

White Owl Energy Services Inc.
Condensed Consolidated Financial Statements *(unaudited)*

For the three and six months ended June 30, 2016
(Expressed in Canadian dollars)

Notice of No Auditor Review of Interim Financial Statements

As per the disclosure requirements of National Instrument 51-102, Part 4, subsection 4.3(3)(a), this note is to inform readers that White Owl Energy Services Inc. has elected not to review these financial statements and notes with its auditors.

The accompanying condensed consolidated financial statements of White Owl Energy Services Inc. as at and for the three and six months ended June 30, 2016 have been internally prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by Chartered Professional Accountants for a review of interim financial statements by an entity's auditor.

WHITE OWL ENERGY SERVICES INC.
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION *(unaudited)*

<i>(\$000's)</i>	June 30, 2016	December 31, 2015
Assets		
Current		
Cash	\$ 1,511	\$ 3,059
Trade and other receivables	2,078	2,101
Promissory notes	232	232
Prepays and deposits	198	303
Total current assets	4,019	5,695
Property, plant and equipment	24,414	24,815
Goodwill and intangible assets	8,232	8,873
Total assets	\$ 36,665	\$ 39,383
Liabilities		
Current		
Term loan (Note 4)	\$ 15,218	\$ 16,558
Trade and other payables	523	938
Total current liabilities	15,741	17,496
Long-term debt (Note 5)	2,322	2,699
Share repurchase obligations (Note 6)	-	5,441
Decommissioning liabilities	1,227	1,121
Total liabilities	19,290	26,757
Shareholders' equity		
Share capital (Note 7)	26,160	20,649
Contributed surplus	807	650
Accumulated other comprehensive income	3,142	4,249
Deficit	(12,734)	(12,922)
Total equity	17,375	12,626
Total liabilities and equity	\$ 36,665	\$ 39,383
Going concern considerations (Note 2)		
Subsequent event (Note 10)		

The accompanying notes are an integral part of the condensed consolidated financial statements.

WHITE OWL ENERGY SERVICES INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS *(unaudited)*

	Three Months ended June 30		Six Months ended June 30	
<i>(\$000's)</i>	2016	2015	2016	2015
Revenue				
Oilfield waste disposal services	\$ 2,693	\$ 2,651	\$ 4,986	\$ 5,233
Interest income	-	1	1	2
	2,693	2,652	4,987	5,235
Expenses				
Operating expenses	1,376	1,450	2,710	3,451
General and administrative expenses	370	498	727	939
Depreciation and amortization	281	298	625	593
Finance costs (Note 6)	281	409	774	779
Share-based payments	79	129	157	253
Foreign exchange losses (gains)	-	36	31	(163)
Gain on debt extension (Note 5)	-	-	(269)	-
Loss on disposal of assets	-	-	44	-
	2,387	2,820	4,799	5,852
Net income (loss)	306	(168)	188	(617)
Other comprehensive income (loss)				
Exchange difference on translating foreign operations	(163)	(465)	(2,202)	2,405
Change in fair value of net investment hedges	81	226	1,095	(1,130)
	(82)	(239)	(1,107)	1,275
Net comprehensive income (loss)	\$ 224	\$ (407)	\$ (919)	\$ 658

The accompanying notes are an integral part of the condensed consolidated financial statements.

WHITE OWL ENERGY SERVICES INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY *(unaudited)*

<i>(\$000's)</i>	Share capital	Contributed surplus	Accumulated other comprehensive income	Deficit	Total
Balance, December 31, 2014	\$ 19,999	\$ 195	\$ 1,030	\$ (1,168)	\$ 20,056
Net loss	-	-	-	(617)	(617)
Other comprehensive income	-	-	1,275	-	1,275
Share-based payments	-	253	-	-	253
Common shares issued	650	-	-	-	650
Balance, June 30, 2015	\$ 20,649	\$ 448	\$ 2,305	\$ (1,785)	\$ 21,617
Balance, December 31, 2015	\$ 20,649	\$ 650	\$ 4,249	\$ (12,922)	\$ 12,626
Net income	-	-	-	188	188
Other comprehensive loss	-	-	(1,107)	-	(1,107)
Share-based payments	-	157	-	-	157
Settlement of share repurchase obligations (Note 6)	5,511	-	-	-	5,511
Balance, June 30, 2016	\$ 26,160	\$ 807	\$ 3,142	\$ (12,734)	\$ 17,375

The accompanying notes are an integral part of the condensed consolidated financial statements.

WHITE OWL ENERGY SERVICES INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS *(unaudited)*

<i>(000's)</i>	Three Months ended June 30		Six Months ended June 30	
	2016	2015	2016	2015
Cash provided by operating activities:				
Net income (loss)	\$ 306	\$ (168)	\$ 188	\$ (617)
Items not affecting cash:				
Depreciation and amortization	281	298	625	593
Accretion	36	128	128	259
Net unrealized losses (gains)	-	36	(195)	(163)
Share-based payments	79	129	157	253
Change in non-cash working capital	(565)	(174)	(41)	293
Cash provided by operating activities	137	249	862	618
Cash used in investing activities:				
Capital expenditures	(342)	(769)	(1,716)	(1,397)
Change in non-cash working capital	(520)	(92)	(272)	(456)
Cash used in investing activities	(862)	(861)	(1,988)	(1,853)
Cash used in financing activities:				
Debt repayments	(130)	(319)	(250)	(480)
Repayment of promissory notes	-	43	-	43
Cash used in financing activities	(130)	(276)	(250)	(437)
Foreign exchange gains (losses) on cash held in foreign currency	(12)	(64)	(172)	269
Change in cash	(867)	(952)	(1,548)	(1,403)
Cash, beginning of period	2,378	4,361	3,059	4,812
Cash, end of period	\$ 1,511	\$ 3,409	\$ 1,511	\$ 3,409

The accompanying notes are an integral part of the condensed consolidated financial statements.

WHITE OWL ENERGY SERVICES INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

For the three and six months ended June 30, 2016 and 2015

1. CORPORATE INFORMATION

White Owl Energy Services Inc. ("White Owl") was incorporated under the Business Corporations Act of the province of Alberta on September 26, 2013 (together with its subsidiaries, the "Company"). White Owl Energy Services, Inc. ("White Owl (US)") was incorporated under the laws of the state of North Dakota on September 24, 2013. On November 1, 2013, White Owl acquired all the issued and outstanding shares of White Owl (US) by a share purchase agreement.

The Company is based in Calgary, Alberta and is actively involved in the collection, processing, and disposal of oilfield waste. The Company's registered office is 2800, 715 – 5th Avenue SW Calgary, Alberta T2P 2X6.

The condensed consolidated financial statements were approved and authorized for issuance by the Board of Directors on August 16, 2016.

2. BASIS OF PRESENTATION AND GOING CONCERN CONSIDERATIONS

These condensed consolidated financial statements are unaudited and have been prepared in accordance with International Accounting Standard (IAS) 34, "Interim Financial Reporting" using accounting policies consistent with International Financial Reporting Standards ("IFRS"). Certain information and disclosures normally included in the annual financial statements prepared in accordance with IFRS have been condensed or omitted. The condensed consolidated financial statements should be read in conjunction with the Company's audited financial statements as at, and for the year ended, December 31, 2015, and the notes thereto.

The condensed consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue operation in the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations.

As at June 30, 2016, the Company had negative working capital of \$11.7 million and an accumulated deficit of \$12.7 million. These factors indicate the existence of material uncertainties which may cast significant doubt about the Company's ability to continue as a going concern. The ability of the Company to continue as a going concern and realize the carrying value of its assets and discharge its liabilities when due is dependent on achieving future profitable operations. There is no certainty that the Company will achieve profitable operations in the future due to factors such as commodity prices, industry activity levels in the regions in which the Company operates, changes by competitors, successfully raising capital for acquisition and development opportunities and successful implementation of management's plans.

The condensed consolidated financial statements do not include any adjustments to the amounts and classifications of assets and liabilities, and reported revenues and expenses, that might be necessary should the Company be unable to continue as a going concern, and therefore, be required to realize its assets and discharge its liabilities other than in the normal course of business and at carrying amounts different from those reflected in the accompanying condensed consolidated financial statements. Any such adjustments could be material.

3. SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements have been prepared following the same accounting policies and methods of computation as the Company's December 31, 2015 annual financial statements.

WHITE OWL ENERGY SERVICES INC.**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**For the three and six months ended June 30, 2016 and 2015

4. TERM LOAN AND OPERATING LOAN***Term Loan***

The term loan is a non-revolving, reducing demand facility at an annual interest rate of US prime plus 1.75%. The Company is required to make monthly interest payments as well as total principal payments of US\$200,000 during the six month ending December 31, 2016. Principal payments of \$246,000 (US\$183,000) were made during the six months ended June 30, 2016 (2015 - \$477,000 (US\$386,000)). The remaining balance at December 31, 2016 will be repaid over an eight year amortization period. Blended monthly principal and interest payments of US\$151,000 will start on January 31, 2017 if the US prime rate remains unchanged from current rates. The loan is subject to annual review with the next review scheduled for June 2017.

Operating Loan

The operating loan is a US\$1,000,000 facility and is reduced by outstanding letters of credit of \$54,000. There are no amounts drawn on the operating line at June 30, 2016 (December 31, 2015 – nil).

Covenants

Under the loan agreement for the term and operating loans, the Company is required to maintain a minimum Debt Service Coverage Ratio of 1.1 to 1 until September 30, 2016 and 1.25 to 1 thereafter. The Debt Service Coverage Ratio is calculated as follows:

$$\text{Debt Service Coverage Ratio} = \frac{\text{Earnings before interest, depreciation, taxes and amortization}}{\text{Debt service obligations}}$$

The Debt Service Coverage Ratio at June 30, 2016 was 1.91 (December 31, 2015 – 1.68). The ratio is calculated based on the trailing three quarters at June 30, 2016 and will be based on the trailing four quarters in the future.

5. LONG-TERM DEBT

(\$000's)	June 30, 2016	December 31, 2015
Promissory note	\$ 2,168	\$ 2,530
Mortgage	154	169
Total long-term debt	\$ 2,322	\$ 2,699

In February 2016, the Company reached an agreement to extend the repayment terms of the promissory note. The amendment requires the Company to make quarterly interest payments of US\$17,500 to February 1, 2018, followed by quarterly payments of US\$203,000 to August 1, 2020, and a final payment of US\$70,216 on September 1, 2020. The fair value of the promissory note at the date of the amendment was determined using an effective interest rate of 9.75% and, as a result, the carrying value of the promissory note was reduced by \$269,000 with a corresponding gain recorded in the consolidated statement of comprehensive loss.

WHITE OWL ENERGY SERVICES INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

For the three and six months ended June 30, 2016 and 2015

(\$000's)	Six months ended June 30	
	2016	2015
Long-term debt		
Balance, beginning of period	\$ 2,699	\$ 2,164
Principal payments	(4)	(3)
Foreign exchange effect	(164)	166
Change in fair value of promissory note	(269)	-
Accretion	60	54
Balance, end of period	\$ 2,322	2,381

6. SHARE REPURCHASE OBLIGATIONS

(000's)		
Balance, December 31, 2015	\$	5,441
Accretion		55
Foreign exchange effect		15
Settlement		(5,511)
Balance, June 30, 2016	\$	-

In February 2016, the Company terminated the share repurchase obligations that required the Company to repurchase 2,000,000 shares of the Company at US\$0.50 and 4,000,000 shares at US\$0.88 in exchange for a payment of \$139,000, release of funds held in escrow and termination of the Company's rights to repurchase these shares. The Company recorded an increase in share capital of \$5,511,000 and a settlement expense of \$139,000.

7. SHARE CAPITAL

(\$000's)	June 30, 2016	December 31, 2015
Common shares	\$ 13,807	\$ 8,296
Preferred shares	12,353	12,353
Total share capital	\$ 26,160	\$ 20,649

Common Shares	Number	Amount (\$000's)
Balance, December 31, 2015	26,758,788	\$ 8,296
Settlement of share repurchase obligations (Note 6)	-	5,511
Balance, June 30, 2016⁽ⁱ⁾	26,758,788	\$ 13,807

- (i) At June 30, 2016, there were 4,000,000 (December 31, 2015 – 4,000,000) common shares held in escrow.

WHITE OWL ENERGY SERVICES INC.**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS** *(unaudited)*

For the three and six months ended June 30, 2016 and 2015

Preferred Shares⁽ⁱ⁾	Number	Amount (\$000's)
Balance, December 31, 2015 and June 30, 2016	26,468,592	\$ 12,353

- (i) The Senior Preferred Class A Voting Shares are convertible into common shares of the Company, at the option of the holder, on a one to one basis, and rank ahead of common shares on liquidation, dissolution or winding up of the Company.

8. FINANCE COSTS

(\$000's)	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
Interest on term loan	\$ 219	\$ 211	\$ 454	\$ 426
Interest on long-term debt	25	23	51	46
Cost of share repurchase obligation settlement	-	-	139	-
Loan fees	-	32	-	32
Accretion of long-term debt	29	27	60	54
Accretion of share repurchase obligations (Note 6)	-	96	55	194
Accretion of asset retirement obligations	7	5	13	11
Bank charges and other	1	15	2	16
	\$ 281	409	\$ 774	779

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**Net investment in foreign operations**

The Company hedges its net investment in foreign operations with U.S. dollar denominated debt that has a carrying value of \$15.2 million (US\$11.8 million) at June 30, 2016 (December 31, 2015 - \$16.6 million (US\$12.0 million)). No hedge ineffectiveness was recognized during the six months ended June 30, 2016 (2015 - \$nil).

Financial instruments and risk management

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk, foreign currency risk, interest rate risk and commodity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

Risk management is carried out by senior management.

Fair values

The Company's financial instruments recognized on the consolidated statement of financial position consist of cash, trade and other receivables, promissory notes, term loan, trade and other payables and long term debt. The fair values of the cash, trade and other receivables, promissory notes, term loan and trade and other payables approximates their carrying value due to the short term or demand nature of these instruments. Long-term debt is carried at amortized cost which approximates fair value as interest rates at June 30, 2016 were consistent with interest rates in these instruments.

WHITE OWL ENERGY SERVICES INC.**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*****For the three and six months ended June 30, 2016 and 2015**

The Company has classified its financial instrument fair values based on the required three level hierarchies:

- Level 1: Valuations based on quoted prices in active markets for identical assets or liabilities;
- Level 2: Valuations based on observable inputs other than quoted active market prices; and,
- Level 3: Valuations based on significant inputs that are not derived from observable market data, such as discounted cash flows methods.

The fair value hierarchy level at which a fair value measurement is categorized is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. There were no transfers from levels 1, 2 and 3 during the six months ended June 30, 2016.

10. SUBSEQUENT EVENT

White Owl has entered into a joint venture arrangement for the construction and operation of a salt water disposal facility near Tioga, North Dakota. The Company has committed to contribute certain assets in exchange for a 32% interest in the joint venture. The other joint venture partners have committed to contribute US\$2.5 million.