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Petroteq

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Overview

Petroteq Energy Inc. is a Canadian-registered holding company, publicly trading on the TSX Venture Exchange (Symbol: PQE) and the OTC trading platform (Symbol: PQEFF). Its offices are located in Toronto, Ontario, Canada, and Los Angeles, California; its initial plant location is in Vernal, Utah. Petroteq is focused on value creation through the development and implementation of proprietary technologies for the environmentally safe extraction of heavy oils from oil sands, oil shale deposits and shallow oil deposits. Petroteq, by way of its wholly owned subsidiary, has a breakthrough environmentally friendly, proprietary oil sands extraction technology which is suitable for all hydrocarbon deposits. The closed-loop technology may also be applied for remedial projects such as tailings ponds. After the launch of its first extraction plant in Utah, the Company is now intent on scaling up its capacity with several additional, higher-capacity extraction units within the state. Research has indicated that Utah alone contains over 30 billion barrels of undeveloped but recoverable oil. Petroteq by way of its wholly owned subsidiary PetroBLOQ, LLC is a collaboration formed with First Bitcoin Capital Corp. with the intention of being the first to develop a supply chain management platform based on advanced blockchain technology for the global transaction needs of the oil and gas industry. Petrobloq intends to be the first blockchain-based platform developed exclusively for the supply chain needs of the Oil & Gas sector.

Financial Analysis

Since 2015, Petroteq has not shown any revenue except during 2016 during a pilot phase for their new plant. In 2015 the plant was operational, but then it was relocated in 2016. Over the past few years, the plant has been reassembled and upgraded and was just completed in the first half of 2018. As of November 14, 2018, Petroteq officially delivered oil to the market with hopes of reaching 1,000 bpd by the end of 2018. Petroteq has goals of reaching 3,000 bpd and 8,000 bpd by 2019 and 2021 respectively. We anticipate revenue to grow substantially over the next year further driving up current assets which will enable them to pay off short and long term debt. Petroteq has shown substantial investment into equipment and machinery over the last several periods, further emphasizing their establishment of production. A ratio analysis would not have been relevant to analyze a company that is restarting production after continuous investment due to the lack of financial data.

Management

David Sealock, CEO

David Sealock is a highly accomplished, results driven senior executive leader with over 26 years of strategic management and business/digital transformation leadership. He has a track record of building high-performing teams with a strong focus on setting corporate strategy, executing for results, leading teams, galvanizing relationships, connecting corporate activities and translating ideas into action. Prior to joining Petroteq, Mr. Sealock served as President of Autus Ventures, where he established equity financing processes for startup and intermediate oil and gas companies and managed strategic planning and portfolio optimization. Prior to that, he was Vice President of Research & Development at Petroleum Technology Alliance Canada (PTAC), a Canadian hydrocarbon industry association that serves

as a neutral non-profit facilitator of collaborative R&D and technology development. Mr. Sealock has worked for Chevron in several countries and managed two oil sands companies in Canada.

Dr. Gerald Bailey, Director and President

Dr. Bailey has over 50 years of experience in the international petroleum industry in all sectors, both upstream and downstream with specific Middle East skills and U.S. onshore/offshore sectors. Mr. Bailey is a current President and Director of Petroteq Energy, Inc. as well as its former CEO, he also serves an advisor to Petroteq's Petrobloq project. He is currently the Chairman of Bailey Petroleum, LLC, a consulting firm for major oil and gas exploration and development corporations. In addition, Bailey is Chief Operating Officer of Indoklanicsa, Nicaragua; Vice Chairman, Trinity Energy Group, Inc., former Chairman of American Impact Energy and former CEO of American Dakota Refinery, LLC. Dr. Bailey is retired from Exxon, lastly as President, Arabian Gulf.

Donald Clark, Chief Geologist

Donald Clark utilizes his knowledge of geological resource assessments to assist Petroteq in its oil sands leases and future resource property acquisitions. He also provides counsel on reviewing hydrocarbon reserves and resource reports, feasibility studies and NI 43-101 reports. Dr. Clark develops financial models and analyzes commodity price fluctuations, as well as operational and transportation costs of oil and natural gas leases.

Mark Korb, CFO

With a high level of experience in taking start-up companies to the next level, Mark Korb has over 20 years experience with high growth companies. He serves as the CFO or Financial Consultant for several companies, including Caldera Pharmaceuticals, a drug discovery and services company. Other represented companies include Fluid Spirit Holdings, LLC, a brand development and events coordinating company; First South Africa Management Corp., a small cap private equity and financial consulting firm. Mr. Korb also serves as the financial consultant to Propel Technologies, an oil and gas services company.

Aleksandr Blyumkin, Co-Founder and Chairman

Aleksandr Blyumkin, has a wide range of experience in the energy industry. After achieving significant success in downstream operations on several energy projects in Azerbaijan, Ukraine and the U.S., he recognized a worldwide need for a safe, environment-friendly oil sands extraction technology. After many years of technology research, Alex and his team discovered the origins of what is now Petroteq's groundbreaking extraction technology. With his vision in seeing the tremendous potential of a safe oil sands extraction technology, he was the key figure in providing significant funding to further develop Petroteq's extraction technology. After four years of improvements and enhancements to create today's version of Petroteq extraction technology, it is now being deployed on the Company's lease location in Asphalt Ridge, Utah. Blyumkin has now focused his interests in oil sands lease development opportunities in the U.S.

We believe that this exceptional management team will drive production and success forward due to their vast experiences in the industry prior to the inception of Petroteq. This will be a key driver of the company financials and future stock performance.

Investment Thesis

Patented Technology

This extraction technology is the result of nearly five years of research by Petroteq's research and engineering teams, headed up by Chief Technology Officer Dr. Vladimir Podlipskiy, well known for his work with benign solvents. Over this period of time, Petroteq gradually enhanced and improved the efficiencies of its technology at each stage of fabrication with better dryer/mixer components and a higher consistency of oil sands flow. This extraction technology is versatile...it can be effectively applied to both "water-wet" deposits (such as the oil sands projects in Alberta, Canada) or the "oil-wet" deposits such as the resources typically found in Utah.

Petroteq's extraction technology utilizes no water in the extraction process, produces no greenhouse gases and requires no high temperatures/pressures. It extracts up to 99% of all hydrocarbon contents and recycles up to 99% of the benign solvents. The proprietary solvent composition consists of hydrophobic, hydrophilic and polycyclic hydrocarbons.

Petroteq's patent portfolio includes technology for the environmentally-safe extraction of heavy oils from oil sands, oil shale deposits and shallow oil deposits. Petroteq has been involved in the patent protection processes since its initial technology development in 2011.

Competitive Advantage

Petroteq is keen on maximizing the efficiencies and enviro-friendly features of its oil extraction technology which requires no water during the process, no high temperatures/pressures, and no greenhouse gases are produced. It's a closed-loop system, which means that all the benign solvents used in the extraction process are sealed inside the components while the oil is extracted. The Company's first plant has met or exceeded all of the environmental regulations set forward by the state of Utah, and Petroteq has received all permits required for the processing of oil sands feedstock on its lease site in Asphalt Ridge. There's no water needed, no fracking, no tailings ponds, and the sand extracted is safe enough to produce food.

Potential of Utah Oil Sand Industry

There are many other deposits of oil sands throughout the world, most notably in Venezuela and Canada, where they are known as "water-wet" deposits because they're typically found deep in the earth, mixed in with water, sand and clay in a semi-solid natural deposit. Although several of America's western/southern states have oil sands deposits, Utah contains approximately 55% of the nation's total deposits, concentrated in eight major deposit areas with a total resource of over 30 billion barrels of oil. The lease owned by Petroteq contains an estimated 139,539,000 gross barrels of oil.

Peer Analysis

Since Petroteq is a small cap oil/energy company with little to no financials that are relevant, we searched for a comparable peer that is operating in a similar industry with comparable size. A company that is comparable is Nabor Industries Ltd.. Both Petroteq and Nabors are looking to change the industry with newly published patents and technology. Nabors is a company that offers equipment, rig instrumentation, new software, and directional drilling services. It also provides new patents designed

to help gather data more effectively. Both Nabors and Petroteq are looking to change the way oil is acquired. When performing a peer analysis, we see Petroteq capturing a new portion of the oil market because of their environmentally friendly and efficient patent. An ideal outcome for Petroteq would be to become a subsidiary of a larger corporation, pending the success of their newly patented technology.

Valuation

When performing a valuation of Petroteq, we were forced to use a unique approach because of the lack of prior year cash flows, and the lack of financial ratios. Petroteq has not made any sales over the past few financial periods and does not have any comparable peers due to their unique business strategy. Petroteq has recently began sales of their new products and we anticipate that they will show revenue on their quarter 4 financial statements as well as into the future. Based on this assumption, we believe that Petroteq has hit their lowest possible share price and has very high upside potential based on our investment thesis above. We performed a scorecard valuation of Petroteq, based on a model used by Angel investors for startup companies that do not have revenue. This qualitative analysis allowed us to quantify our assumptions, and weight criteria of the company and the importance of this criteria in order to create a factor product that when applied to the share price, gave us an estimate of a target share price. This model is very subjective to our opinions, but in order to evaluate the company based on our research, we found this method to be the most relevant. The following chart shows how we derived out target price of \$\$\$.

Petroteq				
Comparison Factor	Range	Target Company	Factor	
Strength of Management	30%	200%	0.600	
Size of Opportunity	25%	200%	0.500	
Product/Technology	15%	100%	0.150	
Competitive Environment	10%	100%	0.100	
Marketing/Sales/Partnerships	10%	60%	0.060	
Need for Additional Investment	5%	100%	0.050	
Other	5%	100%	0.050	
	100%		1.510	
Stock Price			\$ 0.50	Per Share
			\$ 0.76	Target price
			51%	Upside Potential

Risks

Price of oil – The everchanging price of oil will be a large risk to Petroteq because of how small the company currently is. Any small changes in the price of oil will create a large impact on the bottom line because Petroteq only expects to be producing 1,000 bpd by the end of 2018.

Cost of Production – This is one of the biggest risks that Petroteq faces. If they are unable to break even this would detrimental to their long term standing as a company. Currently Petroteq projects costs per barrel to be as low as 22 dollars a barrel while outsiders project that they could be as high as 75 dollars a barrel.

Governmental Regulations – Permission from the regulatory agencies is something that Petroteq requires in order to continue to the future stages of development. Currently the most difficult regulations have already been cleared. It is likely that there will not be any more regulatory constraints in the future.

Public Opposition – After the Oil Sand boom in Alberta, Canada, the public has not had a positive opinion on the oil sand industry. Canada was left with many tailings ponds that have been a disaster for the environment. Petroteq must overcome the public's perception of oil sands and show them how they are operating differently.

Please see below for the risk heat map

Portfolio Analysis

Although we see a high upside potential in Petroteq, and are targeting a growth investment within the energy sector, we also realize the high amount of risk associated with investing in a company that is restarting operations. Therefore, we recommend that the Student Managed Investment Fund invests \$500.00, for roughly 1000 shares of Petroteq. \$500 when compared to our holdings of over \$150,000 is very minimal and will not offset the weights of other sectors including the energy sector. This will limit our risk while also provide us an opportunity for great upside potential pending the increase in share price. **Top Shareholders**

Name	%OS	Position (000)	Pos Chg (000)	Report Date
Deloro Energy Llc	6.70	6,000	6,000	09/30/2018
Blyumkin Aleksandr	5.78	5,171	0	09/30/2018
Bay Private Equity, Inc.	1.62	1,450	1,450	09/30/2018
Dennewald Robert	0.16	139	29	11/08/2018
Podlipskiy Vladimir	0.02	17	0	09/30/2018

