MCW Energy Group Limited

Consolidated Financial Statements

Years ended August 31, 2013 and 2012

(Expressed in US dollars)

MCW Energy Group Limited

Table of Contents

HAY & WATSON | Chartered Accountants
900 – 1450 Creekside Drive, Vancouver BC V6J 5B3
P 604 734 1690 F 604 336 8959 E creekinfo@hay-watson.bc.ca

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
MCW Energy Group Limited

We have audited the consolidated financial statements of MCW Energy Group Limited, which comprise the consolidated statements of financial position as at August 31, 2013 and 2012 and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

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

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

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

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of MCW Energy Group Limited as at August 31, 2013 and 2012, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

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

Hay + Watson

Chartered Accountants
Vancouver, British Columbia
December 30, 2013

MCW ENERGY GROUP LIMITED

Consolidated Statements of Financial Position
August 31, 2013 and August 31, 2012
Expressed in US dollars

	Notes	2013	2012 (Note 2)
ASSETS			
Current assets			
Cash	6	$ 1,756,404	$ 2,636,126
Trade and other receivables	7	7,804,118	7,628,472
Loans receivable	8	-	1,308,392
Crushed ore inventory	9	200,000	-
Prepaid expenses and deposits	10	77,822	655,226
		9,838,344	12,228,216
Deposit	10	600,000	-
Mineral lease	11	1,976,569	1,976,569
Property, plant and equipment	12	8,291,999	3,501,144
Intangible assets	13	5,994,135	2,376,454
		$ 26,701,047	$ 20,082,383
LIABILITIES			
Current liabilities			
Accounts payable	14	$ 12,347,878	$ 11,384,926
Accrued expenses	14	3,157,124	1,210,207
Convertible debenture	15	-	3,013,800
Current portion of long-term debt	17	4,608,422	1,253,644
		20,113,424	16,862,577
Deferred volume purchase incentives	16	895,199	-
Long-term debt	17	4,438,111	2,328,694
		25,446,734	19,191,271
SHAREHOLDERS' EQUITY			
Share capital	18	10,435,614	1,863,978
Shares to be issued		-	1,296,781
Share option reserve	19	7,837,617	3,204,907
Share warrant reserve	20	157,733	-
Convertible debenture reserve		-	431,557
Deficit		(18,641,340)	(7,506,620)
		(210,376)	(709,397)
Non-controlling interest		1,464,689	1,600,509
		1,254,313	891,112
		$ 26,701,047	$ 20,082,383

Approved by the Board of Directors *"Alexander Blyumkin"* *"David Sutton"*
Alexander Blyumkin, Director David Sutton, Director

The accompanying notes are an integral part of these financial statements

MCW ENERGY GROUP LIMITED

Consolidated Statements of Loss and Comprehensive Loss
Years ended August 31, 2013 and 2012
Expressed in US dollars

	Notes	2013	2012 (Note 2)
Fuel Operations			
Revenues		$ 431,932,384	$ 363,325,177
Cost of Goods Sold		423,461,201	356,645,701
Gross Profit		8,471,183	6,679,476
Operating Expenses			
Amortization		404,700	107,379
Branding services		698,781	282,705
Consulting		148,884	54,396
General and administrative		522,801	506,687
Insurance		581,873	439,967
Professional fees		366,905	213,986
Rent		66,352	100,353
Salaries and wages		3,129,423	2,135,849
Travel and promotion		176,169	99,196
Truck operation and maintenance		2,023,392	1,627,573
		8,119,280	5,568,091
Operating income before the following		(351,903)	(1,111,385)
Allowance for doubtful accounts receivable		279,255	2,279,516
Finance costs		148,238	100,247
Other income		(52,727)	(76,945)
Loss before Income Taxes		22,863	1,191,433
Provision for income taxes		-	-
Loss from Fuel Operations		22,863	1,191,433
Oil Sands Operations, Financing and Other			
Business investigation costs		189,504	-
Finance costs		315,951	400,000
General and administrative		315,548	254,473
Loss on conversion of debt	15	177,642	-
Professional fees		1,011,241	788,150
Reverse acquisition listing costs	3	2,480,506	-
Salaries and wages		853,528	426,652
Share-based compensation	19(a)	4,591,005	2,015,457
Shares issued for services		519,003	742,745
Travel and promotion		793,749	473,619
Loss from Oil Sands Operations, Financing and Other		11,247,677	5,101,096
Net Loss and Comprehensive Loss		$ 11,270,540	$ 6,292,529
Net Loss and Comprehensive Loss attributable to:			
Shareholders of the Company		$ 11,134,720	$ 6,083,307
Non-Controlling Interest		135,820	209,222
		$ 11,270,540	$ 6,292,529
Weighted Average Number of Shares Outstanding		37,536,363	31,382,941
Basic and Diluted Loss per Share		$ 0.30	$ 0.19

The accompanying notes are an integral part of these financial statements

MCW ENERGY GROUP LIMITED

Consolidated Statements of Changes in Shareholders' Equity

Years ended August 31, 2013 and 2012

Expressed in US dollars

	Notes	Number of Shares Outstanding	Share Capital	Shares to be Issued	Option Reserve	Warrant Reserve	Convertible Bond Reserve	Deficit (Note 2)	Shareholder Equity (Note 2)	Non-Controlling Interest	Total Equity (Note 2)
Balance at August 31, 2011		125,165,000	$ 602,231	$ -	$1,189,450	$ -	$ 431,557	$ (1,423,313)	$ 799,925	$ 1,809,730	$ 2,609,655
Shares issued for services		2,764,643	1,261,747	-	-		-	-	1,261,747	-	1,261,747
Share subscriptions received		-	-	1,296,781	-		-	-	1,296,781	-	1,296,781
Share-based compensation	19(a)	-	-	-	2,015,457		-	-	2,015,457	-	2,015,457
Net loss		-	-	-	-		-	(6,083,307)	(6,083,307)	(209,221)	(6,292,528)
Balance at August 31, 2012		127,929,643	1,863,978	1,296,781	3,204,907	-	431,557	(7,506,620)	(709,397)	1,600,509	891,112
Share consolidation		(95,947,232)	-	-	-	-	-	-	-	-	-
Private placement of shares	3	770,000	1,401,400	(1,296,781)	-	-	-	-	104,619	-	104,619
Reverse acquisition of AXEA Capital Corp.	3	1,322,476	2,457,645	-	83,408	-	-	-	2,541,053	-	2,541,053
Share issue costs	3	-	(438,636)	-	-	-	-	-	(438,636)	-	(438,636)
Fair value allocated to warrants	3	-	(126,728)	-	-	126,728	-	-	-	-	-
Fair value allocated to broker warrants	3	-	(31,005)	-	-	31,005	-	-	-	-	-
Conversion of debenture	15	5,724,500	3,866,257	-	-	-	(431,557)	-	3,434,700	-	3,434,700
Settlement of loan	17(c)	940,963	781,000	-	-	-	-	-	781,000	-	781,000
Compensation for debt guarantees	22(b)	722,892	600,000	-	-	-	-	-	600,000	-	600,000
Option exercises		33,333	61,703	-	(41,703)	-	-	-	20,000	-	20,000
Share-based compensation	19(a)	-	-	-	4,591,005	-	-	-	4,591,005	-	4,591,005
Net loss		-	-	-	-	-	-	(11,134,720)	(11,134,720)	(135,820)	(11,270,540)
Balance at August 31, 2013		41,496,575	$10,435,614	$ -	$7,837,617	$157,733	$ -	$(18,641,340)	$ (210,376)	$ 1,464,689	$ 1,254,313

The accompanying notes are an integral part of these financial statements

MCW ENERGY GROUP LIMITED

Consolidated Statements of Cash Flows
Years ended August 31, 2013 and 2012
Expressed in US dollars

	2013	2012
Cash flow from (used for) operating activities:		
Net loss	$ (11,270,540)	$ (6,292,529)
Adjustments for non-cash investing and financing items		
Amortization	404,700	107,379
Impairment of intangible assets	455,322	73,932
Loss on conversion of debt	177,642	-
Shares issued as part of reverse acquisition	2,480,506	-
Shares issued for services	719,003	1,142,745
Share-based compensation	4,591,005	2,015,457
Other	-	(37,645)
Changes in operating assets and liabilities:		
Accounts payable	941,896	2,676,945
Accounts receivable	(154,425)	961,167
Accrued expenses	1,649,251	331,302
Deferred volume purchase incentives	895,199	-
Crushed ore inventory	(100,000)	-
Prepaid expenses and deposits	(33,057)	(81,136)
Net cash from operating activities	756,502	897,617
Cash flows used for investing activities:		
Purchase and construction of property and equipment	(2,615,451)	(1,036,459)
Advance to TMC Capital LLC	(600,000)	-
Acquisition of intangible assets	(3,036,749)	(1,424,596)
Net cash used for investing activities	(6,252,200)	(2,461,055)
Cash flows from (used for) financing activities:		
Receipts from (advances to) executive officers	318,447	(783,627)
Share subscription receipts	-	1,296,781
Option exercises	20,000	-
Share issue costs	(329,159)	-
Payment of long-term debt	(584,313)	(320,927)
Proceeds from long term debt	5,191,001	1,799,000
Net cash from financing activities	4,615,976	1,991,227
Increase (decrease) in cash	(879,722)	427,789
Cash, beginning of the year	2,636,126	2,208,337
Cash, end of the year	$ 1,756,404	$ 2,636,126
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 180,236	$ 81,045

The accompanying notes are an integral part of these financial statements

Expressed in US dollars

1. NATURE OF OPERATIONS

MCW Energy Group Limited (the "Company") is an Ontario corporation with a wholly owned subsidiary, MCW Fuels, Inc. ("MCWF") which has two business segments located in the USA: fuel distribution and oil extraction from tar sands.

The Company's registered office is at Suite 4400, 181Bay Street, Toronto, Ontario, M5J 2T3, Canada and its principal operating office is located at 344 Mira Loma Avenue, Glendale, California 91204, USA.

In October 2012, the Company was legally acquired by AXEA Capital Corporation ("AXEA"), a British Columbia corporation, following which the shares were listed for trading on the TSX Venture Exchange (the "Exchange"). As the shareholders of the Company owned the majority of the shares of AXEA at the conclusion of the transaction it is accounted for as a "reverse acquisition", pursuant to which the Company will be considered to be the continuing corporation for accounting purposes (Note 3).

MCWF is engaged in the marketing and sale of unleaded and diesel land fuel products and related services in Southern California. The Company's business strategy is to provide value-added benefits to its customers, including single-supplier convenience, competitive pricing, the availability of trade credit, price risk management, logistical support, fuel quality control and co-branding, as well as skilled and knowledgeable drivers of its delivery trucks.

MCW Oil Sands Recovery, LLC ("MCWO"), a 51% owned subsidiary of MCWF, is engaged in a tar sands mining and oil processing operation using a closed-loop solvent based extraction system that recovers bitumen from surface mining. The Company is in the process of constructing an oil processing plant in the Asphalt Ridge area of Uintah, Utah.

The Company has incurred net losses for the past three years and has an accumulated deficit of $18,641,340 as at August 31, 2013 (2012 - $7,506,620). As at August 31, 2013, the Company has a working capital deficiency of $10,275,080 (2012 - $4,634,361). These 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. There is a risk that additional financing will not be available on a timely basis or on terms acceptable to the Company. These financial statements do not reflect the adjustments or reclassifications that would be necessary if the Company were unable to continue operations in the normal course of business.

2. RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS

Subsequent to the issue of the Company's consolidated financial statements for the years ended August 31, 2012 and 2011, the Company determined that certain borrowing costs on its loans qualified for recognition as costs of constructing the Company's extraction facility (Note 12) in accordance with IAS 23 *Borrowing Costs*. In accordance with IAS 8 *Accounting policies, changes in accounting estimates and errors*, the Company has restated the comparative amounts presented in these consolidated financial statements.

Effect on consolidated statements of financial position

	Previously Reported Amount	Adjustment	Restated Amount
As at August 31, 2012			
Property and Equipment	$ 3,055,786	$ 445,358	$ 3,501,144
Deficit	7,951,978	(445,358)	7,506,620
As at September 1, 2011			
Property and Equipment	2,087,521	121,615	2,209,136
Deficit	1,544,928	(121,615)	1,423,313

Expressed in US dollars

2. RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS (continued)

Effect on consolidated statements of loss and comprehensive loss

	Previously Reported Amount	Adjustment	Restated Amount
For the year ended August 31, 2012			
Financing and Other – Convertible debt accretion and interest	$ 323,742	$ (323,742)	$ -
Net loss and comprehensive loss	6,616,271	(323,742)	6,292,529
Net loss per share	0.21	(0.02)	0.19

3. REVERSE ACQUISITION

On October 15, 2012, the Company completed a reverse acquisition ("RTO") of AXEA Capital Corp ("AXEA"), a capital pool company listed on the NEX trading board of the Exchange, as follows:

(i) The Company closed a private placement for 3,080,000 subscription receipts for gross proceeds of Cdn $1,401,400. Each subscription receipt was convertible into units of consisting of one common share and one half of one common share purchase warrant. Each full warrant exercisable for one common share at a price of Cdn $0.75 for a period of 24 months after the completion of the RTO. The net proceeds from the private placement were Cdn $1,181,400 including cash payments of Cdn $220,000 for share issue costs and the issuance of 224,000 share purchase warrants to the broker.
(ii) The outstanding shares of AXEA were consolidated on a six to one basis.
(iii) Four outstanding common shares of the Company were exchanged for one common share of AXEA, resulting in the issue of 32,752,411 common shares, or approximately 96% of the subsequently issued shares, to the shareholders of MCW NB.
(iv) At the completion of the amalgamation, 66,666 common shares were reserved for the future exercise of options and 2,441,000 for the future exercise of warrants

Following the completion of the RTO, 34,074,887 MCW shares were outstanding and 5,057,666 were reserved for issuance. The common shares of the Company commenced trading on the Exchange as a Tier 2 Issuer under the symbol "MCW" on October 22, 2012.

In accordance with IFRS, the Company is identified as the acquirer at the completion of the RTO since the existing shareholders of the Company control AXEA, the legal parent company, at the conclusion of the transaction. In accordance with the requirements of reverse acquisition accounting, the authorized share capital presented in the consolidated financial statements is that of AXEA, the legal parent, and the issued share capital is that of the Company, the legal subsidiary. The comparative figures in these consolidated financial statements will be those of the Company as it is considered to be the continuing company.

The estimated consideration paid and the estimated fair values of the net assets of AXEA acquired by the Company on the reverse acquisition were:

Cash	$4,858
Other assets	101,310
Accounts payable	(45,622)
Transaction costs expensed	2,480,506
	$2,541,052

The name of AXEA was changed to "MCW Enterprises Ltd." on the completion of the RTO. On December 12, 2012, MCW Enterprises Ltd. continued into Ontario and completed an amalgamation with the Company, its now wholly-owned legal subsidiary company, with the amalgamated corporation being named "MCW Energy Group Limited".

4. BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 1 *Presentation of Financial Statements*, using accounting policies which are consistent with the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). The consolidated financial statements were authorized for issue by the Board of Directors on December 30, 2013.

(b) Basis of measurement

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

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

(c) Significant accounting judgments and estimates

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

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

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

Review of carrying value of assets and impairment charges

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

Fair value of share purchase options

Share purchase options granted by the Company to employees and others providing similar services are valued using the Black-Scholes option pricing model. Estimates and assumptions for inputs to the model, including the expected volatility of the Company's shares and the expected life of options granted, are subject to significant uncertainties and judgment.

4. BASIS OF PREPARATION

(c) Significant accounting judgments and estimates

Income taxes and recoverability of deferred tax assets

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

Judgment is required in determining whether deferred tax assets are recognized on the consolidated statement of financial position. Deferred tax assets, including those arising from unutilized tax losses, require management of the Company to assess the likelihood that the Company will generate sufficient taxable profit in future periods in order to utilize recognized deferred tax assets. Estimates of future taxable profit are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable profit differ from estimates, the ability of the Company to realize the deferred tax assets recorded on the statement of financial position could be impacted.

The Company has not recognized deferred tax assets as at August 31, 2013 and 2012.

5. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

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

Entity	% of Ownership	Jurisdiction
MCW Energy Group Limited	Parent	Canada
MCW Fuels, Inc.	100%	USA
MCW Oil Sands Recovery, LLC	51%	USA

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

The 49% non-controlling interest in MCW Oil Sands Recovery, LLC represents the interest of other shareholders in the net identifiable assets of that company and is identified separately from the Company's equity.

(b) Business combinations

The Company accounts for business combinations using the acquisition method, under which the acquirer measures the cost of the business combination as the total of the fair values, at the date of exchange, of the assets obtained, liabilities incurred and equity instruments issued by the acquirer in exchange for control of the acquiree.

Goodwill is measured as the fair value of the consideration transferred, including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount (generally the fair value) of the identifiable assets and liabilities assumed, measured as at the acquisition date.

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

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Income and expense recognition

Revenue recognition

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

Revenue from card processing services is recognized at the time the purchase is made by the customer using the charge card.

Revenue from late charges, interest, rental income and customer branding services are recorded on an accrual basis when collection is reasonably assured.

The Company expects to sell crude oil on completion of the oil extraction facility at prevailing market prices. No short term agreements have been established. Revenues will be recognized when the products are delivered, which occurs when the customer has taken title and has assumed the risks and rewards of ownership, when prices are fixed or determinable and when collectability is reasonably assured.

Vendor and customer rebates and branding allowances

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

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

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

(d) Property, plant and equipment

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

Machinery and equipment	5 years
Furniture and fixtures	7 years
Leasehold improvements	Lease term
Oil extraction facility	15 years

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Oil and gas properties

Oil and gas property interests

The Company accounts for its activities related to oil and gas properties by initially capitalizing the costs of acquiring these properties, directly and indirectly, and thereafter expensing exploration activities, pending the evaluation of commercially recoverable reserves. The results of exploratory programs can take considerable time to analyze and the determination that commercial reserves have been discovered requires both judgment and industry experience. All development costs are capitalized after it has been determined that a property has recoverable reserves.

Oil and gas reserves

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

(f) Intangible assets

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

Branded Reseller Distribution Agreements	4-10 years
Oil Extraction Technology	15 years

(g) Impairment of assets

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

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

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Impairment of assets (continued)

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

(h) Financial instruments

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

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

The Company's financial instruments are:

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

The recorded values of cash, accounts receivable. loans receivable, accounts payable and accrued expenses approximate their fair values based on their short term nature. The recorded values of long-term debt approximate their fair values as interest rates approximate market rates.

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

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

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

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Provisions

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

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the consolidated statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount receivable can be measured reliably.

(j) Income taxes

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

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

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

(k) Comprehensive income or loss

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

(l) Earnings per share

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

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

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Share-based payments

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

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

(n) New accounting standards and interpretations

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

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

In October 2010, the IASB issued amendments to IFRS in respect to the disclosure relating to transfers of financial assets. The amendments require additional disclosure to assist users of financial statements in evaluating the risk exposures in respect to transfers of financial assets that are not derecognized or for which the entity has a continuing involvement. The amendments became effective for annual periods commencing on or after July 1, 2011. The amendments will not impact these consolidated financial statements.

In December 2011, the IASB issued new disclosure requirements for financial assets and liabilities that (1) are offset in the statement of financial position; or (2) subject to master netting agreements or similar arrangements. These new disclosure requirements are effective for annual periods beginning on or after January 1, 2013 and are to be applied retrospectively. The Company is currently evaluating the impact of these new disclosure requirements on its financial statement; however, the impact, if any, is not expected to be significant.

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

IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple classification options in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2015, with earlier adoption permitted. The Company is currently evaluating the impact of IFRS 9 on its financial instruments; however, the impact, if any, is not expected to be significant.

(iii) IFRS 10, Consolidated Financial Statements ("IFRS 10")

IFRS 10 replaces the consolidation requirements in IAS 27, Consolidated and Separate Financial Statements, and Standing Interpretations Committee ("SIC") Interpretation 12, Consolidation - Special Purpose Entities. IFRS 10 introduces a single consolidation model for all entities based on control, irrespective of the nature of the investee, and is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The Company currently does not anticipate the adoption of IFRS 10 to have a significant impact on its consolidated financial statements.

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) New accounting standards and interpretations (continued)

(iv) IFRS 11, Joint Arrangements ("IFRS 11")

In May 2011, the IASB issued guidance establishing principles for financial reporting by parties to a joint arrangement. IFRS 11 replaces IAS 31, Interests in Joint Ventures. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures based on the rights and obligations of the parties to the joint arrangements. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement ("joint operators") have direct rights to the assets, and obligations for the liabilities, relating to and in accordance with the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement ("joint venturers") have rights to the net assets of the arrangement. IFRS 11 requires that a joint operator recognize its portion of assets, liabilities, revenues and expenses of a joint arrangement, while a joint venturer recognizes its investment in a joint arrangement using the equity method. IFRS 11 is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. The Company is reviewing the standard to determine the potential impact, if any, on its consolidated financial statements.

(v) IFRS 12, Disclosure of Interests in Other Entities ("IFRS 12")

IFRS 12 requires the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. The disclosure requirements are applicable to all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013 with earlier adoption permitted. The Company is reviewing the standard to determine the potential impact, if any, on its consolidated financial statements.

(vi) IFRS 13, Fair Value Measurement ("IFRS 13")

In May 2011, the IASB issued guidance establishing a single source for fair value measurement. IFRS 13 defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However, IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value. Rather, the measurement and disclosure requirements of IFRS 13 apply when another standard requires or permits the item to be measured at fair value, with limited exceptions. IFRS 13 is effective for annual periods beginning on or after January 1, 2013 with early application permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

(vii) IAS 27, Separate Financial Statements ("IAS 27")

IAS 27 was amended as a consequence of the issuance of IFRS 10, 11 and 12. IAS 27 sets the standards for investments in subsidiaries, jointly controlled entities, and associates when an entity elects, or is required, to present separate non-consolidated financial statements. Amendments to IAS 27 are effective for annual periods beginning on or after January 1, 2013 with early application permitted. The Company is in the process of evaluating the impact of the new standard on its financial statements.

(viii) IAS 28, Investments in Associates and Joint Ventures ("IAS 28")

IAS 28 was amended as a consequence of the issuance of IFRS 10, 11 and 12. IAS 28 provides additional guidance for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. This standard will be applied by the Company when there is joint control or significant influence over an investee. Amendments to IAS 28 are effective for annual periods beginning on or after January 1, 2013 with early application permitted. The Company is in the process of evaluating the impact of the new standard on its financial statements.

Expressed in US dollars

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) New accounting standards and interpretations (continued)

(ix) IAS 32, Financial Instruments: presentation ("IAS 32")

In December 2011, the IASB issued amendments to IAS 32. The amendments clarify that an entity currently has a legally enforceable right to set-off financial assets and liabilities if that right is (1) not contingent on a future event; and (2) enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. These amendments are effective for annual periods beginning on or after January 1, 2014 with early application permitted and are to be applied retrospectively. The Company is currently evaluating the impact of the adoption of the amendments on its financial statement; however, the impact, if any, is not expected to be significant.

6. CASH

The Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. The Company also has a trust account in which funds from the processing of retail operator credit card transactions are deposited and which is used to pay for fuel purchases.

Cash as at August 31, 2013 and 2012 consists of:

		2013		**2012**
Cash	$	1,756,404	$	1,339,345
Subscription receipts – in Trust (Note 3)		-		1,296,781
	$	1,756,404	$	2,636,126

7. TRADE AND OTHER RECEIVABLES

The Company's trade and other receivables consist of:

		2013		**2012**
Trade receivables, net of allowance for doubtful accounts	$	7,706,761	$	7,628,427
Goods and services tax receivable		96,357		-
	$	7,804,118	$	7,628,427

8. LOANS RECEIVABLE

At August 31, 2013, the Company had no demand loans receivable from two executive officers (2012 - $1,308,392). These loans earned interest at an annual rate of 4% and interest income for the year ended August 31, 2013 from these loans was $67,334 (2012 - $25,904)

9. CRUSHED ORE INVENTORY

On May 23, 2012, the Company entered into an agreement with TME Asphalt Ridge, LLC ("TME") with a five year term for the provision of crushed ore feedstock for the Company's oil extraction facility. The agreement requires the Company to purchase 100,000 tons of crushed ore currently stockpiled at the TME mine site for $16.00 per ton. A minimum of an additional 100,000 tons per year shall be purchased by the Company at a rate of approximately 8,333 tons per month after that for $20.60 per ton, subject to certain price adjustment provisions.

As at August 31, 2013, the Company had purchased 12,500 tons of crushed ore for $200,000 which remains stockpiled at the TME mine site.

Expressed in US dollars

10. PREPAID EXPENSES AND DEPOSITS

Prepaid expenses and deposits consist of:

	2013	2012
Current		
Prepaid consulting services	$ -	$ 519,003
Crushed ore purchase deposit	-	100,000
Other prepaid expenses and deposits	77,822	36,223
	77,822	655,326
Long term		
Advance to TMC Capital LLC	600,000	-
	$ 677,822	$ 655,226

On July 5, 2013, the Company secured a 12 month exclusive option to purchase certain project assets related to a bituminous sands project adjacent to the Company's mineral lease (Note 11). The Company agreed to advance $1,000,000 to TMC Capital LLC ("TMC") on July 15, 2013 to secure the option, as a loan with a 2 year term and annual interest of 5.25% payable on maturity, while the Company performs due diligence. As at August 31, 2013, $600,000 of this amount had been advanced to TMC.

If the Company decides to proceed with the acquisition, certain project assets and related encumbrances will be assigned to the Company in consideration for an additional $9,000,000 cash payment and 10,000,000 common shares of the Company.

Subsequent to August 31, 2013, the Company advanced an additional $500,000 to TMC, which increased the advances to $1,100,000.

11. MINERAL LEASE

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

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

The accumulated exploration and evaluation costs on the mineral lease as at August 31, 2013 and 2012 are:

	2013	2012
Acquisition cost	$ 1,921,569	$ 1,921,569
Maintenance costs	55,000	55,000
	$ 1,976,569	$ 1,976,569

Expressed in US dollars

12. PROPERTY, PLANT AND EQUIPMENT

	Buildings and Improvements	Land	Plant under Construction (Note 2)	Other Property and Equipment	Total (Note 2)
Cost					
August 31, 2011	$ -	$ -	$ 2,152,408	$ 330,285	$ 2,482,693
Additions	-	-	1,320,076	22,101	1,342,177
Dispositions	-	-	-	(36,286)	(36,286)
August 31, 2012	-	-	3,472,484	316,100	3,788,584
Additions	540,000	1,200,000	3,072,702	9,107	4,821,809
August 31, 2013	$ 540,000	$ 1,200,000	$ 6,545,186	$ 325,207	$ 8,610,393
Accumulated Amortization					
August 31, 2011	$ -	$ -	$ -	$ 273,557	$ 273,557
Additions	-	-	-	31,907	31,907
Dispositions	-	-	-	(18,024)	(18,024)
August 31, 2012	-	-	-	287,440	287,440
Additions	-	-	-	30,954	30,954
August 31, 2013	$ -	$ -	$ -	$ 318,394	$ 318,394
Carrying Amount					
August 31, 2011	$ -	$ -	$ 2,152,408	$ 56,728	$ 2,209,136
August 31, 2012	$ -	$ -	$ 3,472,484	$ 28,660	$ 3,501,144
August 31, 2013	$ 540,000	$ 1,200,000	$ 6,545,186	$ 6,813	$ 8,291,999

(a) Gas station acquisition

On August 15, 2013, the Company acquired a Valero-branded gas station and mini-mart in Thousand Oaks, California from Dalex Investments, Inc. ("Dalex"), an entity operating gas stations in California and controlled by two of the Company's executive officers, in consideration for the reduction of officer loans outstanding. The acquisition was treated as a business combination in accordance with IFRS 3 *Business Combinations.* The acquisition-date fair values of the consideration transferred and the net identifiable assets acquired were:

Consideration transferred	
Officer loans extinguished	(1,038,522)
Balance note issued	(126,797)
	1,165,319
Net identifiable assets acquired	
Building and other assets	540,000
Land	1,200,000
Inventory	122,654
Liabilities assumed	(1,657,335)
	205,319
Goodwill	$ 960,000

Goodwill is composed of the future potential contribution of the gas station to the Company's operating income. Following the acquisition, the Company entered into a business lease with Dalex for the premises and the business operations, for a 2 year term with monthly lease payments of $12,462.

Expressed in US dollars

12. PROPERTY, PLANT AND EQUIPMENT (continued)

(b) Plant under construction

In June 2011, the Company commenced the development of a tar sands oil extraction facility on its Mineral Lease in Uintah, Utah and entered into construction and equipment fabrication contracts for this purpose. The Company intends to amortize the cost of construction over 15 years from commencement of production. The anticipated remaining cost of construction at August 31, 2013 is approximately $1,900,000.

Costs of construction include capitalized borrowing costs for the year ended August 31, 2013 of $257,353 (2012 - $323,743). Total borrowing costs included in the cost of construction as at August 31, 2013 are $702,711 (2012 - $445,358).

Amerisands, LLC, which has a 49% interest in MCWO, manages the construction and is entitled to receive a project management fee of 5% of the total managed cost of construction on completion of the extraction facility. As at August 31, 2013, $223,100 has been accrued for project management fees and included in the cost of construction (2012 - $Nil).

13. INTANGIBLE ASSETS

	Branded Reseller Distribution Agreements	Oil Extraction Technology	Goodwill	Total
Cost				
August 31, 2011	$ 662,869	$ -	$ -	$ 662,869
Additions	1,503,645	735,488	-	2,239,133
Impairment charges	(174,213)	-	-	(174,213)
August 31, 2012	1,992,301	735,488	-	2,727,789
Additions	3,486,750	-	960,000	4,446,750
Impairment charges	(710,513)	-	-	(710,513)
August 31, 2013	$ 4,768,538	$ 735,488	$ 960,000	$ 6,464,026
Accumulated Amortization				
August 31, 2011	$ 371,027	$ -	$ -	$ 371,027
Additions	80,589	-	-	80,589
Impairment charges	(100,281)	-	-	(100,281)
August 31, 2012	351,335	-	-	351,335
Additions	373,747	-	-	373,747
Impairment charges	(255,191)	-	-	(255,191)
August 31, 2013	$ 469,891	$ -	$ -	$ 469,891
Carrying Amounts				
August 31, 2011	$ 291,842	$ -	$ -	$ 291,842
August 31, 2012	$ 1,640,966	$ 735,488	$ -	$ 2,376,454
August 31, 2013	$ 4,298,647	$ 735,488	$ 960,000	$ 5,994,135

13. INTANGIBLE ASSETS (continued)

(a) Branded reseller distribution agreements

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

On June 14, 2012, the Company entered into an agreement to acquire exclusive branded reseller distribution agreements in several stages from WestCo Petroleum Distributors, Inc. ("WestCo"). As at August 31, 2013, the Company had acquired 15 agreements for consideration of $2,080,000, of which $450,000 is payable at as at August 31, 2013.

During the year ended August 31, 2013, the Company recorded impairment charges of $455,323 (2012 - $73,932) to recognize early termination of certain branded reseller distribution agreements and reduce their carrying values to the expected recoverable amounts. These impairment charges have been included in branding services on the consolidated statements of loss and comprehensive loss.

(b) Oil extraction technology

During the year ended August 31, 2012, the Company acquired 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 for patents on this technology in the USA and Canada and intends to employ it in its oil extraction facility currently under construction. The Company intends to amortize the cost of the technology over fifteen years from the commencement of production, the expected life of the oil extraction facility.

(c) Goodwill

The Company acquired goodwill during the year ended August 31, 2013 on the acquisition of a gas station from two of its executive directors (Note 12(a)).

14. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable consist primarily of fuel trade purchases with 10 day credit terms.

Accrued expenses consist of amounts outstanding for construction of the extraction facility and other operating expenses.

15. CONVERTIBLE DEBENTURE

On April 4, 2011, the Company issued a $3,000,000 convertible debenture to Lenzarinal Investments Ltd. The principal and any accrued interest was convertible to 1,500,000 common shares of the Company at any time at the option of the holder. Interest accrued at the rate of 7% per annum and payments of interest and principal were deferred until the maturity of the loan on May 12, 2014.

On May 8, 2013, the Company entered into agreements with the beneficial holders of the convertible debenture to issue an aggregate of 5,724,500 common shares as full and final settlement of $3,434,700 of principal and interest outstanding. The Company recorded a loss of $177,642 on the financial liability component of the convertible debenture.

Expressed in US dollars

15. CONVERTIBLE DEBENTURE (continued)

The convertible debenture was accounted for on initial recognition as a non-derivative compound financial instrument, with a financial liability component (the loan) and an equity component (the fixed conversion right) classified as a reserve within equity. A reconciliation of the carrying value of the convertible debenture to the fair value at issue and on conversion is:

		2013		2012
Fair value of convertible debenture at issue	$	3,000,000	$	3,000,000
Residual amount classified as equity		(431,557)		(431,557)
Fair value of liability component at issue		2,568,443		2,568,443
Accrued interest and accretion expense		688,616		445,357
Carrying value of financial liability		3,257,058		3,013,800
Conversion to shares		(3,434,700)		-
Net loss on conversion	$	177,642	$	-

Interest and accretion expense on this debenture has been capitalized as borrowing costs (Note 12(b)).

16. DEFERRED VOLUME PURCHASE INCENTIVES

During the year ended August 31, 2013, the Company received volume purchase incentive payments of $1,000,000 (2012 - $Nil) from one of its fuel suppliers as consideration for commitments to purchase approximately 1.2 million gallons of motor vehicle fuel per month over a ten year period. These payments have been deferred and will be recorded, on a straight-line basis over the term of the fuel purchase commitments, as a reduction to cost of goods sold. During the year ended August 31, 2013, $104,801 (2012 - $Nil) of the total amount was recorded as a reduction in cost of goods sold.

Volume purchase incentives are repayable in the event of failure to meet purchase commitments, in full within the first 3 years and proportionately on the basis of actual fuel purchases each year thereafter.

17. LONG TERM DEBT

Lender	Maturity Date	Interest Rate		Principal due at August 31 2013		Principal due at August 31 2012
BBCN Bank	January 2, 2014	4.50%(1)	$	1,161,312	$	1,484,985
BBCN Bank	January 11, 2014	5.75%(2)		500,000		499,000
BBCN Bank	September 30, 2017	7.00%		253,488		310,199
BBCN Bank	June 21, 2018	6.50%		1,202,544		-
BBCN Bank	June 21, 2018	5.50%		435,963		-
BBCN Bank	July 17, 2020	5.25%(2)		742,565		-
BBCN Bank	June 1, 2022	5.25%(2)		906,815		988,154
BBCN Bank	December 5, 2022	5.25%(2)		948,268		-
Branding advances	October 31, 2022	10.00%		94,515		
Branding advances	December 31, 2022	10.00%		96,946		-
Branding advances	January 31, 2023	10.00%		144,117		
Branding advances	August 31, 2023	10.00%		300,000		
Morison Management S.A.	May 18, 2014	5.00%		-		300,000
Montville Equity Corp.	July 1, 2015	5.00%		2,260,000		-
			$	9,046,533	$	3,582,338

Expressed in US dollars

17. LONG TERM DEBT (continued)

(1) Variable interest rate based on the lender's prime rate plus 0.75% with a floor rate of 4.50%
(2) Variable interest rate based on the Wall Street Journal prime rate plus 1.00% with floor rates of 5.75% and 5.25%

		2013		2012
Principal classified as repayable within one year	$	4,608,422	$	1,253,644
Principal classified as repayable later than one year		4,438,111		2,328,694
	$	9,046,533	$	3,582,338

(a) BBCN Bank loans

The BBCN Bank Loans are secured by the assets of the Company and are guaranteed by two of the Company's executive officers.

As at August 31, 2013, the Company was not in compliance with certain financial covenants on its loans from BBCN Bank. The bank has advised the company that it intends to renew the loans, subject to the completion of its due diligence procedures (expected in early 2014).

The Company also has a standby line of credit ("LOC") with BBCN Bank which allows the Company to borrow up to $1,200,000. This LOC bears interest at an annual rate of 5.75% and matures on December 1, 2014. As at August 31, 2013, nothing was borrowed from the LOC (August 31, 2012 - $Nil).

(b) Montville Equity Corp. loan

On July 1, 2013, the Company issued a $2,260,000 unsecured promissory note to Montville Equity Corp. The promissory note has a term of 2 years and bears interest at 5% per annum, due and payable at the end of the term together with the principal.

(c) Morison Management S.A. loan

On November 26, 2013, the Company converted total borrowings of $781,000 from Morison Management S.A. into shares by issuing 940,963 common shares at a deemed issue price of $0.83 per share.

18. COMMON SHARES

Authorized	unlimited common shares without par value
Issued and Outstanding	41,469,575 common shares

19. SHARE PURCHASE OPTIONS

(a) Stock option plan

The Company has a stock option plan which allows the Board of Directors of the Company to grant options to acquire common shares of the Company to directors, officers, key employees and consultants. Option price, term, and vesting are determined at the discretion of the Board of Directors, subject to certain restrictions as required by the policies of the Exchange. The stock option plan is a 20% fixed number plan with a maximum of 8,399,315 common shares reserved for issuance.

During the year ended August 31, 2013, the Company granted 3,482,666 options to directors, officers and consultants with exercise prices ranging from $0.60 to $1.10 (2012 – No option grants). The weighted average fair value of options granted during the year ended August 31, 2013 was estimated at $0.72 (2012 – No option grants) per option at the grant date using the Black-Scholes option pricing model.

Expressed in US dollars

19. SHARE PURCHASE OPTIONS (continued)

(a) Stock option plan (continued)

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

	2013	2012
Share price	$ 1.11	$ -
Exercise price	$ 1.09	$ -
Expected share price volatility (1)	81%	-
Risk-free interest rate	1.29%	-
Expected term	4.86	-

(1) Expected volatility has been calculated based on the Company's historical volatility and the volatility of comparable public entities at a similar stage in their life cycle

Share-based compensation expense of $4,591,005 was recognized for the year ended August 31, 2013 (2012 - $2,015,457) of which $2,413,109 relates to the vesting of options granted during the current year and $2,177,905 to the vesting of options granted in prior years.

(b) Share purchase option transactions

Share purchase option transactions under the stock option plan were:

	2013		2012	
	Number of Options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of year	8,000,000	$ 0.04	8,000,000	$ 0.04
Options consolidated (1)	(6,000,000)	0.16	-	-
Options granted	3,482,666	1.09	-	-
Options exercised (2)	(33,333)	0.60	-	-
Options forfeited	(32,574)	0.99	-	-
Options expired	(33,333)	0.60	-	-
Balance, end of year	5,383,426	$ 0.75	8,000,000	$ 0.04

(1) Options outstanding at the RTO (Note 3) were consolidated on a one for four basis
(2) The weighted average share price on the date of exercise was $0.70 (2012 – no option exercises).

Share purchase options outstanding and exercisable as at August 31, 2013 are:

Expiry Date	Exercise Price	Options Outstanding	Options Exercisable
December 31, 2013(1)	$ 0.16	500,000	500,000
February 19, 2014	CAD 1.10	400,000	400,,000
September 11, 2014(2)	CAD 0.84	9,142	1,877
September 11, 2014(2)	CAD 1.03	34,284	8,641
November 11, 2017	CAD 1.10	2,940,000	2,940,000
December 31, 2018 (2)	0.16	1,500,000	-
		5,383,426	3,850,518
Weighted average remaining contractual life		4.2 years	2.7 years

(1) These options were exercised subsequent to August 31, 2013
(2) These options will become exercisable during the year ended August 31, 2014.

Expressed in US dollars

20. SHARE PURCHASE WARRANTS

Share purchase warrants outstanding as at August 31, 2013 are:

Expiry Date	Exercise Price	Warrants Outstanding
October 19, 2014	CAD 3.00	385,000
October 19, 2014	CAD 2.00	56,000
		441,000

During the year ended August 31, 2013, the Company issued 441,000 common share purchase warrants in conjunction with the RTO (Note 3) with a fair value of $157,733.

21. DILUTED LOSS PER SHARE

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

22. RELATED PARTY TRANSACTIONS

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

(a) Fuel sales to related parties

Approximately 2.1% (2012 – 2.4%) of the Company's sales during the year ended August 31, 2013 were to retail operations controlled by executive officers of the Company. Accounts receivable as at August 31, 2013 from these entities is $866,709 (2012 - $532,397).

(b) Transactions with executive officers

Two executive officers have provided their personal guarantees for the Company's loans from BBCN Bank (Note 17). During the year ended August 31, 2013, the Company issued 722,892 shares at a deemed issue price of $0.83 per share to these executive officers as compensation for their loan guarantees. The Company has recognized $200,000 in share-based compensation for this transaction during the year ended August 31, 2013 (2012 - $400,000).

During the year ended August 31, 2012, two executive officers transferred oil extraction technology acquired from certain third parties to the Company for $735,488 (Note 13). This transaction was measured at the original cost to the executive officers of acquiring the technology.

(c) Key management personnel and director compensation

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

	2013	2012
Salaries, fees and other benefits	$ 1,126,963	$ 569,491
Share-based compensation	3,417,644	1,511,592
	$ 4,544,607	$ 1,320,657

Expressed in US dollars

23 INCOME TAXES

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

	2013	2012
Property and equipment and intangible assets	$ (61,415)	$ 52,156
Convertible debenture	-	(70,625)
Non-capital tax loss carry-forwards	2,763,035	1,328,036
Other tax-related balances and credits	149,358	-
Valuation allowance	(2,850,978)	(1,309,567)
Net deferred tax assets (liabilities)	$ -	$ -

A reconciliation of the provision for income taxes is:

	2013	2012
Net loss before income taxes	$ 11,518,134	$ 6,292,529
Income tax recovery at the domestic rates applicable to the jurisdictions concerned	3,085,290	1,722,215
Net tax effect of items not taxable or deductible	(2,128,998)	(432,195)
Changes in temporary differences	(212,204)	(150,865)
Unrecognized losses for income tax purposes	(744,088)	(1,139,155)
Income tax provision	$ -	$ -

As at August 31, 2013, the Company has, on a consolidated basis, non-capital losses of approximately $9 million for income tax purposes which may be used to reduce taxable income of future years. If unused, these losses will expire between 2028 and 2033.

24. COMMITMENTS

(a) Oil extraction technology

The Company has reserved 500,000 common shares for issuance to the inventor of a key component of the Extraction Technology (subsequently appointed Chief Technology Officer of the Company) following the successful testing and operation of the extraction facility. A royalty on a scale of 2% to 4% of gross revenue will also be payable from production of each extraction facility beginning with the successful operation of a second facility. As at August 31, 2013, the Company is in the process of constructing the first extraction facility (Note12).

(b) Premises lease commitments

The Company's_minimum future annual rental commitments for leased gasoline stations, which are all sublet, and its head office are:

	Sublease Income	Minimum Lease Commitments	Net Lease Cost (Income)
Due within 1 year	$ (136,704)	$ 229,973	$ 93,269
Due between 2 and 5 years	(475,270)	607,153	131,883
Due later than 5 years	(326,052)	383,652	57,600
	$ (938,026)	$ 1,220,778	$ 282,752

24. COMMITMENTS (continued)

(c) Truck and trailer lease commitments

The Company has operating leases with 60 month terms for trucks and trailers used for fuel delivery. The minimum future annual lease payments are:

Due within 1 year	$	632,241
Due between 2 and 5 years		1,468,647
	$	2,100,888

25. SEGMENT INFORMATION

The Company operates in two reportable segments within the USA, fuel distribution and oil extraction and processing, which are the Company's strategic business units. The Company's fuel distribution segment derives revenues from the fuel sales to retail customers, whereas the Company's oil extraction segment is in the development stage and is expected to generate revenues once commercial production from the extraction facility commences.

(in '000s of dollars)	2013			2012		
	Oil Extraction	Fuel Distribution	Consolidated	Oil Extraction	Fuel Distribution	Consolidated
Selected reportable segment revenues (expenses)						
External revenues	$ -	$ 431,932	$ 431,932	$ -	$ 363,325	$ 363,325
Impairment charges	(455)	-	(455)	(74)	-	(74)
Interest expense	(373)	(148)	(521)	(324)	(88)	(412)
Share-based compensation	(4,591)	-	(4,591)	(2,015)	-	(2,015)
Share-based payments	(519)	-	(519)	(743)	-	(743)
Reverse acquisition listing cost	(2,480)	-	(2,480)	-	-	-
Depreciation and amortization	-	(405)	(405)	-	(107)	(107)
Reportable segment loss	$ (11,247)	$ (23)	$ (11,270)	$ (5,425)	$ (1,191)	$ (6,616)
Additions to non-current assets	$ 3,619	$ 5,485	$ 9,104	$ 1,704	$ 1,349	$ 3,053
Reportable segment assets	10,176	16,525	26,701	6,184	13,898	20,082
Reportable segment liabilities	(4,075)	(21,372)	(25,447)	(3,314)	(15,877)	(19,191)

26. MANAGEMENT OF CAPITAL

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable level. The Company considers its capital for this purpose to be its shareholders' equity and long-term liabilities.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may seek additional financing or dispose of assets.

In order to facilitate the management of its capital requirements, the Company monitors its cash flows and credit policies and prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The annual and any updated budgets are approved by the Board of Directors. There are no external restrictions on the Company's capital.

27. MANAGEMENT OF FINANCIAL RISKS

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

(a) Credit risk

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

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

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

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

As at August 31, 2013, $202,562 of accounts receivable were past due but not impaired (2012 - $545,115).

(b) Interest rate risk

Interest rate risk is the risk that changes in interest rates will affect the fair value or future cash flows of the Company's financial instruments. The Company is exposed to interest rate risk as a result of holding fixed rate investments of varying maturities as well as through certain floating rate instruments. As at August 31, 2012, a 1% increase in interest rates would increase the Company's interest expense by approximately $12,000 (2012 - $30,000).

(c) Liquidity risk

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

Accounts payable and accrued expenses are due within the current operating period. Other long-term liabilities are due with varying maturities (Note 17)

28. EVENTS AFTER THE REPORTING PERIOD

Events after the reporting period not disclosed elsewhere in these consolidated financial statements are:

(a) B&N Bank credit facility

On September 18, 2013, the Company obtained a credit line from B&N Bank of up to $3,000,000. Draws on the credit line are due on September 18, 2015 and accrue interest at 12.51% per annum, payable quarterly.

28. EVENTS AFTER THE REPORTING PERIOD (continued)

(b) B&N Bank credit facility (continued)

Certain shareholders of the Company have deposited 5,945,482 of the Company's shares in escrow, as required by the terms of the credit facility. The number of shares in escrow are to be increased by 14.33% of any additionally issued shares during the term of the credit line.

As at December 20, 2013, $3,000,000 had been drawn on this credit line by the Company.

(c) Shares issued to consultants

On November 14, 2013, the Company issued 100,000 common shares at a deemed issue price of $1.50 per share pursuant to agreements with certain consultants in Utah, USA to assist in conducting a public relations campaign to related to the development of the oil extraction facility.

(d) Shares issued in settlement of debt

On November 27, 2013, the Company issued 53,553 common shares to an officer of the Company in settlement of outstanding management fees of $60,000.