

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

FORM 10-Q

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

For the Quarterly Period Ended May 31, 2021

or

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

Commission File Number: 000-55991

PETROTEQ ENERGY INC.

(Exact name of registrant as specified in its charter)

Ontario

(State or other jurisdiction of
incorporation or organization)

None

(I.R.S. Employer
Identification No.)

**15315 W. Magnolia Blvd, Suite 120
Sherman Oaks, California**

(Address of principal executive offices)

91403

(Zip code)

(866) 571-9613

(Registrant's telephone number, including area code)

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

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

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

Common Shares, without par value
(Title of Class)

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

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

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

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

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

Large accelerated filer ☐

Non-accelerated filer ☒

Accelerated filer ☐

Smaller reporting company ☒

Emerging growth company ☒

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

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

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

Number of shares of common stock outstanding as of August 13, 2021 was 554,351,270.

Documents incorporated by reference: None.

PETROTEQ ENERGY INC.**NOTE REGARDING FORWARD-LOOKING STATEMENTS**

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

NOTE REGARDING COMPANY REFERENCES

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

PETROTEQ ENERGY INC.**FORM 10-Q****TABLE OF CONTENTS**

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Item 1.**PETROTEQ ENERGY INC.**

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PETROTEQ ENERGY, INC.
CONSOLIDATED BALANCE SHEETS
As at May 31, 2021 and August 31, 2020
Expressed in US dollars

	<u>Notes</u>	<u>May 31, 2021</u>	<u>August 31, 2020</u>
		(Unaudited)	
ASSETS			
Current assets			
Cash		\$ 307,208	\$ 62,404
Trade and other receivables		317,303	12,830
Ore inventory		16,800	14,749
Other inventory		90,176	12,250
Note receivable	4	92,002	89,159
Prepaid expenses and other current assets	1	2,039,120	2,043,510
Total Current Assets		<u>2,862,609</u>	<u>2,234,902</u>
Non-Current assets			
Mineral leases	5	34,911,143	34,911,143
Property, plant and equipment	6	40,442,207	35,582,512
Right of use asset	7	177,957	209,101
Intangible assets	8	707,671	707,671
Total Non-Current Assets		<u>76,238,978</u>	<u>71,410,427</u>
Total Assets		<u>\$ 79,101,587</u>	<u>\$ 73,645,329</u>
LIABILITIES			
Current liabilities			
Accounts payable		\$ 2,344,104	\$ 2,406,665
Accrued expenses		2,028,710	1,769,749
Ore Sale advances		283,976	283,976
Promissory notes payable	9	560,000	8,000
Debt	10	611,193	683,547
Current portion of convertible debentures	11	6,003,436	8,227,257
Current portion of Federal relief loans	12	541,575	74,383
Current portion of finance lease liabilities	7	120,347	172,374
Current portion of operating lease liabilities	7	46,735	42,053
Related party payables	19(c)	735,287	680,647
Derivative liability	13	2,586,353	841,385
Total Current Liabilities		<u>15,861,716</u>	<u>15,190,036</u>
Non-Current liabilities			
Convertible debentures	11	757,476	607,067
Federal relief loans	12	320,677	505,969
Finance lease liabilities	7	-	75,058
Operating lease liabilities	7	131,222	167,048
Reclamation and restoration provision	14	2,970,497	2,970,497
Total Non-Current Liabilities		<u>4,179,872</u>	<u>4,325,639</u>
Total Liabilities		<u>20,041,588</u>	<u>19,515,675</u>
SHAREHOLDERS' EQUITY			
Share capital	15,16,17	156,107,408	144,794,003
Deficit		(97,047,409)	(90,664,349)
Total Shareholders' Equity		<u>59,059,999</u>	<u>54,129,654</u>
Total Liabilities and Shareholders' Equity		<u>\$ 79,101,587</u>	<u>\$ 73,645,329</u>

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

PETROTEQ ENERGY INC.
CONDENSED CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
For the three and nine months ended May 31, 2021 and 2020
Expressed in US dollars

<u>Notes</u>	<u>Three months ended May 31, 2021 (Unaudited)</u>	<u>Three months ended May 31, 2020 (Unaudited)</u>	<u>Nine months ended May 31, 2021 (Unaudited)</u>	<u>Nine months ended May 31, 2020 (Unaudited)</u>
Revenues from licensing fees	\$ -	\$ -	\$ 2,000,000	\$ -
Revenues from hydrocarbon sales	-	125,768	-	294,809
Production and maintenance costs	(14,281)	(152,164)	(378,847)	(1,557,936)
Advance royalty payments	-	(121,250)	-	(325,112)
Gross Profit (Loss)	<u>(14,281)</u>	<u>(147,646)</u>	<u>1,621,153</u>	<u>(1,588,239)</u>
Operating Expenses				
Depreciation, depletion and amortization	6 11,383	11,523	34,428	97,365
Selling, general and administrative expenses	1,419,727	894,715	3,171,010	4,821,819
Financing costs	1,368,832	570,628	2,733,820	1,559,470
Derivative liability movements	2,041,081	(628,353)	1,292,169	31,532
Other expenses (income), net	82,934	117,819	772,786	(589,539)
Total expenses, net	<u>4,923,957</u>	<u>966,332</u>	<u>8,004,213</u>	<u>5,920,647</u>
Net loss before income taxes	(4,938,238)	(1,113,978)	(6,383,060)	(7,508,886)
Income tax expense	-	-	-	-
Net loss and comprehensive loss	<u>\$ (4,938,238)</u>	<u>\$ (1,113,978)</u>	<u>\$ (6,383,060)</u>	<u>\$ (7,508,886)</u>
Weighted Average Number of Shares Outstanding – Basic and Diluted	18 438,066,714	203,481,170	382,298,817	199,246,870
Basic and Diluted Loss per Share	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>	<u>\$ (0.02)</u>	<u>\$ (0.04)</u>

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

PETROTEQ ENERGY INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the nine months ended May 31, 2021 and 2020
(Unaudited)
Expressed in US dollars

	Number of Shares Outstanding	Share Capital	Deficit	Shareholders' Equity
Balance at August 31, 2020	274,450,337	\$ 144,794,003	\$ (90,664,349)	\$ 54,129,654
Conversion of convertible debt	38,735,555	1,835,726	-	1,835,726
Settlement of liabilities	60,023,777	2,849,661	-	2,849,661
Common shares subscriptions	7,416,666	410,000	-	410,000
Warrants exercised	2,268,169	68,045	-	68,045
Share-based compensation	-	199,632	-	199,632
Fair value of convertible debt warrants issued	-	783,293	-	783,293
Net loss	-	-	(410,514)	(410,514)
Balance at November 30, 2020	382,894,504	150,940,360	(91,074,863)	59,865,497
Conversion of convertible debt	14,580,675	668,256	-	668,256
Settlement of liabilities	11,608,460	631,822	-	631,822
Common shares subscriptions	1,032,475	136,923	-	136,923
Warrants exercised	1,176,470	35,293	-	35,293
Share-based compensation	1,000,000	258,511	-	258,511
Fair value of convertible debt warrants issued	-	5,484	-	5,484
Net loss	-	-	(1,034,308)	(1,034,308)
Balance at February 28, 2021	412,292,584	152,676,649	(92,109,171)	60,567,478
Conversion of convertible debt	70,514,639	3,132,480	-	3,132,480
Settlement of liabilities	581,026	32,629	-	32,629
Common shares subscriptions	2,166,665	55,026	-	55,026
Share-based compensation	-	158,168	-	158,168
Fair value of convertible debt warrants issued	-	52,456	-	52,456
Net loss	-	-	(4,938,238)	(4,938,238)
Balance at May 31, 2021	485,554,914	\$ 156,107,408	\$ (97,047,409)	\$ 59,059,999

	Number of Shares Outstanding	Share Capital	Deficit	Shareholders' Equity
Balance at August 31, 2019	176,241,746	\$ 136,104,245	\$ (78,285,282)	\$ 57,818,963
Settlement of acquisition obligation	250,000	75,000	-	75,000
Settlement of debentures	1,111,111	200,000	-	200,000
Settlement of liabilities	3,243,666	705,687	-	705,687
Common shares subscriptions	17,002,446	2,494,744	-	2,494,744
Share-based payments	90,000	28,500	-	28,500
Share-based compensation	-	178,157	-	178,157
Fair value of convertible debt warrants issued	-	310,422	-	310,422
Net loss	-	-	(3,182,671)	(3,182,671)
Balance at November 30, 2019	197,938,969	140,096,755	(81,467,953)	58,628,802
Settlement of liabilities	4,997,123	891,489	-	891,489
Reallocation of subscription receipts	-	(216,930)	-	(216,930)
Share based payments	50,000	6,943	-	6,943
Share based compensation	-	229,059	-	229,059
Fair value of convertible debt warrants issued	-	184,888	-	184,888
Net loss	-	-	(3,212,238)	(3,212,238)
Balance at February 29, 2020	202,986,092	141,192,204	(84,680,191)	56,512,013
Reallocation of subscription receipts	-	(69,440)	-	(69,440)
Share based payments	50,000	2,750	-	2,750
Share based compensation	-	229,059	-	229,059
Conversion of convertible debt	4,782,585	178,129	-	178,129
Fair value of convertible debt warrants issued	-	93,942	-	93,942
Net loss	-	-	(1,113,978)	(1,113,978)
Balance at May 31, 2020	207,818,677	\$ 141,626,644	\$ (85,794,169)	\$ 55,832,475

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

PETROTEQ ENERGY INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the nine months ended May 31, 2021 and 2020
Expressed in US dollars

	Nine months ended May 31, 2021 (Unaudited)	Nine months ended May 31, 2020 (Unaudited)
Cash flow used for operating activities:		
Net loss	\$ (6,383,060)	\$ (7,508,886)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation, depletion and amortization	34,428	97,365
Amortization of debt discount	1,265,729	1,040,789
Amortization of prepaid royalties	-	325,312
Loss on conversion of debt	397,090	53,129
Loss (gain) on settlement of liabilities	48,283	(659,770)
Loss on debt extinguishment	330,256	-
Share-based compensation	616,311	636,275
Shares issued for services	-	38,193
Mark to market of derivative liabilities	1,292,169	31,532
Impairment of investments	-	75,000
Other	34,805	(13,998)
Changes in operating assets and liabilities:		
Accounts payable	266,440	2,450,900
Accounts receivable	(304,473)	127,183
Accrued expenses	1,736,025	796,009
Prepaid expenses and deposits	4,390	10,000
Inventory	(79,977)	34,953
Net cash used in operating activities	(741,584)	(2,466,214)
Cash flows used for investing activities:		
Purchase and construction of property and equipment	(1,789,922)	(2,151,777)
Mineral rights deposits paid	-	(610,000)
Investment in notes receivable	-	(702,612)
Proceeds from notes receivable	-	1,125,522
Advance royalty payments	-	(120,000)
Net cash used in investing activities	(1,789,922)	(2,458,867)
Cash flows from financing activities:		
Advances from related parties	54,640	358,960
Proceeds on private equity placements	601,949	2,208,374
Proceeds from warrants exercised	103,339	-
Proceeds from promissory notes	552,000	348,154
Proceeds from federal relief loans	267,716	267,490
Payments of debt	(10,000)	-
Payment of finance lease liability	(127,085)	(114,548)
Proceeds from convertible debt	1,449,500	1,949,938
Repayments of convertible debt	(115,749)	(105,000)
Net cash from financing activities	2,776,310	4,913,458
Increase (decrease) in cash	244,804	(11,623)
Cash, beginning of the period	62,404	50,719
Cash, end of the period	\$ 307,208	\$ 39,096
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 217,740	\$ 101,899
Shares issued to settle liabilities	\$ 3,433,200	\$ 1,597,176
Shares issued on conversion of convertible debt	\$ 5,272,002	\$ 378,129
Shares issued to settle acquisition obligation	\$ -	\$ 75,000
Fair value of warrants issued	\$ 841,233	\$ -
Value of shares issued for convertible debt funding	\$ -	\$ 589,252

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

PETROTEQ ENERGY INC.
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the nine months ended May 31, 2021 and 2020
Expressed in US dollars

1. GENERAL INFORMATION

Petroteq Energy Inc. (the “Company”) is an Ontario, Canada corporation which conducts oil sands mining and oil extraction operations in the USA. It operates through its indirectly wholly owned subsidiary company, Petroteq Oil Recovery, LLC (“POSR”) and TMC Capital LLC (“TMC”), which is engaged in mining and oil extraction from tar sands.

The Company’s registered office is located at Suite 6000, 1 First Canadian Place, 100 King Street West, Toronto, Ontario, M5X 1E2, Canada, and its principal operating office is located at 15315 W. Magnolia Blvd, Suite 120, Sherman Oaks, California 91403, USA.

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

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

On July 22, 2019, the Company acquired the remaining 50% of the operating rights under U.S. federal oil and gas leases, administered by the BLM covering approximately 5,960 gross acres (2,980 net acres) within the State of Utah for a total consideration of \$13,000,000 settled by the issuance of 30,000,000 shares at an issue price of \$0.40 per share, and cash of \$1,000,000, of which \$100,000 is still owing.

On August 20, 2020, a new Short-Term Mining Lease agreement between Valkor LLC and Asphalt Ridge, Inc. covering approximately 1,229.82 acres was entered into with a back to back Short-Term Mining and Mineral Sublease entered into between Valkor and TMC, whereby all of the rights and obligations of the lease were sublet to TMC. This sublease has recently been extended to expire on December 31, 2021.

Between March 14, 2019 and May 31, 2021, the Company, acting through its wholly owned subsidiary, TMC Capital LLC (“TMC”), made cash deposits of \$1,907,000, included in prepaid expenses and other current assets on the consolidated balance sheets for the acquisition of 100% of the operating rights under certain U.S. federal oil and gas leases, administered by the U.S. Department of Interior’s Bureau of Land Management in Garfield and Wayne Counties and covering approximately 8,480 gross acres in P.R. Springs and the Tar Sands Triangle within the State of Utah. The total consideration of \$3,000,000 has been partially settled by a cash payment of \$1,907,000, with the balance of \$1,093,000 still outstanding.

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

PETROTEQ ENERGY INC.
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the nine months ended May 31, 2021 and 2020
Expressed in US dollars

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial information with the instructions to Form 10-Q and Rule 8-03 of Regulation S-X. Accordingly, these unaudited condensed consolidated financial statements do not include all of the information and disclosures required by U.S. GAAP for complete financial statements. In the opinion of management, the accompanying unaudited condensed consolidated financial statements include all adjustments (consisting only of normal recurring adjustments), which the Company considers necessary, for a fair presentation of those financial statements. The results of operations and cash flows for the three months and nine months ended May 31, 2021 may not necessarily be indicative of results that may be expected for any succeeding quarter or for the entire fiscal year.

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

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

The unaudited condensed consolidated financial statements were authorized for issue by the Board of Directors on August 19, 2021.

(b) Consolidation

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

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

PETROTEQ ENERGY INC.
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the nine months ended May 31, 2021 and 2020
Expressed in US dollars

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Estimates

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

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

(d) Foreign currency translation adjustments

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

PETROTEQ ENERGY INC.
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the nine months ended May 31, 2021 and 2020
Expressed in US dollars

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Revenue recognition

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

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

- i. identify the contract with a customer;
- ii. identify the performance obligations in the contract;
- iii. determine the transaction price;
- iv. allocate the transaction price to performance obligations in the contract; and
- v. recognize revenue as the performance obligation is satisfied.

Revenue from License Fees

Revenue from license fees include the sale of rights to utilize the technology developed by the Company. The License fee is recognized immediately as there is no requirement to provide ongoing services or support to the Licensee in terms of the License Agreement.

Revenue from hydrocarbon sales

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

Transaction price allocated to remaining performance obligations

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

Contract balances

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

Disaggregation of revenue

The Company has limited revenues to date. Disaggregation of revenue disclosures can be found in Note 22.

Customers

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) General and administrative expenses

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

(g) Share-based payments

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

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

(h) Income taxes

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

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

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

(i) Net income (loss) per share

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

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

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Cash and cash equivalents

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

(k) Accounts receivable

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

(l) Oil and gas property and equipment

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

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

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

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

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

(m) Other property and equipment

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

(n) Asset retirement obligations and environmental liabilities

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

(o) Commitments and contingencies

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

(p) Fair value measurements

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

- Level 1 – Inputs consist of unadjusted quoted prices in active markets for identical assets and liabilities and have the highest priority. When available, the Company measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value.
- Level 2 – Inputs consist of quoted prices that are generally observable for the asset or liability. Common examples of Level 2 inputs include quoted prices for similar assets and liabilities in active markets or quoted prices for identical assets and liabilities in markets not considered to be active.
- Level 3 – Inputs are not observable from objective sources and have the lowest priority. The most common Level 3 fair value measurement is an internally developed cash flow model.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Comparative amounts

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

(r) Recent accounting standards

Issued accounting standards not yet adopted

The FASB issued several additional updates during the period, none of these standards are either applicable to the Company or require adoption at a future date and none are expected to have a material impact on the consolidated financial statements upon adoption.

3. GOING CONCERN

The Company has incurred losses for several years and, at May 31, 2021, has an accumulated deficit of \$97,047,409, (August 31, 2020 - \$90,664,349) and working capital (deficiency) of \$12,999,107 (August 31, 2020 - \$12,955,134). These unaudited condensed consolidated financial statements have been prepared on the basis that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. The ability of the Company to continue as a going concern is dependent on obtaining additional financing, which it is currently in the process of obtaining. There is a risk that additional financing will not be available on a timely basis or on terms acceptable to the Company. These unaudited condensed consolidated financial statements do not reflect the adjustments or reclassifications that would be necessary if the Company were unable to continue operations in the normal course of business.

4. NOTES RECEIVABLE

The Company's notes receivables consist of:

	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>May 31, 2021</u>	<u>August 31, 2020</u>
Private debtor	March 16, 2020	5%	\$ 76,000	\$ 76,000
Interest accrued			16,002	13,159
			<u>\$ 92,002</u>	<u>\$ 89,159</u>
Disclosed as follows:				
Current portion			<u>\$ 92,002</u>	<u>\$ 89,159</u>

Manhattan Enterprises

The Company advanced Manhattan Enterprises the sum of \$76,000 pursuant to a promissory note on March 16, 2017. The note, which bears interest at 5% per annum, matured on March 16, 2020. The Note has reached its maturity date and is currently on demand until a new agreement is negotiated.

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5. MINERAL LEASES

	TMC Mineral Lease	SITLA Mineral Lease	BLM Mineral Lease	Total
Cost				
August 31, 2019	\$ 11,091,388	\$ 19,755	\$ 23,800,000	\$ 34,911,143
Additions	-	-	-	-
August 31, 2020	11,091,388	19,755	23,800,000	34,911,143
Additions	-	-	-	-
May 31, 2021	<u>\$ 11,091,388</u>	<u>\$ 19,755</u>	<u>\$ 23,800,000</u>	<u>\$ 34,911,143</u>
Accumulated Amortization				
August 31, 2019, August 31, 2020 and May 31, 2021	\$ -	\$ -	\$ -	\$ -
Carrying Amounts				
August 31, 2019	<u>\$ 11,091,388</u>	<u>\$ 19,755</u>	<u>\$ 23,800,000</u>	<u>\$ 34,911,143</u>
August 31, 2020	<u>\$ 11,091,388</u>	<u>\$ 19,755</u>	<u>\$ 23,800,000</u>	<u>\$ 34,911,143</u>
May 31, 2021	<u>\$ 11,091,388</u>	<u>\$ 19,755</u>	<u>\$ 23,800,000</u>	<u>\$ 34,911,143</u>

(a) TMC Mineral Lease

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

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

The salient terms of the TMC Mineral Lease are as follows:

1. The exclusive right and privilege during the term of the Sublease to explore for and mine by any methods now known or hereafter developed, extract and sell or otherwise dispose of, any and all asphalt, bitumen, maltha, tar sands, oil sands ("Tar Sands") and any and all other minerals of whatever kind or nature which are associated with or contained in any Tar Sands deposit, whether hydrocarbon, metalliferous, non-metalliferous or otherwise, including, but not limited to, gold, silver, platinum, sand and clays on and in the Property, and whether heretofore known or hereafter discovered (collectively, "Minerals"), from the ground surface to a depth of 3,000 feet above Mean Sea level (MSL), together with the products and byproducts of the processing of the Minerals, and together with the right to use so much of the surface of the Property as may be necessary in the exercise of said rights and in furtherance of the purposes expressed herein, including ingress and egress, and together with the right to construct on the Property such improvements as may be reasonably necessary to the exploration for and the mining, extraction, removal, processing, beneficiating, sale or other disposition of the Minerals, but not including the construction of any new roads without the prior written consent of Valkor as the Sublessor; and
2. The right to use any or all of the Water Rights (as defined in the Sublease) at any time during the term of the Sublease in conducting its activities as provided for therein; provided that approval of change applications may need to be obtained in order to allow use of the Water Rights on the Property for mining purposes.
3. The term of the Sublease (the "Term") was originally for a period ended June 30, 2021, which was recently extended to December 31, 2021, unless the Short Term Mining Lease between Valkor and Asphalt Ridge is terminated earlier.

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5. MINERAL LEASES (continued)

(a) TMC Mineral Lease (continued)

4. During the Term and subject to certain rights reserved to Asphalt Ridge, Inc. as Lessor under the Lease (the “Lessor Reserved Rights”), TMC as the Sublessee shall have the right to explore, develop, mine, drill, pump, process, produce and market the Minerals in, on, or under the Property, including any existing stockpiles or dumps, whether by drilling, surface, strip, contour, quarry, bench, underground, solution, in situ or other mining methods, and in connection therewith, Sublessee shall have the right to conduct the following activities and operations (“Operations”) on the Property in accordance with the terms of the Sublease and applicable laws and regulations:
 - a. To mine, process, mill, beneficiate, treat, concentrate, extract, refine, leach, convert, upgrade, prepare for market, any and all Minerals mined or otherwise extracted from the Property;
 - b. To temporarily store or permanently dispose on the Property Minerals, water, waste or other materials resulting from Operations on the Property;
 - c. to use and develop any and all ditches, flumes, water and Water Rights and appurtenant to the Property; and
 - d. to use so much of the surface and surface resources of the Property as may be reasonably necessary in the exercise of said rights, or which Sublessee may deem desirable or convenient, including rights of ingress and egress in connection with its operations on the Property. During the term of the Sublease the Sublessee has the right to use any or all of the Water Rights at any time during the Term in conducting its activities as provided for therein; provided that approval of change applications may need to be obtained in order to allow use of the Water Rights on the Property for mining purposes.
5. TMC will pay Valkor the sum of \$25,000 on lease commencement, and thereafter \$15,000 per month until expiration of the lease
6. TMC will pay a production royalty as follows:
 - a. For “Bitumen Product” produced from Tar Sands mined or otherwise extracted from the Property shall be eight percent (8%) of the gross sales revenue received by Sublessee from the sale of such Bitumen Product at the Property. As used herein, the term “Bitumen Product” means naturally occurring oil in the Tar Sands that is sold in whatever form, including run-of-mine, screened, processed, or after the addition of any additives and/or upgrading of the Bitumen Product
 - b. The Production Royalty on all other Minerals produced from Bitumen Product mined or otherwise extracted from the Property and sold shall be eight percent (8%) of the gross sales revenue received by Sublessee. Subject to certain provisions, wherein sales of products and byproducts are wholly accounted for, should sales occur to a third party purchaser that is engaged in marketing a variety of products or by-products made from such materials, payments to Sublessor may vary. If Sublessee’s receipts are measurably greater than comparable sales by others of similar products or byproducts which may be due to the nature of high end by-products such as frac sands produced and sold by the third party, the Production Royalty to Sublessor shall be the greater of a 5% royalty on the gross value of the product and by-products sold by the third party or 50% of the gross revenue received by Sublessee from the sale of such products or byproducts, as the case may be.
 - c. The Production Royalty on oil and gas, and associated hydrocarbons produced by Sublessee using standard oil and gas drilling recovery techniques above 3000 feet MSL and sold shall be 1/6 of the gross market value.
 - d. Any sales of Minerals to third parties shall be of such a nature that the sales price adequately represents the market value of all potential products or by-products.
 - e. Minerals shall be deemed sold at the time they leave the Property or at the time the Minerals are transferred by Sublessee to an Affiliate. “Affiliate” means any business entity which, directly or indirectly, is owned or controlled by Sublessee or owns or controls Sublessee, or any entity or firm acquiring Minerals from Sublessee otherwise than at arm’s-length.
7. Prior to commencing any Operations, Sublessee shall have obtained final approval of all necessary mining and reclamation plans from the Utah Division of Oil, Gas and Mining, or its successor agency (the “Division”) authorizing Sublessee’s Operations and shall have posted with and obtained approval from the Division of a surety bond or other financial guarantee (“Reclamation Surety”) in the amount and form acceptable to the Division and sufficient to guarantee Sublessee’s performance of reclamation in accordance with Utah laws and regulations. The amount of the surety bond or financial guarantee shall be periodically reviewed in accordance with Division’s regulations and, if the Division directs, increased or otherwise modified as directed by the Division. Sublessee shall keep Sublessor fully informed as to reclamation costs and bonding requirements and Sublessor’s approval of the bond amount shall be required. Sublessor will not unreasonably withhold such approval.
8. Under the terms of the Lease, Asphalt Ridge, Inc. has reserved to itself the Lessor Reserved Rights, including the right at any time during the term of the Lease to convey all or part of the Property or the Water Rights, or rights therein, subject to the Lease. Lessor is required to give Valkor, as Sublessor, notice of any such conveyance. Upon Sublessor’s receipt of notice of any sale or conveyance of the Property by Lessor, Sublessor must promptly notify TMC, as Sublessee, in writing of any such conveyance.

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5. MINERAL LEASES (continued)

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

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

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

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

(c) BLM Mineral Lease

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

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

6. PROPERTY, PLANT AND EQUIPMENT

	Oil Extraction Plant	Other Property and Equipment	Total
Cost			
August 31, 2019	\$ 35,555,827	\$ 438,168	\$ 35,993,995
Additions	2,072,058	692	2,072,750
August 31, 2020	37,627,885	438,860	38,066,745
Additions	4,894,123	-	4,894,123
May 31, 2021	<u>\$ 42,522,008</u>	<u>\$ 438,860</u>	<u>\$ 42,960,868</u>
Accumulated Amortization			
August 31, 2019	\$ 2,148,214	\$ 232,131	\$ 2,380,345
Additions	-	103,888	103,888
August 31, 2020	2,148,214	336,019	2,484,233
Additions	-	34,428	34,428
May 31, 2021	<u>\$ 2,148,214</u>	<u>\$ 370,447</u>	<u>\$ 2,518,661</u>
Carrying Amount			
August 31, 2019	\$ 33,407,613	\$ 206,037	\$ 33,613,650
August 31, 2020	<u>\$ 35,479,671</u>	<u>\$ 102,841</u>	<u>\$ 35,582,512</u>
May 31, 2021	<u>\$ 40,373,794</u>	<u>\$ 68,413</u>	<u>\$ 40,442,207</u>

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6. PROPERTY, PLANT AND EQUIPMENT (continued)

(a) Oil Extraction Plant

In June 2011, the Company commenced the development of an oil extraction facility on its mineral lease in Maeser, Utah and entered into construction and equipment fabrication contracts for this purpose. On September 1, 2015, the first phase of the plant was completed and was ready for production of hydrocarbon products for resale to third parties. During the year ended August 31, 2017 the Company began the dismantling and relocating the oil extraction facility to its TMC Mineral Lease facility to improve production and logistical efficiencies while continuing its project to increase production capacity to a minimum capacity of 400-500 barrels per day. The plant has been substantially relocated to the TMC mining site and expansion of the plant to production of 400-500 barrels per day has been substantially completed.

As a result of the relocation of the plant and the expansion that has taken place to date, the Company reassessed the reclamation and restoration provision and raised an additional liability of \$2,375,159 during the fiscal year ended August 31, 2019 which is capitalized to the cost of the plant and will be depreciated according to our depreciation policy.

As a result of the relocation of the plant and the planned expansion of the plant's production capacity to 400-500 barrels per day, and subsequently to an additional 3,000 barrels per day, the Company re-evaluated the depreciation policy of the oil extraction plant and the oil extraction technologies (Note 14) and determined that depreciation should be recorded on the basis of the expected production of the completed plant at various capacities. No amortization has been recorded during the 2020 and 2019 fiscal years as there has only been test production during these years.

7. LEASES

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

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

During April 2015, the Company entered into two equipment loan agreements in the aggregate amount of \$282,384, with financial institutions to acquire equipment for the oil extraction facility. The loans had a term of 60 months and bore interest at rates between 4.3% and 4.9% per annum. Principal and interest were paid in monthly installments. These loans were secured by the acquired assets.

On May 7, 2018, the Company entered into a negotiable promissory note and security agreement with Commercial Credit Group to acquire a crusher from Power Equipment Company for \$660,959. An implied interest rate was calculated as 12.36% based on the timing of the initial repayment of \$132,200 and subsequent 42 monthly instalments of \$15,571. The terms of the note were renegotiated during June 2020, and the instalments were amended to \$16,140 per month due to payments not being made during the pandemic. The promissory note is secured by the crusher.

Discount Rate

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

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

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7. LEASES (continued)

Right of use assets

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

	May 31, 2021	August 31, 2020
Non-current assets		
Right of use assets – operating leases, net of amortization	\$ 177,957	\$ 209,101
Right of use assets – finance leases, net of depreciation – included in property, plant and equipment	687,938	718,193

Lease costs consist of the following:

	Nine months ended May 31, 2021	Nine months ended May 31, 2020
Finance lease cost:	\$ 49,550	\$ 62,233
Depreciation of right of use assets	30,255	30,255
Interest expense on lease liabilities	19,295	31,978
Operating lease expense	45,803	72,507
Total lease cost	\$ 95,353	\$ 134,740

Other lease information:

	Nine months ended May 31, 2021	Nine months ended May 31, 2020
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from finance leases	\$ (19,295)	\$ (31,978)
Operating cash flows from operating leases	(45,803)	(72,507)
Financing cash flows from finance leases	\$ (127,085)	\$ (114,548)
Right-of-use assets obtained in exchange for new operating leases	\$ -	245,482
Weighted average remaining lease term – finance leases	0.75 years	2.00 years
Weighted average remaining lease term – operating leases	2.25 years	3.25 years
Weighted average discount rate – finance leases	13.52%	12.86%
Weighted average discount rate – operating leases	10.00%	10.00%

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7. LEASES (continued)

Maturity of Leases

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

	May 31, 2021	August 31, 2020
Undiscounted minimum future lease payments		
Total instalments due:		
Within 1 year	\$ 129,120	\$ 193,680
1 to 2 years	-	80,700
2 to 3 years	-	-
	<u>129,120</u>	<u>274,380</u>
Imputed interest	(8,773)	(26,948)
Total finance lease liability	\$ 120,347	\$ 247,432
Disclosed as:		
Current portion	\$ 120,347	\$ 172,374
Non-current portion	-	75,058
	<u>\$ 120,347</u>	<u>\$ 247,432</u>

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

	May 31, 2021	August 31, 2020
Undiscounted minimum future lease payments		
Total instalments due:		
Within 1 year	\$ 62,293	\$ 61,070
1 to 2 years	64,161	62,903
2 to 3 years	66,086	64,790
3 to 4 years	22,245	66,734
	<u>214,785</u>	<u>255,497</u>
Imputed interest	(36,828)	(46,396)
Total operating lease liability	\$ 177,957	\$ 209,101
Disclosed as:		
Current portion	\$ 46,735	\$ 42,053
Non-current portion	131,222	167,048
	<u>\$ 177,957</u>	<u>\$ 209,101</u>

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8. INTANGIBLE ASSETS

	<u>Oil Extraction Technologies</u>
Cost	
August 31, 2019	\$ 809,869
Additions	-
August 31, 2020	809,869
Additions	-
May 31, 2021	<u>\$ 809,869</u>
Accumulated Amortization	
August 31, 2019	\$ 102,198
Additions	-
August 31, 2020	102,198
Additions	-
May 31, 2021	<u>\$ 102,198</u>
Carrying Amounts	
August 31, 2019	\$ 707,671
August 31, 2020	<u>\$ 707,671</u>
May 31, 2021	<u>\$ 707,671</u>

Oil Extraction Technologies

During the year ended August 31, 2012, the Company acquired a closed-loop solvent based oil extraction technology which facilitates the extraction of oil from a wide range of bituminous sands and other hydrocarbon sediments. The Company has filed patents for this technology in the USA and Canada and has employed it in its oil extraction plant. The Company commenced partial production from its oil extraction plant on September 1, 2015 and was amortizing the cost of the technology over fifteen years, the expected life of the oil extraction plant. Since the company has increased the capacity of the plant to 400 to 500 barrels daily during 2018, and expects to further expand the capacity to an additional 3,000 barrels daily, it determined that a more appropriate basis for the amortization of the technology is the units of production at the plant after commercial production begins again.

No amortization of the technology was recorded during the 2021 and 2020 fiscal years.

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9. PROMISSORY NOTES PAYABLE

Lender	Maturity Date	Interest Rate	Principal due May 31, 2021	Principal due August 31, 2020
Private lenders	On demand	-%	\$ 40,000	\$ 8,000
Private lenders	On Demand	-%	20,000	-
Private lenders	April 29, 2022	10.00%	500,000	-
			<u>\$ 560,000</u>	<u>\$ 8,000</u>

Two private lenders advanced \$40,000 and \$20,000 to the Company, these amounts are non-interest bearing, have no fixed terms of repayment and are payable on demand.

On April 29, 2021 the Company issued a promissory note to a private lender in the aggregate sum of \$500,000. The promissory note bears interest at 10% per annum and is repayable on April 29, 2022.

10. DEBT

Lender	Maturity Date	Interest Rate	Principal due May 31, 2021	Principal due August 31, 2020
Private lenders	On demand	10.00%	105,000	115,000
Private lenders	August 31, 2020	5.00%	506,193	468,547
Private lenders	On demand	10.00%	-	100,000
			<u>\$ 611,193</u>	<u>\$ 683,547</u>

The maturity date of debt is as follows:

	May 31, 2021	August 31, 2020
Principal classified as repayable within one year	<u>\$ 611,193</u>	<u>\$ 683,547</u>

Private lenders

- (i) On July 3, 2018, the Company received a \$200,000 advance from a private lender bearing interest at 10% per annum and repayable on September 2, 2018. The loan is guaranteed by the Chairman of the Board. During the year ended August 31, 2020 the Company repaid \$35,000 of the principal outstanding and a further \$10,000 during the nine months ended May 31, 2021. On July 6, 2020 in accordance with the terms of a debt settlement agreement entered into, the lender converted \$50,000 into 1,250,000 shares at a conversion price of \$0.04 per share.

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10. DEBT (continued)

Private lenders (continued)

- (ii) On October 10, 2014, the Company issued two secured debentures for an aggregate principal amount of CAD \$1,100,000 to two private lenders. The debentures initially bore interest at a rate of 12% per annum, were originally scheduled to mature on October 15, 2017 and are secured by all of the assets of the Company. In addition, the Company issued common share purchase warrants to acquire an aggregate of 16,667 common shares of the Company. On September 22, 2016, the two secured debentures were amended to extend the maturity date to January 31, 2017. The terms of these debentures were renegotiated with the debenture holders to allow for the conversion of the secured debentures into common shares of the Company at a rate of CAD \$4.50 per common share and to increase the interest rate, starting June 1, 2016, to 15% per annum. On January 31, 2017, the two secured debentures were amended to extend the maturity date to July 31, 2017. Additional transaction costs and penalties incurred for the loan modifications amounted to \$223,510. On February 9, 2018, the two secured debentures were renegotiated with the debenture holders to extend the loan to May 1, 2019. A portion of the debenture amounting to CAD \$628,585 was amended to be convertible into common shares of the Company, of which, CAD \$365,000 were converted on May 1, 2018. The remaining convertible portion is interest free and was to be converted from August 1, 2018 to January 1, 2019. The remaining non-convertible portion of the debenture was to be paid off in 12 equal monthly instalments beginning May 1, 2018, bearing interest at 5% per annum. On September 11, 2018, the remaining convertible portion of the debenture was converted into common shares of the Company and a portion of the non-convertible portion of the debenture was settled through the issue of 316,223 common shares of the Company. On December 13, 2019, the maturity date of the non-convertible portion of the debenture was extended to January 31, 2020 and the interest rate was increased to 10% per annum. Effective January 31, 2020, the terms of the debenture were renegotiated and the maturity date was extended to August 31, 2020. The maturity date of the debentures are currently being renegotiated.
- (iii) On October 4, 2018, the Company entered into a debenture line of credit of \$9,500,000 from Bay Private Equity and received an advance of \$100,000. The debenture matured on September 17, 2019 and bears interest at 10% per annum. On September 23, 2020, the principal amount of the debenture of \$100,000 plus accrued interest of \$18,904 was converted into 2,161,892 shares at a conversion price of \$0.055 per share.

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11. CONVERTIBLE DEBENTURES

Lender	Maturity Date	Interest Rate	Principal due May 31, 2021	Principal due August 31, 2020
Calvary Fund I LP	July 31, 2021	12.00%	\$ -	\$ 250,000
	July 31, 2021	12.00%	80,000	480,000
	August 7, 2021	0%	25,000	150,000
SBI Investments LLC	December 15, 2020	10.00%	184,251	250,000
	January 16, 2021	10.00%	55,000	55,000
Bay Private Equity, Inc.	March 31, 2021	5.00%	-	3,661,874
	February 20, 2021	5.00%	-	2,400,000
Cantone Asset Management LLC	October 19, 2020	7.00%	250,000	300,000
	December 17, 2020	7.00%	240,000	240,000
	January 14, 2021	7.00%	40,000	240,000
	December 30, 2021	7.00%	300,000	-
Private lender	October 29, 2020	10.00%	200,000	200,000
Petroleum Capital Funding LP.	November 26, 2023	10.00%	318,000	318,000
	December 4, 2023	10.00%	432,000	432,000
	March 30, 2024	10.00%	471,000	471,000
Power Up Lending Group LTD	May 7, 2021	12.00%	-	64,300
	June 4, 2021	12.00%	-	69,900
	June 19, 2021	12.00%	-	82,500
	November 11, 2021	12.00%	-	-
	January 12, 2022	12.00%	86,350	-
	February 24, 2022	12.00%	86,350	-
	April 21, 2022	12.00%	92,125	-
	May 20, 2022	12.00%	141,625	-
EMA Financial, LLC	April 22, 2021	8.00%	3,120	150,000
Morison Management S.A	July 31, 2021	10.00%	-	192,862
Bellridge Capital LP.	March 31, 2021	15.00%	2,900,000	-
	September 30, 2021	5.00%	1,400,000	-
Stirling Bridge Resources	October 29, 2021	10.00%	15,000	-
Alpha Capital Anstalt	August 6, 2021	21.00%	250,000	-
Rijtec Enterprises Limited Pension Scheme	November 11, 2021	10.00%	32,000	-
Private lender	November 30, 2021	10.00%	150,000	-
Private lender	January 26, 2022	10.0%	-	-
			7,751,821	10,007,436
Unamortized debt discount			(990,909)	(1,173,112)
Total loans			<u>\$ 6,760,912</u>	<u>\$ 8,834,324</u>

The maturity date of the convertible debentures are as follows:

	May 31, 2021	August 31, 2020
Principal classified as repayable within one year	\$ 6,003,436	\$ 8,227,257
Principal classified as repayable later than one year	757,476	607,067
	<u>\$ 6,760,912</u>	<u>\$ 8,834,324</u>

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11. CONVERTIBLE DEBENTURES (continued)

(a) Cavalry Fund I LP

- (i) On October 12, 2018, the Company issued 250 one year units to Cavalry for gross proceeds of \$250,000, each unit consisting of a \$1,000 principal convertible unsecured debenture, bearing interest at 10% per annum and convertible into common shares at \$0.86 per share, and a common share purchase warrant exercisable for 290,500 shares at an exercise price of \$0.86 per share, which warrant expired on October 12, 2019.

During December 2019, the maturity date of the convertible debenture was amended to October 12, 2020 and the conversion price was amended to \$0.18 per share. In terms of the ARA entered into on August 7, 2020, the maturity date of the convertible debenture was amended to July 31, 2021, the interest rate was amended to 12% per annum and the conversion price was amended to \$0.0412 per share.

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

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

In terms of the ARA entered into on August 7, 2020, the maturity date of the convertible debenture was amended to July 31, 2021 and the conversion price was amended to \$0.0412 per share and the exercise price of the warrant was amended to \$0.0412 per share and the maturity date was amended to July 31, 2021.

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

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

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

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11. CONVERTIBLE DEBENTURES (continued)

(b) SBI Investments, LLC

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

The warrants expired on October 15, 2019 unexercised.

During December 2019, the maturity date of the convertible loan was extended to October 12, 2020 and the conversion price of the note was reset to \$0.18 per share.

On February 25, 2021, the Company repaid principal of \$16,516 and interest thereon of \$33,484, totaling \$50,000 and on March 9, 2021, the Company repaid a further \$49,232 of principal and interest of \$768, totaling 50,000. The Company is busy renegotiating the terms of the loan.

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

(c) Bay Private Equity, Inc.

- (i) On September 17, 2018, the Company issued 3 one year convertible units of \$1,100,000 each to Bay Private Equity, Inc. (“Bay”), including an original issue discount (“OID”) of \$100,000 per unit, for net proceeds of \$2,979,980. These units bear interest at 5% per annum and matured one year from the date of issue. Each unit consists of one senior secured convertible debenture of \$1,100,000 and 250,000 common share purchase warrants. Each convertible debenture may be converted to common shares of the Company at a conversion price of \$1.00 per share. Each common share purchase warrant entitles the holder to purchase an additional common share of the Company at a price of \$1.10 per share for one year after the issue date.

On January 23, 2019, \$400,000 of the principal outstanding was repaid out of the proceeds raised on the January 16, 2019 Bay convertible debenture, see (ii) below.

On September 17, 2019, the warrants expired, unexercised.

During December 2019, the maturity date was extended to January 15, 2020. The maturity date was not extended further during the year and the note was in default as at August 31, 2020.

On September 1, 2020, the convertible debenture was assigned to Bellridge Capital, LP (“Bellridge”). Bellridge enforced the penalty provisions of the original agreement, resulting in an increase in the capital due under the debenture by \$610,312, and an increase of 10% to the interest rate, from the date of original default which was September 19, 2019.

On September 23, 2020, in accordance with the terms of the amended agreement entered into with Bellridge, the maturity date was extended to March 31, 2021 and the conversion price was amended to \$0.055 per share.

- (ii) On January 16, 2019, the Company issued a convertible debenture of \$2,400,000, including an OID of \$400,000, for net proceeds of \$2,000,000. The convertible debenture bears interest at 5% per annum and matured on October 15, 2019. The convertible debenture may be converted to 5,000,000 common shares of the Company at a conversion price of \$0.40 per share. \$400,000 of the proceeds raised was used to repay a portion of the \$3,300,000 convertible debenture issued to Bay Private Equity on September 17, 2018 (Note 11(c)(i)).

On August 20, 2020, in accordance with the terms of an amendment entered into with Bay, the maturity date was extended to February 20, 2021.

On April 23, 2021, the convertible debenture was assigned to Bellridge and the terms of the debenture were amended as follows; the maturity date was extended to September 30, 2021.

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11. CONVERTIBLE DEBENTURES (continued)

(d) Cantone Asset Management, LLC

- (i) On July 19, 2019, the Company issued a convertible debenture to Cantone Asset Management, LLC ("Cantone") in the aggregate principal amount of \$300,000, including an OID of \$50,000 for net proceeds of \$234,000 after certain issue expenses. The convertible debenture bears interest at 7% per annum and the gross proceeds, less the OID, of \$250,000 is convertible into common shares at a conversion price of \$0.19 per share, and matured on October 19, 2020.

In conjunction with the convertible debenture, the Company issued a warrant exercisable for 1,315,789 common shares at an exercise price of \$0.24 per share, expiring on October 19, 2020.

On July 7, 2020, the Company entered into an Amending Agreement ("the Amendment") whereby the conversion price of the convertible debenture was amended to \$0.037 per share and the warrant exercise price was amended to \$0.03 per share.

On September 23, 2020, \$50,000 of the principal was repaid out of the proceeds of the \$300,000 convertible note issued to Cantone Asset Management.

- (ii) On September 19, 2019, the Company issued a convertible debenture to Cantone in the aggregate principal amount of \$240,000, including an original issue discount of \$40,000, for net proceeds of \$200,000. The convertible debenture bears interest at 7% per annum and the gross proceeds less the OID, of \$200,000 is convertible into common shares at a conversion price of \$0.21 per share, and matures on December 17, 2020.

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

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

- (iii) On October 14, 2019, the Company issued a convertible debenture to Cantone in the aggregate principal amount of \$240,000, including an original issue discount of \$40,000, for net proceeds of \$200,000. The convertible debenture bears interest at 7% per annum and the gross proceeds less the OID, of \$200,000 is convertible into common shares at a conversion price of \$0.17 per share, and matures on January 14, 2021.

In conjunction with the convertible debenture, the Company issued a warrant exercisable for 1,176,470 common shares at an exercise price of \$0.17 per share, expiring on January 16, 2021.

In accordance with the terms of the Amendment entered into on July 7, 2020, the conversion price of the convertible debenture was amended to \$0.037 per share and the warrant exercise price was amended to \$0.03 per share.

On January 14, 2021, \$200,000 of the convertible debenture was converted into 5,405,405 shares of common stock at a conversion price of \$0.037 per share.

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

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

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11. CONVERTIBLE DEBENTURES (continued)

(e) Private lender

On October 29, 2019, the Company issued a convertible debenture to a private lender in the aggregate principal amount of \$200,000. The convertible debenture bears interest at 10.0% per annum and matured on October 29, 2020. The convertible debenture may be converted into common shares of the Company at a conversion price of \$0.18 per share. The Company is currently renegotiating the terms of the convertible debenture with the lender.

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

(f) Petroleum Capital Funding LP.

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

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

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

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

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

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

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

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

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

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

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

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11. CONVERTIBLE DEBENTURES (continued)

(g) Power Up Lending Group LTD.

- (i) On May 7, 2020, the Company issued a convertible promissory note to Power Up in the aggregate principal sum of \$64,300, including an original issue discount of \$6,300, for net proceeds of \$55,000 after certain expenses. The note bears interest at 12% per annum and matures on May 7, 2021. The note may be prepaid subject to certain prepayment penalties ranging from 110% to 130% based on the period of prepayment. The outstanding principal amount of the note is convertible at any time and from time to time at the election of the holder into shares of the Company's common stock at a conversion price equal to 75% of the average of the lowest three trading bid prices during the previous fifteen prior trading days.

Between November 11, 2020 and November 13, 2020, Power Up converted the aggregate principal sum of \$64,300, including interest thereon of \$3,480 into 2,256,939 common shares at an average conversion price of \$0.03 per share, thereby extinguishing the note.

- (ii) On June 4, 2020, the Company issued a convertible promissory note to Power Up in the aggregate principal sum of \$69,900, including an original issue discount of \$6,900, for net proceeds of \$60,000 after certain expenses. The note bears interest at 12% per annum and matures on June 4, 2021. The note may be prepaid subject to certain prepayment penalties ranging from 110% to 130% based on the period of prepayment. The outstanding principal amount of the note is convertible at any time and from time to time at the election of the holder into shares of the Company's common stock at a conversion price equal to 75% of the average of the lowest three trading bid prices during the previous fifteen prior trading days.

Between December 15, 2020 and January 4, 2021, Power Up converted the aggregate principal sum of \$69,900, including interest thereon of \$3,780 into 2,306,558 common shares at an average conversion price of \$0.03 per share, thereby extinguishing the note.

- (iii) On June 19, 2020, the Company issued a convertible promissory note to Power Up in the aggregate principal sum of \$82,500, including an original issue discount of \$7,500, for net proceeds of \$72,000 after certain expenses. The note bears interest at 12% per annum and matures on June 19, 2021. The note may be prepaid subject to certain prepayment penalties ranging from 110% to 130% based on the period of prepayment. The outstanding principal amount of the note is convertible at any time and from time to time at the election of the holder into shares of the Company's common stock at a conversion price equal to 75% of the average of the lowest three trading bid prices during the previous fifteen prior trading days.

Between January 7, 2021 and January 20, 2021, Power Up converted the aggregate principal sum of \$82,500, including interest thereon of \$4,500 into 2,668,712 common shares at an average conversion price of \$0.03 per share, thereby extinguishing the note.

- (iv) On November 6, 2020, the Company issued a convertible promissory note to Power Up in the aggregate principal sum of \$140,800, including an original issue discount of \$12,800, for net proceeds of \$125,000 after certain expenses. The note bears interest at 12% per annum and matures on November 6, 2021. The note may be prepaid subject to certain prepayment penalties ranging from 110% to 130% based on the period of prepayment. The outstanding principal amount of the note is convertible at any time and from time to time at the election of the holder into shares of the Company's common stock at a conversion price equal to 75% of the average of the lowest three trading bid prices during the previous fifteen prior trading days.

Between May 10, 2021 and May 19, 2021, Power Up converted the aggregate principal sum of \$140,800, including interest thereon of \$7,680 into 4,476,477 common shares at an average conversion price of \$0.03 per share, thereby extinguishing the note.

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11. CONVERTIBLE DEBENTURES (continued)

(g) Power Up Lending Group LTD. (continued)

- (v) On January 12, 2021, the Company issued a convertible promissory note to Power Up in the aggregate principal sum of \$86,350, including an original issue discount of \$11,350, for net proceeds of \$75,000 after certain expenses. The note bears interest at 12% per annum and matures on November 6, 2021. The note may be prepaid subject to certain prepayment penalties ranging from 110% to 130% based on the period of prepayment. The outstanding principal amount of the note is convertible at any time and from time to time at the election of the holder into shares of the Company's common stock at a conversion price equal to 75% of the average of the lowest three trading bid prices during the previous fifteen prior trading days.
- (vi) On February 25, 2021, the Company issued a convertible promissory note to Power Up in the aggregate principal sum of \$86,350, including an original issue discount of \$11,350, for net proceeds of \$75,000 after certain expenses. The note bears interest at 12% per annum and matures on February 24, 2022. The note may be prepaid subject to certain prepayment penalties ranging from 110% to 130% based on the period of prepayment. The outstanding principal amount of the note is convertible at any time and from time to time at the election of the holder into shares of the Company's common stock at a conversion price equal to 75% of the average of the lowest three trading bid prices during the previous fifteen prior trading days.
- (vii) On April 21, 2021, the Company issued a convertible promissory note to Power Up in the aggregate principal sum of \$92,125, including an original issue discount of \$8,375 for net proceeds of \$80,000 after certain expenses. The note bears interest at 12% per annum and matures on April 21, 2022. The note may be prepaid subject to certain prepayment penalties ranging from 110% to 130% based on the period of prepayment. The outstanding principal amount of the note is convertible at any time and from time to time at the election of the holder into shares of the Company's common stock at a conversion price equal to 75% of the average of the lowest three trading bid prices during the previous fifteen prior trading days.
- (viii) On May 20, 2021, the Company issued a convertible promissory note to Power Up in the aggregate principal sum of \$141,625, including an original issue discount of \$12,875 for net proceeds of \$125,000 after certain expenses. The note bears interest at 12% per annum and matures on May 20, 2022. The note may be prepaid subject to certain prepayment penalties ranging from 110% to 130% based on the period of prepayment. The outstanding principal amount of the note is convertible at any time and from time to time at the election of the holder into shares of the Company's common stock at a conversion price equal to 75% of the average of the lowest three trading bid prices during the previous fifteen prior trading days.

(h) EMA Financial, LLC

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

Between January 25, 2021 and March 2, 2021, EMA converted the aggregate principal sum of \$161,880 into 5,200,000 common shares at an average conversion price of \$0.03 per share.

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11. CONVERTIBLE DEBENTURES (continued)

(i) Morison Management S.A.

On August 26, 2020, the convertible debenture originally issued to GS Capital Partners in the aggregate principal sum of \$143,750 together with accrued interest and penalty interest thereon of \$49,112 was purchased and assigned to Morison Management S.A. ("Morison"). The Company cancelled the convertible debenture issued to GS and issued a replacement convertible debenture to Morison in the aggregate principal sum of \$192,862 with a maturity date of August 26, 2021 and bearing interest at 10% per annum. The note is convertible into common shares at a conversion price equal to 50% of the lowest trading price on the preceding 20 days prior to the notice of conversion.

On October 1, 2020, in terms of a debt conversion agreement entered into the \$192,862 convertible debenture was converted into 10,285,991 shares of common stock at a conversion price of \$0.019 per share.

(j) Bellridge Capital LP.

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

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

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

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

(k) Stirling Bridge Resources

On November 24, 2020, the Company issued a convertible debenture to Stirling Bridge Resources in the aggregate principal amount of \$15,000, for net proceeds of \$15,000. The convertible debenture bears interest at 10% per annum and is convertible into common units at a conversion price of \$0.0562 per unit. Each unit consisting of a common share and a two year share purchase warrant, exercisable for a common share at an exercise price of \$0.0562 per share. The convertible debenture matures on November 24, 2021.

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11. CONVERTIBLE DEBENTURES (continued)

(l) Alpha Capital Anstalt

On November 6, 2020, the Company issued a convertible debenture to Alpha Capital Anstalt in the aggregate principal amount of \$500,000, for net proceeds of \$500,000. The convertible debenture bears interest at 21% per annum and is convertible into common units at a conversion price of \$0.0562 per unit. Each unit consisting of a common share and a five year share purchase warrant, exercisable for a common share at an exercise price of \$0.0562 per share. The convertible debenture matures on August 6, 2021.

Between May 26, 2021 and May 28, 2021, in terms of conversion notices received, the Company issued 4,448,398 shares on common stock upon the conversion of an aggregate principal amount of convertible debt of \$250,000.

(m) Rijtec Enterprises Limited Pension Scheme

On November 11, 2020, the Company issued a convertible debenture to Rijtec Enterprises limited Pension Scheme in the aggregate principal amount of \$32,000, for net proceeds of \$32,000. The convertible debenture bears interest at 10% per annum and is convertible into common units at a conversion price of \$0.0562 per unit. Each unit consisting of a common share and a two year share purchase warrant, exercisable for a common share at an exercise price of \$0.0562 per share. The convertible debenture matures on November 11, 2021.

(n) Private lender

On November 30, 2020, the Company issued a convertible debenture to a private lender in the aggregate principal amount of \$150,000, for net proceeds of \$150,000. The convertible debenture bears interest at 10% per annum and is convertible into common units at a conversion price of \$0.0562 per unit. Each unit consisting of a common share and a two year share purchase warrant, exercisable for a common share at an exercise price of \$0.0562 per share. The convertible debenture matures on November 30, 2021.

(o) Private lender

On January 26, 2021, the Company issued a convertible debenture to a private lender in the aggregate principal amount of \$25,000, for net proceeds of \$25,000. The convertible debenture bears interest at 10% per annum and is convertible into common units at a conversion price of \$0.0562 per unit. Each unit consisting of a common share and a two year share purchase warrant, exercisable for a common share at an exercise price of \$0.0562 per share. The convertible debenture matures on January 26, 2022.

On May 26, 2021, in terms of conversion notices received, the Company issued 444,839 shares on common stock upon the conversion of an aggregate principal amount of convertible debt of \$25,000 and warrants exercisable for 444,839 shares of common stock at an exercise price of \$0.0562 expiring on January 26, 2023.

12. FEDERAL RELIEF LOANS

Small Business Administration Disaster Relief loan

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

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

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12. FEDERAL RELIEF LOANS (continued)

Payroll Protection Plan loans (“PPP Loans”)

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

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

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

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

13. DERIVATIVE LIABILITY

Convertible notes issued to several lenders, disclosed in note 11, above have conversion rights that are linked to the Company’s stock price, at a factor ranging from 50% to 75% of an average stock price over a period ranging from 15 to 20 days prior to the date of conversion. These conversion rights may also include a fixed maximum conversion price. The number of shares issuable upon conversion of these convertible notes is therefore not determinable until conversion takes place. The Company has determined that these conversion features meet the requirements for classification as derivative liabilities and has measured their fair value using a Black Scholes valuation model which takes into account the following factors:

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

The fair value of the derivative liabilities was initially recognized as a debt discount and was re-assessed at May 31, 2021, with a total change in fair value of \$1,292,169 charged to the unaudited condensed consolidated statement of loss and comprehensive loss. The value of the derivative liability will be re-assessed at each financial reporting date, with any movement thereon recorded in the statement of loss and comprehensive loss in the period in which it is incurred.

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13. DERIVATIVE LIABILITY (continued)

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

	Nine months ended May 31, 2021
Conversion price	CAD\$0.0375 to CAD\$0.06
Risk free interest rate	0.04 to 0.21%
Expected life of derivative liability	6 to 12 months
Expected volatility of underlying stock	106.5% to 174.9%
Expected dividend rate	0%

The movement in derivative liability is as follows:

	May 31, 2021	August 31, 2020
Opening balance	\$ 841,385	\$ -
Derivative financial liability arising from convertible notes	452,799	653,984
Fair value adjustment to derivative liability	1,292,169	187,401
	<u>\$ 2,586,353</u>	<u>\$ 841,385</u>

14. RECLAMATION AND RESTORATION PROVISIONS

	Oil Extraction Facility	Site Restoration	Total
Balance at August 31, 2019	\$ 498,484	2,472,013	2,970,497
Accretion expense	-	-	-
Balance at August 31, 2020	498,484	2,472,013	2,970,497
Accretion expense	-	-	-
Balance at May 31, 2021	<u>\$ 498,484</u>	<u>\$ 2,472,013</u>	<u>\$ 2,970,497</u>

(a) Oil Extraction Plant

In accordance with the terms of the sub-lease agreement disclosed in note 5 above, the Company is required to dismantle its oil extraction plant at the end of the lease term. During the year ended August 31, 2015, the Company recorded a provision of \$350,000 for dismantling the facility.

During the year ended August 31, 2019, in accordance with the requirements to provide a surety bond to the Utah Division of Oil Gas and Mining in terms of the amendment to the Notice of Intent to Commence Large Mining Operations at an estimated production of 4,000 barrels per day, the Company estimated that the cost of dismantling the oil extraction plant and related equipment would increase to \$498,484. The discount rate used in the calculation is estimated to be 2.32% on operations that are expected to commence in September 2021.

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

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14. RECLAMATION AND RESTORATION PROVISIONS (continued)

(b) Site restoration

In accordance with environmental laws in the United States, the Company's environmental permits and the lease agreements, the Company is required to restore contaminated and disturbed land to its original condition before the end of the lease term, which is expected to be in 25 years. During the year ended August 31, 2015, the Company provided \$200,000 for this purpose.

The site restoration provision represents rehabilitation and restoration costs related to oil extraction sites. This provision has been created based on the Company's internal estimates. Significant assumptions in estimating the provision include the technology and equipment currently available, future environmental laws and restoration requirements, and future market prices for the necessary restoration works required.

During the year ended August 31, 2019, in accordance with the requirements to provide a surety bond to the Utah Division of Oil Gas and Mining in terms of the amendment to the Notice of Intent to Commence Large Mining Operations at an estimated production of 4,000 barrels per day, the Company estimated that the cost of restoring the site would increase to \$2,472,013. The discount rate used in the calculation is estimated to be 2.32% on operations that are expected to commence in September 2021.

15. COMMON SHARES

Authorized	unlimited common shares without par value
Issued and Outstanding	485,554,914 common shares as at May 31, 2021

(a) Settlement of liabilities

Between September 21, 2020 and December 10, 2020, the Company issued 71,632,237 common shares to certain lenders to settle \$3,433,200 of trade debt, including a loss realized thereon of \$48,283.

(b) Common share subscriptions

On November 13, 2020, February 4, 2021 and April 28, 2021, the Company issued 7,416,666, 1,032,475 and 2,166,665 shares of common stock, respectively, to various investors for net proceeds of \$636,949.

(c) Restricted stock awards

On January 25 2021, the Company issued 1,000,000 restricted shares to its COO as part of his compensation package.

(d) Convertible debt conversions

Between October 1, 2020 and May 28, 2021, in terms of conversion notices received, the Company issued 124,411,895 shares of common stock for convertible debt in the aggregate sum of \$5,272,002, realizing a loss thereon of \$397,090.

(e) Warrants exercised

On September 17, 2020 and December 9, 2020, warrants were exercised for 2,268,169 and 1,176,470 shares, respectively at an exercise price of \$0.03 per share for gross proceeds of \$103,339.

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16. STOCK OPTIONS

During the nine months ended May 31, 2021 the share-based compensation expense of \$616,311 relates to the vesting of options granted during the current and prior fiscal year.

Stock option transactions under the stock option plan were:

	Nine months ended May 31, 2021		Year ended August 31, 2020	
	Number of Options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of period	9,470,000	CAD\$ 0.63	9,808,333	CAD\$ 1.20
Options granted	-		5,220,000	0.10
Options forfeited	(2,220,000)	CAD\$ 0.11	(5,558,333)	CAD\$ 1.14
Balance, end of period	<u>7,250,000</u>	CAD\$ 0.79	<u>9,470,000</u>	CAD\$ 0.63

Stock options outstanding and exercisable as at May 31, 2021 are:

Expiry Date	Exercise Price	Options Outstanding	Options Exercisable
August 7, 2025	CAD\$ 0.085	3,000,000	3,000,000
November 30, 2027	CAD\$ 2.270	950,000	950,000
June 5, 2028	CAD\$ 1.000	3,300,000	2,475,000
		<u>7,250,000</u>	<u>6,425,000</u>
Weighted average remaining contractual life		<u>5.8 years</u>	<u>5.6 years</u>

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17. SHARE PURCHASE WARRANTS

Share purchase warrants outstanding as at May 31, 2021 are:

Expiry Date	Exercise Price	Warrants Outstanding
July 5, 2021	US\$ 0.25	52,631
July 5, 2021	US\$ 0.28	131,578
July 5, 2021	US\$ 0.35	3,917,771
July 21, 2021	US\$ 0.0412	2,666,666
August 7, 2021	US\$ 0.0412	3,033,980
August 16, 2021	CAD\$ 0.29	120,000
August 16, 2021	US\$ 0.18	4,210,785
September 20, 2021	US\$ 0.23	1,111,111
September 30, 2021	US\$ 0.23	2,777,777
October 19, 2021	US\$ 0.0475	500,000
December 17, 2021	US\$ 0.0475	500,000
December 30, 2021	US\$ 0.55	4,545,454
January 26, 2023	US\$ 0.0562	444,839
January 26, 2023	US\$ 0.10	276,512
November 26, 2023	US\$ 0.17	1,683,230
December 4, 2023	US\$ 0.17	2,286,720
March 30, 2024	US\$ 0.08	392,500
March 30, 2024	US\$ 0.15	4,906,250
January 20, 2025	US\$ 0.14	151,785
November 6, 2025	US\$ 0.0562	4,448,398
		38,157,987
Weighted average remaining contractual life		1.39 years
Weighted average exercise price	USD\$ 0.11	

Warrants exercisable for 17,455,291 common shares at exercise prices ranging from \$0.14 and \$3.43 per share expired during the nine months ended May 31, 2021.

On September 17, 2020 and December 9, 2020, warrants for 2,268,169 and 1,176,470 shares were exercised at an exercise price of \$0.03 per share for gross proceeds of \$103,339.

On September 30, 2020, the Company issued warrant exercisable for 4,545,454 shares to a convertible debt note holder.

The fair value of the warrants granted was estimated at \$101,475 using the relative fair value method. In addition, warrants valued on debt extinguishment agreements entered into with certain convertible note holders, whereby the exercise price and in certain cases, the expiry date of the warrant were amended, amounted to \$149,354.

Between January 26, 2021 and May 28, 2021, in terms of various subscription agreements entered into; debt modification agreements and convertible debentures converted into units, the Company granted warrants exercisable for 6,169,749 shares of common stock at exercise prices ranging from \$0.0475 to \$0.10 per share and maturities ranging from 7 months to 41 months. These warrants were value at \$219,045 using a Black Scholes warrant pricing model.

The fair value of share purchase warrants was estimated using the Black-Scholes valuation model utilizing the following weighted average assumptions:

	Nine months ended May 31, 2021
Exercise price	US\$0.0475 to \$0.10
Expected share price volatility	135.5 to 181.4%
Risk-free interest rate	014 to 0.84%
Expected term (years)	0.6 to 4.45

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18. DILUTED LOSS PER SHARE

The Company's potentially dilutive instruments are convertible debentures and stock options and share purchase 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.

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

	Nine months ended May 31, 2021	Nine months ended May 31, 2020
Share purchase options	7,250,000	9,808,333
Share purchase warrants	38,157,987	50,660,474
Convertible securities	161,952,638	39,593,517
	<u>207,360,625</u>	<u>100,062,324</u>

19. RELATED PARTY TRANSACTIONS

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

(a) Key management personnel and director compensation

At May 31, 2021, \$751,779 was due to members of key management and directors for unpaid salaries, expenses and directors' fees (August 31, 2020 – \$547,660).

(b) Transactions with directors and officers

During the nine months ended May 31, 2021, the Company granted 1,000,000 restricted shares and five year options exercisable for 3,000,000 shares at an exercise price of \$0.085 were granted as compensation to our Chief operating Officer.

On October 31, 2019 and March 11, 2020, a director advanced the Company \$50,000 and \$25,000, respectively as a short-term loan. The loan is interest free and is expected to be repaid within twelve months. The total loan outstanding as of May 31, 2021 was \$125,000.

On February 12, 201, in terms of an Exchange Agreement entered into between the Company and the Director, the short term loans evidenced by Promissory Notes were exchanged for a Convertible Promissory Note with an aggregate principal amount of \$125,000, bearing interest at 8% per annum, maturing on February 12, 2022 and convertible into shares of common stock at 80% of the lowest trading price during the preceding 20 days.

(c) Due to/from director

As of May 31, 2021 and August 31, 2020, the Company owed the chairman of the Board and the various companies controlled by him \$610,287 and \$395,647 respectively, in funds advanced to the Company for working capital purposes, in addition, the Company owes the chairman of the board \$340,000, and \$160,000 respectively, in unpaid salaries.

As of May 31, 2021 and August 31, 2020, the Company owed a director \$125,000 and \$125,000, respectively, as disclosed under (b) above.

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20. FINANCING COSTS, NET

Financing costs, net, consists of the following:

	Three months ended May 31, 2021	Three months ended May 31, 2020	Nine months ended May 31, 2021	Nine months ended May 31, 2020
Interest expense	\$ 874,995	\$ 200,028	\$ 1,468,091	\$ 491,968
Amortization of debt discount	493,837	368,417	1,265,729	1,040,789
Other	-	2,183	-	26,713
	<u>\$ 1,368,832</u>	<u>\$ 570,628</u>	<u>\$ 2,733,820</u>	<u>\$ 1,559,470</u>

21. OTHER EXPENSE (INCOME), NET

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

	Three months ended May 31, 2021	Three months ended May 31, 2020	Nine months ended May 31, 2021	Nine months ended May 31, 2020
Loss (gain) on settlement of liabilities	\$ -	\$ -	\$ 48,283	\$ (427,907)
Loss (gain) on conversion of convertible debt	83,894	53,130	397,090	(178,732)
Loss on debt extinguishment	-	-	330,256	-
Impairment of investments	-	75,000	-	75,000
Interest income	(960)	(10,311)	(2,843)	(57,900)
	<u>\$ 82,934</u>	<u>\$ 117,819</u>	<u>\$ 772,786</u>	<u>\$ (589,539)</u>

22. SEGMENT INFORMATION

The Company operated in two reportable segments within the USA during the nine months ended May 31, 2021 and 2020, oil extraction and processing operations and mining operations. The presentation of the consolidated statements of loss and comprehensive loss provides information about the oil extraction and processing segment. There were limited operations in the mining operations segment during the nine months ended May 31, 2021 and 2020. Other information about reportable segments are:

	May 31, 2021		
	Oil Extraction	Mining Operations	Consolidated
(in '000s of dollars)			
Additions to non-current assets	\$ 4,894	\$ -	\$ 4,894
Reportable segment assets	45,862	33,240	79,102
Reportable segment liabilities	(19,882)	(160)	(20,042)
	<u>\$ 25,980</u>	<u>\$ 33,080</u>	<u>\$ 59,060</u>
	May 31, 2020		
	Oil Extraction	Mining Operations	Consolidated
(in '000s of dollars)			
Additions to non-current assets	\$ 2,152	\$ 610	\$ 2,762
Reportable segment assets	41,103	33,903	75,006
Reportable segment liabilities	(18,173)	(1,000)	(19,173)
	<u>\$ 22,930</u>	<u>\$ 32,903</u>	<u>\$ 55,833</u>

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NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the nine months ended May 31, 2021 and 2020
Expressed in US dollars

22. SEGMENT INFORMATION (continued)

(in '000s of dollars)	May 31, 2021		
	Oil Extraction	Mining operations	Consolidated
Revenue from license fees	\$ 2,000	\$ -	\$ 2,000
Revenues from hydrocarbon sales	-	-	-
Other production and maintenance costs	(379)	-	(379)
Gross Profit	1,621	-	1,621
Operating Expenses			
Depreciation, depletion and amortization	34	-	34
Selling, general and administrative expenses	3,171	-	3,171
Investor relations	40	-	40
Professional fees	1,476	-	1,476
Salaries and wages	263	-	263
Share-based compensation	616	-	616
Travel and promotional expenses	156	-	156
Other	620	-	620
Financing costs	2,734	-	2,734
Other expense (income)	773	-	773
Gain on settlement of liabilities	48	-	48
Loss on conversion of convertible debt	397	-	397
Loss on debt extinguishment	330	-	330
Interest income	(2)	-	(2)
Derivative liability movements	1,292	-	1,292
Net loss	\$ 6,383	\$ -	\$ 6,383
(in '000s of dollars)	May 31, 2020		
	Oil Extraction	Mining operations	Consolidated
Revenues from hydrocarbon sales	\$ 74	\$ 221	\$ 295
Other production and maintenance costs	1,558	-	1,558
Advance royalty payments	-	325	325
Gross Loss	(1,484)	(104)	(1,588)
Expenses			
Depreciation, depletion and amortization	(97)	-	(97)
Selling, general and administrative expenses	(4,818)	(4)	(4,822)
Financing costs, net	(1,560)	-	(1,560)
Derivative liability movements	(32)	-	(32)
Gain on settlement of liabilities	428	-	428
Gain on settlement of convertible debt	179	-	179
Impairment of investments	(75)	-	(75)
Interest income	58	-	58
Net loss	\$ (7,401)	\$ (108)	\$ (7,509)

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23. COMMITMENTS AND CONTINGENCIES

The company has commitments under equipment financing arrangements entered into in prior periods, see Note 7, above.

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

	May 31, 2021
Undiscounted minimum future lease payments	
Total instalments due:	
Within 1 year	\$ 129,120
1 to 2 years	-
2 to 3 years	-
	<u>129,120</u>

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

	May 31, 2021
Undiscounted minimum future lease payments	
Total instalments due:	
Within 1 year	\$ 62,293
1 to 2 years	64,161
2 to 3 years	66,086
3 to 4 years	22,245
	<u>214,785</u>

Legal Matters

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

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

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

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

PETROTEQ ENERGY INC.
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24. SUBSEQUENT EVENTS

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

On June 4, 2021, in terms of exercise notices received, Cantone exercised warrants for 4,545,454 at \$0.55 per share and warrants for a further 1,000,000 shares at an exercise price of \$0.475 per share for gross proceeds of \$297,500.

On June 7, 2021, in terms of a conversion notice received, Alpha Capital converted \$250,000 of the aggregate principal amount of the Alpha capital note entered into on November 6, 2020, at a conversion price of \$0.0562 per share for 4,448,399 shares of common stock and the issuance of a warrant exercisable for 4,448,399 shares of common stock at an exercise price of \$0.0562 per share.

On June 10, 2021, the Company issued 25,000 shares of common stock as compensation to a board advisor.

On June 10, 2021, in terms of a conversion notice received, Stirling Bridge Resources converted \$15,000 of the aggregate principal amount of the convertible note entered into on November 11, 2020, at a conversion price of \$0.0562 per share for 569,395 shares of common stock and the issuance of a warrant exercisable for 569,395 shares of common stock at an exercise price of \$0.0562 per share, expiring on January 26, 2023.

On June 10, 2021, in terms of an Assignment and Purchase of Debt Agreement entered into between a director of the Company, and Equilibris Management AG ("Equilibris"), the \$125,000 Convertible Promissory Note owing to the director was purchased and assigned to Equilibris. On June 15, 2021, in terms of a conversion notice received from Equilibris, the company issued 3,048,780 shares of common stock at a conversion price of \$0.041 per share, thereby extinguishing the note.

During June 2021, a promissory note, bearing interest at 10% per annum owing to a private investor with an aggregate principal amount outstanding of \$105,000, including interest and penalty interest thereon of \$86,779, which had matured, was acquired in terms of an Assignment and Purchase of Debt Agreement by Equilibris Management AG. In terms of an Exchange Agreement entered into between the Company and Equilibris Management, the promissory note was exchanged for a Convertible Redeemable Note, bearing interest at 10% per annum, maturing on June 30, 2021 and convertible into common stock at \$0.041 per share. On June 16, 2021, in terms of conversion notice, the Company issued 4,677,532 shares of common stock to Equilibris at a conversion price of \$0.041 per share, thereby extinguishing the note.

On June 24, 2021, in terms of an Assignment and Purchase of Corporate Debt Agreement entered into with a debt holder, the debt holder assigned the promissory note due to him of CDN\$962,085, including interest and late payment penalties thereon to Equilibris Management AG. Effective June 30, 2021, the Company entered into a Securities Exchange Agreement with Equilibris Management exchanging the CDN\$962,085 promissory note with a convertible promissory note for US\$771,610 bearing interest at 8% per annum, convertible into shares of common stock at a conversion price of \$0.041 per share and maturing on June 22, 2022. On July 1, 2021, in terms of a conversion notice received from Equilibris Management AG, the Company issued 18,819,756 shares of common stock converting the aggregate principal amount of \$771,610, thereby extinguishing the note.

On June 24, 2021, in terms of an Assignment and Purchase of Corporate Debt Agreement entered into with a debt holder, the debt holder assigned the promissory note due to him of CDN\$38,217, including interest and late payment penalties thereon to Equilibris Management AG. Effective June 30, 2021, the Company entered into a Securities Exchange Agreement with Equilibris Management exchanging the CDN\$38,217 promissory note with a convertible promissory note for US\$30,652 bearing interest at 8% per annum, convertible into shares of common stock at a conversion price of \$0.041 per share and maturing on June 22, 2022. On July 1, 2021, in terms of a conversion notice received from Equilibris Management AG, the Company issued 747,616 shares of common stock converting the aggregate principal amount of \$30,652, thereby extinguishing the note.

On June 29, 2021, in terms of debt conversion agreements entered into with Cantone and PCF, the Company issued 1,388,897 shares of common stock at a price of \$0.139 per share in settlement of interest and unpaid principal on certain debentures amounting to \$193,057.

On July 1, 2021, in terms of a subscription agreement entered into with Cantone Asset Management, LLC, the Company issued a convertible debenture in the aggregate principal amount of \$300,000, bearing interest at 8% per annum and maturing on July 1, 2023 and convertible into common stock at a conversion price of \$0.12 per share. In addition, the Company issued Cantone a warrant exercisable for 2,500,000 shares of common stock at an exercise price of \$0.12 per share expiring on July 1, 2023.

On July 6, 2021, in terms of a debt conversion agreement entered into with Cavalry, the Company agreed to convert unpaid interest amounting to \$22,500 on a convertible note entered into on October 12, 2018, unpaid principal amounting to \$80,000 and unpaid interest amounting to \$30,560 on a convertible note entered into on August 19, 2019, and unpaid principle of \$25,000 on a convertible note entered into on August 7, 2020, into 1,681,488 shares of common stock at a conversion price of \$0.094 per share for a total of 1,681,488 shares, which have not been issued as yet.

PETROTEQ ENERGY INC.
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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24. SUBSEQUENT EVENTS (continued)

On July 7, 2021, Cavalry exercised warrants for 3,033,980 and 2,666,666, totaling 5,700,646 shares of common stock at an exercise price of \$0.412 per share for gross proceeds of \$234,867.

On July 9, 2021, the Company entered into a consulting agreement, expiring on June 30, 2023, with Cantone Research, Inc. whereby the consultant will provide financial advisory services for a fee of \$30,000 per month, payable in cash or in shares of common stock or warrants at a discount of 10% to the trading price of the common stock prior to the date of issuance. The agreement may not be terminated prior to June 30, 2022, except for cause.

On July 9, 2021, in terms of a conversion notice received, Rijtec Enterprises Limited Pension Scheme converted \$32,000 of the aggregate principal amount of the convertible note entered into on November 24, 2020, at a conversion price of \$0.0562 per share for 266,903 shares of common stock and the issuance of a warrant exercisable for 206,903 shares of common stock at an exercise price of \$0.0562 per share, expiring on January 26, 2023.

In July 2021, in terms of debt conversion agreements entered into with certain directors of the Company, the directors agreed to accept a total of 1,964,108 shares in settlement of \$178,253 of outstanding directors fees at a conversion price of \$0.07 per share.

Between July 13, 21021 and July 14, 2021, in terms of conversion notices received from Power Up, the aggregate principal amount of 86,350 and interest thereon of \$4,710 from a convertible note entered into on January 12, 2021, was converted into 1,049,835 shares of common stock at an average conversion price of conversion price of \$0.087 per share.

On, July 16, 2021, in terms of a conversion notice received, a private lender converted \$150,000 of the aggregate principal amount of the convertible note entered into on November 30, 2020, at a conversion price of \$0.0562 per share for 2,669,039 shares of common stock and the issuance of a warrant exercisable for 2,669,039 shares of common stock at an exercise price of \$0.0562 per share, expiring on January 26, 2023.

On July 21 and July 27, 2021, the company granted Cantone Research, Inc. brokers warrants exercisable for 5,208,333 and 260,416 shares of common stock at an exercise price of \$0.12 per share, expiring on July 21, and July 27, 2025, respectively.

On July 27, 2021, in terms of subscription agreements received from various subscribers, the company issued 17,874,996 units, each unit consisting of one share of common stock at \$0.12 per share and warrants exercisable for 17,874,996 shares of common stock at an exercise price of \$0.12 per share, expiring on July 27, 2023, for gross proceeds of \$2,145,000.

On August 6, 2021, Mr. Blyumkin, the Chief Executive Officer and a director of the Company has resigned all of his positions within the Company and the Group and Mr. R.G. Bailey has been appointed as the Interim Chief Executive Officer.

On August 9, 2021, the Ontario Securities Commission issued a cease trade order on the company's stock due to its failure to file its quarterly report on form 10-Q and its related certifications, for the period ended May 31, 2021 by July 30, 2021.

On August 12, 2021, the Company received an irrevocable subscription agreement and funds from a subscriber for gross proceeds of US\$750,000 for 6,250,000 units at a unit price of \$0.12 per unit. Each unit consisting of one share of common stock and one warrant to purchase a share of common stock at \$0.12 per share. The warrants expire 24 months after closing. The foregoing transaction is subject to approval of the directors of the Company and regulatory approval from the Exchange.

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

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NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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25. SUPPLEMENTAL INFORMATION ON OIL AND GAS OPERATIONS

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

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

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

Costs incurred

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

All costs were incurred in the US.

(In US\$ 000's)	Three months ended May 31, 2021	Three months ended May 31, 2020	Nine months ended May 31, 2021	Nine months ended May 31, 2020
Advanced royalty payments	\$ -	\$ 20	\$ -	\$ 120
Deposits paid on mineral rights	-	-	-	610
Construction of oil extraction plant	116	36	4,894	2,152
	<u>\$ 116</u>	<u>\$ 56</u>	<u>\$ 4,894</u>	<u>\$ 2,882</u>

Results of operations

The only operating expenses incurred to date on hydrocarbon activities relate to minimum royalties paid on mineral leases that the Company has entered into and certain maintenance and personnel costs incurred.

All costs were incurred in the US.

(In US\$ 000's)	Three months ended May 31, 2021	Three months ended May 31, 2020	Nine months ended May 31, 2021	Nine months ended May 31, 2020
Advanced royalty payments applied or expired	-	121	-	325
Production and maintenance costs	14	152	379	1,558
	<u>\$ 14</u>	<u>\$ 273</u>	<u>\$ 379</u>	<u>\$ 1,883</u>

Proven reserves

The Company does not have any proven hydrocarbon reserves as of May 31, 2021 and August 31, 2020.

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

The following discussion and analysis is intended as a review of significant factors affecting our financial condition and results of operations for the periods indicated. The discussion should be read in conjunction with our consolidated financial statements and the notes presented herein and the consolidated financial statements and the other information set forth in our amended annual report on Form 10-K/A for the fiscal year ended August 31, 2020, filed with the Securities and Exchange Commission on August 19, 2021. In addition to historical information, the following Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks and uncertainties. Our actual results could differ significantly from those anticipated in these forward-looking statements as a result of certain factors discussed herein and any other periodic reports filed and to be filed with the Securities and Exchange Commission.

Overview and recent developments

We are a holding company organized under the laws of Ontario, Canada, that is engaged in various aspects of the oil and gas industry. Our primary focus is on the development and implementation of our proprietary oil sands mining and processing technology to recover oil from surface mined bitumen deposits (the "Extraction Technology"). Our wholly-owned subsidiary, Petroteq Energy CA, Inc., a California corporation, conducts our oil sands extraction business through two wholly owned operating companies, Petroteq Oil Recovery, LLC, a Utah limited liability company ("POSr"), and TMC Capital, LLC, a Utah limited liability company ("TMC").

Through PCA, and its two subsidiaries POSr and TMC, we are in the business of oil sands mining operations on the TMC Mineral Lease in Uintah County, Utah, where we process mined oil sands ores using our Extraction Technology to produce crude oil and hydrocarbon products. Our primary extraction and processing operations are conducted at our Asphalt Ridge processing facility, which is owned by POSr.

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

After optimizing the extraction process following the start-up of the Petroteq Oil Sands Plant (POSP) in January 2021, it was found that certain equipment additions would improve the process of extracting bitumen from the oil sands ore and improve the removal of clay fines from produced oil. It was decided to purchase and install the additional equipment required to improve the process so as to enhance operating efficiencies to support the third-party review of the commerciality of the extraction process. The required equipment was located, installed and commissioned and the POSP restarted in April 2021. While the Company had hoped to restart production sooner, much was learned during the commissioning and restart of the demonstration plant and all of these lessons learned were incorporated into the Front End Engineering Design ("FEED") for a 5,000 barrel per day ("BPD") production train. This FEED design was completed by Crosstrails Engineering LLC in July 2021.

The first full load of oil produced by the upgraded POSP was sold in June 2021. The production of the first load of sales oil from the upgraded POSP was an important milestone as it demonstrated that heavy oil from the Utah oil sands could be produced using Petroteq's Clean Oil Recovery Technology (CORT) process without the use of water and without any requirement for a tailings pond. The buyer paid West Texas Intermediate ("WTI") pricing of US\$70.91 per barrel for the 10.2° API heavy sweet crude oil produced by the POSP. The fact that we received WTI pricing for the oil produced by the POSP demonstrates that the heavy, sweet (low sulfur) oil produced from Utah's tar sands will likely command a premium price relative to other heavy oils.

Petroteq continued to test ore from various sources in the region, with varying oil quality in the range of 5 to 10 weight percent. The CORT process has been successful in extracting oil from this ore confirming that CORT can handle a wide range of ore specifications.

Petroteq continues to work with a local drilling fluids company to identify customers for the clean sand that results from the POSP for use as a potential frac sand. The fluids company has, to date, taken 340 tons of sand and it is expected that they will take the additional processed sand currently available, together with further sand as it is produced. The proceeds from the sale of sand are expected to be approximately US\$15-20 per ton (US\$10-15 per barrel).

Kahuna Ventures LLC ("Kahuna"), an energy focused project execution firm, has reviewed POSP operating data, process simulation data, and the 5,000 BPD FEED study and has provided a third-party technical evaluation of the design. The FEED encompasses a production train capable of processing 5,000 bopd from mined oil sands ore. Petroteq anticipates that this FEED can become the starting basis for future 5,000 bopd train designs for use in Utah by Petroteq and potentially by additional licensees in Utah, the US, and other locations worldwide. This "standard" design may need some customization for local site conditions and ore characteristics, but differences are expected to be insignificant.

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The FEED incorporates a number of lessons learned from operation of the demonstration plant into the proposed design including improvements in the mixing of crushed ore and solvent, solids separation and solvent recovery. The third-party technical verification report from Kahuna indicated extraction costs of approximately US\$13.50 per barrel of oil produced. Mining and ore transport costs will add another US\$8.50 per barrel for an estimated operating cost of approximately US\$22 per barrel of oil produced, before corporate and SG&A costs and royalty fees. The estimated operating cost of US\$22 per produced barrel of oil does not take into account the reduction in net operating costs resulting from the possible sale of produced sand. It is estimated that the sale of produced sand could offset US\$10-15 per barrel of operating costs.

The FEED study describes the design data, design requirements, detailed major equipment requirements and general operating philosophies for the development of the 5,000 bopd production train, including a Class 3 ($\pm 25\%$) cost estimate of approximately US\$110 million for construction of the plant on an undeveloped site. This provides for a capital cost of \$22,000 per daily barrel of production. The proposed plant covered by the FEED study will consist of an initial 5,000 bopd production train but provides for the possible future expansion to 10,000 bopd through the addition of a second parallel 5,000 bopd train. The capital cost of \$22,000 per daily barrel for an initial 5,000 bopd production train installed on an undeveloped site compares very favorably against the cost of plants using more traditional methods of extracting oil from oil sands.

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

Several barrels of produced oil from the POSP have now been received by Quadrise Fuels International plc in the United Kingdom, for the purpose of assessing the suitability of the heavy sweet oil produced by the POSP for their MSAR[®] technology. Testing of the samples is expected to be completed by the end of August 2021. MSAR[®] is a low viscosity oil-in-water emulsified synthetic heavy fuel oil ("HFO"). It is manufactured using Quadrise's proprietary technology to mix heavy oils with small amounts of specialist chemicals and water to a bespoke formulation. According to Quadrise, the resulting emulsion contains approximately 30% water and less than 1% chemicals. The emulsion is a low viscosity liquid at room temperature, which makes it easier to handle and reduces the heating costs for storing, transportation and use in comparison to HFOs.

The demonstration plant has proved that the redesigned CORT process is capable of producing oil in saleable quantities and that the majority of the post processed sand can be sold for various uses. In the near term, Petroteq will only use the demonstration plant to test other oil sands ores and/or show potential investors the plant capabilities.

Results of Operations for the three months ended May 31, 2021 and the three months ended May 31, 2020

Net Revenue, Cost of Sales and Gross Loss

There has been no sale of hydrocarbon products during the three months ended May 31, 2021 and minimal sales of \$125,768 during the three months ended May 31, 2021, which was primarily sales of asphalt to the state of Utah.

The cost of sales during the three months ended May 31, 2021 are minimal. The cost of sales during the three months ended May 31, 2020 consists of; i) advance royalty payments which expire at the end of the calendar year two years after the payment has been made; and ii) certain production related expenses consisting of labor and maintenance expenditure.

Expenses

Expenses were \$4,923,957 and \$966,332 for the three months ended May 31, 2021 and 2020, respectively, an increase of \$3,957,625 or 409.6%. The increase in expenses is primarily due to:

Depletion, depreciation and amortization

Depletion, depreciation and amortization was \$11,383 and \$11,523 for the three months ended May 31, 2021 and 2020, respectively, a decrease of \$140 or 1.2%. This amount is immaterial.

Selling, general and administrative expenses

Selling, general and administrative expenses was \$1,419,727 and \$894,715 for the three months ended May 31, 2021 and 2020, respectively, an increase of \$525,012 or 58.7%. Included in selling, general and administrative expenses are the following major expenses:

- a. Professional fees was \$897,574 and \$245,635 for the three months ended May 31, 2021 and 2020, respectively, an increase of \$651,939 or 265.4%. The increase is due to the accrual of site operating costs of \$261,363 incurred by Valkor, an outside engineering cost of \$205,000 incurred to assist with improvements in production processes and the balance being primarily attributable to increased legal activity at the corporate level.
- b. Travel and promotional fees was \$42,186 and \$19,142 for the three months ended May 31, 2021 and 2020, respectively, an increase of \$23,044 or 120.4%, the increase is due to increased travel expenses as travel restrictions were lifted during a lull in the Covid-19 pandemic.
- c. Salaries and wages was \$85,204 and \$245,635 for the three months ended May 31, 2021 and 2020, respectively, a decrease of \$160,431 or 65.3%. The decrease is in line with expectations as the mining site has been outsourced to a third party operator.
- d. Stock based compensation was \$229,059 and \$158,168 for the three months ended May 31, 2021 and 2020, an increase of \$70,891 or 44.8%, primarily due to the vesting of certain options issued in the prior period.
- e. General and administrative expenses was \$102,687 and \$65,263 for the three months ended May 31, 2021 and 2020, respectively, an increase of \$37,424 or 57.3%. The increase consists of several individually insignificant expenses; however the overall increase is due to the increased activity at corporate level to support the continued plant improvements.

Financing costs

Financing costs was \$1,368,832 and \$570,628 for the three months ended May 31, 2021 and 2020, respectively, an increase of \$798,204 or 139.9%. Financing costs includes; (i) interest expense of \$874,995 and \$368,417 for the three months ended May 31, 2021 and 2020, respectively, an increase of \$505,678, is primarily attributable to penalty interest incurred on the Bay Private equity debt which was assigned to Bellridge during the current period of which a portion was converted to equity; (ii) amortization of debt discount of \$493,837 and \$368,417 for the three months ended May 31, 2021 and 2020, respectively, an increase of \$125,420 primarily due to new debt issued during the current fiscal period with beneficial conversion features and warrants issued to the investors; and (iii) other finance related expense of \$0 and \$2,183 for the three months ended May 31, 2021 and 2020, respectively, this amount is immaterial.

Derivative liability movements

The derivative liability movements was \$2,041,081 and \$(628,353) for the three months ended May 31, 2021 and 2020, respectively. The derivative liability arose due to the issuance of convertible securities with variable conversion prices and no floor conversion price. The charge during the current period represents the improvement in our stock price over previous periods.

Other expenses (income), net

Other expenses (income) is made up of the following:

- ***Loss on settlement of convertible debt***

Loss on settlement of convertible debt was \$83,894 and \$53,130 for the three months ended May 3, 2021 and 2020, respectively, an increase of \$30,764. Several conversions of convertible notes were exercised during the current period.

- ***Impairment of investments***

The investment in First Bitcoin Capital was impaired during the prior period as management performed an assessment on the future viability of this business and determined that there was insufficient resources to support the business model.

- ***Interest income***

Interest income was \$960 and \$10,311 for the three months ended May 31, 2021 and 2020, respectively. Interest income is currently earned on advances made to third parties. The overall balance due to the Company from third parties has declined over the prior period resulting in lower interest income.

Net loss and comprehensive loss

Net loss and comprehensive loss was \$4,938,238 and \$1,113,978 for the three months ended May 31, 2021 and 2020, respectively, an increase of \$3,824,260 or 343.3%. The increase is primarily due to the increase in selling, general and administrative expenses, the increase in finance costs and the derivative liability movement, as discussed above.

Results of Operations for the nine months ended May 31, 2021 and the nine months ended May 31, 2020**Net Revenue, Cost of Sales and Gross Loss**

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

There has been no sale of hydrocarbon products during the nine months ended May 31, 2021 and minimal sales of \$294,809 during the prior period. Revenue generation during the nine months ended May 31, 2020 of \$294,809 represents the sale of hydrocarbon products to refineries of \$73,541 and sales of asphalt to the State of Utah amounting to \$221,268.

The cost of sales during the nine months ended May 31, 2021 consists of minor production expenses. The cost of sales during the nine months ended May 31, 2020 consists of; i) advance royalty payments which expire at the end of the calendar year two years after the payment has been made; and ii) certain production related expenses consisting of labor and maintenance expenditure.

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Expenses

Expenses were \$8,004,238 and \$5,920,647 for the nine months ended May 31, 2021 and 2020, respectively, an increase of \$2,083,591 or 35.2%. The increase in expenses is primarily due to:

Depletion, depreciation and amortization

Depletion, depreciation and amortization was \$34,428 and \$97,365 for the nine months ended May 31, 2021 and 2020, respectively, a decrease of \$62,937 or 64.6%. The decrease is primarily due to the accelerated amortization of leasehold improvements in the prior year, which were incurred at premises previously occupied by the Company, prior to relocating to the current corporate office in Sherman Oaks, California.

Selling, general and administrative expenses

Selling, general and administrative expenses was \$3,171,011 and \$4,821,819 for the nine months ended May 31, 2021 and 2020, respectively, a decrease of \$1,650,808 or 34.2%. Included in selling, general and administrative expenses are the following major expenses:

- Professional fees was \$1,475,621 and \$1,818,800 for the nine months ended May 31, 2021 and 2020, respectively, a decrease of \$343,179. The decrease is primarily due to lower consulting expenses incurred on strategy and marketing efforts as we focused all of our attention on increasing our production capacity and readying the plant for commercial production.
- Travel and promotional fees was \$156,495 and \$651,515 for the nine months ended May 31, 2021 and 2020, respectively, a decrease of \$495,020, the decrease is due to a reduction in investor relations and public relations expenses due to a concerted effort to conserve cash. In the current period, the majority of the expense is travel related expenses.
- Salaries and wages was \$263,295 and \$712,698 for the nine months ended May 31, 2021 and 2020, a decrease of \$449,403 or 63.1%. The decrease is due to outsourcing of the operating site to a third party during the prior year.
- Stock based compensation was \$616,311 and \$636,275 for the nine months ended May 31, 2021 and 2020, a decrease of \$19,964, primarily due to the vesting of certain options issued in the prior period.
- General and administrative expenses were \$256,087 and \$313,480 for the nine months ended May 31, 2021 and 2020, respectively, a decrease of \$57,393 or 18.3%. The in the first half of the year, in the last quarter we saw an increase in expenditure as we near production at the Utah plant.

Financing costs

Financing costs was \$2,733,820 and \$1,559,470 for the nine months ended May 31, 2021 and 2020, respectively, an increase of \$1,174,350 or 75.3%. Financing costs includes; (i) interest expense of \$1,468,091 and \$491,968 for the nine months ended May 31, 2021 and 2020, respectively, an increase of \$976,123, is primarily attributable to penalty interest incurred on the Bay Private equity debt which was assigned to Bellridge during the current period of which a portion was converted to equity; (ii) amortization of debt discount of \$1,265,729 and \$1,040,789 for the nine months ended May 31, 2021 and 2020, respectively, an increase of \$224,940 or 31.6%, primarily due to new debt issued during the current fiscal period with beneficial conversion features and warrants issued to the investors; and (iii) other finance related expense of \$0 and \$26,713 for the nine months ended May 31, 2021 and 2020, respectively, this amount is immaterial.

Derivative liability movements

The derivative liability movements was \$1,292,169 and \$31,532 for the nine months ended May 31, 2021 and 2020, respectively. The derivative liability arose due to the issuance of convertible securities with variable conversion prices and no floor conversion price. The charge during the current period represents the improvement in our stock price over previous periods.

Other expenses (income), net

Other expenses (income) is made up of the following:

- ***Loss (gain) on settlement of liabilities***

Loss on settlement of liabilities was \$48,283 and gain on settlement of liabilities was \$(427,907) for the nine months ended May 31, 2021 and 2020, respectively, an increase in loss of \$476,190 or 111.3%. Several trade liabilities were settled during the current period at a discount to current market prices.

- ***Loss (gain) on settlement of convertible debt***

Loss on settlement of convertible debt of \$397,090 and gain on settlement of convertible debt of \$(178,732) for the nine months ended May 31, 2021 and 2020, respectively, an increase of \$575,822. Certain convertible debt with conversions features at a discount percentage to current market prices were converted during the current period and at a premium to current market prices during the prior period.

- ***Loss on debt extinguishment***

Loss on extinguishment of debt was \$330,256 and \$0 for the nine months ended May 31, 2021 and 2020, we renegotiated the terms of several convertible notes in the current period, thereby realizing a loss on extinguishment of these notes of \$330,256.

- ***Impairment of investments***

The investment in First Bitcoin Capital was impaired during the prior period as management performed an assessment on the future viability of this business and determined that there was insufficient resources to support the business model.

- ***Interest income***

Interest income was \$2,841 and \$57,900 for the nine months ended May 31, 2021 and 2020, respectively. Interest income is currently earned on advances made to third parties. The overall balance due to the Company from third parties has declined over the prior period resulting in lower interest income.

Net loss and comprehensive loss

Net loss and comprehensive loss was \$6,383,060 and \$7,508,886 for the nine months ended May 31, 2021 and 2020, respectively, a decrease of \$1,125,826 or 15.0%. the decrease is primarily due to the increase in gross profit from the sale of licenses and reduced operating costs; a reduction in selling, general and administrative expenses, offset by the increase in finance costs, derivative liability movements and other expenses, as discussed above.

Liquidity and Capital Resources

As at May 31, 2021, we had cash of approximately \$307,208. We also had a working capital deficiency of approximately \$12,999,107, due primarily to accounts payable, derivative liabilities, short term debt, convertible debentures and accrued interest thereon which remain outstanding as of May 31, 2021. During the nine months ended May 31, 2021, we raised \$601,949 in private placements, and a further \$1,449,500 in convertible debt, which was offset by the repayment of convertible debt in the aggregate amount of \$115,749. We also received federal relief funds of \$267,716 during the period to offset the effect that Covid-19 has had on the business. These funds were primarily used on to fund the expansion of the plant, the acquisition of mineral rights, the investment in notes receivable and for working capital purposes.

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

Capital Expenditures

We continue to incur capital expenditure on the oil extraction plant as we refine our processes and improve on our efficiencies. These expenses are at times unpredictable but we do not anticipate spending more than \$2,000,000 on the existing plant.

We also intend to construct two new oil extraction facilities and expand the existing facility.

Other Commitments and Contingencies

In addition to commitments otherwise reported in this MD&A, the Company's contractual obligations as at May 31, 2021, include:

Contractual Obligations	Total (\$ millions)	Up to 1 Year (\$ millions)	2 - 5 Years (\$ millions)	After 5 Years (\$ millions)
Convertible Debt ^[1]	8.5	6.9	1.6	-
Promissory notes	0.6	0.6	-	-
Debt ^[2]	0.6	0.6	-	-
Total Contractual Obligations	9.7	8.1	1.6	-

[1] Amount includes estimated interest payments and discount amortization. The recorded amount as at May 31, 2021 was approximately \$6.8 million.

[2] Amount includes estimated interest payments. The recorded amount as at May 31, 2021 was approximately \$0.6 million.

Legal Matters

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

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

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

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

The Company has various commitments including those disclosed under Commitments in note 23 to the financial statements, in addition the Company has commitments to repay convertible notes, promissory notes and debt as fully disclosed in notes 9,10 and 11 to the financial statements.

Recently Issued Accounting Pronouncements

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

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

Off-balance sheet arrangements

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

Inflation

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

Climate Change

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Not applicable.

Item 4. Controls and Procedures.*Disclosure Controls and Procedures*

The Company has adopted and maintains disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed in the reports filed under the Exchange Act, such as this Quarterly Report on Form 10-Q, is collected, recorded, processed, summarized and reported within the time periods specified in the rules of the Securities and Exchange Commission. The Company's disclosure controls and procedures are also designed to ensure that such information is accumulated and communicated to management to allow timely decisions regarding required disclosure. As required under Exchange Act Rule 13a-15, the Company's management, including the Principal Executive Officer and the Principal Financial Officer, has conducted an evaluation of the effectiveness of disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation, the Company's CEO and CFO concluded that due to a lack of segregation of duties the Company's disclosure controls and procedures are not effective to ensure that information required to be disclosed by the Company in the reports that the Company files or submits under the Exchange Act, is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including the Company's CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure. Subject to receipt of additional financing or revenue generated from operations, the Company intends to retain additional individuals to remedy the ineffective controls.

Changes in Internal Control

There has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) that occurred during our fiscal quarter ended May 31, 2021 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

Legal Matters

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

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

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

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

Item 1A. Risk Factors.

The following information updates, and should be read in conjunction with, the information disclosed in Part I, Item 1A, “Risk Factors,” contained in our Annual Report Form 10-K/A as filed with the Securities and Exchange Commission (the “SEC”) on August 19, 2021. Except as disclosed below, there have been no material changes from the risk factors disclosed in our Annual Report Form 10-K/A as filed with the SEC on August 19, 2021.

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

At May 31, 2021, August 31, 2020 and August 31, 2019, we had an accumulated deficit of \$(97,047,409), \$(90,664,349) and \$(81,467,953), respectively and we expect to continue to incur increasing expenses in the foreseeable future as we develop our oil extraction business. We incurred a net loss of \$(6,383,060) for the nine months ended May 31, 2021 and \$(12,379,067) and \$(15,787,886) as of the years ended August 31, 2020 and August 31, 2019, respectively. As a result, we are sustaining substantial operating and net losses, and it is possible that we will never be able to sustain or develop the revenue levels necessary to attain profitability.

Our ability to be profitable will depend in part upon our ability to manage our operating costs and to generate revenue from our extraction operations. Operating costs could be impacted by inflationary pressures on labor, volatile pricing for natural gas used as an energy source in transportation of fuel and in oil sands processes, and planned and unplanned maintenance.

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

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

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

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

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

As of May 31, 2021, we had issued and outstanding notes in the principal amount of \$611,193 and convertible notes in the principal amount of \$7,751,821 to certain private investors which have already matured or mature between March 2021 and December, 2023, and are secured by a pledge of all of our assets. If we fail to comply with the terms of the notes, the note holder could declare a default under the notes and if the default were to remain uncured, as secured creditors they would have the right to proceed against the collateral secured by the loans. Any action by secured creditors to proceed against our assets would likely have a serious disruptive effect on our operations.

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

At May 31, 2021, we had not yet achieved profitable operations, had accumulated losses of (\$97,047,409) since our inception and a working capital deficit of (\$12,999,107), and expect to incur further losses in the development of our business, all of which casts substantial doubt about our ability to continue as a going concern. We have incurred net losses for the past four years. The opinion of our independent registered accounting firm on our audited financial statements for the years ended August 31, 2020 and 2019 draws attention to our notes to the financial statements, which describes certain material uncertainties regarding our ability to continue as a going concern. Our ability to continue as a going concern is dependent upon our ability to generate future profitable operations and/or to obtain the necessary financing to meet our obligations and repay our liabilities arising from normal business operations when they come due. Management's plan to address our ability to continue as a going concern includes (1) obtaining debt or equity funding from private placement or institutional sources, (2) obtaining loans from financial institutions, where possible, or (3) participating in joint venture transactions with third parties. Although management believes that it will be able to obtain the necessary funding to allow us to remain a going concern through the methods discussed above, there can be no assurances that such methods will prove successful. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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

We currently have share purchase warrants to purchase 38,157,987 common shares outstanding at exercise prices ranging from US\$0.0412 to US\$0.35 and options to purchase 7,250,000 common shares with a weighted average exercise price of CDN \$0.71 and notes convertible into an estimated 161,952,638 common shares based on conversion prices ranging from \$0.0375 to \$0.0562 per share. The issuance of the common shares underlying the share purchase warrants, options and convertible notes will have a dilutive effect on the percentage ownership held by holders of our common shares.

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

As of August 31, 2020, we had accumulated net operating losses (NOLs), of approximately CDN \$91 million. Varying jurisdictional tax codes have restrictions on the use of NOLs, if a corporation undergoes an “ownership change,” the corporation’s ability to use its pre-change NOLs, R&D credits and other pre-change tax attributes to offset its post-change income may be limited. An ownership change is generally defined as a greater than 50% change in equity ownership. Based upon an analysis of our equity ownership, we do not believe that we have experienced such ownership changes and therefore our annual utilization of our NOLs is not limited. However, should we experience additional ownership changes, our NOL carry forwards may be limited.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None that have not been previously disclosed.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

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

1. TMC Mining Operations:

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

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

None.

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

None.

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

None.

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

None.

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

None.

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

None.

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

None.

- (viii) *Written notifications received of:*

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

None

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

None, that we are aware of.

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

None

Item 5. Other Information.

None

Item 6. Exhibits

31.1	Certification of Gerald Bailey, Interim Chief Executive Officer, pursuant to Rule 13a-14(a)/15d-14(a) (1)
31.2	Certification of Mark Korb, Chief Financial Officer, pursuant to Rule 13a-14(a)/15d-14(a) (1)
32.1	Certification of Gerald Bailey, Interim Chief Executive Officer, pursuant to Section 1350 of the Sarbanes-Oxley Act of 2002 (1)
32.2	Certification Mark Korb, Chief Financial Officer pursuant to Section 1350 of the Sarbanes-Oxley Act of 2002 (1)
101.	INS XBRL Instance Document (1)
101.	SCH XBRL Taxonomy Extension Schema Document (1)
101.	CAL XBRL Taxonomy Extension Calculation Linkbase Document (1)
101.	DEF XBRL Taxonomy Extension Definition Linkbase Document (1)
101.	LAB XBRL Taxonomy Extension Label Linkbase Document (1)
101.	PRE XBRL Taxonomy Extension Presentation Linkbase Document (1)

(1) Filed herewith

SIGNATURES

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

Petroteq Energy Inc.

/s/ R.G. Bailey

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

/s/ Mark Korb

Mark Korb
Chief Financial Officer
(Principal Financial and Accounting Officer)

Date: August 19, 2021