

MCW Energy Group Limited

Condensed Consolidated Interim Financial Statements

For the three months ended November 30, 2014 and 2013

(Expressed in US dollars)

(Unaudited)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of interim financial statements they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor. The Company's independent auditor has not performed a review of these condensed consolidated interim financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

MCW Energy Group Limited

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MCW ENERGY GROUP LIMITED

Condensed Consolidated Interim Statements of Financial Position

As at November 30, 2014 and August 31, 2014

Expressed in US dollars

	Notes	November 30, 2014 (unaudited)	August 31, 2014 (audited)
ASSETS			
Current assets			
Cash	5	\$ 134,415	\$ 938,648
Trade and other receivables	6	6,023,087	8,981,441
Due from senior officers	20(d)	223,637	-
Assets held-for-sale	4	4,479,659	-
Crushed ore inventory	7	300,000	300,000
Prepaid expenses		51,541	60,408
		<u>11,212,339</u>	<u>10,280,497</u>
Deposit	8	1,519,067	1,330,978
Property, plant and equipment	10	14,712,567	13,141,301
Intangible assets	11	1,695,488	6,040,656
		<u>\$ 29,139,461</u>	<u>\$ 30,793,432</u>
LIABILITIES			
Current liabilities			
Bank overdraft		\$ 406,857	\$ -
Accounts payable	12	12,471,354	15,524,459
Accrued expenses	12	4,889,929	4,818,322
Liabilities relating to assets held-for-sale	4	2,735,372	-
Current portion of long-term debt	14	7,164,721	4,550,830
Due to senior officers	20(d)	-	14,849
		<u>27,668,233</u>	<u>24,908,460</u>
Convertible debenture	15	1,207,035	2,824,000
Deferred volume purchase incentives	13	-	1,072,613
Long-term debt	14	2,486,871	6,084,700
		<u>31,362,139</u>	<u>34,889,773</u>
SHAREHOLDERS' EQUITY			
Share capital	16	19,106,673	15,993,551
Share option reserve	17	7,063,773	7,063,773
Share warrant reserve	18	314,610	157,733
Deficit		<u>(28,707,734)</u>	<u>(27,311,398)</u>
		<u>(2,222,678)</u>	<u>(4,096,341)</u>
		<u>\$ 29,139,461</u>	<u>\$ 30,793,432</u>

Approved by the Board of Directors "Alexander Blyumkin"
Alexander Blyumkin, Director

"Bill G. Calsbeck"
Bill G. Calsbeck, Director

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

MCW ENERGY GROUP LIMITED

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss

For the three months ended November 30, 2014 and 2013

Expressed in US dollars

(unaudited)

		Three months ended	
	Notes	November 30, 2014	November 30, 2013
Continuing Operations			
Oil Sands Operations, Financing and Other			
General and administrative		\$ 117,347	\$ 85,585
Interest expense		188,781	19,330
Loss on settlement of liabilities		9,660	-
Professional fees		170,461	129,058
Salaries and wages		313,869	234,377
Share-based compensation	17(a)	-	381,276
Shares issued for services		-	150,000
Travel and promotion		265,637	193,399
Loss before Income Taxes		<u>1,065,755</u>	<u>1,193,025</u>
Provision for income taxes		-	-
Loss from Continuing Operations		<u>1,065,755</u>	<u>1,193,025</u>
Discontinued Operations			
Net loss from assets sold - Fuel Operations	4		
Revenues		107,127,110	103,165,555
Fuel Purchases		<u>105,121,295</u>	<u>101,179,856</u>
Profit on Fuel Purchases		2,005,815	1,985,699
Fuel Delivery		<u>1,259,945</u>	<u>1,132,298</u>
Gross Profit		<u>745,870</u>	<u>853,401</u>
Operating Expenses			
Amortization		8,775	204,208
Customer station maintenance		309,941	82,415
Consulting		15,475	31,375
General and administrative		149,017	79,836
Impairment of branding contracts		58,167	77,748
Insurance		138,802	184,569
Professional fees		52,144	36,514
Rent		12,544	13,205
Salaries and wages		353,705	397,803
Travel and promotion		15,881	23,494
		<u>1,114,451</u>	<u>1,131,167</u>
Operating loss before the following		368,581	277,766
Interest expense		123,882	48,441
Other income		<u>(161,882)</u>	<u>(101,369)</u>
Loss before Income Taxes		330,581	224,838
Provision for income taxes		-	-
Loss from Discontinued Operations		<u>330,581</u>	<u>224,838</u>
Net Loss and Comprehensive Loss		<u>\$ 1,396,336</u>	<u>\$ 1,417,863</u>
Net Loss and Comprehensive Loss from Continuing Operations attributable to:			
Shareholders of the Company		\$ 1,065,755	\$ 1,364,460
Non-Controlling Interest		-	53,403
		<u>\$ 1,065,755</u>	<u>\$ 1,417,863</u>
Net Loss and Comprehensive Loss attributable to:			
Shareholders of the Company		\$ 1,396,336	\$ 1,417,863
Non-Controlling Interest		-	-
		<u>\$ 1,396,336</u>	<u>\$ 1,417,863</u>
Weighted Average Number of Shares Outstanding	19	48,938,956	41,689,981
Basic and Diluted Loss per Share from Continuing Operations		\$ 0.02	\$ 0.03
Basic and Diluted Loss per Share from Discontinued Operations		\$ 0.01	\$ 0.01
Basic and Diluted Loss per Share		<u>\$ 0.03</u>	<u>\$ 0.03</u>

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

MCW ENERGY GROUP LIMITED

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity

For the three months ended November 30, 2014 and 2013

Expressed in US dollars

(unaudited)

	Notes	Number of Shares Outstanding	Share Capital	Share Subscriptions	Option Reserve	Warrant Reserve	Deficit	Shareholder Equity	Non-Controlling Interest	Total Equity
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
Option exercises		500,000	1,257,334	-	(1,177,334)	-	-	80,000	-	80,000
Shares issued for services		100,000	150,000	-	-	-	-	150,000	-	150,000
Share-based compensation	17(a)	-	-	-	381,275	-	-	381,275	-	381,275
Net loss		-	-	-	-	-	(1,364,460)	(1,364,460)	(53,403)	(1,417,863)
Balance at November 30, 2013		42,096,575	\$11,842,948	\$ -	\$ 7,041,558	\$ 157,733	\$(20,005,800)	\$ (963,561)	\$ 1,411,286	\$ 447,725
Balance at August 31, 2014		46,448,614	\$15,993,551	\$ -	\$ 7,063,773	\$ 157,733	\$(27,311,398)	\$ (4,096,341)	\$ -	\$ (4,096,341)
Conversion of debenture	15(a)	2,923,722	2,620,000	-	-	-	-	2,620,000	-	2,620,000
Settlement of liabilities		413,172	377,093	-	-	-	-	377,093	-	377,093
Private placement of shares		106,847	80,000	-	-	-	-	80,000	-	80,000
Shares issued for services	20(b)	40,000	36,029	-	-	-	-	36,029	-	36,029
Warrants issued	18	-	-	-	-	156,877	-	156,877	-	156,877
Net loss		-	-	-	-	-	(1,396,336)	(1,396,336)	-	(1,396,336)
Balance at November 30, 2014		49,932,355	\$19,106,673	\$ -	\$ 7,063,773	\$ 314,610	\$(28,707,734)	\$ (2,222,678)	\$ -	\$ (2,222,678)

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

MCW ENERGY GROUP LIMITED**Condensed Consolidated Interim Statements of Cash Flows****For the three months ended November 30, 2014 and 2013****Expressed in US dollars****(unaudited)**

	Three months ended	
	November 30, 2014	November 30, 2013
Cash flow from (used for) operating activities:		
Net loss	\$ (1,065,755)	\$ (1,193,025)
Adjustments for non-cash, investing and financing items		
Loss on settlement of liabilities	9,660	-
Shares issued for services	36,029	150,000
Share-based compensation	-	381,275
Other	146,823	-
Changes in operating assets and liabilities:		
Accounts payable	15,831	(150,407)
Accounts receivable	-	79,232
Accrued expenses	(39,787)	(184,055)
Crushed ore inventory	-	(100,000)
Prepaid expenses and deposits	(12,422)	(17,013)
Net cash used for operating activities of continuing operations	<u>(909,621)</u>	<u>(1,033,993)</u>
Net cash used for operating activities of discontinued operations	<u>(872,795)</u>	<u>(969,173)</u>
Cash flows used for investing activities:		
Purchase and construction of property and equipment	(615,081)	(1,690,627)
Advance to TMC Capital LLC	-	(465,000)
Acquisition of TMC Capital LLC	(175,000)	-
Net cash used for investing activities of continuing operations	<u>(790,081)</u>	<u>(2,155,627)</u>
Net cash used for investing activities of discontinued operations	<u>(192,658)</u>	<u>(90,783)</u>
Cash flows from (used for) financing activities:		
Advances to executive officers	(238,486)	(38,535)
Private placements	80,000	-
Option exercises	-	80,000
Payments of long-term debt	(228,393)	(153,785)
Proceeds from long-term debt	986,590	3,000,000
Proceeds from convertible debt	1,000,000	-
Net cash from financing activities of continuing operations	<u>1,599,711</u>	<u>2,887,680</u>
Net cash used for financing activities of discontinued operations	<u>(45,646)</u>	<u>(14,989)</u>
Decrease in cash	(1,211,090)	(1,376,885)
Cash, beginning of the period	938,648	1,756,404
Cash, end of the period	<u>\$ (272,442)</u>	<u>\$ 379,519</u>
Cash composed of:		
Cash	\$ 134,415	\$ 379,519
Bank overdraft	(406,857)	-
	<u>\$ (272,442)</u>	<u>\$ 379,519</u>
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 274,193	\$ 60,850

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

MCW ENERGY GROUP LIMITED

Notes to the Condensed Consolidated Interim Financial Statements

November 30, 2014

Expressed in US dollars (unaudited)

1. NATURE OF OPERATIONS

MCW Energy Group Limited (the “Company”) is an Ontario corporation with two active business segments located in the USA in two indirectly wholly owned subsidiary companies, MCW Oil Sands Recovery, LLC (“MCWO”), which is engaged in mining and oil extraction from tar sands, MCW Fuels, Inc. (“MCWF”), which has fuel distribution operations, and other inactive subsidiary companies.

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

MCWO is engaged in a tar sands mining and oil processing operation using a closed-loop solvent based extraction system that recovers bitumen from surface mining. The Company is in the process of completing the construction of an oil processing plant in the Asphalt Ridge area of Uintah, Utah.

On September 30, 2014, Amerisands, LLC (“Amerisands”) returned its 49% interest in MCWO to the Company, as a result of which the Company’s interest in MCWO increased to 100%, in consideration of the Company assuming all current and future liabilities arising from MCWO’s operations.

MCWF was engaged in the marketing and sale of unleaded and diesel land fuel products and related services in California. MCWF’s business strategy was to provide value-added benefits to its customers, including single-supplier convenience, competitive pricing, the availability of trade credit, price risk management, logistical support, fuel quality control and co-branding, as well as skilled and knowledgeable drivers of fuel delivery trucks. As a result of changes in this industry, the Company decided in December 2014 to dispose of substantially all of the assets of the fuel distribution business (Note 4) for \$5,000,000 payable at closing and an additional amount on or before April 15, 2015 based on defined gross profits over a specified period. The completion of the transaction and payment of the additional amount on or before April 15, 2015, is subject to certain conditions, including the Company obtaining all necessary consents and approvals for the sale. The initial purchase price of \$5,000,000 was directed towards the settlement of the liabilities to two major fuel suppliers. Certain assets were excluded from the sale, such as a gas station and associated goodwill, all accounts and notes receivable, prepaid expenses and deposits, all accounts payables, all interest in any real property leased or owned by MCWF and all intellectual property rights related to the name “MCW”.

The Company has incurred losses for the several years and, as at November 31, 2014, has an accumulated deficit of \$28,707,734 (August 31, 2014 - \$27,311,398) and a working capital deficiency of \$16,455,894 (August 31, 2014 - \$14,627,963). These condensed consolidated interim financial statements have been prepared on the basis that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. The ability of the Company to continue as a going concern is dependent on obtaining additional financing, which it is currently in the process of obtaining. There is a risk that the additional financing will not be available on a timely basis or on terms acceptable to the Company. These condensed consolidated interim financial statements do not reflect the adjustments or reclassifications that would be necessary if the Company were unable to continue operations in the normal course of business.

MCW ENERGY GROUP LIMITED

Notes to the Condensed Consolidated Interim Financial Statements

November 30, 2014

Expressed in US dollars (unaudited)

2. BASIS OF PREPARATION

(a) Statement of compliance

The condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34 *Interim Financial Reporting*. They do not include all of the information required for full annual financial statements in compliance with IAS 1 *Presentation of Financial Statements*. The accounting policies used in these condensed consolidated interim financial statements are in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and the interpretations of the IFRS Interpretations Committee (“IFRIC”) as at January 29, 2015, the date the condensed consolidated interim financial statements were authorized for issue by the Board of Directors. Except as noted below, they follow the same accounting policies and methods of application as the most recent annual audited consolidated financial statements for the year ended August 31, 2014 and should be read in conjunction with those audited consolidated financial statements.

(b) Basis of measurement

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

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

(c) Significant accounting judgments and estimates

The preparation of the condensed consolidated interim financial statements in accordance with 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 condensed consolidated interim financial statements are:

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

Depreciation expense is recorded on the basis of the estimated useful lives 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.

MCW ENERGY GROUP LIMITED

Notes to the Condensed Consolidated Interim Financial Statements

November 30, 2014

Expressed in US dollars (unaudited)

2. BASIS OF PREPARATION (continued)

(c) Significant accounting judgments and estimates (continued)

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.

Income taxes and recoverability of deferred tax assets

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

Judgment is required in determining whether deferred tax assets are recognized on the condensed consolidated interim statement of financial position. Deferred tax assets, including those arising from unutilized tax losses, require management of the Company to assess the likelihood that the Company will generate sufficient taxable profit in future periods in order to utilize recognized deferred tax assets. Estimates of future taxable profit are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable profit differ from estimates, the ability of the Company to realize the deferred tax assets recorded on the condensed consolidated interim statement of financial position could be impacted. The Company has not recognized deferred tax assets as at November 30, 2014 and August 31, 2014.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

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

<u>Entity</u>	<u>% of Ownership</u>	<u>Jurisdiction</u>
MCW Energy Group Limited	Parent	Canada
MCW Energy CA Inc.	100%	USA
MCW Fuels, Inc.	100%	USA
MCW OSR Inc.	100%	USA
MCW Oil Sands, Inc.	100%	USA
MCW Fuels Transportation, Inc.	100%	USA
MCW Oil Sands Recovery, LLC	100% ⁽¹⁾	USA

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

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

MCW ENERGY GROUP LIMITED

Notes to the Condensed Consolidated Interim Financial Statements

November 30, 2014

Expressed in US dollars (unaudited)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Business combinations

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

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

(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 collectibility 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.

MCW ENERGY GROUP LIMITED

Notes to the Condensed Consolidated Interim Financial Statements

November 30, 2014

Expressed in US dollars (unaudited)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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
Gas station assets	10-25 years

(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 condensed consolidated interim financial statements, can have a significant effect on net earnings as a result of their impact on depreciation and depletion rates, asset impairment and goodwill impairment.

(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 condensed consolidated interim financial statements:

Branded Reseller Distribution Agreements	7-10 years
Oil Extraction Technology	15 years

MCW ENERGY GROUP LIMITED

Notes to the Condensed Consolidated Interim Financial Statements

November 30, 2014

Expressed in US dollars (unaudited)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount is reduced to the recoverable amount. Impairment is recognized immediately in the condensed consolidated interim statement of 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 and bank overdraft, classified as FVTPL and measured at fair value
- Trade and other receivables and due from senior officers, classified as loans and receivables and measured at amortized cost
- Accounts payable, accrued expenses, due to senior officers, convertible debentures and long-term debt, classified as other financial liabilities and measured at amortized cost

MCW ENERGY GROUP LIMITED

Notes to the Condensed Consolidated Interim Financial Statements

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Expressed in US dollars (unaudited)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Financial instruments (continued)

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

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

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

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

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

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

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 condensed consolidated interim statement of financial position. 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 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.

(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) Reclamation obligations

Liabilities related to environmental protection and reclamation costs are recognized when the obligation is incurred and the fair value of the related costs can be reasonably estimated. This includes future site restoration and other costs as required due to environmental law or contracts. At November 30, 2014, there were no reclamation liabilities.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) New accounting standards and interpretations

The following is a summary of new standards, amendments and interpretations that are effective for annual periods beginning on or after January 1, 2014:

(i) *IAS 32, Financial Instruments: presentation ("IAS 32") - amendments*

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. The application of the amendments to IAS 32 did not have any material impact on the condensed consolidated interim financial statements presented.

(ii) *IAS 36, Impairment of Assets ("IAS 36") - amendments*

The amendments to IAS 36 outline the additional disclosures that will be required with regards to the recoverable amount of impaired assets. The application of the amendments to IAS 36 did not have any material impact on the condensed consolidated interim financial statements presented.

The following is a summary of new standards, amendments and interpretations that are effective for annual period beginning on or after July 1, 2014:

(i) *IFRS 2, Share-based Payments ("IFRS 2") - amendments*

The amendment to IFRS 2 re-defines the definition of "vesting condition." The application of the amendments to IFRS 2 did not have any material impact on the condensed consolidated interim financial statements presented.

(ii) *IFRS 3, Business Combinations ("IFRS 3") - amendments*

The amendment to IFRS 3 provides further clarification on the accounting treatment for contingent consideration, and provides a scope exception for joint ventures. The application of the amendments to IFRS 3 did not have any material impact on the condensed consolidated interim financial statements presented.

(iii) *IFRS 8, Operating Segments ("IFRS 8") - amendments*

The amendments to IFRS 8 provide further clarification on the disclosure required for the aggregation of segments and the reconciliation of segment assets. The application of the amendments to IFRS 8 did not have any material impact on the condensed consolidated interim financial statements presented.

(iv) *IFRS 13, Fair Value Measurements ("IFRS 13") - amendments*

The amendment to IFRS 13 provides further details on the scope of the portfolio exception. The application of the amendments to IFRS 13 did not have any material impact on the condensed consolidated interim financial statements presented.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) New accounting standards and interpretations

(v) *IAS 16, Property, Plant and Equipment (“IAS 16”) - amendments*

The amendment to IAS 16 deals with the proportionate restatement of accumulated depreciation on revaluation. The application of the amendments to IAS 16 did not have any material impact on the condensed consolidated interim financial statements presented.

(vi) *IAS 24, Related Party Disclosures (“IAS 24”) - amendments*

The amendment to IAS 24 deals with the disclosure required for management entities. The application of the amendments to IAS 24 did not have any material impact on the condensed consolidated interim financial statements presented.

(vii) *IAS 38, Intangible Assets (“IAS 38”) - amendments*

The amendment to IAS 38 deals with the proportionate restatement of accumulated depreciation on revaluation. The application of the amendments to IAS 38 did not have any material impact on the condensed consolidated interim financial statements presented.

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

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

The amendments to IFRS 7 outline the disclosures required when initially applying IFRS 9. These amendments are effective for annual periods beginning on or after January 1, 2015.

(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. The effective date for application of IFRS 9 was revised from annual periods beginning on or after January 1, 2015, to annual periods beginning on or after January 1, 2018, with earlier adoption permitted.

(iii) *IFRS 11, Joint Arrangements (“IFRS 11”) - amendments*

The amendments to IFRS 11 provide guidance on the accounting for acquisition of interests in joint operations constituting a business. The amendments require all such transactions to be accounted for using the principles on business combination accounting in IFRS 3, Business Combinations and other IFRS standards except where those principles conflict with IFRS 11. These amendments are effective for annual periods beginning on or after January 1, 2016.

(iv) *IAS 16, Property, Plant and Equipment (“IAS 16”) - amendments*

The amendment to IAS 16 provides clarification of acceptable methods of depreciation and amortization. These amendments are effective for annual periods beginning on or after January 1, 2016.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) New accounting standards and interpretations

(v) IAS 38, Intangible Assets ("IAS 38") - amendments

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

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

4. DISCONTINUED OPERATION

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

The Branded Reseller Distribution Agreements and associated liabilities have accordingly been reclassified in these condensed consolidated interim financial statements as held-for-sale and the related operations reclassified as discontinued operations. In accordance with the disclosure requirements of IFRS the comparative amounts on the condensed consolidated interim statement of financial position have not been reclassified to reflect this reclassification of the held-for-sale assets and liabilities. The comparative condensed consolidated interim statements of loss and comprehensive loss and cash flows have been reclassified to disclose the discontinued operations separately from continuing operations.

The major assets and liabilities reclassified as held-for-sale include:

Assets held-for-sale	
Branded Reseller Distribution Agreements (Note 11)	\$ <u>4,479,659</u>
Liabilities related to assets held-for-sale	
Deferred volume purchase incentives (Note 13)	1,038,883
Branding advances (Note 14)	<u>1,696,489</u>
	<u>2,735,372</u>
Net assets held-for-sale	\$ <u>1,744,287</u>

5. CASH

The Company considers all highly liquid 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 used to pay for fuel purchases for the retail operators.

MCW ENERGY GROUP LIMITED

Notes to the Condensed Consolidated Interim Financial Statements

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6. TRADE AND OTHER RECEIVABLES

The Company's trade and other receivables consist of:

	<u>November 30, 2014</u>	<u>August 31, 2014</u>
Trade receivables, net of allowance for doubtful accounts	\$ 5,973,567	\$ 8,931,922
Goods and services tax receivable	49,520	49,519
	<u>\$ 6,023,087</u>	<u>\$ 8,981,441</u>

Information about the Company's exposure to credit risks for trade and other receivables is included in Note 24(a).

7. CRUSHED ORE INVENTORY

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

Based on the agreement, the Company had committed to purchase 291,667 tons of crushed ore for \$5,548,333 by November 30, 2014 (August 31, 2014 – 247,917 tons for \$4,733,333). As at November 30, 2014, the Company had actually purchased 18,750 tons of crushed ore for \$300,000 (August 31, 2014 – 18,750 tons for \$300,000), which remains stockpiled at the TME mine site.

8. DEPOSITS

On July 5, 2013, the Company secured a 12 month exclusive option to purchase certain project assets related to a bituminous sands project located adjacent to the Company's mineral lease (Note 9). 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. The agreement was amended on November 1, 2013 to include additional quarterly payments due to TMC of \$68,750 for quarters 2 to 4, increasing to \$125,000 for quarters 5 to 14, described below as "project asset acquisition costs". As at November 30, 2014 and August 31, 2014, the following amounts had been paid to TMC:

	<u>November 30, 2014</u>	<u>August 31, 2014</u>
Advanced to TMC	\$ 1,000,000	\$ 1,000,000
Accrued interest on advance	66,567	53,478
	<u>1,066,567</u>	<u>1,053,478</u>
Project asset acquisition costs	452,500	277,500
	<u>\$ 1,519,067</u>	<u>\$ 1,330,978</u>

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.

MCW ENERGY GROUP LIMITED

Notes to the Condensed Consolidated Interim Financial Statements

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9. 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 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 costs on the mineral lease are:

	November 30, 2014	August 31, 2014
Acquisition cost	\$ -	\$ 1,921,569
Maintenance costs	-	55,000
Impairment	-	(1,976,569)
	\$ -	\$ -

Due to a change in the intended use of the mineral lease during the 2014 fiscal year, the Company reduced the carrying value of the mineral lease to its net recoverable value of \$nil.

10. PROPERTY, PLANT AND EQUIPMENT

	Buildings and Improvements	Land	Plant under Construction	Other Property and Equipment	Total
Cost					
August 31, 2013	\$ 540,000	\$ 1,200,000	\$ 6,545,186	\$ 325,207	\$ 8,610,393
Additions	-	-	4,891,215	-	4,891,215
August 31, 2014	540,000	1,200,000	11,436,401	325,207	13,501,608
Additions	-	-	1,580,041	-	1,580,041
November 30, 2014	\$ 540,000	\$ 1,200,000	\$ 13,016,442	\$ 325,207	\$ 15,081,649
Accumulated Amortization					
August 31, 2013	\$ -	\$ -	\$ -	\$ 318,394	\$ 318,394
Additions	35,100	-	-	6,813	41,913
August 31, 2014	35,100	-	-	325,207	360,307
Additions	8,775	-	-	-	8,775
November 30, 2014	\$ 43,875	\$ -	\$ -	\$ 325,207	\$ 369,082
Carrying Amount					
August 31, 2013	\$ 540,000	\$ 1,200,000	\$ 6,545,186	\$ 6,813	\$ 8,291,999
August 31, 2014	\$ 504,900	\$ 1,200,000	\$ 11,436,401	\$ -	\$ 13,141,301
November 30, 2014	\$ 496,125	\$ 1,200,000	\$ 13,016,442	\$ -	\$ 14,712,567

MCW ENERGY GROUP LIMITED

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10. PROPERTY, PLANT AND EQUIPMENT (continued)

(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 one (two at the date of transfer) of the Company's executive officers, in consideration for the reduction of executive 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)
	<u>(1,165,319)</u>
Net identifiable assets acquired	
Building and other assets	540,000
Land	1,200,000
Inventory	122,654
Liabilities assumed	(1,657,335)
	<u>205,319</u>
Goodwill	<u>\$ 960,000</u>

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 a 2 year term (renewable for an additional 2 years) and monthly lease payments of \$12,462, with Dalex for the premises and the business operations.

(b) Plant under construction

In June 2011, the Company commenced the development of an oil extraction facility on its mineral lease in Uintah, Utah and entered into construction and equipment fabrication contracts for this purpose. The Company intends to amortize the cost of construction over 15 years from commencement of production. Management's current estimation of the remaining cost of construction at November 30, 2014 is approximately \$2,000,000.

Costs of construction include capitalized borrowing costs for the three months ended November 30, 2014 of \$133,295 (three months ended November 30, 2013 - \$89,866). Total borrowing costs included in the cost of construction as at November 30, 2014 are \$1,385,125 (August 31, 2014 - \$1,251,829).

Amerisands, which had a 49% interest in MCWO (Note 1), 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 November 30, 2014, \$553,872 has been accrued for project management fees and included in the cost of construction (August 31, 2014 - \$466,469).

MCW ENERGY GROUP LIMITED

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11. INTANGIBLE ASSETS

	Branded Reseller			Total
	Distribution Agreements	Oil Extraction Technology	Goodwill	
Cost				
August 31, 2013	4,768,538	735,488	960,000	6,464,026
Additions	1,602,987	-	-	1,602,987
Impairment charges	(862,142)	-	-	(862,142)
August 31, 2014	5,509,383	735,488	960,000	7,204,871
Additions	192,660	-	-	192,660
Impairment charges	(81,836)	-	-	(81,836)
Reclassification to assets held-for-sale (Note 4)	(5,620,207)	-	-	(5,620,207)
November 30, 2014	<u>\$ -</u>	<u>\$ 735,488</u>	<u>\$ 960,000</u>	<u>\$ 1,695,488</u>
Accumulated Amortization				
August 31, 2013	469,891	-	-	469,891
Additions	776,557	-	-	776,557
Impairment charges	(82,233)	-	-	(82,233)
August 31, 2014	1,164,215	-	-	1,164,215
Additions	-	-	-	-
Impairment charges	(23,667)	-	-	(23,667)
Reclassification to assets held-for-sale (Note 4)	(1,140,548)	-	-	(1,140,548)
November 30, 2014	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Carrying Amounts				
August 31, 2013	<u>\$ 4,298,647</u>	<u>\$ 735,488</u>	<u>\$ 960,000</u>	<u>\$ 5,994,135</u>
August 31, 2014	<u>\$ 4,345,168</u>	<u>\$ 735,488</u>	<u>\$ 960,000</u>	<u>\$ 6,040,656</u>
November 30, 2014	<u>\$ -</u>	<u>\$ 735,488</u>	<u>\$ 960,000</u>	<u>\$ 1,695,488</u>

(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 November 30, 2014, the Company had acquired 15 agreements for consideration of \$2,921,171, of which \$650,000 is payable as at November 30, 2014.

During the three months ended November 30, 2014, the Company recorded impairment charges of \$58,167 (three months ended November 30, 2013 - \$77,748) to recognize early termination of certain branded reseller distribution agreements and reduce their carrying values to the expected recoverable amounts.

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Notes to the Condensed Consolidated Interim Financial Statements

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11. INTANGIBLE ASSETS (continued)

(a) Branded reseller distribution agreements (continued)

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

(b) Oil extraction technology

During the year ended August 31, 2012, the Company acquired a closed-loop solvent based oil extraction technology which facilitates the extraction of oil from a wide range of bituminous sands and other hydrocarbon sediments. The Company has filed patents on this technology in the USA and Canada and 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 executive directors (Note 10(a)).

12. 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 and are due on demand.

Information about the Company's exposure to liquidity risk is included in Note 24(c).

13. DEFERRED VOLUME PURCHASE INCENTIVES

As at November 30, 2014, the Company had received volume purchase incentive payments of \$1,395,000 (August 31, 2014 - \$1,395,000) from one of its fuel suppliers as consideration for commitments to purchase approximately 1.9 million gallons of motor vehicle fuel per month over a ten year period. These payments have been deferred and will be recorded, on the basis of purchases over the term of the fuel purchase commitments, as a reduction to cost of goods sold. During the three months ended November 30, 2014, \$33,731 (three months ended November 30, 2013 - \$36,365) 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 three years and proportionately on the basis of actual fuel purchases each year thereafter. At November 30, 2014, \$75,000 of deferred volume purchase incentives received is repayable to the fuel supplier due to the early termination of a branded reseller distribution agreement (August 31, 2014 - \$75,000) and has been included in accrued expenses on the condensed consolidated interim statement of financial position.

In December 2014, the Company sold its Branded Reseller Distribution Agreements and associated liabilities, which include all of its deferred volume purchase incentives (Note 4).

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14. LONG-TERM DEBT

<u>Lender</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Principal due at November 30, 2014</u>	<u>Principal due August 31, 2014</u>
BBCN Bank	December 2, 2016	4.50% ⁽¹⁾	\$ 761,135	\$ 847,949
BBCN Bank	September 30, 2017	7.00%	184,455	202,526
BBCN Bank	June 21, 2018	6.50%	1,171,924	1,177,955
BBCN Bank	June 21, 2018	5.50%	405,466	411,670
BBCN Bank	June 11, 2019	5.75% ⁽²⁾	470,208	492,467
BBCN Bank	July 17, 2020	5.25% ⁽²⁾	627,713	647,965
BBCN Bank	June 1, 2022	5.25% ⁽²⁾	802,792	819,566
BBCN Bank	December 5, 2022	5.25% ⁽²⁾	835,289	863,297
B&N Bank	September 18, 2015	12.51%	3,000,000	3,000,000
Branding advances ⁽³⁾	November 30, 2018 – December 31, 2023	10.00%	-	1,742,135
Private lenders	October 17, 2015	12.00%	962,610	-
Other	March 15, 2015	15.00%	430,000	430,000
			<u>\$ 9,651,592</u>	<u>\$ 10,635,530</u>

(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%

(3) In December 2014, the Company sold its Branded Reseller Distribution Agreements and associated liabilities, which included all of its branding advances (Note 4).

	<u>November 30, 2014</u>	<u>August 31, 2014</u>
Principal classified as repayable within one year	\$ 7,164,721	\$ 4,550,830
Principal classified as repayable later than one year	2,486,871	6,084,700
	<u>\$ 9,651,592</u>	<u>\$ 10,635,530</u>

(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 November 30, 2014 and the date of approval of these condensed consolidated interim financial statements, the Company was not in compliance with financial covenants on certain loans from BBCN Bank, all of which are included in the principal classified as payable within one year.

Certain fuel suppliers require letters of credit to be provided by the Company's bank. BBCN Bank has provided the Company with a standby line of credit ("LOC") for the purpose of providing such guarantees to these fuel suppliers. The LOC will only be drawn by BBCN Bank on behalf of the Company in the event payment is required to be made to the fuel suppliers. The amount covered under the LOC was reduced from \$1,200,000 to \$860,000 on July 7, 2014, bears interest at an annual rate of 5.75% and matures on December 1, 2015. Between November 30, 2014 and January 29, 2015, \$860,000 was drawn on the LOC.

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14. LONG TERM DEBT (continued)

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

As at November 30, 2014, \$3,000,000 had been drawn on this credit line by the Company.

(c) Branding advances

Branding advances are promissory notes due to a supplier for the upgrading and imaging of branded stations. The promissory notes are repayable on a quarterly basis and the Company may receive a rebate, up to a maximum equal to the quarterly payment, from the supplier if it meets certain volume purchase commitments.

As part of the consideration paid for the WestCo stations acquired (Note 11(a)), the Company assumed \$841,171 of branding advances associated with these stations, of which \$705,860 of principal is due on these branding advances at November 30, 2014 (August 31, 2014 - \$734,162).

In December 2014, the Company sold its Branded Reseller Distribution Agreements and associated liabilities, which include all of its branding advances (Note 4).

(d) Private lenders

On October 10, 2014, the Company issued two secured debentures for an aggregate principal amount of Cdn \$1,100,000 to two private lenders. The debentures bear interest at a rate of 12% per annum, mature on October 15, 2017 and are secured by all of the assets of the Company. In addition, the Company issued the two secured debenture holders warrants to acquire an aggregate of 500,000 common shares of the Company at an exercise price of Cdn \$1.00 per share until October 10, 2017 (Note 18).

15. CONVERTIBLE DEBENTURE

(a) Executive officer

On April 29, 2014, the Company issued an \$824,000 convertible debenture to Aleksandr Blyumkin, an officer and director of the Company, which bears interest at a rate of 10% per annum and matures on May 7, 2017. The convertible debenture is convertible into 998,230 common shares of the Company at a deemed price of Cdn \$0.90 per share at any time at the option of the holder and is secured by all of the assets of the Company and its wholly owned subsidiary, MCWF. 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). The fair value of the equity component was determined to be nominal and therefore, has been assigned no value.

On June 25, 2014, the Company issued a convertible debenture for up to a maximum aggregate principal amount of \$2,000,000 to Aleksandr Blyumkin, which bears interest at a rate of 10% per annum and matures on June 25, 2017. As of August 31, 2014, the Company had formally drawn \$1,796,000 which is convertible into 1,925,492 common shares of the Company at a deemed price of Cdn \$1.00 per share at any time at the option of the holder and is secured by all of the assets of the Company and its wholly owned subsidiary, MCWF.

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15. CONVERTIBLE DEBENTURE (continued)

(a) Executive officer (continued)

On September 22, 2014, the principal of the \$824,000 convertible debenture and \$1,796,000 of the principal of the \$2,000,000 convertible debenture was converted into 998,230 and 1,925,492 common shares of the Company, respectively. As of November 30, 2014, additional advances of \$204,000 had been received from Mr. Blyumkin which he intended to designate as having been made under the \$2,000,000 debenture and convertible into 218,708 common shares.

(b) Alpha Capital Anstalt

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

16. COMMON SHARES

Authorized	unlimited common shares without par value
Issued and Outstanding	49,932,355 common shares

17. SHARE PURCHASE OPTIONS

(a) Stock option plan

The Company has a stock option plan which allows the Board of Directors of the Company to grant options to acquire common shares of the Company to directors, officers, key employees and consultants. 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 three months ended November 30, 2014, the Company did not grant any options. During the year ended August 31, 2014, the Company granted 400,000 options to a director with an exercise price of \$1.10. The weighted average fair value of options granted during the year ended August 31, 2014 was estimated at \$0.48 per option at the grant date using the Black-Scholes option pricing model.

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

	Year ended August 31, 2014
Share price	\$ 0.93
Exercise price	\$ 1.10
Expected share price volatility ⁽¹⁾	73%
Risk-free interest rate	1.48%
Expected term	5.00

(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

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17. SHARE PURCHASE OPTIONS (continued)

(b) Share purchase options

Share purchase option transactions under the stock option plan were:

	Three months ended November 30, 2014		Year ended August 31, 2014	
	Number of Options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of period	2,883,426	\$ 0.75	5,383,426	\$ 0.75
Options granted	-	-	400,000	1.10
Options exercised ⁽¹⁾	-	-	(500,000)	0.16
Options expired	(43,426)	0.99	(2,400,000)	1.10
Balance, end of period	2,840,000	\$ 0.60	2,883,426	\$ 0.61

(1) The weighted average share price on the date of exercise was \$1.35.

Share purchase options outstanding and exercisable as at November 30, 2014 are:

Expiry Date	Exercise Price	Options Outstanding	Options Exercisable
April 23, 2015	Cdn \$1.10	40,000	40,000
November 11, 2017	Cdn \$1.10	900,000	900,000
December 31, 2018	USD \$0.16	1,500,000	1,500,000
August 15, 2019	Cdn \$1.10	400,000	400,000
		2,840,000	2,840,000
Weighted average remaining contractual life		3.8 years	3.8 years

18. SHARE PURCHASE WARRANTS

Share purchase warrants outstanding as at November 30, 2014 are:

Expiry Date	Exercise Price	Warrants Outstanding
October 10, 2017	Cdn \$1.00	500,000

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

On October 10, 2014 the Company issued an aggregate of 500,000 share purchase warrants in connection with the issuance of two secured debentures (Note 14(d)). The fair value of the warrants granted was estimated at \$0.31 per warrant at the grant date using the Black-Scholes option pricing model.

The weighted average assumptions used for the Black-Scholes option pricing model were a share price of Cdn \$0.83, exercise price of Cdn \$1.00, expected share price volatility of 71%, risk-free interest rate of 1.2% and expected term of 3 years. The expected volatility was calculated based on the Company's historical volatility and the volatility of comparable public entities at a similar stage in their life cycle.

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19. DILUTED LOSS PER SHARE

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

20. RELATED PARTY TRANSACTIONS

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

(a) Fuel sales to related parties

During the three months ended November 30, 2014, approximately 1.2% (three months ended November 30, 2013 – 1.5%) of the Company's sales were to retail operations controlled by executive officers of the Company. Accounts receivable as at November 30, 2014 from these entities is \$950,074 (August 31, 2014 - \$943,279).

(b) Transactions with executive officers

During the three months ended November 30, 2014, the Company earned \$37,387 (2013 - \$37,406) in rental income from a company controlled by two of the Company's executive officers.

On October 24, 2014, the Company issued 40,000 common shares to its Chief Financial Officer pursuant to the terms of his consulting agreement which contemplates the issuance of a total of 100,000 common shares over the initial ten month period of this agreement.

(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:

	Three months ended	
	November 30, 2014	November 30, 2013
Salaries, fees and other benefits	\$ 453,284	\$ 301,246
Share-based compensation	-	381,276
	<u>\$ 453,284</u>	<u>\$ 682,522</u>

As at November 30, 2014, \$914,764 is due to members of key management for unpaid salaries and expenses (August 31, 2014 - \$779,887).

(d) Due to senior officers

The amounts due to certain shareholders and executive officers of the Company are demand loans without interest.

As of November 30, 2014 the Chairman of the Board owed the Company \$223,637 which is in the process of being repaid through the sale of personal assets.

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21. COMMITMENTS

(a) Oil extraction technology

The Company has reserved 500,000 common shares for issuance to the inventor of a key component of the Company's oil extraction technology (now the Chief Technology Officer of the Company) following the successful testing and operation of the extraction facility. A royalty of 2% of gross revenue will also be payable from production of each extraction facility constructed, beginning with the successful operation of a second facility. As at August 31, 2014, the Company is in the process of constructing the first extraction facility (Note 10(b)).

(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:

	<u>Sublease Income</u>	<u>Minimum Lease Commitments</u>	<u>Net Lease Cost (Income)</u>
Due within 1 year	\$ (251,848)	\$ 238,390	\$ (13,458)
Due between 2 and 5 years	(398,129)	601,593	203,464
Due later than 5 years	(228,735)	268,335	39,600
	<u>\$ (878,712)</u>	<u>\$ 1,108,318</u>	<u>\$ 229,606</u>

(c) Truck and trailer lease commitments

The Company had entered into operating leases with 60 month terms for trucks and trailers used for fuel deliveries. On December 6, 2013, the Company entered into an agreement for a third party to assume its fuel delivery services and its truck and trailer leases. In January 2015, the leases for three trucks and trailers were transferred to the third party. The remaining nine trucks and trailers were returned to the lessor. The lessor intends to sell the trucks and trailers and apply the proceeds against any net amounts owing by the Company.

22. SEGMENT INFORMATION

The Company operates in two reportable segments within the USA, fuel distribution (Note 1) 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.

The presentation of the condensed consolidated interim statements of loss and comprehensive loss provides information about each reportable segment. Other information about reportable segments is:

(in '000s of dollars)	<u>Three months ended November 30, 2014</u>			<u>Three months ended November 30, 2013</u>		
	<u>Oil Extraction</u>	<u>Fuel Distribution</u>	<u>Consolidated</u>	<u>Oil Extraction</u>	<u>Fuel Distribution</u>	<u>Consolidated</u>
Additions to non-current assets	\$ 1,768	\$ -	\$ 1,768	\$ 2,156	\$ 174	\$ 2,330
Reportable segment assets	15,991	13,148	29,139	11,694	14,617	26,311
Reportable segment liabilities	<u>\$ 9,124</u>	<u>\$ 22,238</u>	<u>\$ 31,362</u>	<u>\$ 6,664</u>	<u>\$ 19,200</u>	<u>\$ 25,864</u>

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23. MANAGEMENT OF CAPITAL

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

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

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

24. MANAGEMENT OF FINANCIAL RISKS

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

(a) Credit risk

Credit risk is the risk of unexpected loss if a customer or third party to a financial instrument fails to meet contractual obligations. The Company is exposed to credit risk through its cash held at financial institutions and trade 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 trade receivables and coverage amounts are revised monthly. However, not all trade receivables are fully insured.

As at August 31, 2014, \$139,668 of trade receivables were past due but not impaired (August 31, 2014 - \$226,773).

(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, 2014, a 1% increase in interest rates would increase the Company's interest expense by approximately \$8,000 (August 31, 2014 - \$8,000).

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24. MANAGEMENT OF FINANCIAL RISKS (continued)

(c) Liquidity risk

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

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

As at November 30, 2014

(in '000s of dollars)	Carrying amount	Contractual cash flows			
		Total	1 year or less	2 - 5 years	More than 5 years
Bank overdraft	\$ 407	\$ 407	\$ 407	\$ -	\$ -
Accounts payable	12,471	12,471	12,471	-	-
Accrued liabilities	4,890	4,890	4,890	-	-
Convertible debenture	1,207	1,541	56	1,485	-
Long-term debt	9,652	11,363	5,306	6,057	-
	\$ 28,627	\$ 30,672	\$ 23,130	\$ 7,542	\$ -

As at August 31, 2014

(in '000s of dollars)	Carrying amount	Contractual cash flows			
		Total	1 year or less	2 - 5 years	More than 5 years
Accounts payable	\$ 15,524	\$ 15,524	\$ 15,524	\$ -	\$ -
Accrued liabilities	4,818	4,818	4,818	-	-
Convertible debenture	2,824	2,824	-	2,824	-
Due to shareholder	15	15	15	-	-
Long-term debt	10,636	12,930	5,888	6,291	751
	\$ 33,817	\$ 36,111	\$ 26,245	\$ 9,115	\$ 751

The interest payments on variable interest rate loans in the table above reflect the interest rate at the reporting date and these amounts may change as market interest rates change.

25. CONTINGENCIES

On September 12, 2014, the City of Los Angeles issued an audit assessment to the Company for unpaid taxes and interest on fuel sales activities from 2009 to 2014. The Company believes that it has paid the appropriate amount of tax during these years and that the City of Los Angeles' assessment is incorrect. Although the Company believes that the unpaid taxes and interest have been improperly assessed, if its objection is unsuccessful, unpaid taxes and interest could amount to approximately \$340,000. Based on advice from the Company's tax experts, management believes that the objection will be successful.

26. SUBSEQUENT EVENT

The fuel distribution operations of the Company were sold on December 17, 2014 (Notes 1 and 4).