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Zacks Small-Cap Research

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Petroteq Energy Inc. (PQEFF-OTC)

Petroteq Energy Is Generating Revenues from Bitumen Oil Sales; Production Rate of 1,000 bpd Anticipated in 4th Quarter

Blending our traditional comparative valuation process with a discounted cash flow model, our share price target is $1.34.

Current Price (06/10/19)	$0.24
Valuation	**$1.34**

OUTLOOK

Petroteq Energy is an upstream exploration and production (E&P) company focused on advancing its proprietary Clean Oil Recovery Technology (CORT). Currently, the company is ramping up bitumen oil production at its newly commissioned **1,000 bpd facility** at Asphalt Ridge in Utah with the oil sands feedstock being mined from the company's adjacent property. Along Asphalt Ridge, the company wholly controls **2,542 acres** of mineral leases, for which a NI 51-101-compliant **Contingent Resources** report establishes a Best Estimate of discovered bitumen initially-in-place (DBIIP) of 87,495,000 STB. Petroteq Energy also is in the process of acquiring **100% of six Federal oil & gas leases** (8,480 acres).

SUMMARY DATA

52-Week High	**$1.42**
52-Week Low	**$0.24**
One-Year Return (%)	**-74.49**
Beta	**0.41**
Average Daily Volume (shrs.)	**354,451**
Shares Outstanding (million)	**130.9**
Market Capitalization ($mil.)	**$31.2**
Short Interest Ratio (days)	**0.16**
Institutional Ownership (%)	**0**
Insider Ownership (%)	**5.2**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/M**
Earnings Per Share (%)	**N/M**
Dividend (%)	**N/M**
P/E using TTM EPS	**N/M**
P/E using 2019 Estimate	**N/M**
P/E using 2020 Estimate	**N/M**

Risk Level	**Above Average**
Type of Stock	**Small-Value**
Industry	**Oil Recovery Svcs.**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Nov)	Q2 (Feb)	Q3 (May)	Q4 (Aug)	Year (Aug)
2017	0.0 A	0.0 A	0.0 A	0.0 A	0.0 A
2018	0.0 A	0.0 A	0.0 A	0.0 A	0.0 A
2019	0.0 A	0.02 A	1.6 E	4.0 E	5.6 E
2020					15.0 E

Earnings per Share
(EPS is operating earnings before non-recurring items)

	Q1 (Nov)	Q2 (Feb)	Q3 (May)	Q4 (Aug)	Year (Aug)
2017	-$0.11 A	-$0.07 A	-$0.46 A	-$0.11 A	-$0.66 A
2018	-$0.07 A	-$0.03 A	-$0.05 A	-$0.10 A	-$0.24 A
2019	-$0.07 A	-$0.03 A	-$0.02 E	-$0.06 E	-$0.18 E
2020					-$0.07 E

Adjusted for 1-for-30 reverse split in May 2017

Quarterly EPS & revenue may not equal annual totals

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EXECUTIVE SUMMARY OF RECENT EVENTS

Petroteq Reports First Revenues from Bitumen Oil Production in Second Quarter of Fiscal 2019

On April 29, 2019, Petroteq reported results for the second fiscal quarter ending February 28, 2019. During the quarter, the oil extraction facility began producing bitumen oil in a test phase. **Revenues of $21,248** were generated during the quarter from the sale of hydrocarbon products to local refineries to determine the commercial quality of our hydrocarbon products. **The oil extraction facility continues to operate in a test phase** as production is being increased to a commercial level of production of roughly 1,000 barrels per day. **Management anticipates achieving commercial production sometime during the fourth fiscal quarter.**

Production-related expenses are muddled as labor & maintenance-related expenditures and some other costs are being capitalized until the extraction production plant attains the commercial production stage. In addition, the capital raising fee (related to a letter of credit) of $1,276,980 reported in the prior quarter was reversed and reclassified as a prepaid expense, which is being amortized over one year. Therefore, the interest expense line item of $1,325,970 is comprised of $88,059 in interest expense, $666,076 related to the amortization of the discount of the convertible notes and $571,835 related to the amortization of the capital raising fee.

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Petroteq reported a loss of US $2,682,250 (or 0.03 per diluted share) versus a loss of US $1,732,532 (or 0.03 per diluted share) in the comparable fiscal quarter last year. Average shares outstanding increased 70.3% to 96,363,698 shares. As of February 28, 2019, shares outstanding were 106,184,849 shares.

Petroteq Acquires 50% of Six Federal Mineral Leases and Plans to Acquire the Remaining 50%

On January 29, 2019, Petroteq Energy executed a definitive agreement with Momentum Asset Partners I, LLC for the **acquisition of 50%** of the operating rights of **six U.S. Federal Oil & Gas Leases**: one located in P.R. Springs (encompassing approximately 8,480 gross acres) and five located in the Tar Sands Triangle. Total consideration for the transaction is US$10.8 million comprised of US$1.8 million in cash (paid on January 18th) and US$9.0 million payable in Petroteq Energy shares (15 million common shares), which were issued on April 3, 2019 to Momentum Asset Partners I.

The P.R. Springs lease is estimated to contain **gross contingent resources of 45 million barrels** of mineable oil/bitumen in place and 20.38 million barrels of mineable oil/bitumen in place on a net basis (discounted by risk and royalty), according Chapman Petroleum Engineering's Evaluation of Contingent Resources report dated December 31, 2018.

On April 16, 2019, Petroteq Energy announced the signing of a definitive agreement with Petrollo LP Corp. for the **acquisition of the remaining 50% interest** to oil sands under U.S. Federal Oil & Gas Leases encompassing approximately 8,480 gross acres in Utah, which would give Petroteq 100% of the operating rights for oil sands development under the leases. The total consideration would be US$13 million comprised of US$1 million in cash and US$12 million payable in Petroteq Energy shares (30 million common shares).

The Tar Sands Triangle leases are estimated to contain **gross contingent resources of 41.3 million barrels** of *in situ* oil/bitumen in place and 20.7 million barrels of *in situ* mineable oil/bitumen in place on a net basis (discounted by risk and royalty), according to the Chapman Report.

The company is expected to issue a **Resource Development Plan** that will outline the company's long-term strategy of developing its capability of producing bitumen oil.

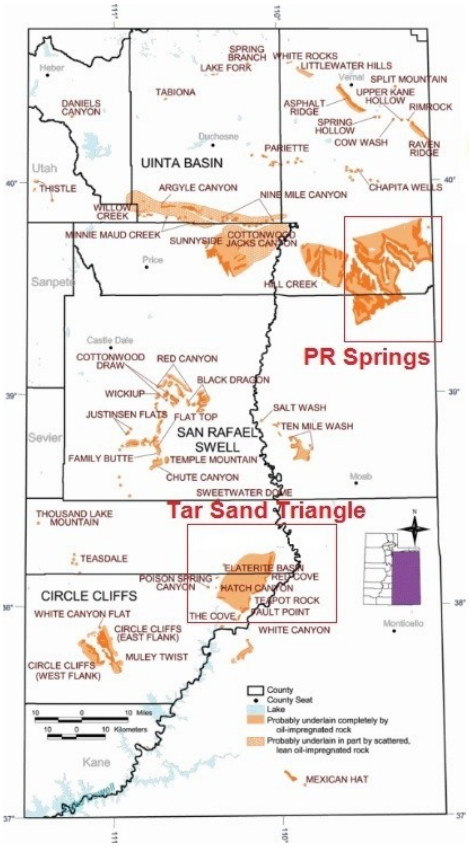
Asphalt Ridge Operational Updates

On March 28, 2019, Petroteq Energy announced that the company has been **continuously producing over 500 barrels per day** for the last two weeks. The nameplate production capacity of the company's oil sands processing facility is 1,000 bpd. Management anticipates achieving a 700 bpd production rate in April and the facility's rated production capacity by the end of May. The ramp up in production is being conducted in a measured approach in order to help ensure that product quality will meet the standards expected by its refinery customers. The cash flow derived from production should reduce the need for dilutive share financings.

During the winter months, Petroteq Energy completed its first **maintenance turnaround** of the Asphalt Ridge processing facility and also **installed new equipment** delivered from third-party vendors. The maintenance turnaround was **completed on February 21, 2019**, including upgrades to the front-end feedstock mixing operations and solvent recovery process, along with enhancements to facilitate the planned integration with the proposed 3,000 bpd expansion project.

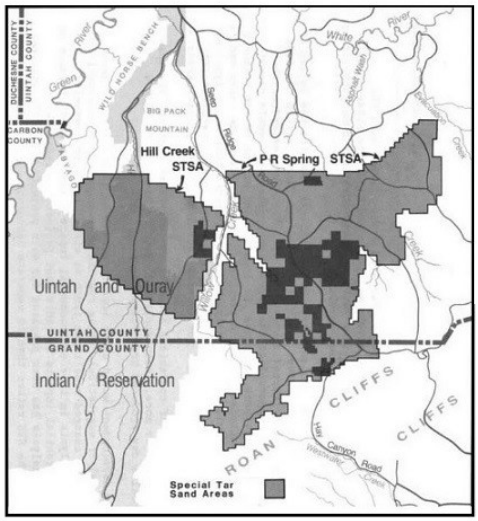
Bitumen oil production recommenced with the facility producing higher quality, heavy crude oil (API gravity 17) with low sulfur content and a low sediment factor (below .05% BS&W). **By mid-March 2019, Petroteq Energy resumed sales of bitumen oil** at Asphalt Ridge with the announcement that two loads of 250 barrels of API 17 oil having been sold.

Management intends to continue expanding production **and anticipates achieving commercial production (**nameplate capacity of 1,000 bpd) **sometime during the fourth fiscal quarter of 2019.** Thereafter, an additional second processing train is planned.



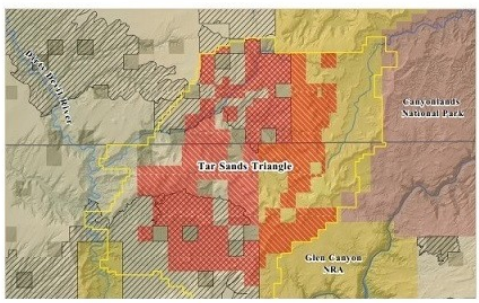
PETROTEQ ENERGY INC.





TSX Venture: PQE

OTC: PQEFF



KEY POINTS

- **Petroteq Energy** holds a **portfolio of mineral leases at Asphalt Ridge** and **has constructed processing facilities** (that utilize the company's proprietary, patented **Enhanced Oil Recovery technology**) to produce bitumen oil from oil sands resources at Asphalt Ridge in the Uintah Basin
    - management has successfully produced bitumen oil at Asphalt Ridge
        - between August 2015 and January 2016, a **250 bpd pilot plant** produced almost 10,000 barrels of bitumen oil
        - in September 2018, production of heavy oil re-commenced at an expanded **1,000 bpd processing facility** in a new location in the southern area of Asphalt Ridge
        - current plans include ramping up capacity to 8,000 bpd by 2021/2022
    - the company holds mineral leases on approximately **2,542 acres** at Asphalt Ridge with **Contingent Resources of 87,495,000 STB** (Stock Tank Barrels)
    - an agreement to acquire **50%** of the operating rights of **six U.S. Federal oil and gas leases** in Utah (encompassing approximately 8,480 gross acres) is pending
        - management seeks to expand the portfolio of mineral leases in Utah
- **Management's strategy** includes:
    - becoming a significant **bitumen oil producer** in Utah through expanding production capacity at its processing facility at Asphalt Ridge
    - advancing the company's proprietary, patented, closed loop, environmentally-friendly Extraction Technology
        - the bitumen extraction process, itself, does **NOT** require the use of water, high temperatures, high pressure or tailings ponds
        - the technology does **NOT** emit excessive levels of carbon dioxide (CO_2) and does not use corrosive chemicals (such as chlorine)
        - the company's proprietary solvent extracts over 99% of the bitumen from oil sands in an eco-friendly manner with 99% of the solvents being recovered and recycled back into the closed-loop system
        - the use of a solvent instead of heat (used in steam/hot water processes) dramatically reduces energy costs and thereby significantly lowers operating costs
        - other targeted markets are **oil sands remediation** and **asphalt shingle reclamation**
    - development of a **blockchain initiative** for the for the oil & gas industry (**PetroBLOQ**), which is being designed to optimize supply chain and other workflow processes in the petrochemical industry
- **Management guidance**:
    - Phase 1 – operational capacity of 1,000 bpd in fourth quarter of fiscal 2019
    - Phase 2 – operational capacity of 4,000 bpd in 2020
    - Phase 3 – increase operational capacity of 8,000 bpd by 2022
    - Anticipated EBITDA at 1,000 bpd approximately $6.3 million annually
    - Anticipated EBITDA at 5,000 bpd approximately $29.5 million annually
    - Costs are anticipated to average between $18 and $25 per barrel
    - Net back margin anticipated to average between $17 and $25 per barrel
- **Near-term catalysts**:
    - ramp up of production to nameplate capacity (1,000 bpd) at Asphalt Ridge
    - announcements of financings in order to fund the planned capacity expansions
    - tangible progress towards advancing into the oil sands remediation market
    - the successful development and commercial acceptance of PetroBLOQ
- The company continues to **build awareness** by attending **Analyst Conferences**:
    - The MicroCap Conference in New York City (April 9, 2018)
    - 8th Annual LD Micro Invitational Conference (June 4, 2018)
    - The MicroCap Conference in Toronto (June 21, 2018)
    - 20th Rodman & Renshaw Global Investment Conference in NYC (September 6, 2018)

- The MicroCap Conference in New York City (October 1, 2018)
- 31st Annual ROTH Conference in Dana Point, California (March 18-19, 2019)
- 8th Annual Scottsdale Capital Conference in Scottsdale (April 27, 2019)

OVERVIEW

Headquartered in Los Angeles, **Petroteq Energy Inc**. (OTC: PQEFF; TSX-V: PQE) is an upstream exploration and production (E&P) company focused on advancing its proprietary, environmentally-friendly, clean energy technology through expanding bitumen oil production on the company's mineral leases at Asphalt Ridge in Utah, licensing its technology to other companies and pursuing other markets, such as remedial hydrocarbon extraction solutions for the tailings ponds created by traditional, water-based Enhanced Oil Recovery methods used on tar sands in Alberta.

Bitumen Oil Producer in Utah

Management's primary goal is to become a significant bitumen oil producer in Utah by advancing its proprietary, patented, closed loop, environmentally-friendly Extraction Technology. In 2015, the company constructed and operated a 250 bpd pilot plant that produced almost 10,000 barrels of bitumen oil. Concurrently, the company acquired the lease on the resource providing the oil sands feedstock to the pilot plant. The components of the pilot plant were relocated, upgraded and **expanded to a 1,000 bpd facility** that began producing 200 bpd in September 2018. Management plans to scale up production to nameplate capacity over the next few months.

Petroteq currently controls **mineral leases** that encompass **2,541.76 acres at Asphalt Ridge**. A NI 51-101-compliant Evaluation of **Contingent Resources** report (dated May 31, 2018) established a **Best Estimate** (at the P-50 confidence level) of discovered bitumen initially-in-place (DBIIP) of **87,495,000 STB** (Stock Tank Barrels). The deposits were determined to average 6%-15% oil by weight and are estimated to be a multi- decade production asset.

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Reservoir Properties	Asphalt Ridge
Depth	20-600 ft.
Net Pay	35-50 ft.
Porosity	27%
Permeability	1,000+ md
Oil Saturation	Max: 60%, Ave: 48%

Petroteq plans to utilize the company's proprietary Extraction Technology to recover bitumen oil from surface-mined deposits on its minerals leases at Asphalt Ridge, growing volume at the current facility through the **construction of additional production trains**. Management anticipates that production capacity will increase to 4,000 bpd by 2020 and 8,000 bpd by early 2022.



Utah has a large concentration of oil sands. According to the Utah Geological Survey, the state's oil sand deposits contain 14 to 15 billion barrels of measured-in-place oil with an additional inferred resource of 23-to-28 billion barrels.[i] Utah hosts 74 known oil sands deposits, of which 24 of the individual deposits in the Uinta Basin with the remainder in the southeastern part of the state.

Management reviews opportunities to upgrade and/or expand its portfolio of mineral leases in Utah, particularly at Asphalt Ridge. For example, Petroteq acquired an additional 1,311.91 acres and divested 950 acres in June 2018. Furthermore, in July 2018, Petroteq signed a Letter of Intent with Mareton Alliance LP regarding the acquisition of additional acreage and resources in Utah.

Oil Sands Extraction Technology (aka Clean Oil Recovery Technology or CORT)

The extraction technology has **very attractive attributes**. The bitumen extraction process, itself, does **NOT** require the use of water, high temperatures, high pressure or tailings ponds. No water comes in contact with the tar sands/bitumen, though water is used for the steam boiler, dust control and employee sanitary purposes. Therefore, the process can be employed in areas where water is scarce or unavailable. Also, the technology does not emit excessive levels of carbon dioxide (CO_2) and does not use corrosive chemicals (such as chlorine). Through the use of a proprietary solvent and a patented process, over 99% of bitumen can be extracted from oil sands in an eco-friendly manner with 99% of the solvents being recovered and recycled back into the closed-loop system. Also, the use of a solvent instead of heat (used in steam/hot water processes) dramatically reduces energy costs and thereby significantly lowers operating costs. The process produces only two materials: bituminous oil and dry, cleaned sand.

Applications for patents have been filed and granted in the U.S., Canada and Russia. Management plans on filing provisional patents in the 30 countries that have significant oil sands reserves

Licensing Initiatives

Management also pursues opportunities to license its CORT technology to producers in other countries with oil sands deposits and other heavy oil resources, such as Canada and China. The company envisions that licensing agreements would include both up-front licensing fees and production royalty streams. The company is also open to joint ventures in order to advance the deployment of its extraction technology.

Thus far, two licensing agreements have been announced:

- TS Energy Ltd to act as exclusive licensee of CORT in Canada and the Republic of Trinidad and Tobago in May 2016
- MOU with Queensland Energy & Minerals Pty Ltd for potential use of CORT on its Julia Creek Project in November 2017

Other Initiatives

Petroteq also is pursuing a **blockchain initiative** for the for the oil & gas industry. The company is developing **PetroBLOQ**, a blockchain-based platform being designed to optimize supply chain and other workflow processes in the petrochemical industry. The blockchain project was announced in November 2017 as a joint effort of the company and First Bitcoin Capital Corp. In August 2018, the company engaged MetzOhanian, a software engineering firm specializing in blockchain engineering and supply chain management software development, to develop applications for PetroBLOQ.

On May 13, 2015, the **company sold its fuel distribution business**, MCW Fuels (aka McWhirter Distribution Ltd). MCW Fuels supplied petroleum (primarily unleaded and diesel land fuel) to over 500 gas stations in the western U.S. As a result, management was then able to focus entirely on developing the oil sands extraction business, but the same time, the revenues generated by MCW Fuels became classified as revenues from discontinued operations.

Common Stock Chronicle

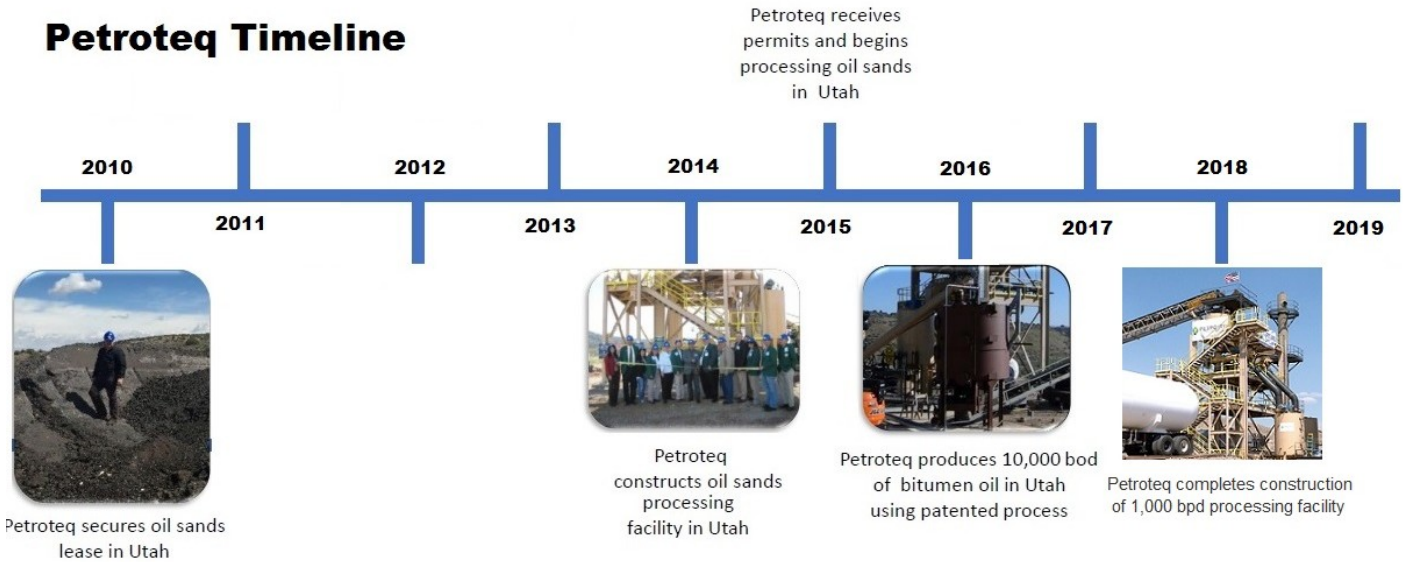
Petroteq, then known as MCW Energy Group Limited, became a public company on October 22, 2012 after a three cornered amalgamation with AXEA Capital Corp, a Canadian Capital Pool Company that went public through an IPO on July 29, 2008. The trading symbol changed from XEA.H, which traded on the NEX Board of the Exchange, to MCW on the TSX Venture Exchange. Subsequently, on May 16, 2014, the company was listed on the OTCQX with the trading symbol MCWEF. In May 2017, the company changed its name from MCW Energy to Petroteq Energy Inc. and began trading on the OTCQX with the trading symbol PQEFF. The ticker symbol on the TSX Venture Exchange was changed to PQE. Also in May 2017, the company implemented a 1-for-30 reverse split. Subsequently, on March 15, 2018, the company's stock was downgraded to the OTC Pink Current market based on "public interest concern." Petroteq's stock is also listed on the Frankfurt exchange under the symbol PQCF (WKN # A2DYWC).

PLANT DEVELOPMENT AND OPERATIONS

PHASE 1 - PILOT PLANT IN MAESER, UTAH (WEST OF VERNAL)

In June 2011, Petroteq embarked on a project to demonstrate the ability of its proprietary CORT process (an oil sands recovery technology) to recover oil from the oil sands of Asphalt Ridge in the Uinta Basin of Utah. Management's plan was to construct and operate a **250 bpd pilot extraction plant** located on the company's lease site in Section 24 of T4S R20E at the northwest end of Asphalt Ridge (approximately 10 miles west of Vernal Utah). The pilot plant was situated on a School & Institutional Trust Lands Administration (SITLA) lease near Maeser.

A **supply agreement** with Temple Mountain Energy (an oil sands mining and processing company) was signed in June 2012 whereby feedstock would be available **from Temple Mountain Energy's mine site**, which is also located along Asphalt Ridge, approximately 12 miles south-southwest of Petroteq's pilot plant site (Section of 31 of T5S R22E). The supply agreement included an option to purchase the lease on Temple Mountain's property, including a large mine permit, which Petroteq would later exercise.



During the summer, the company secured all the necessary permits and approvals required to proceed with the construction of the pilot extraction plant. In the second half of 2012, Petroteq completed the preparation of the site (entrance road, drainage system and storage yard). The components for the pilot

extraction plant (material input systems, extraction chamber column and tailing output system) were designed and subsequently ordered in November.

By April 2013, the concrete pad for the extraction unit had been poured, and the major components of the extraction system equipment (the extraction column, heat exchangers, a rectification column, an evaporator and a chiller/condenser) had been delivered to the site from Russia where they were manufactured and tested. Of the pre-mixing system equipment, the sealed pug mill had been delivered, and the conveyor, blades, feeding tank and the pre-mixer vessel had been purchased and fabricated but not yet delivered. In about May 2013, the process of constructing and assembling the oil sands extraction plant came to a halt due to the need for additional financing.

Pilot Plant Timeline

- December 29, 2010 Acquired mineral leases on 1,138 acres of oil sands at Asphalt Ridge
- July 2011 Appointed JBR Environmental Consultants to provide Developmental Plan
- June 2012 Entered supply agreement with Temple Mtn. Energy for oil sands feedstock
- Summer 2012 Received necessary air, ground and water use permits
- November 2012 Site preparation for pilot plant completed
- May 2013 Project delayed due to the need for additional financing
- July 2013-June 2014 Raised additional capital to complete the pilot plant
    - July 1, 2013 Issued $2,260,000 unsecured promissory note to Montville Equity
    - September 18, 2013 Secured $3,000,000 credit line from B&N Bank
    - April & June 2014 Issued $2,824,000 of convertible debentures to Aleksandr Blyumkin
- September 30, 2014 Amerisands exits JV as construction of pilot plant has been completed
- October 1, 2014 Pilot plant officially unveiled in demonstration to investors/officials/media
- August 2015 Completed Phase 1 as pilot plant becomes operational
- Aug. 2015–Jan. 2016 Production of almost 10,000 barrels of bitumen oil
- December 21, 2015 Petroteq & SITLA entered into a special use lease

With the production plant equipment and storage tanks having been erected, installed and/or assembled, the operating agreement with Amerisands was terminated, and on September 30, 2014, Amerisands exited the JV and returned its 49% ownership interest to Petroteq.

On October 1, 2014, Petroteq opened the pilot plant with a ribbon-cutting ceremony and a demonstration, which was attended by members of the press and representatives of state & local governments. Among the state dignitaries were State Senator Kevin van Tassell, Vernal Mayor Sonya Norton and several members of Utah's Energy Development Department. At the time of the demonstration, the company was operating under permits for limited testing mode production of up to 50 bpd.



Conveyor & Tower



Product Storage Tanks

During the test, 9:1 solvent-to-bitumen oil was produced at the pilot plant's nominal capacity rate of 250 STB/d, successfully achieving proof of concept for the company's technology, specifically production of bitumen oil at the stated capacity of the facility, the solvent extracting nearly 100% of the bitumen in the raw oil sands and the production of clean dry sand as a secondary product.

Between September and November 2014, test runs of up to 50 bpd were conducted at the pilot plant under the conditional testing mode permits, after which the permitting process for full production was initiated. The plant was then weatherized for the winter season.

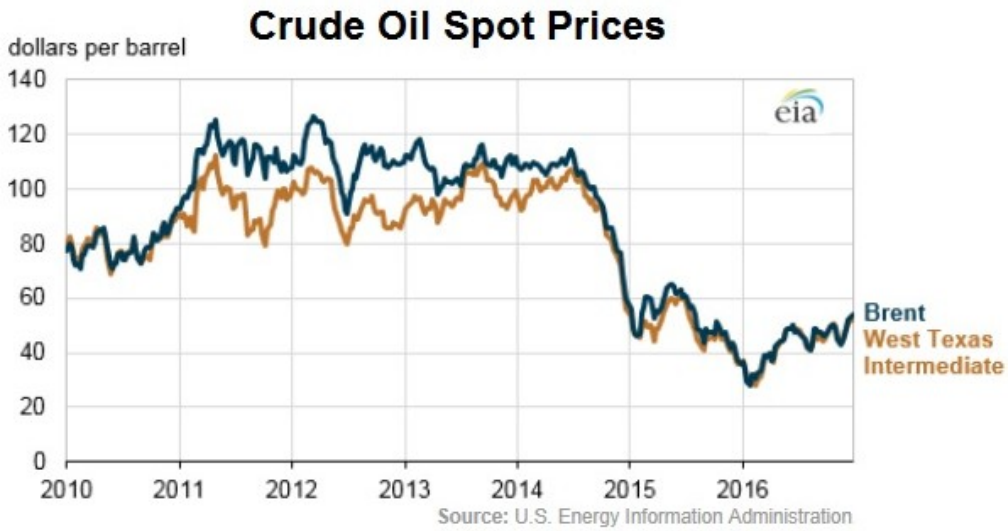
During the first half of 2015, numerous test production runs were completed. The major components of the extraction system performed as expected, though minor issues were encountered, such as pump failures, dryer pluggage, and difficulties removing product solids. Also, a Systems Optimization Program was implemented during which slight modifications and process improvements resulted in enhanced extraction efficiencies, improved system performance and feedstock flow. A second shift was added, and by the end of August 2015, total production exceeded 1,500 barrels of bitumen oil.

Feasibility Reports

In 2015, **feasibility reports** were commissioned from JT Boyd Company and Nexant, Inc. Completed in November 2015, the JT Boyd Report conducted an economic analysis of the estimated **mining costs** (including the functions of drilling, blasting, overburden removal, oil sands mining, mine reclamation and maintenance) at the Temple Mountain mine. Boyd estimated that initial mining costs were **in the $5.48-to-$5.94 ton range**, decreasing to $4.59-to-$5.64 range by year 5. The Nexant report, completed in September 2015, addressed production costs of the 250 bpd pilot plant and assessed the scale-up plans for two 2,500 bpd plants. Nexant estimated that **production costs were approximately $31.40 per barrel** with 8%+ grade ore, but noted that pilot plants typically have low throughputs and poor economies of scale, resulting in relatively high unit costs. Nexant **projected that a 2,500 bpd facility would be more efficient** and noted that the price of the major cost component (solvent) fluctuates with the price of oil.

Production of Approximately 10,000 Barrels of Oil

Between September 2015 and January 2016, nearly 10,000 barrels of oil were produced from native oil sands ore mined from the Temple Mountain mine in the Asphalt Ridge. The produced oil was sold into the local Utah market and generated $204,735 in revenues for Petroteq, implying an average sales price of roughly $20.50 a barrel. The production stream was marketed to oil & gas distributors and refineries at a discount to WTI due to the small lot size of the pilot plant's production stream.



The production from the pilot plant demonstrated the feasibility of the company's extraction process; however, during this time period, oil prices were extremely weak with WTI declining from the low-$40's in November 2015 to the mid-$30's in late December to a low of about $28 in February 2016. Given the environment of low oil prices at the time, production at the 250 bpd pilot plant was curtailed. The limited production capacity did not allow for reasonable pricing for the plant's oil/hydrocarbon production. In addition, the costs of transporting the ore from the Temple Mountain Mine site to the pilot plant were detrimental to the economics of the operation. Instead, management focused on capturing economies of scale through the engineering, design and funding of a higher capacity commercial production plant, as well as pursuing remediation projects that could utilize the company's extraction technology.

PHASE 2 - PLANT AT TEMPLE MOUNTAIN MINE SITE (10 MILES SOUTH OF VERNAL)

With the plan to up-scale operations, management decided to relocate and upgrade the pilot plant at a location closer to the plant's feedstock source in order to improve logistical and production efficiencies. The source of the feedstock was the Temple Mountain mine, which is situated at southeast-end of Asphalt Ridge, approximately 10 miles from the original SITLA lease where the pilot plant was constructed.

Petroteq Acquires Temple Mountain Project (Mine Site & Mineral Leases)

In 2013, management began to pursue the acquisition of the Temple Mountain mine and associated mineral leases, which was controlled by TMC Capital, LLC. After conducting due diligence, including a Resource Evaluation by Chapman Petroleum Engineering, the acquisition of TMC Capital was closed on September 8, 2015.

Though the Temple Mountain Project encompasses 2,230 acres, which are distributed within eight sections of Utah's Public Land Survey System (PLSS),[ii] the feedstock source for the company's pilot plant (and now completed larger commercial extraction facility) is located in the southwest quadrant of T5S R22E S31 (Township 5 South, Range 22 East, Section 31). A Large Mining Operations permit (LMO) has been granted for approximately 154 acres of land under mineral lease.[iii]

Relocation of Plant to Location of Temple Mountain Leases (2016-2018)

During the second half of 2016, Petroteq began relocating the pilot plant from the SITLA lease location near Maeser to the Temple Mountain Mine site, approximately 10 miles to the south-southeast. The decision to relocate and scale up the capacity of the extraction facility accomplished several objectives. First, with a nameplate capacity of 1,000 bpd, the level of prospective revenues would be increased approximately four-fold. Second, transportation costs would be dramatically reduced with the plant being located adjacent to the oil sands feedstock. And third, the increased capacity would categorically demonstrate that the company's technology of extraction, along with its modular design, is scalable, thereby enhancing the company's global licensing prospects.

The process of completing the relocation/expansion project included updating the engineering plans, receiving the plant equipment from the Maeser location, preparing the earth works at the site, constructing the concrete pads, sourcing the additional equipment to upgrade the rated capacity of the facility (particularly storage tanks), securing the required permits (environmental, construction, utility and local) and assembling the extraction facility.

The relocation of the plant and the expansion of capacity were funded by a financing arrangement with Deloro Energy, LLC. Between September 11, 2017 and May 31, 2018, Petroteq received $3.6 million from Deloro, along with a non-refundable deposit of $50,982. The Deloro agreement was terminated[iv] and the outstanding debt balance of $3.6 million was converted into 6,000,000 common shares and 6,000,000 three-year warrants exercisable at $0.91 per share.

The project to re-assemble and expand the plant's capacity commenced in late-2017 and a seven-week commissioning process began in mid-June. The plant was completed in August 2018 with small batch testing runs during which the 10 process stages and 14 operational procedures of the extraction system were calibrated and fine-tuned.



On August 6, 2018, Petroteq filed a Notice of Intention (NOI) with the Utah Division of Oil Gas and Mining concerning the initiation of large mining operations at the Temple Mountain Mine (T5S R22E S31). The notice states that Petroteq anticipates extracting approximately 1,500 to 1,800 tons of oil sands ore daily initially through surface-mining techniques of oil sands veins at or near surface (with a back hoe and/or front-end loader) and later by the open pit mining method when overburden needs to be removed. The processing of the feedstock ore is expected to produce 1,000 barrels of bitumen daily, depending on the richness of the ore, which is anticipated to be between 6% and 15% oil by weight.

Asphalt Ridge Production Facility (November 2018)



In September 2018, commercial production of high quality heavy crude oil at a rate of roughly 200 bpd commenced. Management anticipates ramping up the production rate by increments of 100 bpd until nameplate capacity is reached. Production is held on site in storage tanks, which have a total capacity of 3,000 barrels, until transported off site by trucks, predominately to refineries in Salt Lake City. The company announced its first sale of product in mid-November.

Once production at the Asphalt Ridge facility reaches nameplate capacity of 1,000 bpd and additional growth capital is obtained, management plans on scaling-up operations by fabricating additional extraction units until rated capacity reaches 4,000 bpd.

Significant **economies of scale** can be achieved when several extraction plants operate in tandem. For example, the feed conveyor system can serve multiple production process trains. Also, labor costs are

expected to increase at a significantly lower rate than oil production capacity. In addition, production input costs per barrel are reduced as a result of increased purchasing power and more effective bidding of services. Furthermore, pricing of heavy oil to refineries improves with volume production. Refineries blend heavy, medium and light crude oils in order to attain a target specification, usually in terms of density/viscosity and sulfur content. Refiners negotiate pricing based on consistency of quality, reliability of volume, credit terms and dependability of delivery. As Petroteq ramps up production from batch-size to commercial-scale, the pricing that can be negotiated from refiners improves.

Asphalt Ridge (Temple Mountain Project) Timeline

- July 5, 2013 — Began the process to acquire Temple Mountain Project at Asphalt Ridge
- September 8, 2015 — Closed acquisition of Temple Mountain Project (Mine & Mineral Leases)
- July 2016 — Granted a Ground Water Discharge Permit
- August-Nov. 2017 — Pilot plant relocated to location on Temple Mountain mineral lease
- First half 2018 — Pilot plant reassembled and upgraded to a 1,000 bpd extraction facility
- August 6, 2018 — Notice of Intention (NOI) filed for initiation of LMO at Temple Mountain Mine
- September 2018 — Production of heavy oil commenced at a rate of roughly 200 bpd
- Early-Nov. 2018 — Received Air Quality Small Source Exemption for Asphalt Ridge facility
- mid-November 2018 — First sale of product to refinery in Salt lake City
- late-February 2019 — Oil production recommences after winter maintenance turnaround
- March 18, 2019 — Product sales recommence
- March 28, 2019 — Asphalt Ridge facility continuously producing over 500 bpd

Management plans to construct the upgraded facilities at Temple Mountain Mine in phases. Originally, in early 2016, two phases were contemplated, each composed of a 2,500 bpd process train. Later that year, management modified the project into three phases:

- Phase 1: the completion of a 1,000 bpd capacity plant in 2018
- Phase 2 expanding production capacity to 4,000 bpd by 2020
- Phase 3 increasing production to 8,000 bpd by early 2022

PHASE 3 – EXPAND CAPACITY & INCREASE PRODUCTION

In Phase 3, management intends to further increase heavy oil production by constructing additional process trains in the 2022 timeframe, bringing total production capacity at Asphalt Ridge to 8,000 bpd. It is anticipated that several process trains will share the feed conveyor system, providing economies of scale.

The capital expenditures required to ramp up production capacity to 5,000 bpd are estimated to be approximately $45 million. Production costs are estimated to be in the $18-to-$25 per bpd range, and the netback margin[v] is anticipated to be between $16.75 and $24.75 per bpd, depending on the economies of scale achieved.

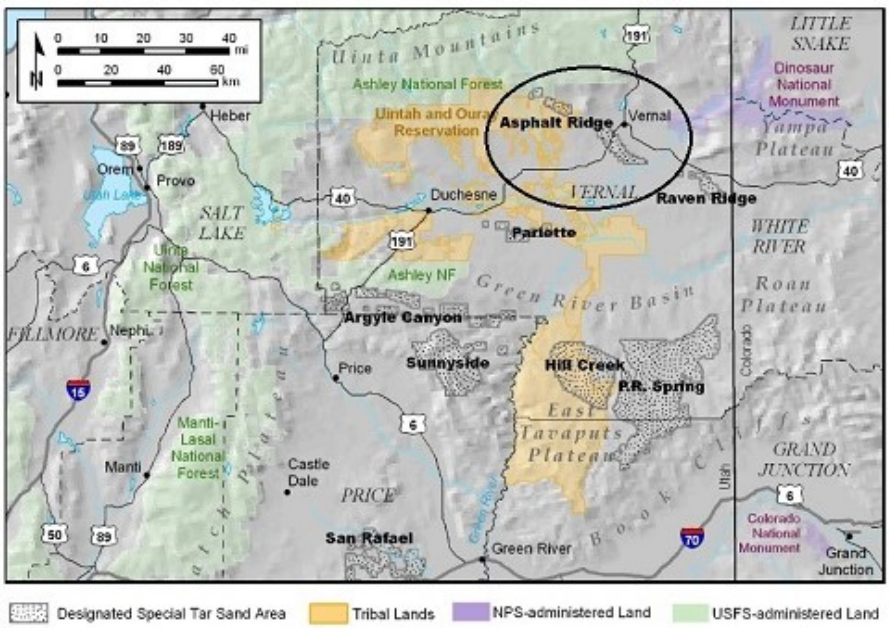
Plant Size bpd	CAPEX US$	Production Cost US$ / day	Gross Daily Revenue US$	EBITDA US$ / year
1,000	$8 mm[2]	$28,738	$46,800	$6.3 mm
5,000	$45 mm	$127,250	$234,000	$29.5 mm

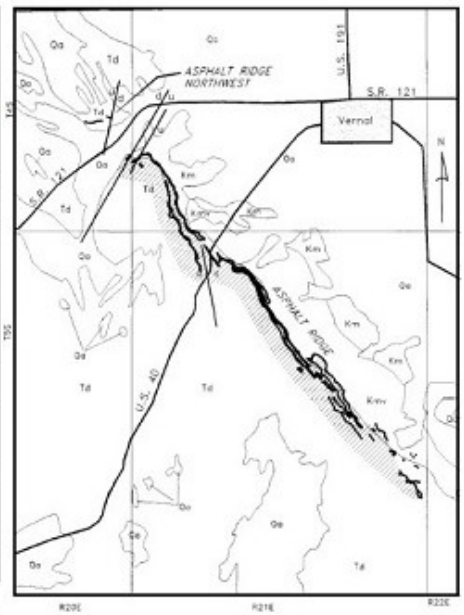
Crude (WTI) @ $50/bbl	LOW	MEDIUM	HIGH
Production	1,000 bpd	4,000 bpd	8,000 bpd
Heavy Diff & Transport[1]	$9.00	$8.00	$6.00
Operating CostMining[2]	$10.00	$9.00	$7.00
Operating Cost - Fuel & Solvent[3]	$8.50	$7.50	$6.50
Royalties (7%)	$3.25	$3.25	$3.25
G&A	$2.50	$2.50	$2.50
NETBACK /bbl	$16.75	$19.75	$24.75

ASPHALT RIDGE

Asphalt Ridge hosts an important oil sands deposit in the Uinta Basin of northeastern Utah. The bitumen-saturated outcrops have been mined since at least the 1920s, when the excavated asphalt material was used to pave the streets and sidewalks of Vernal.[vi] Multiple mapping and drilling programs have been conducted, notably by Standard Oil of Ohio (Sohio), Sun Oil Company, Texaco, Phillips Petroleum and Shell Oil Company. Even the Uinta County government has excavated some of the asphalt material for road surfacing.

Located in the northeast flank of the Uinta Basin, **Asphalt Ridge** is a **northwest-southeast trending escarpment** (a steeply sloping ridge of land) which is quite prominent as it rises from 500 to 1,000 feet above Ashley Valley along its 20-mile strike. The Ridge exhibits a gentle slope on the southwest side and a steeper slope towards the northeast).





The sandstone structures of Asphalt Ridge feature extensive surface deposits. **Bitumen-saturated outcropping sandstones are exposed on the northeast-facing cliffs**, all along the northwest strike of Asphalt Ridge, from an area in the southeast where the Green River flows to where the Ridge terminates in the northwest by a series of crosscutting high-angle faults.

Deposits Located in Asphalt Ridge Region in Utah

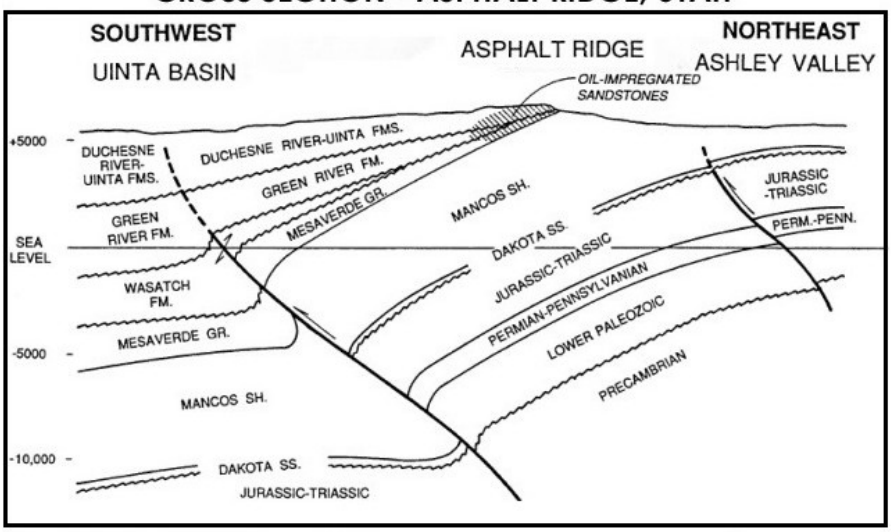


Secure Fuels From Domestic Resources September 2011

Bituminous-saturated sandstones occur within the Rim Rock Sandstone member of the Cretaceous Mesaverde Group, the Eocene Uinta Formation and the Eocene-Oligocene Duchesne River Formation; however, the **richest saturations of bitumen lie along and close to unconformities**, particularly where the Duchesne River beds unconformably overlap the Rim Rock Sandstone member and especially in rocks with high porosity, such as coarse sandstones and conglomerates.

All the **formations dip to the southwest**, and the bitumen-impregnated deposits extend down-dip from 20-to-600 feet into the subsurface. It has been suggested that the bitumen originated from oil shales in the Green River Formation and migrated up-dip along the unconformity between Rim Rock Sandstone member and the Duchesne River Formation.

CROSS SECTION - ASPHALT RIDGE, UTAH



According to a study completed in 1987 using drilling results of 23 cores from the U.S. Department of Energy and private companies/sources, the richness of the resource-in-place within one mile of the cored well area at Asphalt Ridge (aka Measured Area) ranged from 100 to 300+ barrels per acre-foot and net pay varied from 35 to 50 feet.[vii] The tar sands were found to be low in sulfur content at only 0.4% by weight.

SUMMARY OF RESOURCE-IN PLACE

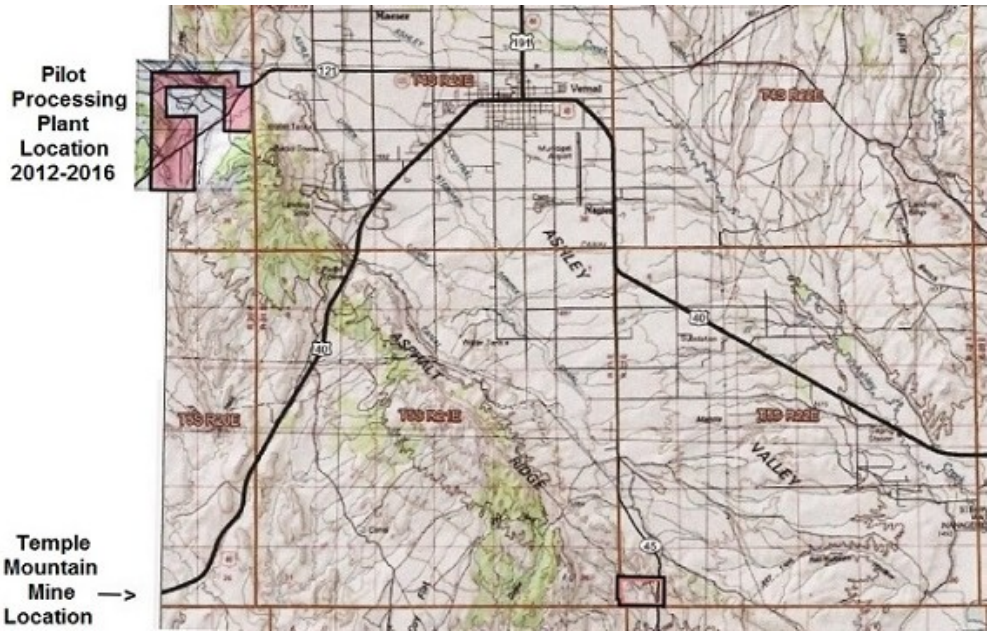
Resource	Barrels per Acre/Foot		Net Pay (Feet)	
Contour	Range	Avg.	Range	Avg.
Measured Area:				
60,000+ B/A	700-1200	850	25-83	50
20-60,000 B/A	580- 950	775	22-100	35
0-20,000 B/A	300-1000	400	7-60	35

Since Asphalt Ridge is in a geological transition zone of deltaic and lacustrine environments, the stratigraphy of the area, along with the concentrations of bitumen, is discontinuous due to the inter-tonguing nature of the sediments.

RESOURCE ESTIMATES

Mineral Leases in Sections 23, 24 and 26 of T4S R20E (1,138 acres)

Petroteq acquired the mineral leases on 1,138.22 acres[viii] of bituminous/asphaltic sands (tar sands) in Uintah County, Utah through an agreement with Amerisands LLC. Originally dated August 11, 2008 and later expanded on December 29, 2010 with an operating agreement, both agreements resulted in Amerisands irrevocably assigning the mineral leases to Petroteq with Petroteq contributing $2,000,000 to this Asphalt Ridge oil sands joint venture and Amerisands being appointed project manager for the construction of the processing plant. These mineral leases are identified on the map below as “Pilot Processing Plant Location 2012-2016.”



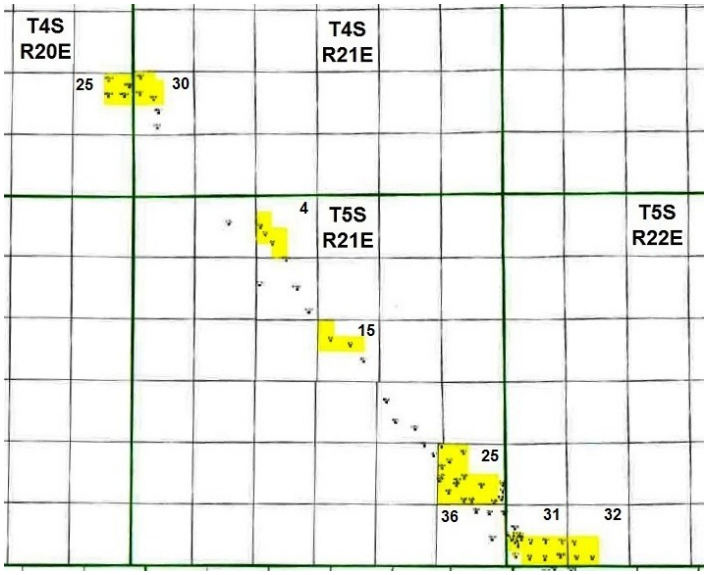
According to a 2012 Engineering Report, Chapman Petroleum Engineering Ltd at first estimated that there was 20 million barrels bitumen Total Bitumen Initially in Place (TBIIP) on the 1,138 acres.[ix]

In early 2013, it was decided to relocate the company's commercial-scale extraction facility to an area adjacent to the source of its feedstock (Temple Mountain mine). The company completed the reclamation of the property, and management allowed the 10-year lease on the 1,138 acres (which was to expire on August 11, 2018) to terminate on October 3, 2016.[x]

Temple Mountain Project (2,230 acres)

Between July 2013 and September 2015, Petroteq completed the process of obtaining ownership of the **Temple Mountain Project**, which encompasses approximately **2,229.82 acres**.[xi] The process began on July 5, 2013 when Petroteq loaned $1.10 million to TMC Capital, LLC as part of an agreement to potentially acquire this conglomeration of oil-sands properties along Asphalt Ridge. The 2-year, 5.25% loan, at Petroteq's option, could be converted into a good faith deposit for the property's acquisition.[xii]

The Temple Mountain Project
(The leases held by TMC Capital LLC are highlighted in yellow)



2014 Resource Evaluation

In **July 2014**, Chapman Petroleum Engineering Ltd. completed a **Resource Evaluation** of the TBIIP[xiii] utilizing data from 84 core drill holes drilled by SOHIO Oil Company, AMACO and Arizona Fuels between 1957 and 1978. Using an average density of *in situ* sands of 2.1 g/cm^3, Chapman determined that the **TBIIP was 139,541,000 STB** (Stock Tank Barrels), of which 119,640,000 STB was classified as mineable (taking into account overburden, economical average weight percent of bitumen and past mining activity). Moreover, **87,817,000 STB** was identified as being able to "support very positive mining economics." The report was prepared in accordance with Canadian Oil and Gas Evaluation handbook (COGEH) standards.

On November 5, 2014, after conducting due diligence, which included the Resource Evaluation Report, Petroteq announced that an agreement to acquire TMC Capital had been signed, and the company advanced $175,000 to TMC. Subsequently, the agreement was filed with the TSX Venture Exchange on May 30, 2015.

Effective June 1, 2015, Petroteq acquired all the membership interests of TMC Capital from Temple Mountain Energy Inc. for $10.0 million.[xiv] Payment consisted of the issuance of two five-year 5% unsecured promissory notes maturing on May 31, 2020. **The acquisition of TMC Capital LLC closed on September 8, 2015.**

The Temple Mountain Large Mining permit and mineral leases are subleased from Asphalt Ridge, Inc. with certain requirements related to minimum expenditures, oil production and royalty payments. The mineral lease has been amended at least twice to adjust to the development schedule of the project. The mineral leases that comprise the Temple Mountain Project are subject to a 1.6% gross royalty, which is held by the owner of the property.

Prior to the acquisition by Petroteq, TMC Capital had focused primarily on selling raw bitumen sands as road paving material. In 2005, an open pit mine was opened in T5S R22E Section 31, from which TMC sold approximately 100,000 tons of raw bitumen sands. In addition, in 2012, TMC signed an agreement to supply feedstock to Petroteq's pilot plant site near Maeser. Processing had been limited to minor crushing and screening of the bitumen tar sands.

Petroteq Energy Inc.
Schedule of Lands
November 1, 2017

Description	Gross Acres
Twp 4S Rge 20E	
Sec 25: Lots 1 & 2, W/2 of NE/4	160
Twp 4S Rge 21E	
Sec 30: Lots 1 & 2, W/2 of NE/4 of NW/4 SE/4 of NE/4 of NW/4 SE/4 of NW/4	150
Twp 5S Rge 21E	
Sec 4: SW/4 of NW/4, NW/4 of SW/4 E/2 of SW/4	160
Sec 15: W/2 of NW/4, SE/4 of NW/4 SW/4 of NE/4	160
Sec 25: SW/4, Lots 9&10, W/2 of SE/4 Lots 4&5, S/2 of NW/4	480
Sec 36	640
Twp 5S Rge 22E	
Sec 31: Lot 3, SW/4 of SE/4, E/2 of SW/4 N/2 of SE/4, SE/4 of SE/4	320
Sec 32: SW/4	160

2017 Resource Evaluation

In October 2017, Chapman completed a follow-up evaluation of Contingent Resources report. The discovered bitumen initially-in-place (DBIIP)[xv], which is usually a subset of TBIIP, was calculated utilizing data from 84 core drill holes and using an average density of *in situ* sands of 2.11 g/ cm^3. Chapmen determined that the DBIIP was 139,539,001 STB, of which **86,100,182 STB** was identified as supportable of "very positive mining economics."

Acquisition Mineral Leases on 1,312 Additional Acres

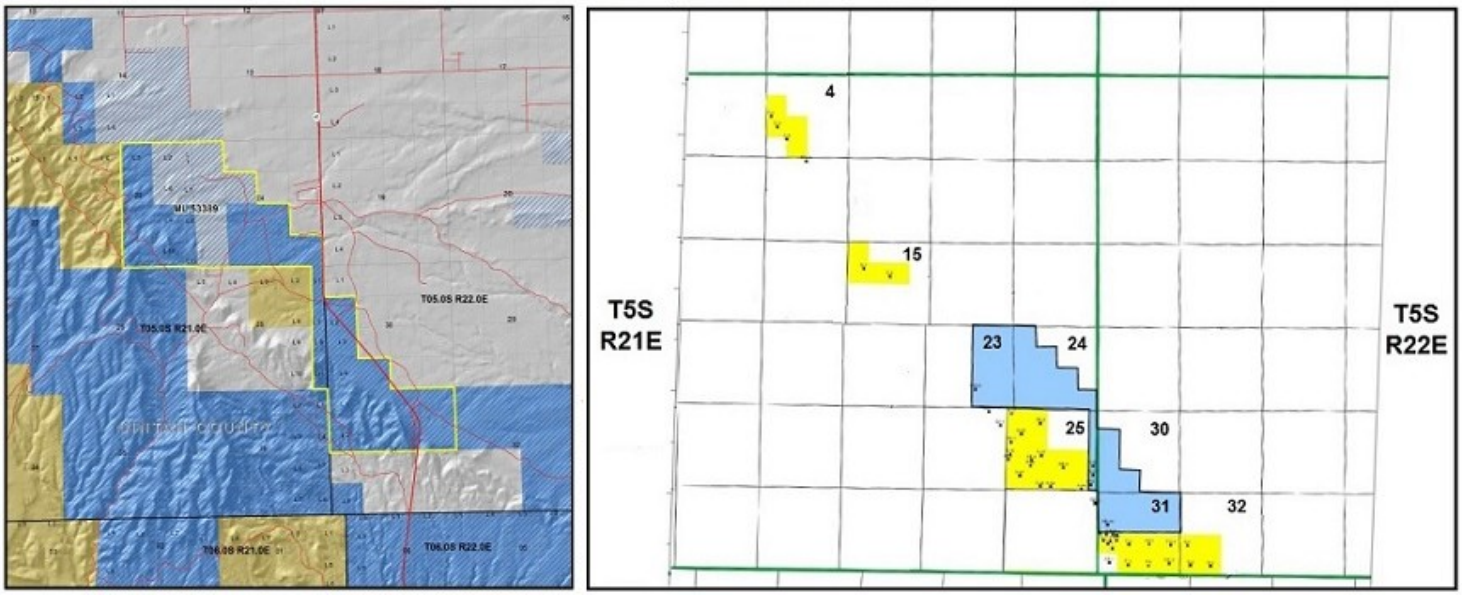
On June 1, 2018, Petroteq acquired two mineral leases on an additional 1,311.94 acres from School and Institutional Trust Lands Administration (SITLA) through a closed bid auction process.[xvi] These mineral leases have a primary term of 10 years (until May 30, 2028), after which the mineral rights can be extended based on reasonable production. Also around this time, the company forfeited mineral leases on approximately 950 acres, which management deemed uneconomic, primarily due to the depth of overburden and/or the proximity to water sources. After the transactions, **the company's mineral leases encompass 2,541.73 acres**.

Petroteq Energy Inc.
Schedule of Lands
May 1, 2018

Description (new acquisitions)	Gross Acres
Twp 5S Rge 21E	
Sec 23: Lots 1 - 3, 6 - 11, SW/4 of NE/4, W/2 of SE/4	366
Sec 24: W/2 of NW/4, SE/4 of NW/4, SW/4, W/2 of SE/4, SE/4 of SE/4	400
Sec 25: Lots 1, 7, 8, 11	67
Twp 5S Rge 22E	
Sec 30: Lots 2, 3, 4, SE/4 of SW/4	159
Sec 31: Lots 1, 2, NE/4, E/2 of NW/4	320

Description (retained leases)	Gross Acres
Twp 5S Rge 21E	
Sec 4: SW/4 of NW/4, NW/4 of SW/4, E/2 of SW/4	160
Sec 15: W/2 of NW/4, SE/4 of NW/4, SW/4 of NE/4	160
Sec 25: SW/4, Lots 9&10, W/2 of SE/4, Lots 4&5, S/2 of NW/4	480
Twp 5S Rge 22E	
Sec 31: Lot 3, SW/4 of SE/4, E/2 of SW/4, N/2 of SE/4, SE/4 of SE/4	280
Sec 32: SW/4	160

Description (forfeited leases)	Gross Acres
Twp 4S Rge 20E	
Sec 25: Lots 1 & 2, W/2 of NE/4	160
Twp 4S Rge 21E	
Sec 30: Lots 1 & 2, W/2 of NE/4 of NW/4 SE/4 of NE/4 of NW/4 SE/4 of NW/4	150
Twp 5S Rge 21E	
Sec 36	640



(Newly acquired leases are outlined in yellow on left diagram & highlighted in blue on the right)

2018 Resource Evaluation

In May 2018, the **NI 51-101-compliant Evaluation of Contingent Resources** report was updated to include the licenses on 1,312 acres that were acquired in April 2018. The Best Estimate (at the P-50 confidence level) of both DBIIP and TBIIP together was determined to be **87,495,000 STB**.

Petroteq Energy Inc			
Contingent Resources	Bitumen (STB)	Net Bitumen (STB net of 12% royalty)	Plant design (Capacity)
C1 (P90 - Low Estimate)	69,996,000	61,596,480	1,000 bbl/d
C2 (P50 - Best Estimate)	87,495,000	76,995,600	2,500 bbl/d
C3 (P10- High Estimate)	104,994,000	92,394,720	5,000 bbl/d

The December 31, 2018, Statement of Reserves and Contingent Resources (Form 51-101-F-1) reported that the gross C 2 Contingent Resources After Risk were determined to be **51,866,000 STB**.

SUMMARY OF OIL AND GAS CONTINGENT RESOURCES BASED ON FORECAST PRICES AND COSTS AS AT AUGUST 31, 2018

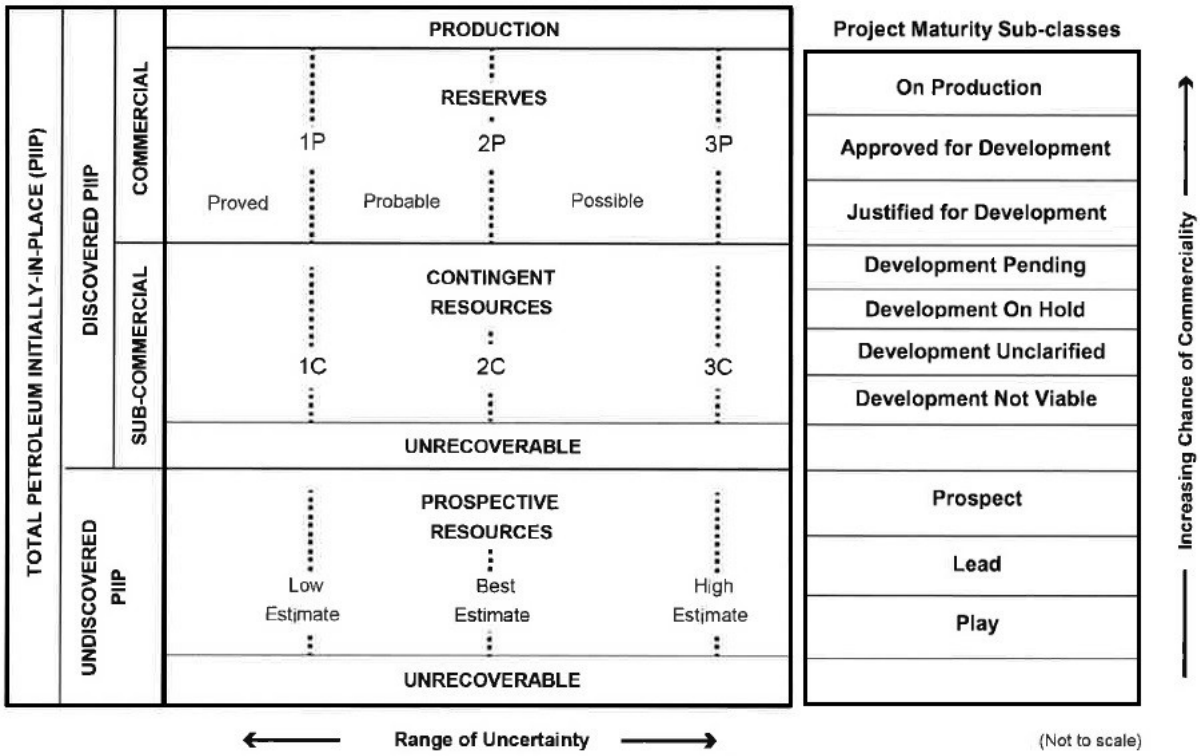
	Company Contingent Resources[1]							
	Light and Medium Oil		Bitumen		Natural Gas[9]		Natural Gas Liquids	
Resource Category	Gross MSTB	Net MSTB	Gross MSTB	Net MSTB	Gross MMscf	Net MMscf	Gross Mbbl	Net Mbbl
2C Contingent Resources "Development Pending" After Risk	0	0	51,866	45,642	0	0	0	0

1. "Gross Contingent Resources" are the Company's working interest (operating or non-operating) share before deduction of royalties and without including any royalty interests of the Company. "Net Contingent Resources" are the Company's working interest (operating or non-operating) share after deduction of royalty obligations, plus the Company's royalty interests in Contingent Resources.

Oil Sands at Petroteq's Temple Mountain Mine



Prospective Resources and Project Maturity Framework



Contingent Resources Disclosures

According to several governmental standards (particularly Canadian Oil and Gas Evaluation Handbook aka COGEH), there are particular reporting requirements that apply to Contingent Resources, including certain mandatory disclosures. Contingent Resources are “those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations, but are not yet considered” to be commercially developable “because of one or more contingencies.” The main contingencies outlined in the report concerning Petroteq’s resources include:

- Actual full scale processing and operating costs cannot be verified with certainty until Petroteq’s plant is in full operation. In the meantime, probabilities are assigned to the company’s cost estimates and the likelihood of the project will become economically viable.
- Mining costs are being estimated on bitumen deposits that are to be mined outside the current mining area; therefore, a probability is assigned that this contingency will be within estimated cost range.

- Potentially, public opposition could arise to this project. Also, additional regulatory approvals are required as the project grows in scope. Again, a probability is assigned that the company will successfully overcome these contingencies.

As a result, a common mandatory disclosure is “There is no certainty it will be commercially viable to produce any portion of the resources.”

CLEAN OIL RECOVERY TECHNOLOGY (CORT)

Petroteq’s extraction CORT is an Enhanced Oil Recovery (EOR) technology that enables the extraction of bitumen oil from a broad range of bituminous sands. Petroteq’s process is capable of extracting over 99% of all hydrocarbons (heavy bitumen, heavy oil and other lighter hydrocarbons), and over 99% of the solvents can be recovered and recycled back into the closed loop system. The process produces only two materials: bituminous oil and dry, cleaned sand. A detailed description of CORT follows.



Crusher/grinder: Native bitumen oil sands are crushed into chunks of three-quarters of an inch or less

Premixing vessel: A conveyor belt system loads the crushed raw ore into the premixing vessel at the top of the main structure. Recycled solvent, previously collected from the sand drying vessel and then condensed by a chiller, is pumped into the premixing vessel, where screw conveyors mix the crushed oil sands and solvent.

Mill: The resultant material passes through a pug mill where mixing knives create a slurry. This premixing process increases surface area of the ore and creates a homogenized oil sands feedstock. As a result, the efficiency of the extraction process improves, not only by allowing a more complete extraction, but also by shortening the time for the mixing and transportation of the slurry and by allowing for the continuous flow of the operation.

Mixer: The crushed and milled oils sands slurry is fed into a mixer where more solvent is added. The mixture is heated to a fairly low temperature (50-60°C) and is agitated with horizontal propellers so that almost all the bitumen is separated from the sand grains. The resultant fluid is transported to a high-speed centrifuge where the pregnant solvent/bitumen mixture is separated from the sands. Thereafter, the sands are transferred to a drying auger, and the solvent/bitumen mixture is pumped to the top of the extractor tower (aka separation column).

Extractor: The separation column creates a liquid fluidized bed environment in which gravity causes the solids (predominantly sand and clay) settle to the bottom of the extraction column (and are later transferred to a drying auger) while the solvent/bitumen mixture rises to the top of the extraction column

and is deposited into a surge tank. The extraction column not only increases oil recovery to over 99%, but also allows for a continuous flow process.



Drying Vessel: The sand that settles to the bottom of the extraction column is removed through an outlet opening at the lower edge of the extractor tank and is transferred to a drying vessel, where steam lines heat the sand to vaporize any remaining solvent. The vaporized solvent is conveyed to a chiller where it is condensed and then recycled back into the closed-loop process train. The cleaned sand is dried, after which it can be utilized for mine site remediation or it could be sold as construction aggregate.



Cleaned sand, before and after Petroteq's proprietary, environmentally-friendly oil sands extraction process. These sands may be replaced back where they were situated or sold as clean sand materials. Over 98% of hydrocarbons have been removed.

Secure Fuels From Domestic Resources
September 2011

Evaporators/Separators: The solvent/bitumen mixture is pumped from the surge tank to the first separator. Through a distillation process, the mixture is heated (with thermal oil) which results in the solvent being separated from the bitumen oil through evaporation. In the second separator, the solvent fumes are condensed in fin fan coolers and then recycled back into the closed-loop process train. Some of the solvent is allowed to remain in the bitumen oil in order to produce the desired API oil, depending on a customer's requirements. The process can produce light oil (API gravity higher than 31.1°), medium oil (22.3°-31.1°) and heavy oil (less than 22.3°). The bitumen oil is pumped into on-site storage tanks to await transportation by truck for delivery to customers.

Through the years, the extraction process has encountered challenges and has been **enhanced through certain engineering improvements**. For example, a second separator (aka re-boiler) did not exist at the original pilot plant but was added to the new 1,000 bpd facility in order to improve the API of extracted bitumen oil. In addition, considerable engineering effort was required to find the appropriate alloy for the fabrication of the propellers in the mixer in order to combat the erosive effect of sand. Another engineering accomplishment was the determination of the optimal angle for the propellers.

PATENTS

Patent applications on Petroteq's technology for its closed-loop, solvent-based oil extraction system are expected to be filed in the 30 countries that have significant oil sands reserves; **patents have been already granted in the United States, Russia and Canada**. The patents cover elements of the company's extraction technology, including solvent compositions, the extraction processes and the engineering & design of the apparatus and vessels.

In 2012, the company acquired its oil extraction technology from its inventor, Dr. Vladimir Y. Podlipskiy, PhD, in exchange for employment, 500,000 common shares (which were issued after the successful testing and operation of the pilot plant) and beginning with the successful operation of a second facility, a royalty scaling from 2%-to-4% of gross revenue from subsequent facility. Dr. Podlipskiy was appointed Chief Technology Officer in January 2011. As a result of the 1-for 30 reverse split effective May 5, 2017, Dr. Podlipskiy now owns 16,667 shares.

Petroteq Energy Inc.

Patents Granted

	Agency	Patent Number	Year Granted	Patent Issued For
Russia	**Rospatent**	2,571,827	2015	Oil From Oil Sands Extraction Process
United States	**USPTO**	13/627,518	2018	Oil From Oil Sands Extraction Process
Canada	**CIPO**	2,754,355	2018	Oil Extraction Process

RECENT FINANCINGS

Private Placements

The net proceeds of the following private placements will be used towards the Asphalt Ridge project, for potential acquisitions of additional oil sands resources and for working capital.

On May 22, 2019, Petroteq Energy closed a private placement for 3,775,875 common shares and warrants (exercisable for 3,431,828 common shares). **Aggregate gross proceeds were US$985,950**.

On April 3, 2019, the company announced the closing of 1,730,263 common shares and warrants (exercisable for 1,481,481 common shares). Gross proceeds were **US$482,000**.

On March 25, 2019, Petroteq Energy announced closing of a subscription for 2,222,222 common shares by Alex Blyumkin, the Executive Chairman and a director of the Company, for **gross proceeds of US$1,000,000**. The investment by the Executive Chairman is indicative of long-term potential of Petroteq and his confidence in the company's outlook

On March 5, 2019, the company announced the issuance of 135,135 Units for **gross proceeds of US$50,000**. Each Unit consists of one common share and a one-year warrant exercisable at US$0.37per share. In addition, Petroteq Energy announced closing of a subscription for 62,500 common shares by CEO David Sealock for **gross proceeds of US$25,000**. Also, subscriptions were received for 7,242,424

common shares by three arm's length subscribers representing an aggregate of **US$2,390,000 in gross proceeds**.

* * * * * * * * * * * *

During the first half of fiscal 2019 (September 1, 2018 through February 28, 2019), the company received **US$8,091,453** from private equity placements and **US$5,618,750** from the issuance of convertible debt.

On February 27, 2019, the company issued 7,242,424 shares of common stock; **net proceeds were $2,390,000**. On the same day, the company issued 135,135 Units (each consisting of one share of common stock and a warrant exercisable at $0.37 per share) for **net proceeds of $50,000**.

On January 25, 2019, Petroteq Energy closed a 147,058 Unit private placement with an arm's length subscriber for **gross proceeds of US$50,000**. Each Unit consists of one common share and a one-year warrant exercisable at US$0.37 per share.

On January 16, 2019, Petroteq Energy announced several private placements:

- 9-month $2,400,000 5% convertible debenture convertible into 5,000,000 common shares. **Gross proceeds were US$1.92 million.**
- 4-month $143,750 10% convertible debenture convertible into 260,416 common shares, along with warrants exercisable at US$0.48 per share for up to 260,416 common shares. **Gross proceeds were US$122,187.**
- 1,522,080 common shares in multiple tranches to nine investors, along with 1,437,557 2-year warrants exercisable (in aggregate) into 952,380 shares at US$1.00 per share and into 291,130 shares at US$1.50 per share. **Gross proceeds were US$645,100**.
- 307,692 Units, each consisting of one common share and one 2-year warrant exercisable at US$1.50 per share. **Gross proceeds were US$200,000**.

* * * * * * * * * * * *

During fiscal 2018 (September 1, 2017 through August 31, 2018), the company received **US$15,911,409** from private equity placements.

On November 14, 2018, Petroteq Energy announced a private placement of up to 5,555,555 common shares and 5,555,555 warrants. The private placement closed on December 7th, when 5,059,446 common shares and warrants were issued for **net proceeds of $2,690,200**.

On November 7, 2018, Petroteq issued of 320,408 Units to two parties for **gross proceeds of US$169,000** (20,408 Units at $0.49 and 300,000 Units at $0.53).

On October 11, 2018, Petroteq issued 81,229 common stock shares for **net proceeds of $79,605**. Also, 752,040 Units were issued for **net proceeds of $737,000**. Each unit consists of one common share and a warrant exercisable at prices ranging from $1.35 to $1.50.

On September 26, 2018, the company announced that irrevocable subscriptions had been received for 833,269 common shares (at US$0.98) and 520,408 2-year warrants (almost all exercisable at US$1.35) from nine parties for **gross proceeds of US$816,605**.

On September 11, 2018, Petroteq Energy announced the closing of an irrevocable subscription (previously announced on September 5th) for 1,234,567 Units (at US$0.81 per Unit). Each Unit consists of one common share and ¾ of a 2-year warrant (exercisable at US$1.01). **Gross proceeds were US$1,000,000**.

Also on September 11, 2018, Petroteq Energy concurrently announced the closing of the irrevocable subscriptions from 35 parties (previously announced on August 17th) for 5,922,162 shares (at prices

between US$0.70 and US$0.81) and 1,623,676 2-year warrants (exercisable between US$0.94 and US$1.50). **Gross proceeds were US$4,417,916.**

In addition, on September 11, 2018, Petroteq Energy announced the closing of the irrevocable subscription for 250 Convertible Debenture Units (previously announced on August 17th). Each Convertible Debenture Unit consists of a 1-year, 10%, $1,000 face value debenture (convertible at US$0.87 per share) and 1,149.424 transferable 1-year warrants (exercisable at US$0.87 per share. **Gross proceeds were US$250,000.**

Shares Issued to Satisfy Indebtedness

In order to preserve cash for the development and expansion of its extraction processing facility at Asphalt Ridge, Petroteq has issued common share to satisfy its indebtedness to various service providers and for several notes outstanding.

On April 4 & 8, 2019, the company **issued 300,000 common shares** to satisfy US$150,000 of debt.

On March 25, 2019, the company announced that it agreed to **issue 400,000 common shares** to satisfy US$185,000 of indebtedness to two service providers.

On March 5, 2019, Petroteq Energy agreed to **issue 1,000,000 common shares** to satisfy US$500,000 of indebtedness to an arm's length service provider. The company also issued 550,241 common shares to satisfy US$238,000 of indebtedness to three other service providers.

On February 6, 2019, Petroteq Energy announced that the company agreed to complete a shares-for-debt transaction under which **23,076,923 common shares** will be issued in satisfaction of the US$6 million promissory note issued on January 29, 2019 for the acquisition of bituminous sands mining operations in Uintah County, Utah.

On November 14, 2018, Petroteq Energy announced that **566,794 common shares will be issued** to satisfy the company's indebtedness with service providers.

On November 21, 2018, the company announced that **145,788 shares will be issued** to satisfy a convertible secured note issued in August 2017. The US$69,979 worth of shares will retire the outstanding principal amount and interest of the convertible note.

On September 25, 2018, Petroteq Energy announced that 918,355 2-year warrants (exercisable at US$1.01 per share) will be issued to satisfy US$927,544 of indebtedness owed to 17 service providers.

On September 11, 2018, the company announced that **426,429 shares will be issued** to satisfy $480,670 of indebtedness owed to two lenders and two service providers.

On April 3, 2019, Petroteq executed an agreement with a supplier, under which Petroteq agreed to issue **700,000 common shares** in consideration for not proceeding to purchase certain pieces of used equipment from the supplier since management made a strategic business decision to purchase new equipment from a different supplier.

INSIDER OWNERSHIP

Corporate insiders own 5.2% of the outstanding common stock. Aleksandr Blyumkin (Chairman of the Board, co-founder and former CEO) beneficially owns the largest insider position with 6,617,990 shares (as of May 22, 2019) or 5.1% of the common stock in the company.

VALUATION

We are employing two valuation methods and blending the results in order to ascertain a target for Petroteq common stock. One method, a **discounted cash flow (DCF) model**, similar to the project's economic analysis in the NI 51-101-compliant Contingent Resource evaluation report, seeks to value the company over the life of the resource while the other method is based on a **comparative analysis** process of **Price-to-Sales** (P/S) ratios with comparable oil recovery companies.

Comparative Analysis

Generally, we use a valuation methodology based on **Price-to-Sales** (P/S) for oil and gas companies due to the cyclical nature of the industry, predominately influenced by the dramatic swings in the price of oil due to fundamental changes in the supply of and demand for the commodity.

We have identified several **comparable companies** within the oil recovery market, namely Cenovus Energy (CVE), Chaparral Energy (CHAP), Denbury Resources (DNR), Evolution Petroleum (EPM) and Whiting Petroleum (WLL). Although Petroteq's oil recovery technology is unique and more environmentally friendly, these comparable companies have operations on North American oil properties on which CO2 enhanced oil recovery technologies are utilized. In addition, all these comparable companies are small-cap or mid-cap stocks.

Industry Comparables	**Pr Chg YTD**	**P/E CFY**	**EPS Gr 5Yr Est**	**Price/ Book**	**Price/ Sales**	**Price/ CF**
PETROTEQ ENERGY INC	-21.4	N/A	N/M	0.9	N/A	N/A
Industry Mean	22.8	16.2	21.5	1.1	1.8	4.9
Industry Median	38.6	16.6	6.5	0.9	1.3	2.5
S&P 500	14.9	17.1	10.8	12.4	4.4	16.5
CENOVUS ENERGY INC	33.7	26.6	6.0	0.9	0.7	6.5
CHAPARRAL ENERGY INC	9.8	12.2	N/M	0.3	1.1	2.5
DENBURY RESOURCES INC	38.6	5.3	51.9	1.0	0.8	2.5
EVOLUTION PETROLEUM CORP	2.1	16.6	6.5	2.9	5.0	11.8
WHITING PETROLEUM CORP	30.0	20.1	N/M	0.6	1.3	2.7

The current P/S valuation range for this group of oil recovery companies is between 0.4 and 4.8 times TTM revenues with a mean P/S valuation of 1.5 times.

Petroteq appears to be entering the emerging growth phase of its corporate history with an increasing revenue stream expected to be generated from the recently constructed 1,000 bpd processing facility at Asphalt Ridge. Due the character of the company's enterprise, namely a small-capitalization company with a fast-growing revenue profile, we expect Petroteq to attain at least an average industry P/S ratio of the comparable oil recovery companies listed above by 2022 when the company is expected to achieve steady production at a rate of at least 8,000 bpd. Utilizing projected annual revenues of $109 million in 2022 with the expectation that Petroteq's stock will trade at a mid-second quartile P/S ratio of 2.32 at that time, the share price target would be $1.87 in 2022. However, to translate that value to a current target price, we employ a net present value (NPV) calculation that utilizes a 10% discount rate. Therefore, our **comparable analysis valuation target** of Petroteq for 2019 is $1.40.

Discounted Cash Flow Analysis

Utilizing discounted cash flow analysis to value Petroteq, we estimate future cash flows from the Asphalt Ridge project and discount them by using the cost of capital in order to attain a net present value. Revenues are being projected by using many of the inputs used in the economic analysis in the NI 51-101-compliant Contingent Resource evaluation report, though many of our assumptions are more conservative than the report's. In addition, corporate items, such as overhead and taxes, are incorporated into our valuation process. Key assumptions are:

- Production is based on management's plan to achieve the 1,000 bpd rate in 2019 and 8,000 bpd by early 2022.
- A bitumen ratio of 0.75 (in other words, 75% of gross production is marketable as bitumen oil)
- The average price of WTI oil in 2019 is expected to be $60 a barrel (same as the last 12 months) and will (on average) increase 2% annually.
- The price discount of bitumen oil to WTI is currently about $11 per barrel (including transportation costs), which is expected impacted by the same 2% inflation rate. The economic analysis uses a $5 discount.
- Royalties of 12%
- Operating costs are initially of $20 per barrel, declining to $24.50 per barrel as production ramps op to 8,000 bpd and then increasing at a 2% inflation rate. The economic analysis uses $23.93 per barrel which increases at an inflation rate of 2%.
- Corporate overhead costs beginning at $3.0 million in 2019 and increasing at a 3% inflation rate
- An effective corporate tax rate of 16.1% after tax loss carry forwards are exhausted in 2024.
- The 45,000,000 shares issued to acquire a 100% interest in the oil sands under six U.S. Federal Oil & Gas Leases (encompassing approximately 8,480 gross acres) in Utah are not incorporated into the diluted share count since the value of the underlying asset (the mineral leases) is not being accounted for. It is being assumed that value of the leases equals the price paid in issued shares; therefore no dilution is being incurred.
- The economic analysis includes corporate items of overhead and taxes. Also, the economic analysis accounts for the remaining un-mined resource (post 2042) in its net cash flow analysis.

It is well known that the results of DCF models are highly sensitive to the input assumptions. As the company reports subsequent quarters, the DCF model is updated to more accurately dovetail with reported financial results.

Petroteq Energy Inc.

	Discount Rate 5.0%	Discount Rate 10.0%	Discount Rate 15.0%
NET DISCOUNTED CASH FLOW	631,167,897	210,447,202	72,346,161
BALANCE SHEET ADJUSTMENTS			
Working capital	(6,002,792)	(6,002,792)	(6,002,792)
Long-term debt	(368,480)	(368,480)	(368,480)
Expected capital expenditures	(30,000,000)	(30,000,000)	(30,000,000)
Asset retirement obligation	(589,501)	(589,501)	(589,501)
Warrant proceeds	20,197,808	20,197,808	20,197,808
ADJUSTED NET DISCOUNTED CASH FLOW	594,207,124	173,486,429	35,385,388
Fully Diluted Shares	135,518,292	135,518,292	135,518,292
DISCOUNTED VALUE PER SHARE	**$4.38**	**$1.28**	**$0.26**

The net cash flow is calculated for the discount rates of 5%, 10% and 15% (see DCF table on next page). Since conservative assumptions account for many aspects of the project's risks, we are using 10% to reflect the company's cost of capital. Therefore, utilizing a Net Discounted Cash Flow of $210 million, the value is adjusted (for balance sheet items and expected capex) to arrive at $179 million. Assuming dilution from the exercise of all outstanding convertible securities, warrants and options, our **DCF price target** is $1.28 per share.

Averaging the targets calculated by DCF and comparative analysis methodologies, our **price target is $1.34 per share**.

Petroteq Energy (Asphalt Ridge Project) Cash Flow
(2C -Best Estimate)

Year	PRODUCTION Gross Blend	Gross Blend	Gross Bitumen	Gross Bitumen	PRICING WTI Oil	Discount	Bitumen Oil	Bitumen Oil Revenue	Royalties Paid	Operating Costs		Overhead Costs	Total Costs	Net Operating Income	Taxes	Net Cash Flow	Discounted Net Cash Flow	Discounted Net Cash Flow	Discounted Net Cash Flow
	bbl/day	bbl/year	bbl/day	bbl/year	$US	$US	$US	$US/year	$US/year	$US/bbl	$US/year	$US/year	$US/year	$US/year	$US/year	$US/year	$US/year	$US/year	$US/year
			bitumen ratio 0.75		inflation rate 2.0%				rate 12.0%	inflation 2.0%	rate	inflation rate 3.0%	inflation rate 2.0%		rate 16.1%		discount rate 5.0%	discount rate 10.0%	discount rate 15.0%
Totals		**65,012,500**		**48,759,375**				**3,517,373,094**	**422,084,771**		**1,470,354,578**	**109,377,793**	**2,001,817,892**	**1,515,555,202**	**224,290,590**	**1,291,356,782**	**631,167,897**	**210,447,202**	**72,346,161**
2019	625	218,750	469	164,063	60.00	11.00	49.00	8,039,063	964,688	29.00	4,757,813	3,000,000	8,722,529	(683,467)	0	(683,467)	(653,572)	(598,895)	(526,879)
2020	2250	787,500	1,688	590,625	61.20	11.22	49.98	29,519,438	3,542,333	27.00	15,946,875	3,090,000	22,579,235	6,940,203	0	6,940,203	6,320,615	5,265,303	4,027,966
2021	6875	2,406,250	5,156	1,804,688	62.42	11.44	50.98	92,002,247	11,040,270	25.00	45,117,188	3,182,700	59,340,182	32,662,065	0	32,662,065	28,329,670	21,454,226	14,271,758
2022	8000	2,800,000	6,000	2,100,000	63.67	11.67	52.00	109,198,303	13,103,796	24.50	51,450,000	3,278,181	67,832,002	41,366,301	0	41,366,301	34,170,810	23,525,232	13,608,201
2023	8000	2,800,000	6,000	2,100,000	64.95	11.91	53.04	111,382,269	13,365,872	24.99	52,479,000	3,376,526	69,221,424	42,160,846	0	42,160,846	33,168,711	20,759,388	10,441,996
2024	8000	2,800,000	6,000	2,100,000	66.24	12.14	54.10	113,609,915	13,633,190	25.49	53,528,580	3,477,822	70,639,617	42,970,297	6,918,218	36,052,079	27,012,221	15,369,282	6,722,405
2025	8000	2,800,000	6,000	2,100,000	67.57	12.39	55.18	115,882,113	13,905,854	26.00	54,599,152	3,582,157	72,087,188	43,794,925	7,050,983	36,743,942	26,219,622	13,562,103	5,158,225
2026	8000	2,800,000	6,000	2,100,000	68.92	12.64	56.29	118,199,755	14,183,971	26.52	55,691,135	3,689,622	73,564,753	44,635,002	7,186,235	37,448,767	25,450,065	11,967,317	3,957,968
2027	8000	2,800,000	6,000	2,100,000	70.30	12.89	57.41	120,563,750	14,467,650	27.05	56,804,957	3,800,310	75,072,945	45,490,806	7,324,020	38,166,786	24,702,885	10,559,975	3,036,970
2028	8000	2,800,000	6,000	2,100,000	71.71	13.15	58.56	122,975,025	14,757,003	27.59	57,941,056	3,914,320	76,612,407	46,362,619	7,464,382	38,898,237	23,977,434	9,318,054	2,330,263
2029	8000	2,800,000	6,000	2,100,000	73.14	13.41	59.73	125,434,526	15,052,143	28.14	59,099,878	4,031,749	78,183,798	47,250,728	7,607,367	39,643,361	23,273,085	8,222,120	1,787,993
2030	8000	2,800,000	6,000	2,100,000	74.60	13.68	60.93	127,943,216	15,353,186	28.71	60,281,875	4,152,702	79,787,791	48,155,425	7,753,023	40,402,401	22,589,227	7,255,019	1,371,900
2031	8000	2,800,000	6,000	2,100,000	76.09	13.95	62.14	130,502,081	15,660,250	29.28	61,487,513	4,277,283	81,425,074	49,077,006	7,901,398	41,175,608	21,925,268	6,401,613	1,052,630
2032	8000	2,800,000	6,000	2,100,000	92.06	14.23	77.83	163,443,687	19,613,242	29.87	62,717,263	4,405,601	86,736,136	76,707,551	12,349,916	64,357,635	32,637,408	8,662,983	1,238,671
2033	8000	2,800,000	6,000	2,100,000	93.90	14.51	79.39	166,712,561	20,005,507	30.46	63,971,608	4,537,769	88,514,915	78,197,646	12,589,821	65,607,825	31,687,059	7,646,119	950,674
2034	8000	2,800,000	6,000	2,100,000	95.78	14.80	80.97	170,046,812	20,405,617	31.07	65,251,040	4,673,902	90,330,591	79,716,221	12,834,312	66,881,909	30,764,202	6,748,575	729,634
2035	8000	2,800,000	6,000	2,100,000	97.69	15.10	82.59	173,447,748	20,813,730	31.69	66,556,061	4,814,119	92,183,942	81,263,806	13,083,473	68,180,333	29,868,046	5,956,355	559,984
2036	8000	2,800,000	6,000	2,100,000	99.65	15.40	84.25	176,916,703	21,230,004	32.33	67,887,182	4,958,543	94,075,762	82,840,941	13,337,392	69,503,550	28,997,822	5,257,102	429,777
2037	8000	2,800,000	6,000	2,100,000	101.64	15.71	85.93	180,455,037	21,654,604	32.97	69,244,926	5,107,299	96,006,863	84,448,174	13,596,156	70,852,018	28,152,782	4,639,911	329,844
2038	8000	2,800,000	6,000	2,100,000	103.67	16.02	87.65	184,064,138	22,087,697	33.63	70,629,825	5,260,518	97,978,073	86,086,065	13,859,856	72,226,208	27,332,201	4,095,155	253,146
2039	8000	2,800,000	6,000	2,100,000	105.75	16.35	89.40	187,745,421	22,529,450	34.31	72,042,421	5,418,334	99,990,239	87,755,181	14,128,584	73,626,597	26,535,375	3,614,334	194,282
2040	8000	2,800,000	6,000	2,100,000	107.86	16.67	91.19	191,500,329	22,980,039	34.99	73,483,269	5,580,884	102,044,228	89,456,101	14,402,432	75,053,669	25,761,617	3,189,947	149,104
2041	8000	2,800,000	6,000	2,100,000	110.02	17.01	93.01	195,330,336	23,439,640	35.69	74,952,935	5,748,310	104,140,921	91,189,415	14,681,496	76,507,919	25,010,264	2,815,373	114,431
2042	8000	2,800,000	6,000	2,100,000	112.22	17.35	94.87	199,236,942	23,908,433	36.41	76,451,994	5,920,760	106,281,223	92,955,720	14,965,871	77,989,849	24,280,671	2,484,767	87,820
2043	8000	2,800,000	6,000	2,100,000	114.47	17.69	96.77	203,221,681	24,386,602	37.13	77,981,033	6,098,382	108,466,055	94,755,627	15,255,656	79,499,971	23,572,208	2,192,969	67,398

RISKS

- Until the company achieves positive cash flow, additional capital will be needed to fund operations. Thus far, management has been very successful in obtaining capital through equity (both common stock and warrants) and debt offerings. The completion of the company's pilot plant in 2014 was delayed almost two years due to the time required to secure financing for the project.
- As management has advanced the company's Extraction Technology, particularly by successfully designing, constructing and operating a pilot plant and now having expanded capacity at a new location at Asphalt Ridge, shareholders have experienced significant dilution requiring a 1-for-30 reverse stock split on May 5, 2017. In addition, the company routinely issues common stock in lieu of cash to satisfy the company's indebtedness for both debt obligations and service providers. Shares outstanding increased 232% in fiscal 2016 to 6,723,167 and 706% in fiscal 2017 to 54,220,699. During fiscal 2018, shares outstanding increased 57.1% to 85,163,631. With the acquisition of a 100% interest to oil sands under six U.S. Federal Oil & Gas in Utah, we anticipate shares outstanding will increase to over 160,000,000.
- The economics of the company's bitumen oil extraction operations are dependent on the price of oil, which is cyclical. At times, the decline in oil prices has delayed the development of the company's project, specifically the closure of the pilot plant in early 2016. A major decline in the price of oil could again result in a material decrease in bitumen oil production and/or a delay in advancing management's agenda for increasing production capacity at Asphalt Ridge.
- Officially, Petroteq has not yet established any reserves on the mineral releases it holds. The estimate of Contingent Resources is based upon a number of assumptions, which must be disclosed with disclaimers as required by governmental regulations. However, upon successfully operating the company's new facility at nameplate capacity for several months, it is expected that the classification of Petroteq's resources will be upgraded.

BALANCE SHEET

Petroteq Energy Inc.	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	2Q FY 2019
Balance Sheet (U.S. Dollars)	8/31/2014	8/31/2015	8/31/2016	8/31/2017	8/31/2018	2/28/2019
ASSETS						
Cash and cash equivalents	938,648	861,639	6,129	55,420	2,640,001	716,451
Trade and other receivables	8,981,441	91,352	215,113	306,909	404,013	169,013
Current portion of advance royalty payments	-	191,432	540,000	258,333	331,200	388,405
Ore inventory	200,000	186,080	-	-	122,242	270,000
Other inventory	-	-	-	-	71,390	71,390
Receivable from director	-	-	-	-	297,256	424,179
Prepaid expenses	60,408	152,706	141,829	92,819	331,688	855,579
Total current assets	**10,180,497**	**1,483,209**	**903,071**	**713,481**	**4,197,790**	**2,895,017**
Advance royalty payments	-	689,818	94,167	244,790	467,886	504,167
Notes receivable	-	-	-	76,000	381,550	1,641,028
Deposit	1,430,978	-	-	-	-	-
Mineral lease	-	11,091,388	12,143,738	11,091,388	11,111,143	12,911,143
Investment in joint venture	-	-	-	68,331	68,331	68,331
Investment in Accord GR Energy	-	-	-	1,141,561	981,137	881,137
Property, plant and equipment	13,141,301	16,444,561	15,852,484	14,906,953	21,188,895	28,360,212
Intangible assets	6,040,656	735,488	2,242,455	707,671	707,671	707,671
TOTAL ASSETS	**30,793,432**	**30,444,464**	**31,235,915**	**28,950,175**	**39,104,403**	**47,968,706**
LIABILITIES AND STOCKHOLDERS' EQUITY						
Accounts payable	15,524,459	1,211,239	1,454,583	1,121,327	1,102,327	1,815,079
Accrued expenses	4,818,322	1,182,742	2,329,151	1,980,304	1,900,081	563,566
Unearned revenue	-	-	133,550	283,976	283,976	283,976
Current portion of long-term debt	4,550,830	3,252,389	3,958,522	1,159,104	1,027,569	1,142,133
Current portion of convertible debentures	-	4,273,815	3,704,000	-	258,404	5,093,055
Payable to director/executive officer	14,849	-	10,068	419,322	-	-
Total current liabilities	**24,908,460**	**9,920,185**	**11,589,874**	**4,964,033**	**4,572,357**	**8,897,809**
Unearned advance royalties received	-	170,000	170,000	170,000	170,000	170,000
Deferred volume purchase incentives	1,072,613	-	-	-	-	-
Long-term debt	6,084,700	13,516,630	8,855,326	717,276	598,982	368,480
Convertible debentures	2,824,000	204,000	555,876	508,500	250,000	-
Reclamation and restoration provisions	-	550,000	561,000	572,220	583,664	589,501
Total Liabilities	**34,889,773**	**24,360,815**	**21,732,076**	**6,932,029**	**6,175,003**	**10,025,790**
Stockholders' Equity						
Share capital	15,993,551	25,524,787	39,416,380	60,827,494	77,870,606	88,062,341
Shares to be issued	-	-	100,000	56,800	996,401	1,051,950
Share option reserve	7,063,773	7,063,773	7,355,559	7,371,552	12,823,000	13,931,650
Share warrant reserve	157,733	337,283	512,934	618,667	3,207,915	5,820,603
Deficit	(27,311,398)	(26,842,194)	(38,916,724)	(46,856,367)	(61,968,522)	(70,923,628)
Shareholder's equity	**(4,096,341)**	**6,083,649**	**8,468,149**	**22,018,146**	**32,929,400**	**37,942,916**
Non-controlling interest	-	-	1,035,690	-	-	-
Total shareholder's equity	**(4,096,341)**	**6,083,649**	**9,503,839**	**22,018,146**	**32,929,400**	**37,942,916**
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	**30,793,432**	**30,444,464**	**31,235,915**	**28,950,175**	**39,104,403**	**47,968,706**
Shares outstanding	1,548,287	2,020,765	6,723,167	54,220,699	85,163,631	106,184,849

PROJECTED INCOME STATEMENT

Petroteq Energy Inc.

Income Statement (U.S. Dollars) (For Years Ending August 31)	Year ending 8/31/2014	Year ending 8/31/2015	Year ending 8/31/2016	Year ending 8/31/2017	Year ending 8/31/2018	FY 2019 Estimate 8/31/2019
Total Revenues	**0**	**0**	**204,735**	**0**	**0**	**5,585,348**
Cost of goods sold	0	0	1,399,239	0	0	3,947,545
Advance Royalty Payments	**0**	**0**	**0**	426,641	0	0
Gross profit	**0**	**0**	**(1,194,504)**	**(426,641)**	**0**	**1,637,803**
Operating Expenses						
General and administrative	399,800	153,290	580,454	348,487	622,423	759,266
Salaries and wages	1,126,274	800,943	865,211	702,782	511,260	1,038,948
Professional fees	622,483	1,178,422	1,789,381	617,615	3,582,986	4,495,606
Share-based payments	307,618	138,852	0	0	0	0
Investor relations, travel & financing costs	760,318	749,105	434,614	553,066	3,984,659	2,702,417
Stock compensation	697,824	0	3,013,965	15,993	5,356,004	6,108,650
Business development	0	0	0	0	4,700	10,000
Market development	0	0	0	0	45,000	35,000
Research and development	0	0	0	0	120,000	318,521
Depreciation and amortization	0	14,430	1,212,674	1,165,830	51,181	65,202
Total Operating Expenses	**3,914,317**	**3,035,042**	**7,896,299**	**3,403,773**	**14,278,213**	**15,533,609**
Income (loss) from operations	**(3,914,317)**	**(3,035,042)**	**(9,090,803)**	**(3,830,414)**	**(14,278,213)**	**(13,895,806)**
Interest (expense)	(73,731)	(294,607)	(1,501,460)	(1,106,808)	(365,440)	(3,691,409)
Plant relocation (costs)	-	-	-	(437,800)	0	0
Equity income - Accord GR Energy	-	-	-	(198,034)	(160,426)	0
Impairment of mineral lease	(1,976,569)	0	0	0	0	(50,000)
Gain (loss) on conversion of debt	(566,322)	0	0	0	0	(79,410)
Gain (loss) on settlement of liabilities	-	47,884	(1,502,628)	(2,366,587)	(92,275)	(108,973)
Other income (expense)	53,478	0	3,065	0	56,532	58,923
Total other income (expense):	**(2,563,144)**	**(246,723)**	**(3,001,023)**	**(4,109,229)**	**(561,609)**	**(3,870,869)**
Net Income (loss)	**(6,477,461)**	**(3,281,765)**	**(12,091,826)**	**(7,939,643)**	**(14,839,822)**	**(17,766,675)**
Non-controlling interest	(1,270,901)	0	(17,296)	0	0	0
Net (loss) attributable to common shareholders	**(5,206,560)**	**(3,281,765)**	**(12,074,530)**	**(7,939,643)**	**(14,839,822)**	**(17,766,675)**
Net eanings per share (basic and diluted)	**($4.48)**	**($1.90)**	**($4.26)**	**($0.66)**	**($0.24)**	**($0.18)**
Wgtd. avg. shares outstanding	1,444,797	1,727,901	2,835,138	12,096,101	62,519,504	100,241,826

QUARTERLY INCOME STATEMENTS

Petroteq Energy Inc.

Income Statement (U.S. Dollars) (For Years Ending August 31)	Year ending 8/31/2017	FY 1Q 11/30/2017	FY 2Q 2/28/2018	FY 3Q 5/31/2018	FY 4Q 8/31/2018	Year ending 8/31/2018
Total Revenues	**0**	**0**	**0**	**0**	**0**	**0**
Advance Royalty Payments	426,641	111,250	76,158	46,712	38,213	272,333
Gross profit	**(426,641)**	**(111,250)**	**(76,158)**	**(46,712)**	**(38,213)**	**(272,333)**
Operating Expenses						
General and administrative	348,487	28,478	221,147	117,297	255,501	622,423
Salaries and wages	702,782	182,000	204,090	252,555	(127,385)	511,260
Professional fees	617,615	274,286	551,609	889,862	1,867,229	3,582,986
Share-based payments	0	0	0	0	0	0
Investor relations, travel & financing costs	553,066	79,814	263,655	1,743,444	1,897,746	3,984,659
Stock compensation	15,993	2,505,647	0	17,834	2,832,523	5,356,004
Business development	0	-	-	-	4,700	4,700
Market development	0	-	-	-	45,000	45,000
Research and development	0	0	0	0	120,000	120,000
Depreciation and amortization	1,165,830	297,758	295,758	296,758	(839,093)	51,181
Total Operating Expenses	**3,403,773**	**3,367,983**	**1,536,259**	**3,317,750**	**6,056,221**	**14,278,213**
Income (loss) from operations	**(3,830,414)**	**(3,479,233)**	**(1,612,417)**	**(3,364,462)**	**(6,094,434)**	**(14,550,546)**
Interest (expense)	(1,106,808)	(121,484)	(120,114)	(81,656)	(42,186)	(365,440)
Plant relocation (costs)	(437,800)	-	-	-	-	0
Equity income - Accord GR Energy	(198,034)	(44,995)	-	-	(115,431)	(160,426)
Gain (loss) on settlement of liabilities	(2,366,587)	0	0	216,297	(308,572)	(92,275)
Other income (expense)	0	0	0	50,982	5,550	56,532
Total other income (expense):	**(4,109,229)**	**(166,479)**	**(120,114)**	**185,623**	**(460,639)**	**(561,609)**
Net Income (loss)	**(7,939,643)**	**(3,645,712)**	**(1,732,531)**	**(3,178,839)**	**(6,555,073)**	**(15,112,155)**
Non-controlling interest	0			0	0	0
Net (loss) attributable to common shareholders	**(7,939,643)**	**(3,645,712)**	**(1,732,531)**	**(3,178,839)**	**(6,555,073)**	**(15,112,155)**
Net eanings per share (basic and diluted)	**($0.66)**	**($0.07)**	**($0.03)**	**($0.05)**	**($0.10)**	**($0.24)**
Wgtd. avg. shares outstanding	12,096,101	54,708,759	56,594,629	60,729,106	64,228,986	62,519,504

Petroteq Energy Inc.

Income Statement (U.S. Dollars) (For Years Ending August 31)	Year ending 8/31/2018	FY 1Q 11/30/2018	FY 2Q 2/28/2019	FY 3Q E 5/31/2019	FY 4Q E 8/31/2019	FY 2019 Estimate 8/31/2019
Total Revenues	**0**	**0**	**21,248**	**1,551,000**	**4,013,100**	**5,585,348**
Cost of goods sold	0	33,750	137,995	1,155,000	2,620,800	3,947,545
Advance Royalty Payments	272,333	0	0	0	0	0
Gross profit	**(272,333)**	**0**	**(116,747)**	**396,000**	**1,392,300**	**1,637,803**
Operating Expenses						
General and administrative	622,423	192,206	177,476	183,688	205,896	759,266
Salaries and wages	511,260	236,612	293,091	303,349	205,896	1,038,948
Professional & legal fees	3,582,986	2,190,518	1,055,088	750,000	500,000	4,495,606
Share-based payments	0	0	0	0	0	0
Investor relations, travel & financing costs	3,984,659	1,228,464	473,953	500,000	500,000	2,702,417
Stock compensation	5,356,004	554,325	554,325	0	5,000,000	6,108,650
Business development	4,700	0	0	10,000	0	10,000
Market development	45,000	0	0	35,000	0	35,000
Research and development	120,000	112,625	0	0	205,896	318,521
Depreciation and amortization	51,181	16,173	16,343	16,343	16,343	65,202
Total Operating Expenses	**14,278,213**	**4,530,923**	**2,570,276**	**1,798,380**	**6,634,031**	**15,533,609**
Income (loss) from operations	**(14,550,546)**	**(4,530,923)**	**(2,687,023)**	**(1,402,380)**	**(5,241,731)**	**(13,895,806)**
			(1,006,725)			
Interest (expense)	(365,440)	(218,679)	(1,325,970)	(1,073,380)	(1,073,380)	(3,691,409)
Plant relocation (costs)	0	-	-	-	-	0
Capital raising fee	0	(1,276,980)	1,276,980	0	0	0
Equity income - Accord GR Energy	(160,426)	(50,000)	0	0	0	(50,000)
Gain (loss) on settlement of cv. debt	0	(79,410)	0	0	0	(79,410)
Gain (loss) on settlement of liabilities	(92,275)	(108,973)	0	0	0	(108,973)
Other income (expense)	56,532	26,259	32,664	0	0	58,923
Total other income (expense):	**(561,609)**	**(1,707,783)**	**(16,326)**	**(1,073,380)**	**(1,073,380)**	**(3,870,869)**
Net Income (loss)	**(15,112,155)**	**(6,238,706)**	**(2,703,349)**	**(2,475,760)**	**(6,315,111)**	**(17,766,675)**
Non-controlling interest	0	0	0	0	0	0
Net (loss) attributable to common shareholders	**(15,112,155)**	**(6,238,706)**	**(2,703,349)**	**(2,475,760)**	**(6,315,111)**	**(17,766,675)**
Net eanings per share (basic and diluted)	**($0.24)**	**($0.07)**	**($0.03)**	**($0.02)**	**($0.06)**	**($0.18)**
Wgtd. avg. shares outstanding	62,519,504	88,734,027	96,363,698	106,184,849	109,684,729	100,241,826

HISTORICAL STOCK PRICE



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[i] Utah Mining 2016, Utah Geological Survey, Circular 124, page 25.
[ii] Utah's Public Land Survey System (PLSS) anchored by the Salt Lake Base and Meridian (SLB&M) in Salt Lake City
[iii] Evaluation of Contingent Resources, Asphalt Ridge, Utah, owned by Petroteq Energy Inc., May 31, 2018, page 20.
[iv] Deloro failed to make further advances under the agreement (MD&A of Petroteq Energy for Period Ending May 31, 2018, page 8)
[v] The netback margin is the gross dollar profit per barrel after taking into account all the costs associated with bringing that barrel of oil to the marketplace and all the revenues generated in the process.

[vi] Tar-Sand Resources of the Uinta Basin, Utah, A Catalog of Deposits, compiled by Robert E. Blackett, Utah Geological Survey, Open-File Report 335, May 1996, page 31(Spieker, 1930).
[vii] Kuuskraa V.A., et al, Major Tar Sand and Heavy Oil Deposits of the United States, Chapter g, Utah, pp. 203-206.
[viii] Permit documentation for M470089, TMC Asphalt Ridge LLC
[ix] Petroteq (MCW Energy Group) Corporate Presentation – Q3 2016, page 16.
[x] Minutes of the Formals Actions of the Director of the School and Institutional Trust Lands Administration (SITLA) on October 3, 2016.
[xi] Evaluation of Contingent Resources, Asphalt Ridge, Utah, owned by Petroteq Energy Inc., May 31, 2018, page 20.
[xii] MD&A of MCW Energy Group for Fiscal 2013, page 7.
[xiii] Total Bitumen Initially-In-Place (TBIIP) is the estimated quantity of bitumen to exist originally in naturally occurring accumulations prior to production and including accumulations yet to be discovered.
[xiv] MDA of MCW Energy Group for Fiscal 2015, page 15.
[xv] Discovered Bitumen Initially-In-Place (DBIIP) is the estimated quantity of bitumen to be contained in known accumulations prior to production. DBIIP is further classified as recoverable (production, reserves, and contingent resources) and unrecoverable.
[xvi] Condensed Consolidated Interim Financial Statements, Petroteq Energy Inc., For the three and nine months ended May 31, 2018, page 5; Evaluation of Contingent Resources, Asphalt Ridge, Utah, owned by Petroteq Energy Inc., May 31, 2018, page 20; Amendment to 40-F filed November 30, 2018, page F46.