million.

In addition, included in prepayments and other current assets is an amount of $500,000 paid during the period July 8, 2021 and August 11, 2021, in terms of the agreements governing reciprocal assignment of mineral leases dated as of October 15, 2021 under which TMC and POR agreed to; (i) assign all of its interest in the TMC mineral leases and the short term mining lease dated August 10, 2020 as amended on July 1, 2021, sub-leased from Valkor and two mineral leases entered into between SITLA, as lessor, and POR, as lessee, covering lands in Asphalt Ridge that largely adjoin the lands held under the TMC Mineral Lease, and Valkor agreed to assign to TMC Capital LLC, the record lease title and all of its rights and interest under three SITLA Utah state oil sands leases located in an area referred to as “Asphalt Ridge Northwest” in Uintah County Utah.

The assignment of the SITLA leases are subject to approval by SITLA before the agreement comes into effect.

As of November 30, 2021, the Company has paid retainers to lawyers of $155,000 for administrative matters it is currently defending.

Expressed in US dollars

6. MINERAL LEASES

	TMC Mineral Lease	SITLA Mineral Lease	BLM Mineral Lease	Total
Cost				
August 31, 2020	$ 11,091,388	$ 19,755	$ 23,800,000	$ 34,911,143
Additions	-	-	-	-
August 31, 2021	11,091,388	19,755	23,800,000	34,911,143
Additions	-	-	-	-
November 30, 2021	$ 11,091,388	$ 19,755	$ 23,800,000	$ 34,911,143
Accumulated Amortization				
August 31, 2020, 2021 and November 30, 2021	$ -	$ -	$ -	$ -
Carrying Amounts				
August 31, 2020	$ 11,091,388	$ 19,755	$ 23,800.000	$ 34,911,143
August 31, 2021	$ 11,091,388	$ 19,755	$ 23,800,000	$ 34,911,143
November 30, 2021	$ 11,091,388	$ 19,755	$ 23,800,000	$ 34,911,143

During October 2021, the Company, acting through its indirect wholly owned subsidiaries TMC and POR, and Valkor, have entered into the Exchange Agreement governing reciprocal assignment of mineral leases dated as of October 15, 2021 under which TMC and POR agreed to assign all of their respective interests in the TMC mineral leases and the short term mining lease dated August 10, 2020 as amended on July 1, 2021, sub-leased from Valkor and two mineral leases entered into between the State of Utah's School and Institutional Trust Land Administration ("SITLA"), as lessor, and POR, as lessee, covering lands in Asphalt Ridge that largely adjoin the lands held under the TMC Mineral Lease and Valkor agreed to assign to TMC Capital LLC, the record lease title and all of its rights and interest under three SITLA Utah state oil sands leases located in an area referred to as "Asphalt Ridge Northwest" in Uintah County Utah.

In addition, the Corporation, acting through TMC, and Valkor entered into an Agreement and Assignment of Participation Rights in Mineral Leases and Properties, dated as of October 15, 2021, in which Valkor agreed to grant to TMC a right to participate in any oil sands development operations conducted by Valkor in the future on or within the privately owned Temple Mountain Lease; and the Company, acting through TMC and Valkor entered into an Agreement Governing Assignment of Operating Rights Under Utah State Mineral Leases, dated as of October 15, 2021, in under which TMC agreed to assign to Valkor all of the operating rights under the Asphalt Ridge North West Leases at depths and intervals located 500 feet or more below the surface, with TMC reserving the right to participate in (a) any exploratory or production operation conducted by Valkor at the deeper depths or intervals (below 500 feet from the surface) at and with up to a 50% working interest, and (b) in any oil sands processing plant proposed by either party at up to a 50% ownership interest in any such plant.

The assignment of the SITLA leases are subject to approval by SITLA before the agreement comes into effect.

6. MINERAL LEASES (continued)

(a) TMC Mineral Lease

Effective August 10, 2020, the TMC mineral lease was terminated and a new Short-Term Mining Lease agreement between Valkor and Asphalt Ridge, Inc was entered into with a back to back Short-Term Mining and Mineral sub-lease entered into between Valkor and TMC, whereby all of the rights and obligations of the lease were sub-let to TMC.

The salient terms of the lease were as follows:

1. The exclusive right and privilege during the term of this Sublease 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, non-metalliferous or otherwise, including, but not limited to, gold, silver, platinum, sand and clays on and in the Property, and whether heretofore known or hereafter discovered (collectively, "Minerals"), from the ground surface to a depth of 3,000 feet above Mean Sea level (MSL), together with the products and byproducts of the processing of the Minerals, and together with the right to use so much of the surface of the Property as may be necessary in the exercise of said rights and in furtherance of the purposes expressed herein, including ingress and egress, and together with the right to construct on the Property 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, but not including the construction of any new roads without the prior written consent of Sublessor; and

2. The right to use any or all of the Water Rights at any time during the term of this Sublease in conducting its activities as provided for herein; provided that approval of change applications may need to be obtained in order to allow use of the Water Rights on the Property for mining purposes.

3. The term of the sub-lease is for the period ending June 30, 2021 unless the Short Term Mining Lease between Valkor and Asphalt Ridge is terminated earlier.

4. During the Term and subject to the Lessor Reserved Rights, Sublessee shall have the right to explore, develop, mine, drill, pump, process, produce and market the Minerals in, on, or under the Property, including any existing stockpiles or dumps, whether by drilling, surface, strip, contour, quarry, bench, underground, solution, in situ or other mining methods, and in connection therewith, Sublessee shall have the right to conduct the following activities and operations ("Operations") on the Property in accordance with the terms of this Sublease and applicable laws and regulations:

    a. To mine, process, mill, beneficiate, treat, concentrate, extract, refine, leach, convert, upgrade, prepare for market, any and all Minerals mined or otherwise extracted from the Property;

    b. To temporarily store or permanently dispose on the Property Minerals, water, waste or other materials resulting from Operations on the Property;

    c. to use and develop any and all ditches, flumes, water and Water Rights and appurtenant to the Property; and

    d. to use so much of the surface and surface resources of the Property as may be reasonably necessary in the exercise of said rights, or which Sublessee may deem desirable or convenient, including rights of ingress and egress in connection with its operations on the Property. During the term of the lease the sub-lessee has the right to use any or all of the Water Rights at any time during the term of this Sublease in conducting its activities as provided for herein; provided that approval of change applications may need to be obtained in order to allow use of the Water Rights on the Property for mining purposes.

6. MINERAL LEASES (continued)

(a) TMC Mineral Lease (continued)

5. TMC will pay Valkor the sum of $25,000 on lease commencement, and thereafter $15,000 per month until expiration of the lease

6. TMC will pay a production royalty as follows:

   a. For "Bitumen Product" produced from Tar Sands mined or otherwise extracted from the Property shall be eight percent (8%) of the gross sales revenue received by Sublessee from the sale of such Bitumen Product at the Property. As used herein, the term "Bitumen Product" means naturally 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 upgrading of the Bitumen Product

   b. The Production Royalty on all other Minerals produced from Bitumen Product mined or otherwise extracted from the Property and sold shall be eight percent (8%) of the gross sales revenue received by Sublessee. Subject to the provisions of Paragraph 1, 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 made from such materials, payments to Sublessor may vary. If Sublessee's receipts are measurably greater than comparable sales by others of similar products or byproducts which may be due to the nature of high end by-products such as frac sands produced and sold by the third party, the Production Royalty to Sublessor 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 Sublessee from the sale of such products or byproducts, as the case may be.

   c. The Production Royalty on oil and gas, and associated hydrocarbons produced by Sublessee using standard oil and gas drilling recovery techniques above 3000 feet MSL and sold shall be 1/6 of the gross market value.

   d. Any sales of Minerals 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.

   e. Minerals shall be deemed sold at the time they leave the Property or at the time the Minerals are transferred by Sublessee to an Affiliate. As used herein, "Affiliate" means any business entity which, directly or indirectly, is owned or controlled by Sublessee or owns or controls Sublessee, or any entity or firm acquiring Minerals from Sublessee otherwise than at arm's-length.

7. Prior to commencing any Operations, Sublessee shall have obtained final approval of all necessary mining and reclamation plans from the Utah Division of Oil, Gas and Mining, or its successor agency (the "Division") authorizing Sublessee's Operations and shall have posted with and obtained approval from the Division of a surety bond or other financial guarantee ("Reclamation Surety") in the amount and form acceptable to the Division and sufficient to guarantee Sublessee's performance of reclamation in accordance with Utah laws and regulations. The amount of the surety bond or financial guarantee shall be periodically reviewed in accordance with Division's regulations and, if the Division directs, increased or otherwise modified as directed by the Division. Sublessee shall keep Sublessor fully informed as to reclamation costs and bonding requirements and Sublessor's approval of the bond amount shall be required. Sublessor will not unreasonably withhold such approval.

8. Under the terms of the Lease, Asphalt Ridge , Inc. has reserved the right at any time during the term of the Lease to convey all or part of the Property or the Water Rights, or rights therein, subject to the Lease and shall give Sublessor Notice of any such conveyance. This Sublease shall be subject to the right reserved by the Lessor as described herein. Upon Sublessor's receipt of any sale or conveyance of the Property by Lessor, Sublessor shall promptly notify Sublessee in writing of any such conveyance.

Expressed in US dollars

6. MINERAL LEASES (continued)

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

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

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

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

(c) BLM Mineral Lease

On January 18, 2019, the Company paid $10,800,000 for the acquisition of 50% of the operating rights under U.S. federal oil and gas leases, administered by the U.S. Department of Interior's Bureau of Land Management ("BLM") covering approximately 5,960 gross acres (2,980 net acres) within the State of Utah. The total consideration of $10,800,000 was settled by a cash payment of $1,800,000 and by the issuance of 15,000,000 shares at an issue price of $0.60 per share, amounting to $9,000,000.

On July 22, 2019, the Company acquired the remaining 50% of the operating rights under U.S. federal oil and gas leases, administered by the BLM covering approximately 5,960 gross acres (2,980 net acres) within the State of Utah, for a total consideration of $13,000,000 settled by the issuance of 30,000,000 shares at an issue price of $0.40 per share, amounting to $12,000,000 and cash of $1,000,000, of which $100,000 has not been paid to date.

7. PROPERTY, PLANT AND EQUIPMENT

	Oil Extraction Plant	Other Property and Equipment	Total
Cost			
August 31, 2020	$ 37,627,885	$ 438,860	$ 38,066,745
Additions	5,512,715	-	5,512,715
August 31, 2021	43,140,600	438,860	43,579,460
Additions	-	-	-
November 30, 2021	$ 43,140,600	$ 438,860	$ 43,579,460
Accumulated Amortization			
August 31, 2020	$ 2,148,214	$ 336,019	$ 2,484,233
Additions	-	45,810	45,810
August 31, 2021	2,148,214	381,829	2,530,043
Additions	-	11,382	11,382
November 30, 2021	$ 2,148,214	$ 393,211	$ 2,541,425
Carrying Amount			
August 31, 2020	$ 35,479,671	$ 102,841	$ 35,582,512
August 31, 2021	$ 40,992,386	$ 57,031	$ 41,049,417
November 30, 2021	$ 40,992,386	$ 45,649	$ 41,038,035

7. PROPERTY, PLANT AND EQUIPMENT (continued)

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 while continuing its project to increase production capacity to a minimum capacity of 400-500 barrels per day. The plant has been substantially relocated to the TMC mining site and expansion of the plant to production of 400-500 barrels per day has been substantially completed.

Included in the cost of construction is capitalized borrowing costs as at November 30, 2021 and August 31, 2021 of $4,421,055. No borrowing costs were capitalized for the three months ended November 30, 2021 and the year ended August 31, 2021.

As a result of the relocation of the plant and the planned expansion of the plant's production capacity to 400-500 barrels per day, and subsequently to an additional 3,000 barrels per day, the Company re-evaluated the depreciation policy of the oil extraction plant and the oil extraction technologies (Note 9) 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, 2021 and for the year ended August 31, 2021 as there has only been test production during these years.

8. LEASES

The Company entered into a real property lease for office space located at 15315 Magnolia Blvd., Sherman Oaks, California. The lease commenced on September 1, 2019 and expires on August 31, 2024, monthly rental expense is $4,941 per month with annual 3% escalations during the term of the lease.

The initial value of the right-of-use asset was $245,482 and the operating lease liability was $245,482. The Company monitors for events or changes in circumstances that require a reassessment of our lease. When a reassessment results in the remeasurement of a lease liability, a corresponding adjustment is made to the carrying amount of the corresponding right-of-use asset unless doing so would reduce the carrying amount of the right-of-use asset to an amount less than zero. In that case, the amount of the adjustment that would result in a negative right-of-use asset balance is recorded as a loss in the statement of operations and comprehensive loss.

During April 2015, the Company entered into two equipment loan agreements in the aggregate amount of $282,384, 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 on the timing of the initial repayment of $132,200 and subsequent 42 monthly instalments of $15,571. The terms of the note were renegotiated during June 2020, and the instalments were amended to $16,140 per month due to payments not being made during the pandemic. The promissory note is secured by the crusher.

Discount Rate

To determine the present value of minimum future lease payments for operating leases at September 1, 2019, the Company was required to estimate a rate of interest that it would have to pay to borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment (the "incremental borrowing rate" or "IBR").

The Company determined the appropriate IBR by identifying a reference rate and making adjustments that take into consideration financing options and certain lease-specific circumstances. For the reference rate, the Company used the 5 year ARM (adjustable-rate mortgage) interest rate at the time of entering into the agreement and compared that rate to the Company's weighted average cost of funding at the time of entering into the operating lease. The Company determined that 10.00% was an appropriate incremental borrowing rate to apply to its real-estate operating lease.

Expressed in US dollars

8. LEASES (continued)

Right of use assets

Right of use assets included in the consolidated Balance Sheet are as follows:

	November 30, 2021	August 31, 2021
Non-current assets		
Right of use assets – operating leases, net of amortization	$ 155,402	$ 167,048
Right of use assets – finance leases, net of depreciation – included in property, plant and equipment	667,768	677,853

Lease costs consist of the following:

	Three months ended November 30, 2021	Three months ended November 30, 2020
Finance lease cost:	**$ 11,657**	**$ 17,483**
Depreciation of right of use assets	10,085	10,085
Interest expense on lease liabilities	1,572	7,398
Operating lease expense	**15,268**	**15,268**
Total lease cost	**$ 26,925**	**$ 32,751**

Other lease information:

	Three months ended November 30, 2021	Three months ended November 30, 2020
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from finance leases	$ (1,572)	$ (7,398)
Operating cash flows from operating leases	(15,268)	(15,268)
Financing cash flows from finance leases	$ (46,848)	$ (41,022)
Weighted average remaining lease term – finance leases	2 months	1.11 years
Weighted average remaining lease term – operating leases	2.75 years	3.75 years
Weighted average discount rate – finance leases	13.52%	13.52%
Weighted average discount rate – operating leases	10.00%	10.00%

Expressed in US dollars

8. LEASES (continued)

Maturity of Leases

The amount of future minimum lease payments under finance leases is as follows:

	November 30, 2021	August 31, 2021
Undiscounted minimum future lease payments		
Total instalments due:		
Within 1 year	$ 32,280	$ 80,700
	32,280	80,700
Imputed interest	(4,070)	(5,642)
Total finance lease liability	$ 28,210	$ 75,058
Disclosed as:		
Current portion	$ 28,210	$ 75,058

The amount of future minimum lease payments under operating leases is as follows:

	November 30, 2021	August 31, 2021
Undiscounted minimum future lease payments		
Total instalments due:		
Within 1 year	$ 63,375	$ 62,903
1 to 2 years	65,276	64,790
2 to 3 years	50,050	66,734
	178,701	194,427
Imputed interest	(23,299)	(27,379)
Total operating lease liability	$ 155,402	$ 167,048
Disclosed as:		
Current portion	$ 50,071	$ 48,376
Non-current portion	105,331	118,672
	$ 155,402	$ 167,048

Expressed in US dollars

9. INTANGIBLE ASSETS

	Oil Extraction Technologies
Cost	
August 31, 2020	$ 809,869
Additions	-
August 31, 2021	809,869
Additions	-
November 30, 2021	$ 809,869
Accumulated Amortization	
August 31, 2020	$ 102,198
Additions	-
August 31, 2021	102,198
Additions	-
November 30, 2021	$ 102,198
Carrying Amounts	
August 31, 2020	$ 707,671
August 31, 2021	$ 707,671
November 30, 2021	$ 707,671

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 400 to 500 barrels daily during 2018, and expects to further expand the capacity to an additional 3,000 barrels daily, it determined that a more appropriate basis for the amortization of the technology is the units of production at the plant after commercial production begins again.

No amortization of the technology was recorded during the three months ended November 30, 2021 and the year ended august 31, 2021.

10. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable as at November 30, 2021 and August 31, 2021 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, 2021 and August 31, 2021 consist primarily of other operating expenses and interest accruals on promissory notes (Note 11) and convertible debentures (Note 12).

Expressed in US dollars

11. PROMISSORY NOTES PAYABLE

Lender	Maturity Date	Interest Rate	Principal due November 30, 2021	Principal due August 31, 2021
Promissory notes				
Private lender	April 29, 2022	10.00%	$ 23,298	$ 23,298

On April 29,2021 the Company issued a promissory note to a private lender in the aggregate sum of $500,000. The promissory note bears interest at 10% per annum and is repayable on April 29, 2022. The Company repaid $476,702 of the outstanding balance as at November 30, 2021. The balance remaining at November 30, 2021 is $23,298.

12. CONVERTIBLE DEBENTURES

Lender	Maturity Date	Interest Rate	Principal due November 30, 2021	Principal due August 31, 2021
Calvary Fund I LP	July 31, 2021	12.00%	$ 80,000	$ 80,000
	August 7, 2021	0%	25,000	25,000
Cantone Asset Management LLC	December 17, 2021	7.00%	240,000	240,000
	December 30, 2021	18.00%	50,000	50,000
	July 1, 2023	8.00%	300,000	300,000
Private lender	October 29, 2020	10.00%	200,000	200,000
Petroleum Capital Funding LP.	November 26, 2023	10.00%	318,000	318,000
	December 4, 2023	10.00%	432,000	432,000
	March 30, 2024	10.00%	471,000	471,000
	July 21, 2025	10.00%	3,000,000	3,000,000
Power Up Lending Group LTD	April 21, 2022	12.00%	-	92,125
	May 20, 2022	12.00%	-	141,625
	July 2, 2022	12.00%	-	114,125
EMA Financial, LLC	April 22, 2021	8.00%	3,120	3,120
Morison Management S.A	October 15, 2020	10.00%	184,251	184,251
	January 16, 2021	10.00%	55,000	55,000
	April 21, 2022	12.00%	92,125	-
	May 20, 2022	12.00%	141,625	-
	July 2, 2022	12.00%	114,125	-
Bellridge Capital LP.	March 31, 2021	15.00%	-	2,900,000
	September 30, 2021	5.00%	-	1,400,000
Private lender	July 24, 2022	8.00%	120,000	120,000
			5,826,246	10,126,246
Unamortized debt discount			(3,603,656)	(3,978,710)
Total loans			$ 2,222,590	$ 6,147,536

The maturity date of the convertible debentures are as follows:

	November 30, 2021	August 31, 2021
Principal classified as repayable within one year	$ 1,023,371	$ 5,255,874
Principal classified as repayable later than one year	1,199,219	891,662
	$ 2,222,590	$ 6,147,536

12. CONVERTIBLE DEBENTURES (continued)

(a) Cavalry Fund I LP

(i) On August 19, 2019, the Company issued a convertible debenture to Calvary Fund LLP ("Cavalry") for an aggregate principal amount of $480,000, including an original issue discount of $80,000, for net proceeds of $374,980 after certain legal expenses, and a warrant exercisable for 2,666,666 common shares at an exercise price of $0.15 per share. The convertible debenture bore interest at 3.3% per annum and matured on August 29, 2020. The convertible debenture may be converted into common shares of the Company at a conversion price of $0.17 per share.

In terms of an Amended and Restated Amending Agreement between the parties entered into on August 7, 2020, the maturity date of the convertible debenture was amended to July 31, 2021 and the conversion price was amended to $0.0412 per share and the exercise price of the warrant was amended to $0.0412 per share and the maturity date was amended to July 31, 2021.

On April 13, 2021, in terms of a conversion notice received, the Company issued a total of 9,708,737 shares of common stock converting $400,000 of the aggregate principal of the note entered into on August 19, 2019.

On July 6, 2021, in terms of a debt conversion agreement entered into with Cavalry, the Company agreed to convert unpaid interest of $22,500 on the note entered into on October 12, 2018; and unpaid principal of $80,000 and unpaid interest of $30,560 on this convertible note; and unpaid principal of $25,000 on a convertible note entered into on August 7, 2020 into 1,681,488 shares of common stock at a conversion price of $0.094 per share for a total of 1,681,488 shares, which have not been issued as yet and are subject to TSXV approval. The Company may have to renegotiate the terms of the debt conversion agreement based on the recommendations of the TSXV.

The aggregate principal amount of $80,000 of the convertible loan, which has past the maturity date of July 31, 2021, remains outstanding.

(ii) On August 7, 2020, the Company issued a convertible debenture to Calvary for an aggregate principal amount of $150,000, including an original issue discount of $25,000, for net proceeds of $125,000, and a warrant exercisable for 3,033,980 common shares at an exercise price of $0.0412 per share. The convertible debenture bore interest at 0.0% per annum and maturing on August 7, 2021. The convertible debenture may be converted into common shares of the Company at a conversion price of $0.0412 per share.

On May 26, 2021, in terms of a conversion notice received, the Company issued a total of 9,101,942 shares of common stock converting $250,000 of the aggregate principal of the note entered into on October 12,2018, see note 16(a)(ii) above, and $125,000 of the aggregate principal of this note entered into on August 7, 2020.

On July 6, 2021, in terms of a debt conversion agreement entered into with Cavalry, the Company agreed to convert unpaid interest of $22,500 on the note entered into on October 12, 2018; and unpaid principal of $80,000 and unpaid interest of $30,560 on the convertible note entered into on August 19, 2019; and unpaid principal of $25,000 on this convertible note, into 1,681,488 shares of common stock at a conversion price of $0.094 per share for a total of 1,681,488 shares, which have not been issued as yet and are subject to TSXV approval. The Company may have to renegotiate the terms of the debt conversion agreement based on the recommendations of the TSXV.

The aggregate principal amount of $25,000 of the convertible loan, which has past the maturity date of August 7, 2021, remains outstanding.

12. CONVERTIBLE DEBENTURES (continued)

(b) Cantone Asset Management, LLC

(i) On September 17, 2019, the Company issued a convertible debenture to Cantone Asset Management, LLC ("Cantone") in the aggregate principal amount of $240,000, including an original issue discount of $40,000, for net proceeds of $200,000. The convertible debenture bears interest at 7% per annum and the gross proceeds less the OID, of $200,000 is convertible into common shares at a conversion price of $0.21 per share, and maturing on December 17, 2020.

In conjunction with the convertible debenture, the Company issued a warrant exercisable for 952,380 common shares at an exercise price of $0.26 per share, expiring on December 17, 2020.

In accordance with the terms of an Amending Agreement entered into on July 7, 2020, the conversion price was amended to $0.037 per share and the warrant exercise price was amended to $0.03 per share.

On March 17, 2021, The company entered into an amending agreement whereby the conversion price of the convertible note was amended to $0.0475 per share, the maturity date was extended to December 17, 2021 and the interest rate was amended to 18% with effect from October 20, 2020.

On March 17, 2021, the Company entered into a debt conversion agreement whereby outstanding interest of $22,660 accrued until December 28, 2020 on two convertible notes was converted into 581,026 shares of common stock. The debt conversion agreement included $14,160 of interest related to this September 2019 convertible note.

On June 3, 2021, the Company entered into a debt conversion agreement whereby a total amount of $132,007, consisting of outstanding interest of $92,007 accrued until June 1, 2021 on various convertible notes and a principal amount outstanding of $40,000 on one convertible note, was converted into 949,688 shares of common stock. The debt conversion agreement included $21,840 of interest related to this September 2019 convertible note.

(ii) On September 23, 2020, the Company issued a convertible debenture to Cantone Asset Management in the aggregate principal amount of $300,000, including an original issue discount of $50,000, for net proceeds of $247,500. The convertible debenture bears interest at 7% per annum and the gross proceeds less the OID, of $250,000 is convertible into common shares at a conversion price of $0.055 per share until September 23, 2021 and thereafter at $0.08 per share. The convertible debenture matures on December 23, 2021.

In conjunction with the convertible debenture, the Company issued a warrant exercisable for 4,545,454 common shares at an exercise price of $0.055 per share, expiring on December 23, 2021.

On June 3, 2021, the Company entered into a debt conversion agreement whereby a total amount of $132,007, consisting of outstanding interest of $92,007 accrued until June 1, 2021 on various convertible notes and a principal amount outstanding of $40,000 on one convertible note, was converted into 949,688 shares of common stock. The debt conversion agreement included $37,050 of interest related to this September 2020 convertible note.

On August 30, 2021, in terms of a conversion notice received, the Company issued a total of 4,545,454 shares of common stock converting $250,000 of the aggregate principal of the note entered into on September 2020.

(iii) On July 1, 2021, in terms of a subscription agreement entered into with Cantone Asset Management, LLC, the Company issued a convertible debenture in the aggregate principal amount of $300,000, bearing interest at 8% per annum and maturing on July 1, 2023 and convertible into common stock at a conversion price of $0.12 per share. In addition, the Company issued Cantone a warrant exercisable for 2,500,000 shares of common stock at an exercise price of $0.12 per share expiring on July 1, 2023. Neither the convertible debenture nor the warrant has been approved by the TSXV as of the date of this filing.

12. CONVERTIBLE DEBENTURES (continued)

(c) Private lender

On October 29, 2019, the Company issued a convertible debenture to a private lender in the aggregate principal amount of $200,000. The convertible debenture bears interest at 10.0% per annum and matured on October 29, 2020.

In conjunction with the convertible debenture, the Company issued a warrant exercisable for 555,555 common shares at an exercise price of $0.18 per share, which expired on October 29, 2020.

The aggregate principal amount of $200,000 of the convertible loan, which has past the maturity date of October 29, 2020, remains outstanding.

(d) Petroleum Capital Funding LP

All of the convertible notes issued to Petroleum Capital Funding LP. ("PCF") are secured by a first priority lien on all bitumen reserves at the Asphalt Ridge property consisting of 8,000 acres.

The Company may force the conversion of all of the convertible debentures if the trading price of the Company's common shares on the TSXV Venture Exchange is above $0.40 for 20 consecutive trading days, with an average daily volume of greater than 1 million common shares, and has agreed to certain restrictions on paying dividends, registration rights and rights of first refusal on further debt and equity offerings.

(i) On November 26, 2019, further to a term sheet entered into with PCF, the Company issued a convertible debenture in the aggregate principal amount of $318,000, including an OID of $53,000 for net proceeds of $226,025 after certain issue expenses. The convertible debenture bears interest at 10% per annum and the gross proceeds less the OID of $265,000 is convertible into common shares at a conversion price of $0.21 per share, and matures on November 26, 2023.

In conjunction with the convertible debenture, the Company issued a warrant exercisable for 1,558,730 common shares and a brokers warrant exercisable for 124,500 common shares, at an exercise price of $0.17 per share, expiring on November 26, 2023.

On September 22, 2020, the Company entered into an Amending Agreement, whereby the conversion price of the convertible debenture was amended to $0.055 per share and the exercise price of the warrant exercisable for 1,558,730 shares was amended to $0.055 per share, in terms of the Amending Agreement the conversion price became $0.08 per share on September 22, 2021.

On June 3, 2021, the Company entered into a debt conversion agreement whereby a total amount of $61,050, consisting of outstanding interest accrued until June 1, 2021 on various convertible notes was converted into 439,209 shares of common stock. The debt conversion agreement included $15,900 of interest related to this November 2019 convertible note.

(ii) On December 4, 2019, the Company concluded its second closing as contemplated by the term sheet entered into with PCF per (i) above and issued a convertible debenture in the aggregate principal amount of $432,000, including an OID of $72,000 for net proceeds of $318,600 after certain issue expenses. The convertible debenture bears interest at 10% per annum and the gross proceeds less the OID of $360,000 is convertible into common shares at a conversion price of $0.21 per share, and matures on December 4, 2023.

In conjunction with the convertible debenture, the Company issued a warrant exercisable for 2,117,520 common shares and a brokers warrant exercisable for 169,200 common shares, at an exercise price of $0.17 per share, expiring on December 4, 2023.

On September 22, 2020, the Company entered into an Amending Agreement, whereby the conversion price of the convertible debenture was amended to $0.055 per share and the exercise price of the warrant exercisable for 2,117,520 shares was amended to $0.055 per share, in terms of the Amending Agreement the conversion price became $0.08 per share on September 22, 2021.

On June 3, 2021, the Company entered into a debt conversion agreement whereby a total amount of $61,050, consisting of outstanding interest accrued until June 1, 2021 on various convertible notes was converted into 439,209 shares of common stock. The debt conversion agreement included $21,600 of interest related to this December 2019 convertible note.

12. CONVERTIBLE DEBENTURES (continued)

(d) Petroleum Capital Funding LP (continued)

(iii) On March 30, 2020, the Company concluded its third closing as contemplated by the term sheet entered into with PCF per (i) above and issued a convertible debenture in the aggregate principal amount of $471,000, including an OID of $78,500 for net proceeds of $347,363 after certain issue expenses. The convertible debenture bears interest at 10% per annum and the gross proceeds less the OID of $392,500 is convertible into common shares at a conversion price of $0.21 per share, and matures on March 30, 2024.

In conjunction with the convertible debenture, the Company issued a warrant exercisable for 4,906,250 common shares and a brokers warrant exercisable for 392,500 common shares, at an exercise price of $0.17 per share, expiring on March 30, 2024.

On September 22, 2020, the Company entered into an Amending Agreement, whereby the conversion price of the convertible debenture was amended to $0.055 per share and the exercise price of the warrant exercisable for 4,906,250 shares was amended to $0.055 per share, in terms of the Amending Agreement the conversion price became $0.08 per share on September 22, 2021.

On June 3, 2021, the Company entered into a debt conversion agreement whereby a total amount of $61,050, consisting of outstanding interest accrued until June 1, 2021 on various convertible notes was converted into 439,209 shares of common stock. The debt conversion agreement included $23,550 of interest related to this March 2020 convertible note.

(iv) On July 21, 2021, in terms of a subscription agreement for debentures and warrants, the Company entered into a convertible debenture agreement with PCF in the aggregate principal amount of $3,000,000 including an OID of $500,000 for net proceeds of $2,191,000 after placement fees and expense allowances of $309,000. The convertible debenture bears interest at 10% per annum and the gross proceeds of $2,500,000 is convertible into common shares at a conversion price of $0.12 per share, subject to anti-dilution adjustments and matures on July 21, 2025. The company also entered into a registration rights agreement with PCF, whereby the Company has agreed to register any securities that the convertible note is convertible into and any warrant shares issuable in terms of the subscription agreement for debentures and warrants.

In conjunction with the convertible debenture, the Company issued a warrant exercisable for 20,833,333 common shares and a brokers warrant exercisable for 5,208,333 common shares, at an exercise price of $0.12 per share, expiring on July 21, 2025.

(e) Power Up Lending Group Ltd.

(i) On April 21, 2021, the Company issued a convertible promissory note to Power Up Lending Group Ltd. ("Power Up") in the aggregate principal sum of $92,125, including an original issue discount of $8,375 for net proceeds of $80,000 after certain expenses. The note bears interest at 12% per annum and matures on April 21, 2022. The note may be prepaid subject to certain prepayment penalties ranging from 110% to 130% based on the period of prepayment. The outstanding principal amount of the note is convertible at any time and from time to time at the election of the holder into shares of the Company's common stock at a conversion price equal to 75% of the average of the lowest three trading bid prices during the previous fifteen prior trading days.

On November 17, 2021, Power Up entered into a debt assignment agreement with Morison Management S.A. ("Morison Management"), whereby the convertible note was assigned to Morison Management.

On November 17, 2021, in terms of an Amending Agreement entered into with the Company by Morison Management, the Company amended the note to comply with TSXV requirements, whereby only the aggregate principal sum of $83,750 will be convertible under the note at a conversion price of $0.048 per common share and the maximum amount due under the note in terms of interest rate, fees or other payments is restricted to a rate of 24% per annum.

12. CONVERTIBLE DEBENTURES (continued)

(e) Power Up Lending Group Ltd. (continued)

(ii) On May 20, 2021, the Company issued a convertible promissory note to Power Up in the aggregate principal sum of $141,625, including an original issue discount of $12,875 for net proceeds of $125,000 after certain expenses. The note bears interest at 12% per annum and matures on May 20, 2022. The note may be prepaid subject to certain prepayment penalties ranging from 110% to 130% based on the period of prepayment. The outstanding principal amount of the note is convertible at any time and from time to time at the election of the holder into shares of the Company's common stock at a conversion price equal to 75% of the average of the lowest three trading bid prices during the previous fifteen prior trading days.

On November 17, 2021, Power Up entered into a debt assignment agreement with Morison Management, whereby the convertible note was assigned to Morison Management.

On November 17, 2021, in terms of an Amending Agreement entered into with the Company by Morison Management, the Company amended the note to comply with TSXV requirements, whereby only the aggregate principal sum of $128,750 will be convertible under the note at a conversion price of $0.042 per common share and the maximum amount due under the note in terms of interest rate, fees or other payments is restricted to a rate of 24% per annum.

(iii) On July 2, 2021, the Company issued a convertible promissory note to Power Up in the aggregate principal sum of $114,125, including an original issue discount of $10,375 for net proceeds of $100,000 after certain expenses. The note bears interest at 12% per annum and matures on July 2, 2022. The note may be prepaid subject to certain prepayment penalties ranging from 110% to 130% based on the period of prepayment. The outstanding principal amount of the note is convertible at any time and from time to time at the election of the holder into shares of the Company's common stock at a conversion price equal to 75% of the average of the lowest three trading bid prices during the previous fifteen prior trading days.

On November 17, 2021, Power Up entered into a debt assignment agreement with Morison Management, whereby the convertible note was assigned to Morison Management.

On November 17, 2021, in terms of an Amending Agreement entered into with the Company by Morison Management, the Company amended the note to comply with TSXV requirements, whereby only the aggregate principal sum of $103,750 will be convertible under the note at a conversion price of $0.042 per common share and the maximum amount due under the note in terms of interest rate, fees or other payments is restricted to a rate of 24% per annum.

(f) EMA Financial, LLC

On July 22, 2020, the Company issued a convertible promissory note to EMA for the aggregate principal sum of $150,000, including an original issue discount of $15,000, for net proceeds of $130,500 after certain expenses. The note bears interest at 8% per annum and matures on April 22, 2021. The note may be prepaid subject to a prepayment penalty of 130%. The outstanding principal amount of the note is convertible at any time and from time to time at the election of the holder into shares of the Company's common stock at a conversion price equal to the lower of; (i) the lowest trading price of the Company's common stock during the 15 trading days including and immediately preceding the issue date; and (ii) 70% of the two lowest average trading prices during the fifteen prior trading days including and immediately preceding the conversion date.

Between January 25, 2021 and March 2, 2021, EMA converted the aggregate principal sum of $161,880 into 5,200,000 common shares.

12. CONVERTIBLE DEBENTURES (continued)

(g) Morison Management S.A.

(i) On October 15, 2018, the Company entered into an agreement with SBI Investments, LLC ("SBI") 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, expiring on October 15, 2019.

During December 2019, the maturity date of the convertible loan was extended to October 15, 2020 and the conversion price of the note was reset to $0.18 per share. On February 25, 2021, the Company repaid principal of $16,516 and interest thereon of $33,484, totaling $50,000 and on March 9, 2021, the Company repaid a further $49,232 of principal and interest of $768, totaling 50,000.

On August 3, 2021, in terms of a debt assignment agreement entered into with SBI Investments, SBI Investments assigned an October 15, 2018 convertible debenture with an aggregate principal amount outstanding of $184,251.

(ii) On January 16, 2020, the Company entered into an agreement with SBI whereby the Company issued a convertible promissory note for $55,000 for gross proceeds of $50,000, bearing interest at 10% per annum and convertible into common shares at $0.14 per share. The convertible note matured on January 16, 2021. In conjunction with the convertible promissory note, the Company issued a warrant exercisable for 357,142 shares of common stock at an exercise price of $0.14 per share, which warrant expired unexercised on January 16, 2021.

On August 3, 2021, in terms of a debt assignment agreement entered into with SBI Investments, SBI Investments assigned a January 26, 2020 convertible debenture with an aggregate principal amount outstanding of $55,000, to Morison Management.

(iii) On April 21, 2021, the Company issued a convertible promissory note to Power Up in the aggregate principal sum of $92,125, including an original issue discount of $8,375 for net proceeds of $80,000 after certain expenses. The note bears interest at 12% per annum and matures on April 21, 2022. The note may be prepaid subject to certain prepayment penalties ranging from 110% to 130% based on the period of prepayment. The outstanding principal amount of the note is convertible at any time and from time to time at the election of the holder into shares of the Company's common stock at a conversion price equal to 75% of the average of the lowest three trading bid prices during the previous fifteen prior trading days.

On November 17, 2021, Power Up entered into a debt assignment agreement with Morison Management, whereby the convertible note was assigned to Morison Management.

On November 17, 2021, in terms of an Amending Agreement entered into with the Company by Morison Management, the Company amended the note to comply with TSXV requirements, whereby only the aggregate principal sum of $83,750 will be convertible under the note at a conversion price of $0.048 per common share and the maximum amount due under the note in terms of interest rate, fees or other payments is restricted to a rate of 24% per annum.

12. CONVERTIBLE DEBENTURES (continued)

(g) Morison Management S.A. (continued)

(iv) On May 20, 2021, the Company issued a convertible promissory note to Power Up in the aggregate principal sum of $141,625, including an original issue discount of $12,875 for net proceeds of $125,000 after certain expenses. The note bears interest at 12% per annum and matures on May 20, 2022. The note may be prepaid subject to certain prepayment penalties ranging from 110% to 130% based on the period of prepayment. The outstanding principal amount of the note is convertible at any time and from time to time at the election of the holder into shares of the Company's common stock at a conversion price equal to 75% of the average of the lowest three trading bid prices during the previous fifteen prior trading days.

On November 17, 2021, Power up entered into a debt assignment agreement with Morison Management, whereby the convertible note was assigned to Morison Management.

On November 17, 2021, in terms of an Amending Agreement entered into with the Company by Morison Management, the Company amended the note to comply with TSXV requirements, whereby only the aggregate principal sum of $128,750 will be convertible under the note at a conversion price of $0.042 per common share and the maximum amount due under the note in terms of interest rate, fees or other payments is restricted to a rate of 24% per annum.

(v) On July 2, 2021, the Company issued a convertible promissory note to Power Up in the aggregate principal sum of $114,125, including an original issue discount of $10,375 for net proceeds of $100,000 after certain expenses. The note bears interest at 12% per annum and matures on July 2, 2022. The note may be prepaid subject to certain prepayment penalties ranging from 110% to 130% based on the period of prepayment. The outstanding principal amount of the note is convertible at any time and from time to time at the election of the holder into shares of the Company's common stock at a conversion price equal to 75% of the average of the lowest three trading bid prices during the previous fifteen prior trading days.

On November 17, 2021, Power Up entered into a debt assignment agreement with Morison Management, whereby the convertible note was assigned to Morison Management.

On November 17, 2021, in terms of an Amending Agreement entered into with the Company by Morison Management, the Company amended the note to comply with TSXV requirements, whereby only the aggregate principal sum of $103,750 will be convertible under the note at a conversion price of $0.042 per common share and the maximum amount due under the note in terms of interest rate, fees or other payments is restricted to a rate of 24% per annum.

12. CONVERTIBLE DEBENTURES (continued)

(h) Bellridge Capital LP.

(i) On September 1, 2020, in terms of an assignment agreement entered into between Bay Private Equity, Inc ("Bay") and Bellridge Capital LP ("Bellridge"), Bay assigned a convertible debenture dated September 17, 2018, with a principal balance outstanding of $3,661,874 and interest accrued thereon of $525,203 to Bellridge. On September 23, 2020, the company entered into an amending agreement with Bellridge, whereby the maturity date of the loan was extended to March 31, 2021 and the conversion price was amended to $0.055 per share, simultaneously Bellridge entered into a debt conversion agreement with the Company converting $1,321,689 of the convertible debt into 24,030,713 shares of common stock at a conversion price of $0.055 per share.

On March 22, 2021, the maturity date of the convertible note was extended to October 31, 2021, all other terms remain the same.

On November 10, 2021, in terms of a conversion notice received, Bellridge Capital LP, converted the aggregate principal sum of $2,900,000 into 52,727,273 common shares at a conversion price of $0.055 per share.

(ii) On April 23, 2021, Bellridge took assignment of a $2,400,000 convertible debenture entered into on January 16, 2019 with Bay Private Equity, Inc. the terms of the. Debenture was amended by the Company and the maturity date was extended to September 30, 2021 and the conversion price was amended to $0.048 per share.

Simultaneously with the debt assignment, on April 23, 2021, Bellridge converted the aggregate principal sum of $1,000,000 and interest and penalty interest thereon of $827,066 into 41,334,246 shares of common stock.

On September 21, 2021, in terms of a conversion notice received, Bellridge Capital LP, converted the aggregate principal sum of $1,400,000 into 29,166,667 common shares at a conversion price of $0.048 per share.

(i) Private lender

On July 24, 2021, the Company issued a convertible debenture to a private lender in the aggregate principal amount of $120,000, for net proceeds of $100,000, after an OID of $20,000 The convertible debenture bears interest at 8% per annum and is convertible into common shares at a conversion price of $0.12 per share, maturing on July 24, 2023.

In conjunction with the convertible debenture, the Company issued a warrant exercisable for 833,333 common shares at an exercise price of $0.12 per share, expiring on July 24, 2023.

13. FEDERAL RELIEF LOANS

Small Business Administration Disaster Relief loan

On June 16, 2020, POR received a Small Business Economic Injury Disaster loan amounting to $150,000, bearing interest at 3.75% per annum and repayable in monthly installments of $731 commencing twelve months after inception with the balance of interest and principal repayable on June 16, 2050. The loan is secured by all tangible and intangible assets of the Company. The proceeds are to be used for working capital purposes to alleviate economic injury caused by the COVID-19 pandemic.

On May 1, 2020 and July 27, 2020, PCA received a Small Business Economic Injury Disaster loan amounting to $10,000 and $150,000, respectively, bearing interest at 3.75% per annum and repayable in monthly installments of $731 commencing twelve months after inception with the balance of interest and principal repayable on July 27, 2050. The loan is secured by all tangible and intangible assets of the Company. The proceeds are to be used for working capital purposes to alleviate economic injury caused by the COVID-19 pandemic.

13. FEDERAL RELIEF LOANS (continued)

Payroll Protection Plan loans ("PPP Loans")

On April 11, 2020, POR received a PPP Loan amounting to $133,600, bearing interest at 1.00% per annum and repayable in a single payment after 2 years. The loan may be forgiven subject to certain terms and conditions and the use of funds by the Company. Forgiveness is not automatic and will be assessed by the lender once applied for.

On January 20, 2021, POR received a further PPP Loan amounting to $133,826, bearing interest at 1.00% per annum and repayable in a single payment after 5 years. The loan may be forgiven subject to certain terms and conditions and the use of funds by the Company. Forgiveness is not automatic and will be assessed by the lender once applied for.

On April 23, 2020, PCA received a PPP Loan amounting to $133,890, bearing interest at 0.98% per annum and repayable in monthly installments commencing on October 23, 2020. The loan may be forgiven subject to certain terms and conditions and the use of funds by the Company. Forgiveness is not automatic and will be assessed by the lender once applied for.

On May 3, 2021, the PPP loan amounting to $133,890 and all accrued interest thereon was forgiven.

On February 3, 2021, PCA received a PPP Loan amounting to $133,890, bearing interest at 0.98% per annum and repayable in monthly installments commencing on December 3, 2021. The loan may be forgiven subject to certain terms and conditions and the use of funds by the Company. Forgiveness is not automatic and will be assessed by the lender once applied for.

On November 15, 2021, The remaining PPP loan in the Company's wholly owned subsidiary, PCA amounting to $133,890 and all accrued interest thereon was forgiven.

14. DERIVATIVE LIABILITY

Convertible note issued to several lenders, disclosed in note 12(e), above had conversion rights that were linked to the Company's stock price, at 75% of an average stock price over a period of 15 days prior to the date of conversion. The number of shares issuable upon conversion of these convertible notes was therefore not determinable until conversion took place. The Company had determined that these conversion features met the requirements for classification as derivative liabilities and had measured their fair value using a Black Scholes valuation model which takes into account the following factors:

- Historical share price volatility;
- Maturity dates of the underlying securities being valued;
- Risk free interest rates; and
- Expected dividend policies of the Company.

The fair value of the derivative liabilities was initially recognized as a debt discount. In terms of amending agreements entered into with Morison Management, as disclosed on note 12(g) (iii) to (v), the terms of the notes were amended and the variable conversion price was amended to fixed conversion prices. The derivative liability was no longer applicable. The derivative liability was evaluated on November 17, 2021, the date of amendment, and the net value of the derivative liability at that date was included in the calculation of the loss on debt extinguishment, based on the beneficial conversion feature of the amended notes on November 17, 2021.

Expressed in US dollars

14. DERIVATIVE LIABILITY (continued)

The following assumptions were used in the Black-Scholes valuation model:

	Three months ended November 30, 2021
Conversion price	USD$0.042 to $0.146
Risk free interest rate	0.35%
Expected life of derivative liability	6 months
Expected volatility of underlying stock	145.4 to 195.6%
Expected dividend rate	0%

The movement in derivative liability is as follows:

	November 30, 2021	August 31, 2021
Opening balance	$ 322,186	$ 841,385
Derivative financial liability arising from convertible notes	-	653,826
Fair value adjustment to derivative liability	(52,420)	(1,173,025)
Fair value of derivative included in beneficial conversion feature	(269,766)	-
	$ -	$ 322,186

15. RECLAMATION AND RESTORATION PROVISIONS

	Oil Extraction Facility	Site Restoration	Total
Balance at August 31, 2020	$ 498,484	$ 2,472,013	$ 2,970,497
Accretion expense	-	-	-
Balance at August 31, 2021	498,484	2,472,013	2,970,497
Accretion expense	-	-	-
Balance at November 30, 2021	$ 498,484	$ 2,472,013	$ 2,970,497

(a) Oil Extraction Plant

In accordance with the terms of the sub-lease agreement disclosed in note 6 above, the Company is required to dismantle its oil extraction plant at the end of the lease term. During the year ended August 31, 2015, the Company recorded a provision of $350,000 for dismantling the facility.

During the year ended August 31, 2019, in accordance with the requirements to provide a surety bond to the Utah Division of Oil Gas and Mining in terms of the amendment to the Notice of Intent to Commence Large Mining Operations at an estimated production of 4,000 barrels per day, the Company estimated that the cost of dismantling the oil extraction plant and related equipment would increase to $498,484. The discount rate used in the calculation is estimated to be 2.32%.

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.

Expressed in US dollars

15. RECLAMATION AND RESTORATION PROVISIONS (continued)

(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.

During the year ended August 31, 2019, in accordance with the requirements to provide a surety bond to the Utah Division of Oil Gas and Mining in terms of the amendment to the Notice of Intent to Commence Large Mining Operations at an estimated production of 4,000 barrels per day, the Company estimated that the cost of restoring the site would increase to $2,472,013. The discount rate used in the calculation is estimated to be 2.32%.

16. COMMON SHARES

Authorized	unlimited common shares without par value
Issued and Outstanding	646,053,821 common shares as at November 30, 2021

Contractual obligations to issue common shares

On July 1, 2021, the Company entered into debt conversion agreements with 4 directors whereby 600,836 common shares are to be issued at $0.094 per share to settle $56,479 of outstanding directors fees. Due to the suspension of trading by the TSXV, these shares have not been approved for issue by the TSXV and have not been issued yet.

On July 9, 2021, the Company entered into a debt conversion agreement with Alpha Capital Anstalt whereby $60,258 representing accrued and unpaid interest on a secured convertible note issued on November 6, 2020 was convertible into 641,046 common shares at a conversion price of $0.094 per share. Due to the suspension of trading by the TSXV, these shares have not been approved for issue by the TSXV and have not been issued yet.

On July 6, 2021, the Company entered into a debt conversion agreement with Cavalry Fund I LP whereby unpaid interest of $22,500 on a convertible note entered into on October 12, 2018, unpaid principal of $80,000 and interest thereon on a convertible note entered into on August 19, 2019 and unpaid principal of $25,000 on a convertible note entered into on August 7, 2020, totaling $158,060 was convertible into 1,681,488 common shares at a conversion price of $0.094 per share. Due to the suspension of trading by the TSXV, these shares have not been approved for issue by the TSXV and have not been issued yet.

During August 2021 the company received $750,000 from a private investor in terms of an irrevocable subscription agreement for the issue of 6,250,000 units, at an issue price of $0.12 per unit. Each unit consists of one common share and one transferable share purchase warrant exercisable at $0.12 per share, for a period of twenty four months from closing. Due to the suspension of trading by the TSXV, these shares have not been issued as yet.

On August 27, 2021, the Company entered into a debt conversion agreement with a creditor whereby an unpaid invoice for $30,000 for services rendered was convertible into 250,000 common shares at a conversion price of $0.12 per share. Due to the suspension of trading by the TSXV, these shares have not been approved for issue by the TSXV and have not been issued yet.

On August 27, 2021, the Company entered into a debt conversion agreement with a creditor whereby an unpaid invoice for $670,000 for services rendered was convertible into 5,583,333 common shares at a conversion price of $0.12 per share. Due to the suspension of trading by the TSXV, these shares have not been approved for issue by the TSXV and have not been issued yet.

On October 15, 2021, the Company entered into a debt conversion agreement with Strategic IR whereby the aggregate amount due to Strategic of $299,719 in terms of unpaid professional services rendered to the Company will be settled by the issue of 2,518,645 common shares at an issue price of $0.119 per share, subject to approval of the Board of Directors and the TSXV.

On October 15, 2021, the Company entered into a debt conversion agreement with Morison Management whereby the aggregate principal amount of convertible debt of $239,251 related to an October 2018 convertible debenture of $184,251 and a January 20, 2020 convertible debenture of $55,000 will be convertible into 2,010,521 common shares at a conversion price of $0.119 per share, subject to approval of the Board of Directors and the TSXV.

Expressed in US dollars

16. COMMON SHARES (continued)

Convertible debt conversions

Between September 2, 2021 and November 10, 2021, in terms of conversion notices received, the Company issued 181,893,940 shares of common stock for convertible debt in the aggregate sum of $4,300,000.

Between November 3, 2021 and November 15, 2021, the Company received $499,970 in restitution for convertible debt converted into common shares at prices below that allowed by the TSX Ventures exchange regulations.

17. STOCK OPTIONS

During the three months ended November 30, 2021 and 2020, the share-based compensation expense was $0 and $199,632.

Stock option transactions under the stock option plan were:

	Three months ended November 30, 2021			Year ended August 31, 2021		
	Number of Options	Weighted average exercise price		Number of options	Weighted average exercise price	
Balance, beginning of period	7,250,000	CAD$	0.79	9,470,000	CAD$	0.63
Options granted	-		-	-		-
Options forfeited	-		-	(2,220,000)	CAD$	0.11
Balance, end of period	7,250,000	CAD$	0.79	7,250,000	CAD$	0.79

Stock options outstanding and exercisable as at November 30, 2021 are:

Expiry Date	Exercise Price		Options Outstanding	Options Exercisable
August 7, 2025	CAD$	0.085	3,000,000	3,000,000
November 30, 2027	CAD$	2.270	950,000	950,000
June 5, 2028	CAD$	1.000	3,300,000	3,300,000
			7,250,000	7,250,000
Weighted average remaining contractual life			5.3 years	5.3 years

18. SHARE PURCHASE WARRANTS

During August 2021 the company received $750,000 from a private investor in terms of an irrevocable subscription agreement for the issue of 6,250,000 units, at an issue price of $0.12 per unit. Each unit consists of one common share and one transferable share purchase warrant exercisable at $0.12 per share, for a period of twenty four months from closing. Due to the suspension of trading by the TSXV, these warrants have not been issued as yet.

A summary of the Company's warrant activity during the period September 1, 2020 and November 30, 2021 is as follows:

	Three months ended November 30, 2021			Year ended August 31, 2021		
	Number of Options	Weighted average exercise price		Number of options	Weighted average exercise price	
Balance, beginning of period	73,148,824	$	0.1053	48,342,714	$	0.4254
Warrants granted	-		-	66,496,016		0.1021
Warrants exercised	-		-	(14,690,739)		0.0433
Warrants forfeited	(2,777,777)		0.2300	(26,999,167)		0.7042
Balance, end of period	70,371,047	$	0.1004	73,148,824	$	0.1053

Expressed in US dollars

18. SHARE PURCHASE WARRANTS (continued)

The following table summarizes information about warrants outstanding as of November 30, 2021:

	Warrants outstanding and exercisable	
Exercise price	**Number of shares**	**Weighted average remaining years**
$0.0550	8,582,500	2.19
$0.0562	12,846,973	3.08
$0.0800	392,500	2.33
$0.1000	276,512	1.16
$0.1200	47,827,077	3.27
$0.1400	151,785	3.14
$0.1700	293,700	2.00
$0.1004	**70,371,047**	**3.09**

The warrants exercisable for 151,785 shares at $0.14 per share have not been approved by the TSXV at the date of this report.

In terms of a subscription agreement entered into with Cantone, a warrant exercisable for 2,500,000 shares at $0.12 per share, have not been approved by the TSXV as of the date of this report.

19. DILUTED LOSS PER SHARE

The Company's potentially dilutive instruments are convertible debentures, stock options, share purchase warrants and contractual obligations to issue securities. 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.

For the three months ended November 31, 2021 and 2020, the following stock options, share purchase warrants, convertible securities and contractual obligations to issue securities were excluded from the computation of diluted loss per share as the result of the computation was anti-dilutive:

	Three months ended November 30, 2021	**Three months ended November 30, 2020**
Share purchase options	7,250,000	9,470,000
Share purchase warrants	70,371,047	47,379,348
Convertible securities	44,116,827	97,608,979
Contractual obligations to issue securities	25,785,869	
	147,523,743	154,458,327

Included in the share purchase warrants are warrants exercisable for 2,651,785 common shares which have not been approved by the TSXV, refer note 18 above.

The Company has contractual obligations to issue 13,285,869 common shares in terms of various debt conversion agreements entered into, in addition in terms of a subscription agreement, a further 6,250,000 common shares and a warrant exercisable for 6,250,000 common shares is still to be issued. Refer note 16 above.

Expressed in US dollars

20. RELATED PARTY TRANSACTIONS

Related party transactions are as follows:

The Company owes outstanding directors fees of $184,656 and $264,064 as at November 30, 2021 and August 31, 2021, respectively, and outstanding salaries and fees to officers and directors of $25,000 and $447,500 for the three months ended November 30, 2021 and the year ended August 31, 2021, respectively.

Related party payables represent non-interest-bearing payables that are due on demand.

The balances outstanding are as follows:

Related Party payables	November 30, 2021	August 31, 2021
Payable to Aleksandr Blyumkin	$ 436,203	$ 493,549

Alex Blyumkin

On August 20, 2020, a Company controlled by Mr. Blyumkin entered into a debt settlement agreement, whereby 2,356,374 shares were issued to settle an outstanding promissory note of $94,255.

On April 28, 2021, Mr. Blyumkin subscribed for 1,166,666 common shares at a price of $0.06 per share for gross proceeds of $70,000.

On July 1, 2021, Mr. Blyumkin entered into a debt conversion agreement whereby $14,120 of outstanding directors fees will be settled by the issue of 150,209 common shares. Due to the suspension of trading by the TSXV, these shares have not been approved for issue by the TSXV and have not been issued yet.

On July 12, 2021, the Company issued Mr. Blyumkin 578,480 common shares valued at $40,494 in partial settlement of directors fees outstanding.

On July 27, 2021, Mr. Blyumkin subscribed for 1,875,000 units at a price of $0.12 per unit for gross proceeds of $225,000.

Mr. Blyumkin has resigned as an officer and director of the Company effective August 6, 2021.

During the current quarter, Mr. Blyumkin made restitution payments to the Company of $499,970 for conversion of convertible debt by third party convertible debt holders to common shares at prices below those allowed by the TSXV regulations.

The Company owed Mr. Blyumkin $436,203 and $493,549 as at November 30, 2021 and August 31, 2021, respectively.

George Stapleton

On January 25, 2021, Mr. Stapleton was awarded 1,000,000 common shares valued at $58,879 as part of his compensation package.

On August 7, 2020, Mr. Stapleton was awarded options exercisable for 3,000,000 common shares exercisable at $0.085 per share and valued at $165,855. The options vested over an eight month period.

On November 30, 2021, Mr. George Stapleton retired as the Chief Operating Officer of the Company.

20. RELATED PARTY TRANSACTIONS (continued)

Dr. Gerald Bailey

On July 1, 2021, Dr. Bailey entered into a debt conversion agreement whereby $14,120 of outstanding directors fees will be settled by the issue of 150,209 common shares. Due to the suspension of trading by the TSXV, these shares have not been approved for issue by the TSXV and have not been issued yet.

On July 12, 2021, the Company issued Dr. Bailey 578,480 common shares valued at $40,494 in partial settlement of directors fees outstanding.

On August 6, 2021, the Board of Directors of the Company has appointed Dr. R. Gerald Bailey, a current director and former Chief Executive Officer of the Company, as Chairman of the Board of Directors and Interim Chief Executive Officer. The Company has not entered into a written employment agreement with Dr. Bailey. Dr. Bailey is entitled to cash compensation of $10,000 per month in his new role.

Robert Dennewald

During June 2021, in terms of an exchange agreement entered into with Mr. Dennewald, Mr. Dennewald exchanged three promissory notes dated August 1, 2019, October 31, 2019 and March 3, 2020 totaling $125,000 for a $125,000 convertible promissory note bearing interest at 8% per annum and maturing on February 12, 2022.

On June 10, 2021, in terms of an Assignment and Purchase of Debt Agreement entered into between Mr. Dennewald and Equilibris Management AG ("Equilibris"), the $125,000 Convertible Promissory Note owing to the director was purchased and assigned to Equilibris.

On July 1, 2021, Mr. Dennewald entered into a debt conversion agreement whereby $14,120 of outstanding directors fees will be settled by the issue of 150,209 common shares. Due to the suspension of trading by the TSXV, these shares have not been approved for issue by the TSXV and have not been issued yet.

On July 12, 2021, the Company issued Mr. Dennewald 578,480 common shares valued at $40,494 in partial settlement of directors fees outstanding.

James Fuller

On July 1, 2021, Mr. Fuller entered into a debt conversion agreement whereby $14,120 of outstanding directors fees will be settled by the issue of 150,209 common shares. Due to the suspension of trading by the TSXV, these shares have not been approved for issue by the TSXV and have not been issued yet.

On July 12, 2021, the Company issued Mr. Fuller 228,668 common shares valued at $16,007 in partial settlement of directors fees outstanding.

Dr. Vladimir Podlipsky

The Board of Directors has appointed Dr. Vladimir Podlipsky, currently the Chief Technology Officer of the Company, as a director, with effect from August 6, 2021, to fill the vacancy on the Board created by Mr. Blyumkin's resignation.

The Company advanced Manhatten Enterprises, a company controlled by Dr. Podlipsky, the sum of $76,000 pursuant to a promissory note on March 16, 2017. The note, which bears interest at 5% per annum, matured on March 16, 2020. The Note has reached its maturity date.

During the current quarter, the Company paid $175,025 to V Science Technologies Inc., in terms of a sponsored research agreement. V Science Technologies, Inc. is controlled by Dr. Podlipsky, a director of the Company.

Ron Cook

Mr. Cook was appointed as the Chief Financial Officer of the Company with effect from October 31, 2021.

Mark Korb

Mr. Korb resigned as CFO of the Company with effect from October 31, 2021.

21. FINANCING COSTS, NET

Financing costs, net, consists of the following:

	Three months ended November 30, 2021	Three months ended November 30, 2020
Interest expense	$ 250,964	$ 287,639
Amortization of debt discount	375,054	333,748
Other	-	-
	$ 626,018	$ 621,387

22. OTHER EXPENSE (INCOME), NET

Other expense (income), net, consists of the following:

	Three months ended November 30, 2021	Three months ended November 30, 2020
Loss (gain) on settlement of liabilities	$ -	$ 134,490
Loss (gain) on conversion of convertible debt	-	80,661
Loss on debt extinguishment	444,398	330,256
Forgiveness of federal relief loan	(133,890)	-
Interest income	(28,947)	(948)
	$ 281,561	$ 544,459

23. SEGMENT INFORMATION

The Company operated in two reportable segments within the USA during the three months ended November 30, 2021 and 2020, oil extraction and processing operations and mining operations. The presentation of the consolidated statements of loss and comprehensive loss provides information about the oil extraction and processing segment. There were limited operations in the mining operations segment during the three months ended November 30, 2021 and 2020. Other information about reportable segments are:

	November 30, 2021		
(in '000s of dollars)	**Oil Extraction**	**Mining Operations**	**Consolidated**
Additions to non-current assets	$ -	$ -	$ -
Reportable segment assets	46,553	33,240	79,793
Reportable segment liabilities	(10,671)	-	(10,671)
	$ 35,882	$ 33,240	$ 69,122

	November 30, 2020		
(in '000s of dollars)	**Oil Extraction**	**Mining Operations**	**Consolidated**
Additions to non-current assets	$ 4,173	$ -	$ 4,173
Reportable segment assets	44,897	33,240	78,137
Reportable segment liabilities	(18,171)	(100)	(18,271)
	$ 26,726	$ 33,140	$ 59,866

23. SEGMENT INFORMATION (continued)

	November 30, 2021		
(in ’000s of dollars)	**Oil Extraction**	**Mining operations**	**Consolidated**
Revenue from license fees	**$ -**	**$ -**	**$ -**
Other production and maintenance costs	(285)	-	(285)
Gross Loss	**(285)**	**-**	**(285)**
Operating Expenses			
Depreciation, depletion and amortization	11	-	11
Selling, general and administrative expenses	1,394	-	1,394
Investor relations	40	-	46
Professional fees	646	-	646
Research and development	175		175
Salaries and wages	156	-	156
Travel and promotional expenses	83	-	83
Other	288	-	288
Financing costs	626	-	626
Other expense (income)	281	-	281
Forgiveness of federal relief loans	(134)	-	(134)
Loss on debt extinguishment	444	-	444
Interest income	(29)		(29)
Derivative liability movements	(52)	-	(52)
Net loss	**$ 2,545**	**$ -**	**$ 2,545**

	November 30, 2020		
(in ’000s of dollars)	**Oil Extraction**	**Mining operations**	**Consolidated**
Revenue from license fees	**$ 2,000**	**$ -**	**$ 2,000**
Other production and maintenance costs	(345)	-	(345)
Gross Profit	**1,655**	**-**	**1,655**
Operating Expenses			
Depreciation, depletion and amortization	12	-	12
Selling, general and administrative expenses	1,045	-	1,045
Investor relations	88	-	88
Professional fees	399	-	399
Salaries and wages	88	-	88
Share-based compensation	200	-	200
Travel and promotional expenses	83	-	83
Other	187	-	187
Financing costs	621	-	621
Other expense (income)	544	-	544
Gain on settlement of liabilities	134	-	134
Loss on conversion of convertible debt	80	-	80
Loss on debt extinguishment	330	-	330
Derivative liability movements	(157)	-	(157)
Net loss	**$ 410**	**$ -**	**$ 410**

Expressed in US dollars

24. COMMITMENTS AND CONTINGENCIES

The company has commitments under equipment financing arrangements entered into in prior periods, see Note 8, above.

The amount of future minimum lease payments under finance leases is as follows:

	November 30, 2021
Undiscounted minimum future lease payments	
Total instalments due:	
Within 1 year	$ 32,280
	$ 32,280

The amount of future minimum lease payments under operating leases is as follows:

	November 30, 2021
Undiscounted minimum future lease payments	
Total instalments due:	
Within 1 year	$ 63,375
1 to 2 years	65,276
2 to 3 years	50,050
	$ 178,701

Legal Matters

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

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

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

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

25. SUBSEQUENT EVENTS

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

Unsolicited takeover bid by Viston United swiss AG

On October 27, 2021, 2869889 Ontario Inc., an indirect, wholly-owned subsidiary of Viston United Swiss AG commenced a conditional, unsolicited takeover bid (the "Offer") to acquire all of the issued and outstanding Common Shares of the Company. Viston filed a Tender Offer Statement with the SEC relating to the Offer on Schedule TO under section 14(d)(1) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), on October 25, 2021, and an amendment to the Tender Offer Statement on October 27, 2021. As set forth in the Solicitation/Recommendation Statement on Schedule 14D-9 under section 14(d)(4) of the Exchange Act filed with the SEC on November 9, 2021, shareholders were advised that the Board of Directors was not yet in a position to make a recommendation to shareholders to accept or reject the Offer, and that the Company has retained Haywood Securities Inc. as financial advisor to the Company and the Board of Directors.

As set forth in the amendment to the Solicitation/Recommendation Statement on Schedule 14D-9, as filed with the SEC on January 4, 2022, on December 29, 2021 after thorough consideration of all aspects of the Viston Offer, the advice provided by Haywood and consulting with its other advisors, the Board unanimously determined to recommend that Shareholders accept the Viston Offer and tender their Common Shares, for reasons that include the following:

Results of Strategic Review

Based on the results of the strategic review presented by Haywood, the Board believes that the immediate cash value offered to Shareholders under the Viston Offer is more favorable to Shareholders than the potential value that might otherwise result from other alternatives reasonably available to Petroteq, including remaining as a stand-alone entity and pursuing Petroteq's existing strategy, in each case taking into consideration the potential rewards, risks, timelines and uncertainties associated with those other alternatives.

Premium Over Market Price

The consideration of C$0.74 in cash per Common Share (the "Cash Consideration") under the Viston Offer represents a premium of approximately 279% over the closing price of the Common Shares on the TSXV on August 6, 2021, being the last trading day that the Common Shares were traded on the TSXV.

Unlikelihood of Superior Proposal

The Board, with the assistance of Haywood, has taken active steps to assess and solicit strategic alternatives and has attempted to secure a proposal that would be superior to the Viston Offer. However, no superior alternative to the Viston Offer has emerged and Petroteq does not expect a superior alternative to emerge in the near term.

Common Shares Remain Relatively Illiquid

Trading in the Common Shares on the TSXV remains suspended, and there is no certainty as to when the TSXV will resume trading in the Common Shares.

Certainty of Outcome

The Viston Offer provides 100% cash consideration for the Common Shares and offers Shareholders certainty of value and immediate liquidity.

Possible Decline in Market Price

If the Viston Offer is not successful and another alternative offer with superior financial terms does not emerge, the market price of the Common Shares in the public markets may decline significantly.

Reduces Inherent Business Risk

Based on the strategic review conducted with Haywood, the Viston Offer appears to provide Shareholders with the value inherent in Petroteq's portfolio of projects, assuming they are fully realized, without the long-term risks associated with the development and execution of those projects. Given the relatively early stage of Petroteq's projects, it will be several years before the projects in Petroteq's portfolio reach commercial production, if at all.

Significant Growth Funding Required

Petroteq's projects have significant funding requirements to prove and scale its technology. Petroteq currently has limited cash to fund its necessary capital projects and near-term debt maturities, which will be a further drain on cash. Equity financing sufficient to repay debt and fund the progress of Petroteq's business plan, if available, may be significantly dilutive to Shareholders.

25. SUBSEQUENT EVENTS (continued)

Unsolicited takeover bid by Viston United swiss AG (continued)

Ability to Respond to Superior Proposals

Petroteq has not entered into a support or similar agreement with Viston in respect to the Viston Offer. The Board has reserved the ability to seek out or respond to proposals that may deliver greater value to Shareholders than the Viston Offer. There is nothing to prevent a third party from proposing or making a superior proposal or preclude Petroteq from changing its recommendation.

Exercise of warrants

In terms of warrant exercise notices received from various investors, warrants exercisable for 39,254,502 common shares were exercised between January 6, 2022 and January 18, 2022, for gross proceeds of $3,929,012 at exercise prices ranging from $0.0562 to $0.12 per share. A portion of the proceeds on the warrants issued was used to repay principal on convertible debt due of $753,500 and $46,075 of interest thereon and a further $180,000 of consulting fees, for net proceeds of $2,949,437.

Other than disclosed above, the Company has evaluated subsequent events through the date the financial statements were issued, other than disclosed above, the Company did not identify any other subsequent events that would have required adjustment or disclosure in the financial statements.

26. SUPPLEMENTAL INFORMATION ON OIL AND GAS OPERATIONS

Supplemental unaudited information regarding the Company's oil and gas activities is presented in this note.

The Company has not commenced commercial operations, therefore the disclosure of the results of operations of hydrocarbon activities is limited. All expenditure incurred to date is capitalized as part of the development cost of the company's oil extraction plant.

The Company does not have any historical data to forecast the standardized measure of discounted future net cash flows related to proven hydrocarbon reserve quantities. Upon the commencement of production, the Company will be able to forecast future revenues and expenses of its hydrocarbon activities.

Costs incurred

The following table reflects the costs incurred in hydrocarbon property acquisition and development expenses.

All costs were incurred in the US.

(In US$ 000's)	Three months ended November 30, 2021	Three months ended November 30, 2020
Construction of oil extraction plant	$ -	$ 4,173
	$ -	$ 4,173

Results of operations

The only operating expenses incurred to date on hydrocarbon activities relate to certain maintenance and personnel costs incurred.

All costs were incurred in the US.

(In US$ 000's)	Three months ended November 30, 2021	Three months ended November 30, 2020
Production and maintenance costs	$ 285	$ 345
	$ 285	$ 345

Proven reserves

The Company does not have any proven hydrocarbon reserves as of November 30, 2021 and August 31, 2021.

An evaluation of the reserves at the Asphalt NW site was prepared by an outside specialist with a proved undeveloped valuation of $213. Million at a 10% discount. However the exchange of leases as detailed in note 6 will only take place once approved by SITLA.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis is intended as a review of significant factors affecting our financial condition and results of operations for the periods indicated. The discussion should be read in conjunction with our consolidated financial statements and the notes presented herein and the consolidated financial statements and the other information set forth in our amended annual report on Form 10-K/A for the fiscal year ended August 31, 2021, filed with the Securities and Exchange Commission on December 15, 2021. In addition to historical information, the following Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks and uncertainties. Our actual results could differ significantly from those anticipated in these forward-looking statements as a result of certain factors discussed herein and any other periodic reports filed and to be filed with the Securities and Exchange Commission.

Overview and recent developments

Our Company is a holding Company organized under the laws of Ontario, Canada, that is engaged in various aspects of the oil and gas industry. Through our wholly-owned subsidiary, Petroteq Energy CA Inc., a California corporation ("PCA") and PCA's two subsidiaries Petroteq Oil Recovery, LLC, a Utah limited liability company ("POR") and TMC Capital, LLC, a Utah limited liability company ("TMC Capital"), we are in the business of exploring for, extracting and producing oil and hydrocarbon products from oil sands deposits and sediments located in the Asphalt Ridge area of Uintah County, Utah, utilizing our proprietary extraction technology (the "Petroteq Clean Oil Recovery Technology" or "Extraction Technology"). Our primary oil sands extraction and processing operations are conducted at our Asphalt Ridge processing facility (herein the "Asphalt Ridge Plant" or "Plant"), which is owned by POR.

Petroteq owns the intellectual property rights to the Petroteq Clean Oil Recovery Technology which is used at our Asphalt Ridge Plant to extract and produce crude oil from oil sands utilizing a closed-loop solvent based extraction system.

The Asphalt Ridge Plant initially commenced operations as a pilot plant in 2015 at a site near Maeser, Utah, but was relocated in 2017 to a site near our Asphalt Ridge Mine #1 located on lands a Mining and Mineral Lease Agreement dated as of July 1, 2013, between Asphalt Ridge, Inc., as lessor, and TMC, as lessee, (the "TMC Mineral Lease"). The relocation of the Plant near our existing mine site was designed to improve logistical and processing efficiencies in the oil sands recovery process. The relocation of the Plant occurred during a temporary suspension of our mining and processing operations in 2016 that resulted from a sharp decline in world oil prices. We restarted operations at the end of May 2018 and completed expansion work on the Plant to increase production capacity to 400-500 barrels of oil per day during the last quarter of fiscal 2019 (the quarter ended August 31, 2019). During our testing of the Plant and its increased production capacity during the first quarter of fiscal 2020 (the quarter ending November 30, 2019), we determined that a number of equipment upgrades were required to support continuous operation of the Plant. As discussed below, these upgrades were completed in December 2020.

We had expected to generate revenue from the sale of hydrocarbon products from the Asphalt Ridge Plant commencing in the third quarter ending May 31, 2020. However, due to the COVID-19 pandemic and volatility in oil prices, we reduced operations to a single shift per day during the quarter ending February 29, 2020 and ultimately suspended operations at the Plant during the quarter ending May 31, 2020.

In July 2020, Greenfield Energy LLC ("Greenfield"), a joint venture company formed by TomCo Energy PLC, a UK energy company, and Valkor LLC ("Valkor"), a Texas limited liability company, assumed the management and operation of the Asphalt Ridge Plant. Under a Technology License Agreement dated July 2, 2019, Petroteq granted to Valkor a non-exclusive license and right to use Petroteq's Clean Oil Recovery Technology in operations conducted at the Plant. Since July 2020, Greenfield has implemented various upgrades to the Plant to improve operating capacity and reliability and began testing to assess the commerciality of the Plant and Petroteq's proprietary technology. To improve operational capability during winter months, Greenfield also arranged for buildings to be erected over the nitrogen system and the vapor recovery system and for wind-walls were erected at the mixing tank area and decanter deck at the Plant.

Following the startup of the Plant in January 2021, we determined that certain additional equipment would be required to improve the process of extracting bitumen from oil sands ore and the removal of clay fines from produced oil. The additional equipment was required to transition the plant to commercialization and to demonstrate the commerciality of both the Plant and Petroteq's Clean Oil Recovery Technology. The required equipment was installed and commissioned and the Plant was restarted in April 2021.

The first full load of oil produced by the Plant was sold in June 2021 by Valkor. The production and sale of the first load of oil from the Plant following a series of upgrades was an important milestone as it demonstrated that heavy oil from Utah oil sands can be produced economically using Petroteq's Clean Oil Recovery Technology without the use of water and without any requirement for a tailings pond. The buyer paid West Texas Intermediate Crude Oil ("WTI") benchmark pricing of $70.91 per barrel for the 10.2° API heavy sweet crude oil produced by the Plant. The fact that we received WTI pricing for the oil produced by the Plant demonstrates that the heavy sweet (low sulfur) oil produced from Utah's oil sands in the Asphalt Ridge area will likely command a premium price relative to other heavy oils.

In July 2021, Crosstrails Engineering LLC completed a Front End Engineering Design (the "2021 FEED") for a 5,000 barrel per day ("BPD") production train that could be constructed either at the site of the Asphalt Ridge Plant or as a separate oil sands processing facility at an undeveloped site. The 2021 FEED describes the design data, design requirements, detailed major equipment requirement, and general operating philosophies for the development of a 5,000 BPD production train, including a Class 3 (± 25%) cost estimate of approximately $110 million for construction of a new commercial plant as a separate facility. The cost estimates in the 2021 FEED suggest a capital cost of $22,000 per daily barrel of production. A new oil sands processing facility based on the 2021 FEED will consist of an initial 5,000 BPD production train but provides for a possible future expansion to 10,000 BPD through the addition of a second parallel 5,000 BPD train. The capital cost of $22,000 per daily barrel for an initial 5,000 BPD production train installed either as an adjunct to the existing Asphalt Ridge Plant or as a separate processing facility on an undeveloped site compares very favorably with the construction costs of plants and facilities that deploy more traditional methods of extracting bitumen and heavy oil from oil sands.

Preliminary estimates for the longest lead time for procuring equipment for a new 5,000 BPD production train under the 2021 FEED are approximately 48-54 weeks. The overall engineering, procurement and construction of a 5,000 BPD plant are estimated to require 54-62 weeks, barring any significant supply chain upsets or adverse weather conditions during construction and commissioning of the plant. Once constructed and operating, it is estimated that each production train will employ 40-50 persons between mining and plant operations.

Petroteq anticipates that the 2021 FEED may provide the basis for a standard design package for 5,000 BPD production trains constructed by Petroteq or by its technology licensees in Utah and in other parts of the United States and other countries having oil sands and other structures holding substantial bitumen and heavy oil resources. Any standard design package developed from the 2021 Feed may require a certain amount of customization for local site conditions and ore characteristics, but the differences are not expected to be significant.

After the April 2021 restart, the Asphalt Ridge Plant was operated intermittently until August 2021, when operations were suspended to allow the Company and its engineering firms to conduct a detailed inspection of the Plant for the purpose of determining whether the Plant's equipment, and the configuration of its units, would permit the integration or auxiliary construction of a new 5,000 BPD production training based on the 2021 FEED. During this period, exploratory core sampling and testing was conducted of the oil sands resources at Asphalt Mine #1.

Based on the inspections of the Plant's units and equipment and evaluations of core data taken from areas at and around Asphalt Ridge Mine #1, the Company preliminarily decided, subject to further study and evaluation, to (a) construct a separate 5,000 BPD oil sands processing plant, with the option of adding a second 5,000 BPD production train, on an undeveloped site in the Asphalt Ridge area (and not as an expansion to the existing Plant), (b) continue to operate the Asphalt Ridge Plant where economic conditions support commercial operations, and (c) to augment the supply of oil sands ore from Asphalt Mine #1 as feedstock for the Plant to higher quality oil sands ores and sediments mined or produced from other leases and properties in the Asphalt Ridge area.

In September 2021, we initiated discussions with Valkor for the purpose of developing a long term oil sands ore supply contract with Greenfield for the purchase of oil sands ores produced from mineral leases held or managed by Greenfield in the Asphalt Ridge Northwest area.

The Plant is currently in a winterized shut-down, although it may be restarted and operated upon short notice for demonstration purposes, and for the purpose of testing and evaluating different oil sands ores and materials sources from different leases and properties in the Asphalt Ridge area. We currently anticipate that the Plant will resume processing and production operations in February-March 2022. Upon resuming operations, the Plant will be operated primarily for the purpose of processing oil sands ores and bituminous sands sourced from both Asphalt Mine #1 and from Asphalt Ridge leases held or managed by Greenfield or Valkor, and potentially from other sources in the Asphalt Ridge area. The Plant will also be used for demonstration purposes for potential investors and prospective technology licensees and for the purpose of testing and evaluating oil sands and heavy oil source material produced from areas within the Uintah Basin in Utah and in other regions of the United States and other countries as such materials are made available to us.

Research and Development

The Asphalt Ridge Plant has proved that Petroteq's Clean Oil Recovery Technology, including our redesigned extraction and production process, is capable of producing oil in marketable quantities and that a substantial portion of the "post processed" sand generated by our extraction and production operations may be sold for various uses. Petroteq continued to test ore from various oil sands deposits and resources in the Asphalt Ridge area of Utah, with varying degrees of oil quality and with oil saturations in the range of 5 to 10 percent by weight. Petroteq's proprietary technology and extraction process has been successful in extracting oil from the different oil sands ores that we have tested, confirming that our oil extraction technology can accommodate a wide range of ore specifications.

During the fiscal year ending August 31, 2021, we engaged Kahuna Ventures LLC, an energy-focused project execution firm, to review the POSP operating data, process simulation data, and our 5,000 BPD FEED study. The technical evaluation conducted by Kahuna Ventures indicated extraction costs of approximately $13.50 per barrel of oil produced. With mining and ore transport costs adding another $8.50 per barrel, this suggests an estimated operating cost of approximately $22 per barrel of oil produced (prior to adjustment for corporate overhead, production related taxes and royalties). The estimated operating cost of $22 per produced barrel of oil does not take into account the reduction in net operating costs that may result from the sale of commercial marketable sand generated during our extraction and production operations, which we estimate could reduce our net operating costs, measured on a per barrel of oil produced basis, by as much as $10-15 per barrel.

Several barrels of produced oil from the Asphalt Ridge Plant have now been tested by Quadrise Fuels International plc in the United Kingdom for the purpose of assessing the suitability of the heavy sweet oil produced by the POSP for their MSAR® technology. MSAR® is a low viscosity oil-in-water emulsified synthetic heavy fuel oil ("HFO"). It is manufactured using Quadrise's proprietary technology to mix heavy oils with small amounts of specialist chemicals and water to a bespoke formulation. According to Quadrise, the resulting emulsion contains approximately 30% water and less than 1% chemicals. The emulsion is a low viscosity liquid at room temperature, which makes it easier to handle and reduces the heating costs for storing, transportation and use in comparison to HFOs.

In September 2021, Quadrise reported that the testing program, which was completed at the Quadrise Research Facility ("QRF") in Essex, in the United Kingdom, confirmed the ability to produce commercial MSAR® and bioMSAR™ fuels from the sample of heavy sweet oil provided by Greenfield from the POSP and that a report of the testing results has been issued to the client. Simulations of storage and handling of both MSAR® and bioMSAR™ produced were also completed during the program, which indicated that commercial production of MSAR® and bioMSAR™ fuels would be possible in Utah for potential power and marine end-user applications domestically and internationally. Quadrise further noted that this testing concluded the proof-of-concept work that was scheduled in Phase 1 of the Commercial Trial Agreement between Greenfield and Quadrise announced on August 18, 2020. Quadrise recently reported that Greenfield and Quadrise have entered into discussions regarding potential future trials and deployment of the technology to produce MSAR® and/or bioMSAR™ fuel at a commercial scale.

Petroteq continues to work with a local drilling fluids company to identify customers for the commercially marketable sand generated from the Asphalt Ridge Plant for use in oil and gas hydraulic fracturing or “fracking” operations. The fluids company has to date taken 340 tons of sand and it is expected that it will take the additional processed sand currently available, together with additional quantities of sand as and when they are produced at the Plant. The proceeds from the sale of sand are expected to be approximately $15-20 per ton ($10-15 per barrel).

As announced by Petroteq on November 17, 2020, Greenfield has executed a non-exclusive, multi-site license with Petroteq (the “Greenfield License”). The Greenfield License has been granted in consideration for $2,000,000 in funding that Greenfield has provided to date for upgrades to the Asphalt Ridge Plant. The Greenfield License will allow Greenfield to use Petroteq’s Clean Oil Recovery Technology in any future oil sands processing plants built by Greenfield in the United States. The Greenfield License provides that the ownership of any intellectual property developed as a result of upgrades to or operations conducted at the POSP, including associated trials and testing, will be owned by Petroteq. At the same time, any such intellectual property, including any oil sands technologies developed by Petroteq, will be included within the scope of the Greenfield License and may be used by Greenfield under the terms of the license.

For any future oil sands plants built by Greenfield utilizing the Greenfield License, Greenfield will pay Petroteq a 5% royalty of net revenues received from crude oil and other hydrocarbon products produced from oil sand resources.

In October 2021, Petroteq and Big Sky Resources LLC (“Big Sky”), a company based in Rye, New York, entered into a technology license agreement under which Petroteq granted to Big Sky a non-exclusive, non-transferable license and right to use Petroteq’s proprietary technology to design, construct, operate and finance oil sands extraction plants at up to two locations in the continental United States. Under the agreement, Big Sky has agreed to pay Petroteq a one-time, non-refundable license fee of $2 million, which will become payable upon commencing construction of its first plant. The agreement further provides that Big Sky will pay Petroteq a 5% royalty on the net revenue received by Big Sky from the production, sale or other disposition of licensed product from the plants for as long as Petroteq continues to hold enforceable and protected intellectual property rights in the licensed technology in the United States.

Pursuant to the licensing agreement, Big Sky is obligated to engage Valkor (or an affiliate named by Valkor) as the sole and exclusive provider of engineering, planning, and construction services for all oil sands plants built by Big Sky or under its direction. Big Sky has indicated it will work closely with Valkor to identify plant locations in the State of Utah.

ASPHALT RIDGE PROCESSING PLANT

In June 2011, Petroteq commenced the development of the Asphalt Ridge Plant at a site near Maeser, Utah and entered into construction and equipment fabrication contracts for the purpose of evaluating Petroteq’s Clean Oil Recovery Technology in extracting, processing and producing crude oil from oil sands mined from the TMC Mineral Lease and from other deposits located in the Asphalt Ridge area of Utah. By January 2014, our initial processing facility, designed as a pilot plant having processing capacity of 250 barrels per day, was fully permitted and construction was completed by October 1, 2014. Operations conducted at the pilot plant during 2015 allowed us to test and evaluate our proprietary technology at or near the Plant’s capacity. During 2015, the Plant produced approximately 10,000 (gross) barrels of oil from the local oil sands ores, including oil sands deposits located within our TMC Mineral Lease. From this production, 7,777.33 barrels of finished crude oil were sold to an oil and gas distributor for resale to its refinery customers, with the balance of the produced oil used internally to power generators for the Plant. The initial processing plant was flexible in that it had the ability to produce both high quality heavy crude oil as well as lighter oil if needed.

In 2015, with the sharp decline in world oil prices, we determined that the transportation costs incurred in hauling mined ore from our mine site to pilot processing facility, a distance of approximately 17 miles, were adversely affecting the economics of our processing operations. For that reason, we temporarily suspended operations in 2016, and, in 2017, the Plant was disassembled and moved from its original location to the site of our Temple Mountain mining site (referred to as Asphalt Ridge Mine #1) located within the TMC Mineral Lease. During the reassembly of the Plant, additional equipment was installed to increase the Plant’s capacity from 250 barrels per day to 400-500 barrels per day. In May 2018, mining operations at Asphalt Ridge Mine #1 recommenced, and the new upgraded Asphalt Ridge Plant commenced a test production phase of heavy crude oil from oil sands deposits at this site. Work to increase the Plant’s capacity to 400-500 barrels per day was completed during the last quarter of fiscal 2019 (the quarter ended August 31, 2019). Testing, which continued into the first quarter of fiscal 2020 (the quarter ended November 30, 2019), determined that a number of equipment upgrades were required to support continuous operation of the Plant.

Greenfield, a joint venture company established by TomCo and Valkor, assumed responsibility for the management and operations of our Asphalt Ridge Plant in July 2020. Greenfield has made certain upgrades to the Plant to improve its capacity and reliability. During the ensuing year, we anticipate that the Plant will be operated for the purpose of (a) extracting, processing and producing crude oil and other hydrocarbon products from oil sands ores supplied by our Asphalt Mine #1, from Greenfield and potentially from other sources and properties located in the Asphalt Ridge area, (b) evaluating and testing oil sands from varying sources that are impregnated with oils having different qualities and characteristics, and (c) demonstrating the capabilities of Petroteq's Clean Oil Recovery Technology to potential investors and prospective licensees. Recent budgets for the Plant prepared by Valkor estimate that, during the ensuing year, the Plant will require approximately $3.8 million in capital expenditures and operating expenses, and should be able to generate revenue in the range of $4 million.

RESOURCES AND MINING OPERATIONS

Through its acquisition of TMC Capital in June 2015, Petroteq indirectly acquired certain mineral rights under the TMC Mineral Lease, which encompassed approximately 1,229.82 acres of land in the Temple Mountain area of Asphalt Ridge in Uintah County, Utah. In June 2018, Petroteq, acting through POR, acquired the record lease title and all of the operating rights to produce oil from oil sands resources under two mineral leases entitled "Utah State Mineral Lease for Bituminous-Asphaltic Sands", each dated June 1, 2018, between the State of Utah's School and Institutional Trust Land Administration ("SITLA"), as lessor, and POR, as lessee, covering lands consisting of approximately 1,351.91 acres that largely adjoin the lands covered by the TMC Mineral Lease ("the Temple Mountain SITLA Leases"). In March 2019, a third SITLA Lease was acquired by Petroteq that added 39.97 acres to the mix in the Temple Mountain area of Asphalt Ridge.

In April 2019 and in July 2019, in two separate transactions, TMC Capital acquired an initial 50% and then the remaining 50% of the oil sands operating rights under five (5) federal (U.S.) oil and gas leases administered by the (U.S.) Department of Interior's Bureau of Land Management ("BLM"), covering lands located in eastern and south-eastern Utah ("BLM Leases"). The BLM Leases have been included in applications, filed decades ago with the BLM under the (U.S.) Combined Hydrocarbon Lease Act of 1981, for conversion to new "Combined Hydrocarbon Leases" that will eventually allow the development of oil sands resources in the federal lands included within the BLM Leases and in surrounding areas,

As described in more detail below, the TMC Mineral Lease in its original form was terminated effective August 10, 2020, and a new Short-Term Mining Lease, dated the same date, was entered into between Asphalt Ridge, Inc., as lessor, and Valkor, as lessee. Valkor and TMC Capital thereafter entered into a Short-Term Mining and Mineral Sublease dated August 20, 2020 (the "TMC Mineral Sublease") in which all of Valkor's rights and interests under the Short-Term Mining Lease were subleased to TMC Capital. As of November 30, 2021, Petroteq (through its subsidiaries) held mineral leases (or the operating rights under leases) covering approximately 7,631.91 net acres within the State of Utah, consisting of approximately 320 acres held under the TMC Mineral Sublease, 1,351.91 acres held under the Temple Mountain SITLA Leases, and 5,960 acres under the BLM Leases.

Between March 14, 2019 and May 31, 2020, we made cash deposits of $1,907,000, included in prepaid expenses and other current assets on the consolidated balance sheets for the acquisition of 100% of the operating rights under U.S. federal oil and gas leases, administered by the BLM in Garfield and Wayne Counties, covering approximately 8,480 gross acres in P.R. Springs and the Tar Sands Triangle within the State of Utah. The total consideration of $3,000,000 has been partially settled by the $1,907,000 cash deposit, with the balance of $1,093,000 still outstanding.

In a letter agreement dated April 17, 2020 between the transferor of the oil and gas leases and TMC Capital, as transferee, the parties, due to uncertainty as to whether all of the 10 leases for which the Company had initially paid deposits would be considered active by BLM and included in new Combined Hydrocarbon Leases (CHLs) under the Combined Hydrocarbon Act of 1981 - agreed to adjust the purchase price as follows: (a) should all 10 of the leases be available and included in CHL's, the Company will pay the additional $1,093,000 for the rights under the leases; (b) if only a portion of the leases ranging from 4 to 9 of the leases are available and included in CHL's, the final purchase price of the leases will be between $1.5 million and $2.5 million; and (c) notwithstanding the above, if after a period of 7 years from April 17, 2020, at least six of the leases are not determined to be active and are not included in CHLs the Company shall be entitled to demand a refund of $1.2 million or instruct the Seller to acquire other leases in the same area for up to $1.2 million.

Suspension of trading on the TSX Venture Exchange ("TSXV")

On August 6, 2021, the Ontario Securities Commission issued a cease trade order (the "CTO") against the Company, as a result of its failure to file its quarterly report on Form 10-Q (and related certifications) for the period ended May 31, 2021 (the "2021 Q3 Filings") on or before July 30, 2021, as required under Canadian National Instrument 51-102 – Continuous Disclosure Obligations.

The Company filed the 2021 Q3 Filings with the Canadian Securities Commission on SEDAR, and with the United States Securities and Exchange Commission (the "SEC") on EDGAR, on August 19, 2021. As a result, the Ontario Securities Commission revoked the CTO effective August 24, 2021. In addition, on August 19, 2021, the Company's amended financial statements and management's discussion and analysis for the eight quarters from May 31, 2019 to February 28, 2021 were filed on SEDAR and with the SEC, as contained in the Company's amended annual reports on Form 10-K/A for the financial years ended August 31, 2019 and August 31, 2020, and in the Company's amended quarterly reports on Form 10-Q/A for the periods ended May 31, 2019, November 30, 2019, February 29, 2020, May 31, 2020, November 30, 2020 and February 28, 2021. The Company's amended financial statements and management discussion and analysis for the period ended February 28, 2019 were filed on SEDAR on August 23, 2021, and with the SEC on August 25, 2021, as exhibits to the Company's current report on Form 8-K.

As a result of the issuance of the CTO on August 6, 2021, the TSXV suspended trading of the Company's Common Shares. As part of the TSXV's review of the Company's reinstatement application, the TSXV reviewed the Company's financial statements for the three and nine months ended May 31, 2021 and raised concerns that certain transactions may not have been submitted to the TSXV for approval, as required under the TSXV's policies. As a result of an internal investigation the Company identified several transactions (the "Transactions") which, although disclosed in the Company's public filings on SEDAR and EDGAR had not been submitted for approval by the TSXV.

Based on the Company's initial review of the Transactions, it is estimated that a total of 54,370,814 Common Shares were issued as a result of the Transactions. While some of the issued Common Shares, namely, 4,336,972, are estimated to have been issued at prices above what the TSXV would have otherwise approved, 50,033,842 are estimated to have been issued at share prices below what the TSXV generally approves for convertible securities. While the Company is now making the necessary submissions to the TSXV for the Transactions, they may not all be accepted for approval by the TSXV and as a condition to reinstatement of trading on the TSXV the Company may need to take remedial action to ensure that Transactions are in compliance with the TSXV.

The net proceeds of the Transactions that resulted in new funds to the Company were used for expansion of the Company's oil sands processing plant in Utah and for working capital.

The Company continues to work with the TSXV on a reinstatement of trading and will update the market as developments warrant. However, the TSXV has indicated that these matters and their review of the Transactions may take some time to resolve and that a reinstatement to trading is not expected in the near term.

Unsolicited takeover bid by Viston United Swiss AG

On October 27, 2021, 2869889 Ontario Inc., an indirect, wholly-owned subsidiary of Viston United Swiss AG commenced a conditional, unsolicited takeover bid (the "Offer") to acquire all of the issued and outstanding Common Shares of the Company. Viston filed a Tender Offer Statement with the SEC relating to the Offer on Schedule TO under section 14(d)(1) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), on October 25, 2021, and an amendment to the Tender Offer Statement on October 27, 2021. As set forth in the Solicitation/Recommendation Statement on Schedule 14D-9 under section 14(d)(4) of the Exchange Act filed with the SEC on November 9, 2021, shareholders were advised that the Board of Directors was not yet in a position to make a recommendation to shareholders to accept or reject the Offer, and that the Company has retained Haywood Securities Inc. as financial advisor to the Company and the Board of Directors.

As set forth in the amendment to the Solicitation/Recommendation Statement on Schedule 14D-9, as filed with the SEC on January 4, 2022, on December 29, 2021, after thorough consideration of all aspects of the Viston Offer, the advice provided by Haywood and consulting with its other advisors, the Board has unanimously determined to recommend that Shareholders accept the Viston Offer and tender their Common Shares, for reasons that include the following:

Results of Strategic Review

Based on the results of the strategic review presented by Haywood, the Board believes that the immediate cash value offered to Shareholders under the Viston Offer is more favorable to Shareholders than the potential value that might otherwise result from other alternatives reasonably available to Petroteq, including remaining as a stand-alone entity and pursuing Petroteq's existing strategy, in each case taking into consideration the potential rewards, risks, timelines and uncertainties associated with those other alternatives.

Premium Over Market Price

The consideration of C$0.74 in cash per Common Share (the "Cash Consideration") under the Viston Offer represents a premium of approximately 279% over the closing price of the Common Shares on the TSXV on August 6, 2021, being the last trading day that the Common Shares were traded on the TSXV.

Unlikelihood of Superior Proposal

The Board, with the assistance of Haywood, has taken active steps to assess and solicit strategic alternatives and has attempted to secure a proposal that would be superior to the Viston Offer. However, no superior alternative to the Viston Offer has emerged and Petroteq does not expect a superior alternative to emerge in the near term.

Common Shares Remain Relatively Illiquid

Trading in the Common Shares on the TSXV remains suspended, and there is no certainty as to when the TSXV will resume trading in the Common Shares.

Certainty of Outcome

The Viston Offer provides 100% cash consideration for the Common Shares and offers Shareholders certainty of value and immediate liquidity.

Possible Decline in Market Price

If the Viston Offer is not successful and another alternative offer with superior financial terms does not emerge, the market price of the Common Shares in the public markets may decline significantly.

Reduces Inherent Business Risk

Based on the strategic review conducted with Haywood, the Viston Offer appears to provide Shareholders with the value inherent in Petroteq's portfolio of projects, assuming they are fully realized, without the long-term risks associated with the development and execution of those projects. Given the relatively early stage of Petroteq's projects, it will be several years before the projects in Petroteq's portfolio reach commercial production, if at all.

Significant Growth Funding Required

Petroteq's projects have significant funding requirements to prove and scale its technology. Petroteq currently has limited cash to fund its necessary capital projects and near-term debt maturities, which will be a further drain on cash. Equity financing sufficient to repay debt and fund the progress of Petroteq's business plan, if available, may be significantly dilutive to Shareholders.

Ability to Respond to Superior Proposals

Petroteq has not entered into a support or similar agreement with Viston in respect to the Viston Offer. The Board has reserved the ability to seek out or respond to proposals that may deliver greater value to Shareholders than the Viston Offer. There is nothing to prevent a third party from proposing or making a superior proposal or preclude Petroteq from changing its recommendation.

Other than disclosed above, the Company has evaluated subsequent events through the date the financial statements were issued, other than disclosed above, we did not identify any other subsequent events that would have required adjustment or disclosure in the financial statements.

Exchange of mineral leases

Under the terms of an agreement dated October 15, 2021 among POR and TMC Capital and Valkor (the "Exchange Agreement"), POR and TMC Capital agreed to assign to Valkor all of their respective rights and interests in the TMC Mineral Lease located near Temple Mountain in the Asphalt Ridge area of Uintah County, Utah, including interests under a sublease to a Short-Term Mining Lease obtained by Valkor in August 2020, and in three Utah state oil sands leases that are contiguous to or in close proximity to the lands encompassed by the TMC Mineral Lease.

In a separate agreement, Valkor granted to provide TMC Capital the right to participate, at up to a 50% working interest, in any future operations conducted by Valkor under the TMC Mineral Lease or the Short-Term Mining Lease held by Valkor covering acreage formerly included in the TMC Mineral Lease, or on any of the lands covered by either of the leases.

To complete the exchange under the Exchange Agreement, Valkor agreed to assign to TMC Capital all of its rights and interests in three Utah state oil sands leases located in Uintah County, Utah, in an area referred to as Asphalt Ridge Northwest (the "Asphalt Ridge NW Leases"), including the "record lease title" and all of the operating rights (i.e. working interests) under the leases.

In a separate agreement, TMC Capital agreed to assign to Valkor the operating rights under the three Asphalt Ridge NW Leases at subsurface depths below 500 feet, with TMC Capital retaining a right to participate, at up to a 50% working interest, in any operation conducted by Valkor at the deeper intervals. Under this agreement, each party will have the right to participate, at up to a 50% joint ownership basis, in any new oil sands processing plant constructed on lands covered by the Asphalt Ridge NW Leases.

As of October 28, 2021, each of the agreements and assignments required to consummate the reciprocal assignment of leases between the Company's subsidiaries and Valkor has been executed and all of the transactions have been tentatively completed, subject to the approvals that must be obtained from the State of Utah's School and Institutional Trust Lands Administration ("SITLA").

The exchange of mineral properties between the Company's subsidiaries and Valkor – which, upon completion will result in the Company's acquisition of record title and all interests under the Asphalt Ridge NW Leases – is anticipated to create substantial benefits and opportunities for the Company, including:

(a) The Asphalt Ridge NW leases contain an oil sands deposit that is contiguous within a single contained area. This will allow for greater efficiencies in mining and in ore transport operations. By contrast, the original TMC Mineral Lease in the Temple Mountain area of Asphalt Ridge encompasses three separate deposits running along a trend over about 8 miles, a structural outlay requiring substantial development and transport costs.

(b) Based on historical well data from deposits adjacent to and surrounding the Asphalt Ridge NW Leases, the oil content or saturation in the deposit of oil sands within the Asphalt Ridge NW Leases is expected to average in the range of 12% by weight. In contrast, the oil sands ores mined or produced from lands within the TMC Mineral Lease in the Temple Mountain area have an average oil content or saturation in the range of 6% by weight. The higher oil content in the oil sands deposit located within the Asphalt NW Leases should provide for better yields per ton of bulk oil sand processed and improved project economics for a 5,000 barrel per day commercial plant that is being considered by the Company in this area.

(c) Because a substantial part of the oil sands deposit within the Asphalt Ridge NW Leases is close to the surface and extends into various outcroppings, extraction and production may be conducted by surface mining where less overburden will need to be removed before initiating mining operations.

Results of Operations for the three months ended November 30, 2021 and the three months ended November 30, 2020

Net Revenue, Cost of Sales and Gross Loss

There has been no sale of hydrocarbon products during the three months ended November 30, 2021 and 2020.

During the prior period, the Company entered into a Technology License Agreement with Valkor whereby Valkor paid $2,000,000 for a non-exclusive license to the Oil Sands Recovery Technology, the Company has no obligation to delivery any technology or know-how on an ongoing basis to Valkor, therefore the revenue is recognizable immediately.

The cost of sales during the three months ended November 30, 2021 and 2020 are minimal. The cost of sales consists of certain production related expenses consisting of labor and maintenance expenditure.

Expenses

Expenses were $2,260,295 and $2,065,228 for the three months ended November 30, 2021 and 2020, respectively, an increase of $195,067 or 9.4%. The increase in expenses is primarily due to:

Depletion, depreciation and amortization

Depletion, depreciation and amortization was $11,382 and $11,523 for the three months ended November30, 2021 and 2020, respectively, a decrease of $138 or 1.2%. This amount is immaterial.

Selling, general and administrative expenses

Selling, general and administrative expenses was $1,393,754 and $1,044,857 for the three months ended November 30, 2021 and 2020, respectively, an increase of $348,897 or 33.4%. Included in selling, general and administrative expenses are the following major expenses:

a. Professional fees was $646,276 and $399,129 for the three months ended November 30, 2021 and 2020, respectively, an increase of $247,147. The increase includes a once off fee of $120,000 to relocate some equipment and an increase in audit related fees of $123,652 related to the timing of invoices received for previous audits completed.

b. Travel and promotional fees was $83,331 and $83,464 for the three months ended November 30, 2021 and 2020, respectively, a decrease of $133, the decrease is immaterial.

c. Salaries and wages was $156,026 and $87,936 for the three months ended November 30, 2021 and 2020, respectively, an increase of $68,090. The increase is primarily due to salaries paid to administrative functions.

d. Research and development expense was $175,025 and $0 for the three months ended November 30, 2021 and 2020, respectively. The Company invested $175,025 in a research project to determine the feasibility of applying its technology to recoverin g oil from roofing shingles.

d. General and administrative expenses was $286,948 ad $234,696 for the three months ended November 30, 2021 and 2020, respectively, an increase of $52,252. The increase is made up of several individually immaterial expenses.

Financing costs

Financing costs was $626,018 and $621,387 for the three months ended November 30, 2021 and 2020, respectively, an increase of $4,631. Financing costs includes; (i) interest expense of $250,964 and $287,639 for the three months ended November 30, 2021 and 2020, respectively, a decrease of $36,675 is attributable to the decrease in debt and convertible debt outstanding over the prior fiscal period; (ii) amortization of debt discount of $375,054 and $333,748 for the three months ended November 30, 2021 and 2020, respectively, an increase of $41,306, primarily due to the amortization of debt discount on longer term Petroleum Capital Funding convertible notes, including a $3,000,000 note entered into in July 2021.

Other expense (income), net

Other expense was $281,561 and $544,459 for the three months ended November 30, 2021 and 2020, respectively, a decrease of $262,898. We realized (i) a loss on debt extinguishment of $444,398 and $330,256, in the current period we renegotiated the conversion terms of several convertible notes to comply with exchange requirements and in the prior period we renegotiated the maturity date and conversion prices of several convertible notes; (ii) a federal relief loan of $133,890 was forgiven during the current period, resulting in a gain to the company; (iii) in the prior period we realized a loss on the settlement of liabilities and conversion of convertible debt of $134,490 and $80,661, respectively.

Mark to market of derivative liability

The mark to market of the derivative liability was $(52,420) and $(156,998) for the three months ended November 30, 2021 and 2020, respectively. The derivative liability arose due to the issuance of convertible securities with variable conversion prices and no floor conversion price. The charge during the current period represents the mark-to-market of the derivative liability prior to the change of the terms on the convertible debt, thereby extinguishing the need for a derivative liability.

Net loss before income taxes and Net loss and Comprehensive loss

Net loss before income taxes was $2,545,248 and $410,514 for the three months ended November 30, 2021 and 2020, respectively, an increase of $2,134,734 or 520.0%. The increase is primarily due to the $2,000,000 technology license fee and an overall increase in operating expenses, as discussed above.

Liquidity and Capital Resources

As at November 30, 2021, we had cash of approximately $68,662. We also had a working capital deficiency of approximately $2,979,405, due primarily to accounts payable, short term debt, convertible debentures and accrued interest thereon which remain outstanding as of November 30, 2021. During the three months ended November 30, 2021, we raised $499,970 from restitution payments . These funds were primarily used on to fund the working capital requirements of the business.

We have spent, and expect to continue to spend, a substantial amount of funds in connection with implementing our business strategy and do not have sufficient cash on hand to implement our business strategy. Our financial statements have been prepared assuming we are a going concern. To date, we have generated minimal revenue from operations and have financed our operations primarily through sales of our securities, and we expect to continue to seek to obtain our required capital in a similar manner. There can be no assurance that we will be able to generate sufficient revenue to cover our operating costs and general and administrative expense or continue to raise funds through the sale of debt. If we raise funds by securities convertible into common shares, the ownership interest of our existing shareholders will be diluted.

Capital Expenditures

We anticipate that if the unsolicited offer to acquire all of the outstanding shares of Petroteq is not successful that we will need to raise approximately $110 million to fund a commercially viable extraction plant. Alternatively we will license our technology and generate royalty revenues.

Other Commitments and Contingencies

In addition to commitments otherwise reported in this MD&A, the Company’s contractual obligations as at November 30, 2021, include:

Contractual Obligations	Total ($ millions)	Up to 1 Year ($ millions)	2 - 5 Years ($ millions)	After 5 Years ($ millions)
Convertible Debt[1]	7.9	2.5	5.4	-
Promissory notes	0.5	0.5	-	-
Finance lease liabilities	0.03	0.03	-	-
Operating lease liabilities	0.18	0.06	0.07	0.05
Federal relief loans	0.9	0.2	0.0	0.7
Total Contractual Obligations	9.51	3.29	5.47	0.75

[1] Amount includes estimated interest payments and discount amortization. The recorded amount as at November 30 2021 was approximately $2.2 million after debt discount of $3.6 million.

Legal Matters

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

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

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

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

The Company has various commitments including those disclosed under Commitments in note 24 to the financial statements, in addition the Company has commitments to repay convertible notes and promissory notes as fully disclosed in notes 11 and 12 to the financial statements.

Recently Issued Accounting Pronouncements

The recent Accounting Pronouncements are fully disclosed in note 2 to our unaudited condensed consolidated financial statements.

Management does not believe that any other recently issued but not yet effective accounting pronouncements, if adopted, would have an effect on the accompanying unaudited condensed consolidated financial statements.

Off-balance sheet arrangements

We do not maintain off-balance sheet arrangements, nor do we participate in non-exchange traded contracts requiring fair value accounting treatment.

Inflation

The effect of inflation on our revenue and operating results was not significant.

Climate Change

We believe that neither climate change, nor governmental regulations related to climate change, have had, or are expected to have, any material effect on our operations.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Not applicable.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

The Company has adopted and maintains disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed in the reports filed under the Exchange Act, such as this Quarterly Report on Form 10-Q, is collected, recorded, processed, summarized and reported within the time periods specified in the rules of the Securities and Exchange Commission. The Company's disclosure controls and procedures are also designed to ensure that such information is accumulated and communicated to management to allow timely decisions regarding required disclosure.

As required under Exchange Act Rule 13a-15, the Company's management, including the Principal Executive Officer and the Principal Financial Officer, has conducted an evaluation of the effectiveness of disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation, the Company's CEO and CFO concluded that due to a lack of segregation of duties the Company's disclosure controls and procedures are not effective to ensure that information required to be disclosed by the Company in the reports that the Company files or submits under the Exchange Act, is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including the Company's CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure. Subject to receipt of additional financing or revenue generated from operations, the Company intends to retain additional individuals to remedy the ineffective controls.

Changes in Internal Control

There has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) that occurred during our fiscal quarter ended November 30, 2021 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

Legal Matters

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

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

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

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

Item 1A. Risk Factors.

The following information updates, and should be read in conjunction with, the information disclosed in Part I, Item 1A, "Risk Factors," contained in our Annual Report Form 10-K/A as filed with the Securities and Exchange Commission (the "SEC") on December 15, 2021. Except as disclosed below, there have been no material changes from the risk factors disclosed in our Annual Report Form 10-K/A as filed with the SEC on December 15, 2021.

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

At November 30, 2021, August 31, 2021 and August 31, 2020, we had an accumulated deficit of $(102,683,840), $(100,138,592) and $(97,047,409), 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 $(2,545,248) for the three months ended November 30, 2021 and $(9,474,243) and $(12,379,067) as of the years ended August 31, 2021 and August 31, 2020, 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.

We had concluded that certain of our previously issued financial statements should not be relied upon and have restated certain of our previously issued financial statements which was time-consuming and expensive and could expose us to additional risks that could have a negative effect on our Company.

We have concluded that certain of our previously issued financial statements should not be relied upon. We have restated our previously issued unaudited condensed consolidated financial statements and related note disclosures for the periods ended May 31, 2019 to February 28, 2021 and our previously issued audited consolidated financial statements for the years ended August 31, 2019 and 2020. We do not intend to restate our unaudited condensed consolidated financial statements and related note disclosures as of and for the three and six months ended February 28, 2019 and 2018 which were included in our initial registration statement on Form 10 originally filed with the SEC on May 22, 2019, and amended by Amendment No. 1 thereto filed with the SEC on June 24, 2019 and by Amendment No. 2 thereto filed with the SEC on July 5, 2019, and such unaudited condensed consolidated financial statements and related note disclosures should not be relied on. The restatement process was time consuming and expensive and, along with the failure to file our quarterly report on this Form 10-Q for the period ended May 31, 2021 with the SEC in a timely manner, could expose us to additional risks that could have a negative effect on our Company. In particular, we incurred substantial unanticipated expenses and costs, including audit, legal and other professional fees, in connection with the restatement of our previously issued financial statements. Our management's attention was also diverted from some aspects of the operation of our business in connection with the restatement.

The restatement of our financial statements may in the future lead to, among other things, future stockholder litigation, loss of investor confidence, negative impacts on our stock price and certain other risks.

There can be no assurance that litigation against the Company and/or its management or Board of Directors might not be threatened or brought in connection with matters related to our restatements. As a result of the circumstances giving rise to the restatements, we have become subject to certain additional risks and uncertainties, including unanticipated costs for accounting and legal fees in connection with or related to the restatements, potential stockholder litigation, government investigations, and potential claims by Redline Capital Management S.A. as described under Part II, Item 1. – *Legal Proceedings* and elsewhere in this Amendment. Any such proceeding could result in substantial defense costs regardless of the outcome of the litigation or investigation. If we do not prevail in any such litigation, we could be required to pay substantial damages or settlement costs. In addition, the restatements and related matters could impair our reputation and could cause our counterparties to lose confidence in us. Each of these occurrences could have an adverse effect on our business, results of operations, financial condition and stock price.

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, 2021, we had issued and outstanding promissory notes in the principal amount of $23,298 and convertible notes in the principal amount of $5,826,246 to certain private investors which have already matured or mature between December 2021 and July 2025, 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.

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

At November 30, 2021, we had not yet achieved profitable operations, had accumulated losses of ($102,683,840) since our inception and a working capital deficit of ($2,979,405), 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. The opinion of our independent registered accounting firm on our audited financial statements for the years ended August 31, 2021 and 2020 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.

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

We currently have share purchase warrants to purchase 70,371,047 common shares outstanding at exercise prices ranging from US$0.05517 to US$0.35 and options to purchase 7,250,000 common shares with a weighted average exercise price of CDN $0.79 and notes convertible into an estimated 44,116,827 common shares based on conversion prices ranging from $0.055 to $0.18 per share and contractual obligations to issue a further 25,785,869 common shares. The issuance of the common shares underlying the share purchase warrants, options, convertible notes and contractual obligations will have a dilutive effect on the percentage ownership held by holders of our common shares.

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

As of November 30, 2021, we had accumulated net operating losses (NOLs), of approximately CDN $91 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. Unregistered Sales of Equity Securities and Use of Proceeds.

There have been no unregistered sales of equity securities of our Company during the quarter ended November 30, 2021 that have not been previously disclosed.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

We will commence open cast mining at our TMC site once our plant is fully operational. In terms of the additional disclosure required, we provide the following information.

1. TMC Mining Operations:

The TMC mining operation is conducted at the TMC Mineral Lease on lands situated in or near Utah's Asphalt Ridge, an area located along the northern edge of the Uintah Basin and containing oil sands deposits located at or near the surface, particularly the acreage located in T5S-R21E (Section 25) and T5S-R22E (Section 31) where our Asphalt Ridge Mine #1 is located.

(i) *The total number of violations of mandatory health or safety standards that could significantly and substantially contribute to the cause and effect of a mine safety or health hazard under section 104 of the Federal Mine Safety and Health Act of 1977 (30 U.S.C. 814) for which the operator received a citation from the Mine Safety and Health Administration.*

None.

(ii) *The total number of orders issued under section 104(b) of such Act (30 U.S.C. 814(b)).*

None.

(iii) *The total number of citations and orders for unwarrantable failure of the mine operator to comply with mandatory health or safety standards under section 104(d) of such Act (30 U.S.C. 814(d)).4.*

None.

(iv) *The total number of flagrant violations under section 110(b)(2) of such Act (30 U.S.C. 820(b)(2)).*

None.

(v) *The total number of imminent danger orders issued under section 107(a) of such Act (30 U.S.C. 817(a)).*

None.

(vi) *The total dollar value of proposed assessments from the Mine Safety and Health Administration under such Act (30 U.S.C. 801 et seq.).*

None.

(vii) *The total number of mining-related fatalities.*

None.

(viii) *Written notifications received of:*

a) *A pattern of violations of mandatory health or safety standards that are of such nature as could have significantly and substantially contributed to the cause and effect of coal or other mine health or safety hazards under section 104(e) of such Act (30 U.S.C. 814(e)); or*

None

b) *The potential to have such a pattern.*

None, that we are aware of.

c) *Any pending legal action before the Federal Mine Safety and Health Review Commission involving such mine.*

None

Item 5. Other Information.

None

Item 6. Exhibits

31.1	Certification of Gerald Bailey, Interim Chief Executive Officer, pursuant to Rule 13a-14(a)/15d-14(a) (1)
31.2	Certification of Ron Cook, Chief Financial Officer, pursuant to Rule 13a-14(a)/15d-14(a) (1)
32.1	Certification of Gerald Bailey, Interim Chief Executive Officer, pursuant to Section 1350 of the Sarbanes-Oxley Act of 2002 (1)
32.2	Certification Ron Cook, Chief Financial Officer pursuant to Section 1350 of the Sarbanes-Oxley Act of 2002 (1)
101.INS	Inline XBRL Instance Document. (1)
101.SCH	Inline XBRL Taxonomy Extension Schema Document. (1)
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document. (1)
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document. (1)
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document. (1)
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document. (1)
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

(1) Filed herewith

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned.

Petroteq Energy Inc.

/s/ R.G. Bailey

R. Gerald Bailey
Chief Executive Officer and President
(Principal Executive Officer)

/s/ Ron Cook

Ron Cook
Chief Financial Officer
(Principal Financial and Accounting Officer)

Date: January 19, 2022

Exhibit 31.1

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002**

I, R. Gerald Bailey, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Petroteq Energy Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13-a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financing reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 19, 2022

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

Exhibit 31.2

**CERTIFICATION OF PRINCIPAL FINANCIAL AND ACCOUNTING OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002**

I, Ron Cook, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Petroteq Energy Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13-a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financing reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 19, 2022

By: /s/ Ron Cook
Ron Cook
Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Petroteq Energy Inc. (the "Registrant") on Form 10-Q for the period ended November 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, R. Gerald Bailey, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section. 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Date: January 19, 2022

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

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Petroteq Energy Inc. (the “Registrant”) on Form 10-Q for the period ended November 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Ron Cook, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section. 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Date: January 19, 2022

By: /s/ Ron Cook
Ron Cook
Chief Financial Officer
(Principal Financial and Accounting Officer)