

Condensed Consolidated Interim Financial Statements of

WHITE OWL ENERGY SERVICES INC.

For the three and six months ended June 30, 2018 and 2017

(Unaudited) (Expressed in thousands 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. (the “Company”) has elected not to review these condensed consolidated interim financial statements and notes with its auditors.

The accompanying condensed consolidated interim financial statements of White Owl Energy Services Inc. as at and for the three and six months ended June 30, 2018 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 condensed consolidated interim 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 INTERIM STATEMENTS OF
FINANCIAL POSITION
(Unaudited) (Expressed in thousands of Canadian dollars)

	June 30, 2018	December 31, 2017
ASSETS		
CURRENT		
Cash	2,846	1,202
Trade and other receivables (Note 11, 13)	7,330	3,039
Promissory notes (Note 13)	42	170
Deposits and prepaid expenses	2,004	1,324
	12,222	5,735
Property, plant and equipment	30,362	29,840
Goodwill	8,392	7,995
	50,976	43,570
LIABILITIES		
CURRENT		
Operating loan (Note 4)	66	659
Term loan (Note 4)	14,987	14,278
Current portion of promissory notes (Note 5)	3,023	3,138
Current portion of mortgage payable (Note 6)	9	9
Trade and other payables	7,100	1,585
Current portion of decommissioning liabilities (Note 7)	274	273
	25,459	19,942
Promissory notes (Note 5)	34	18
Mortgage payable (Note 6)	131	128
Decommissioning liabilities (Note 7)	4,068	4,180
	29,692	24,268
SHAREHOLDERS' EQUITY		
Share capital (Note 8)	31,745	30,693
Warrants (Note 8)	53	53
Contributed surplus	1,241	1,173
Accumulated other comprehensive income	3,568	2,566
Deficit	(15,323)	(15,183)
	21,284	19,302
	50,976	43,570

Going concern (Note 2)
Subsequent events (Note 16)

Approved on behalf of the Board of Directors:

Signed "Owen C. Pinnell"
Director

Signed: "Robb D. Thompson"
Director

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

WHITE OWL ENERGY SERVICES INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF
COMPREHENSIVE INCOME (LOSS)
(Unaudited) (Expressed in thousands of Canadian dollars)

	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
REVENUE (Note 9)				
Oilfield disposal and processing services	3,651	2,806	7,113	5,240
Production revenue	318	-	568	-
	3,969	2,806	7,681	5,240
EXPENSES				
Operating costs	2,581	1,499	4,776	3,188
General and administrative	637	416	1,151	879
Depreciation and depletion	540	371	1,036	720
Impairment (Note 15)	-	1,076	-	1,076
Finance costs (Note 10)	399	273	774	523
Foreign exchange (gains) losses	147	(42)	180	(46)
Share-based payments	34	93	68	180
Gain on settlement of promissory notes (Note 5)	(258)	-	(258)	-
Loss on disposal of property, plant and equipment - net	92	-	92	-
Loss on abandonment (Note 15)	2	69	2	69
	4,174	3,755	7,821	6,589
NET LOSS	(205)	(949)	(140)	(1,349)
OTHER COMPREHENSIVE INCOME (LOSS)				
Exchange gain (loss) on translating foreign operations	737	(872)	1,647	(1,213)
Change in fair value of net investment hedges (Note 11)	(234)	367	(645)	514
	503	(505)	1,002	(699)
NET COMPREHENSIVE INCOME (LOSS)	298	(1,454)	862	(2,048)

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

WHITE OWL ENERGY SERVICES INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY
(Unaudited) (Expressed in thousands of Canadian dollars)

	Share Capital	Warrants	Contributed surplus	Accumulated other comprehensive income	Deficit	Total
Balance at December 31, 2016	30,377	53	860	3,841	(12,982)	22,149
Net loss	-	-	-	-	(1,349)	(1,349)
Other comprehensive loss	-	-	-	(699)	-	(699)
Share-based payments	-	-	180	-	-	180
Common shares issued (Note 8)	316	-	-	-	-	316
Balance at June 30, 2017	30,693	53	1,040	3,142	(14,331)	20,597
Balance at December 31, 2017	30,693	53	1,173	2,566	(15,183)	19,302
Net loss	-	-	-	-	(140)	(140)
Other comprehensive income	-	-	-	1,002	-	1,002
Share-based payments	-	-	68	-	-	68
Common shares issued (Note 8)	1,247	-	-	-	-	1,247
Cancellation of common shares (Note 13)	(128)	-	-	-	-	(128)
Share issuance costs (Note 8)	(67)	-	-	-	-	(67)
Balance at June 30, 2018	31,745	53	1,241	3,568	(15,323)	21,284

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

WHITE OWL ENERGY SERVICES INC.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

(Unaudited) (Expressed in thousands of Canadian dollars)

	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
CASH FLOWS RELATED TO THE FOLLOWING ACTIVITIES:				
OPERATING				
Net loss	(205)	(949)	(140)	(1,349)
Adjustments for non-cash items:				
Depreciation and depletion	540	371	1,036	720
Impairment (Note 15)	-	1,076	-	1,076
Accretion (Note 10)	111	8	226	16
Unrealized foreign exchange losses (gains)	137	(42)	152	(46)
Gain on settlement of promissory notes (Note 5)	(258)	-	(258)	-
Loss on disposal of property, plant and equipment – net	92	-	92	-
Loss on abandonment (Note 15)	2	69	2	69
Share-based payments	34	93	68	180
Abandonment expenditures	(2)	(130)	(2)	(130)
Change in non-cash working capital (Note 14)	327	(1,049)	426	(995)
Cash from (used for) operating activities	778	(553)	1,602	(459)
INVESTING				
Property, plant and equipment expenditures	(514)	(259)	(804)	(1,001)
Proceeds on disposal of property, plant and equipment	2	-	2	-
Change in non-cash working capital (Note 14)	492	(382)	326	(541)
Cash used in investing activities	(20)	(641)	(476)	(1,542)
FINANCING				
Proceeds from issuance of shares, net of costs (Note 8)	887	216	1,180	316
Proceeds from operating loan (Note 4)	656	199	1,038	199
Repayment of operating loan (Note 4)	(1,009)	-	(1,631)	-
Repayment of term loan (Note 4)	-	(133)	-	(267)
Repayment of mortgage payable (Note 6)	(2)	(2)	(4)	(4)
Repayment of promissory notes payable (Note 5)	(61)	(5)	(79)	(10)
Issuance of promissory notes receivable (Note 5)	36	-	36	-
Change in non-cash working capital (Note 14)	(38)	119	(78)	125
Cash from (used for) financing activities	469	394	462	359
Foreign exchange loss (gain) on cash held in foreign currency	28	(14)	56	(25)
NET INCREASE (DECREASE) IN CASH	1,255	(814)	1,644	(1,667)
CASH, BEGINNING OF PERIOD	1,591	1,731	1,202	2,584
CASH, END OF PERIOD	2,846	917	2,846	917

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

WHITE OWL ENERGY SERVICES INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Three and six months ended June 30, 2018 and 2017

(Unaudited) (All figures expressed in Canadian dollars unless otherwise noted)

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 headquartered in Calgary, Alberta and is actively involved in the collection, processing, and disposal of oilfield waste in North Dakota and third-party oil treating, terminalling, blending and water disposal in central Alberta. The Company’s registered office is 1150, 1122 – 4th Street SW, Calgary, AB T2R 1M1.

The condensed consolidated interim financial statements (“consolidated financial statements”) were approved and authorized for issuance by the Board of Directors on September 18, 2018.

2. BASIS OF PRESENTATION AND GOING CONCERN

These consolidated financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34, “Interim Financial Reporting”, as issued by the International Accounting Standards Board (“IASB”). Accordingly, certain information or footnote disclosure normally included in the annual consolidated financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”) have been condensed or omitted.

The consolidated financial statements include the financial statements of the Company, its subsidiaries and the Company’s proportionate share of the accounts of its joint operation.

These consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2017.

Except as outlined below, the consolidated financial statements have been prepared using the same accounting policies and methods as those used in the consolidated financial statements for the year ended December 31, 2017. The consolidated financial statements have been presented in Canadian dollars, which is also the Company’s functional currency, unless otherwise indicated.

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

As at June 30, 2018, the Company had negative working capital of \$13,237,000 (December 31, 2017 - \$14,207,000), an accumulated deficit of \$15,323,000 (December 31, 2017 - \$15,183,000) and net loss for the six months ended June 30, 2018 of \$140,000 (2017 - \$1,349,000 net loss). In addition, the Company was in default under its senior lender General Security Agreement (“GSA”) (see Note 4). 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 and remediating the senior lender GSA default (see Note 16 Subsequent events for remediation of the senior lender default). 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, competition, successfully raising capital for acquisition and development opportunities and successful implementation of management’s plans.

WHITE OWL ENERGY SERVICES INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Three and six months ended June 30, 2018 and 2017

(Unaudited) (All figures expressed in Canadian dollars unless otherwise noted)

The 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 consolidated financial statements. Any such adjustments could be material.

3. CHANGES IN ACCOUNTING POLICIES

IFRS 9 *Financial Instruments* (“IFRS 9”)

Effective January 1, 2018 the Company adopted IFRS 9 which replaced IAS 39 *Financial Instruments: Recognition and Measurement* (“IAS 39”). IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost; fair value through other comprehensive income (“FVOCI”); or fair value through profit or loss (“FVTPL”). IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Classification is now generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

IFRS 9 also replaces the “incurred loss” model in IAS 39 with an “expected credit loss” model. The new impairment model applies to financial assets measured at amortized cost, and contract assets and debt instruments measured at FVOCI. Under IFRS 9, credit losses will be recognized earlier than under IAS 39.

There were no adjustments to the carrying amounts of the Company’s financial instruments as a result of the change in classification from IAS 39 to IFRS 9 and the application of the new expected credit loss model did not have a material impact on the Company’s financial assets.

The Company has not designated any financial instruments as FVOCI.

IFRS 15 *Revenues from Contracts with Customers* (“IFRS 15”)

On January 1, 2018 the Company adopted IFRS 15 which replaces IAS 11 and 18 and outlines the recognition and measurement requirements for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. The Company’s accounting policies related to revenue recognition have not been affected as a result of adopting IFRS 15.

Revenues are recognized when the Company satisfies its performance obligations by transferring control of goods or services to its customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. As the Company performs direct services under the contract, it does not have any remaining performance obligations to its customers for those services. As a result, revenue contracts allow for revenue recognition at the time and amount to which it has a “right to invoice” the customer.

The adoption of IFRS 15 had no impact on the consolidated financial statements. The 2017 comparative period did not require restatement and no cumulative transitional adjustments to opening deficit balance was required. Additional disclosures requirements required by IFRS 15 are detailed in Note 9.

WHITE OWL ENERGY SERVICES INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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IFRS 16 Leases

In January 2016, the IASB issued IFRS 16 “Leases”. For lessees applying IFRS 16, a single recognition and measurements model for leases would apply, with required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if the entity is also applying IFRS 15 “Revenue from Contracts with Customers”. The Company is currently evaluating the impact of adoption of this standard and the effect on White Owl’s consolidated financial statements has not yet been determined.

4. TERM LOAN AND OPERATING LOAN

Term Loan

(\$000’s)

Balance at December 31, 2016	15,550
Principal payments	(267)
Foreign exchange effect	(1,005)
Balance at December 31, 2017	14,278
Principal payments	-
Foreign exchange effect	709
Balance at June 30, 2018	14,987

The term loan is a non-revolving, reducing demand facility bearing interest at an annual rate of US prime plus 1.75%. No principal payments have been made during the six months ended June 30, 2018, as required principal payments were waived by the lender, Alberta Treasury Branches (“ATB”).

As at June 30, 2018, the Company was in default under the terms of the GSA relating to the term loan. To partially fund the Clairmont facility acquisition, White Owl Energy Services Ltd. (“White Owl Ltd.”) issued the \$2,700,000 Vendor Note (see Note 5) giving the vendor a first charge on the Clairmont assets. As a result, the Clairmont assets could not be included in the ATB’s GSA which provides ATB with security over the balance of White Owl’s assets. White Owl Ltd. used the working capital and operating lines of its parent, White Owl, to close the transaction which resulted in a default under the terms of the GSA. Pursuant to a subordination agreement (“Subordination Agreement”) dated effective June 21, 2018 between White Owl Ltd. and the vendor, the Vendor Note was reduced to \$2,200,000. Under the terms of the Subordination Agreement, White Owl Ltd. paid \$1,200,000 of the Vendor Note on July 18, 2018 which has placed ATB in first position in relation to the Clairmont facility and which has remedied the default.

In addition, effective July 17, 2018, White Owl entered into an amended and restated credit agreement with ATB (“Commitment Letter”), further details are provided in Note 16.

Operating Loan

The operating loan is a US\$1,000,000 facility and is reduced by outstanding letters of credit of \$53,862 (December 31, 2017 - \$53,862) and credit card balances of \$17,518 (December 31, 2017 - \$11,009). The Company had drawn \$65,840 (US\$50,000) on the operating line at June 30, 2018 (December 31, 2017 – \$658,613 (US\$525,000)).

WHITE OWL ENERGY SERVICES INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Three and six months ended June 30, 2018 and 2017

(Unaudited) (All figures expressed in Canadian dollars unless otherwise noted)

Covenants

Under the loan agreement for the term and operating loans, the Company is required to maintain a minimum Debt Service Coverage Ratio of 1.25 to 1. 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, 2018 was 2.18 (December 31, 2017 – 1.66). The ratio is calculated based on the trailing four quarters at June 30, 2018.

Security

The Term Loan and Operating Loan are secured by all the Company's present and future acquired property.

5. PROMISSORY NOTES

(\$000's)	Truck note 1	Truck note 2	Truck note 3	Vendor note	Partner note	Trafigura note	Total
Balance at December 31, 2016	30	34	-	-	-	-	64
Issuance	-	-	-	2,189	216	1,000	3,405
Principal payments	(10)	(11)	-	-	-	(412)	(433)
Accretion	-	-	-	113	11	-	124
Foreign exchange effect	(2)	(2)	-	-	-	-	(4)
Balance at December 31, 2017	18	21	-	2,302	227	588	3,156
Issuance	-	-	36	-	-	-	36
Principal payments	(5)	(6)	-	-	-	(68)	(79)
Principal reduction	-	-	-	(258)	-	-	(258)
Accrued interest	-	-	-	-	7	26	33
Accretion	-	-	-	156	10	-	166
Foreign exchange effect	2	1	-	-	-	-	3
Balance at June 30, 2018	15	16	36	2,200	244	546	3,057
Less current portion	(11)	(11)	(11)	(2,200)	(244)	(546)	(3,023)
Total non-current portion	4	5	25	-	-	-	34

In August 2017, as part of the Clairmont facility acquisition, the Company entered into the following promissory notes:

- The \$2,700,000 Vendor Note is non-interest bearing with payments due on June 22, 2018 of \$1,300,000 and June 22, 2019 of \$1,400,000. The fair value of the Vendor Note at the date of the acquisition was determined to be \$2,189,036 using an effective interest rate of 15%. The Vendor Note is measured at amortized cost and will accrete up to the principal balance on the respective payment dates. In addition, the Vendor Note gave the vendor a first charge on the Clairmont assets. Pursuant to the Subordination Agreement dated effective June 21, 2018 between White Owl Ltd. and the vendor, the Vendor Note was reduced to \$2,200,000 and a gain on debt settlement of \$258,374 was recognized in comprehensive loss. Under the terms of the Subordination Agreement, White Owl Ltd. paid \$1,200,000 of the Vendor Note on July 18, 2018 which resulted in ATB receiving a first charge on the Clairmont Assets. The remaining \$1,000,000 is payable by White Owl to the vendor on or before November 18, 2018.

WHITE OWL ENERGY SERVICES INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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(Unaudited) (All figures expressed in Canadian dollars unless otherwise noted)

- The \$240,000 Partner Note is payable to White Owl Ltd.'s 5% partner in the Clairmont facility. The Partner Note is non-interest bearing and due in 12 equal monthly payments of \$20,000 with the first payment scheduled for November 22, 2017. The fair value of the Partner Note at the date of the acquisition was determined to be \$216,149 using an effective interest rate of 15%. The Partner Note is measured at amortized cost and will accrete up to the principal balance on the respective payment dates. White Owl Ltd. is currently in arrears with respect to the monthly payments and is accruing interest at a rate of 10% per annum on the amount in arrears.
- The \$1,000,000 Trafigura Note was issued to finance a portion of a \$1,835,000 deposit required by the Alberta Energy Regulator in conjunction with the Clairmont facility acquisition. The Trafigura Note bears interest at 9% per annum and is due June 1, 2018. The principal amount outstanding on the Trafigura Note will be reduced monthly by 20% of the net blending revenue to White Owl Ltd. under the Terminalling Agreement. If the monthly average net blending revenue is less than \$50,000 for the first six months after the effective date of the Terminalling Agreement then White Owl Ltd. will be required to pay the net difference, if any, of 50% of the truck terminal revenue that White Owl Ltd. receives for crude oil deliveries at the Clairmont Facility and applicable access fees ("Additional Payment"). The Additional Payment will cease at the earlier of the average monthly net blending revenue for two consecutive months being greater than \$50,000 and the repayment of the Trafigura Note. The remaining balance of the Trafigura Note was repaid on July 19, 2018.

In September 2016, the Company entered into a promissory note agreement for a half-ton truck in North Dakota with a principal amount of US\$24,650 bearing interest at 5.75% ("Truck note 1"). The Company will make monthly payments of US\$748 until September 5, 2019.

In October 2016, the Company entered into a promissory note agreement for a half-ton truck in North Dakota with a principal amount of US\$25,650 bearing interest at 5.75% (Truck note 2"). The Company will make monthly payments of US\$780 until November 5, 2019.

In June 2018, the Company entered into a promissory note agreement for a half-ton truck in North Dakota with a principal amount of US\$28,155 bearing interest at 5.75% (Truck note 3"). The Company will make monthly payments of US\$857 until July 5, 2021.

6. MORTGAGE PAYABLE

(\$000's)

Balance at December 31, 2016	155
Principal payments	(8)
Foreign exchange effect	(10)
Balance at December 31, 2017	137
Principal payments	(4)
Foreign exchange effect	7
Balance at June 30, 2018	140

The Company has a mortgage agreement that bears interest at 4.95% and requires annual payments of US\$12,091 until January 1, 2020, at which time the annual payment will be adjusted based on changes in interest rates for two subsequent five-year terms. As at June 30, 2018, the current portion of the mortgage payable is \$8,967 (December 31, 2017 - \$8,574).

WHITE OWL ENERGY SERVICES INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Three and six months ended June 30, 2018 and 2017

(Unaudited) (All figures expressed in Canadian dollars unless otherwise noted)

7. DECOMMISSIONING LIABILITIES

(\$000's)

Balance at December 31, 2016	1,171
Acquisition	2,706
Accretion	61
Change in estimate	649
Abandonment costs incurred	(56)
Foreign exchange effect	(78)
Balance at December 31, 2017	4,453
Accretion	60
Change in estimate	(201)
Foreign exchange effect	30
Balance at June 30, 2018	4,342
Less current portion	(274)
Total non-current portion	4,068

The Company's decommissioning liabilities were estimated by management based on the Company's estimated costs to remediate, reclaim and abandon the Company's facilities and estimated timing of the costs to be incurred in future periods. The Company has estimated the net present value of its decommissioning obligations at June 30, 2018 based on a total undiscounted future liability of \$6,075,991 (December 31, 2017 – \$6,460,780). These costs are expected to be incurred in approximately 1 to 20 years. The Company used risk-free interest rates at June 30, 2018 of 2.20% to 2.91% (December 31, 2017 – 2.26% to 2.58%) and an inflation rate of 2.0% (December 31, 2017 – 2.0%) to calculate the net present value of its decommissioning liabilities.

8. SHARE CAPITAL

Authorized

An unlimited number of common and preferred shares without nominal or par value.

Issued

(\$000's)	June 30, 2018	December 31, 2017
Common shares	19,392	18,340
Preferred shares	12,353	12,353
	31,745	30,693

WHITE OWL ENERGY SERVICES INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Three and six months ended June 30, 2018 and 2017

(Unaudited) (All figures expressed in Canadian dollars unless otherwise noted)

COMMON SHARES

	Number (000's)	Amount (\$000's)
Balance at December 31, 2016	40,633	18,024
Shares issued	871	334
Share issue costs	-	(18)
Balance at December 31, 2017	41,504	18,340
Shares issued	6,735	1,247
Cancellation of shares (Note 13)	(256)	(128)
Share issue costs	-	(67)
Balance at June 30, 2018	47,983	19,392

At June 30, 2018, there were 4,000,000 (December 31, 2017 – 4,000,000) common shares held in escrow.

In January 2017, the Company issued 285,714 common shares at \$0.35 per common share for total proceeds of \$100,000.

In June 2017, the Company issued 585,000 common shares at \$0.40 per common share for total proceeds of \$234,000.

In February 2018, the Company issued 2,000,000 common shares at \$0.15 per common share and 125,000 common shares at \$0.20 per common share for total proceeds of \$325,000. The Company incurred share issue costs of \$32,300 and issued 140,000 broker warrants at \$0.20 per common share exercisable until February 22, 2019. The Company has determined that the fair value of the brokers warrants is negligible.

During the second quarter of 2018, the Company issued, by way of a private placement, 4,610,000 common shares at a price of \$0.20 per common share for proceeds of \$922,000 before share issue costs of \$34,872. Additionally, the Company issued 68,950 broker warrants exercisable at \$0.20 per common share until February 22, 2019. The Company has determined that the fair value of the broker warrants is negligible.

WARRANTS

	Number (000's)	Amount (\$000's)
Balance at December 31, 2017	3,186 ⁽¹⁾	53
Warrants issued	209 ⁽²⁾	-
Balance at June 30, 2018	3,395	53

⁽¹⁾ Each full warrant plus \$0.50 allows the holder to purchase a common share. The warrants can be exercised until October 31, 2018.

⁽²⁾ Each full warrant plus \$0.20 allows the holder to purchase a common share. The warrants can be exercised until February 22, 2019.

PREFERRED SHARES

	Number (000's)	Amount (\$000's)
Balance at December 31, 2017 and June 30, 2018	26,469	12,353

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 at par value.

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9. REVENUE

Revenue associated with services provided such as disposal, oil treating, terminalling and blending are recognized when the services are rendered. Revenue from the sale of crude oil is recorded when title and risk of loss transfers to the customer.

	Three months ended June 30,		Six months ended June 30,	
(\$000's)	2018	2017	2018	2017
Recovered oil sales	849	642	1,702	1,154
Water disposal and processing services	2,802	2,164	5,411	4,086
Production	318	-	568	-
Total revenue	3,969	2,806	7,681	5,240

10. FINANCE COSTS

	Three months ended June 30,		Six months ended June 30,	
(\$000's)	2018	2017	2018	2017
Interest on term loan	258	242	499	470
Interest on promissory notes and mortgage payable	12	3	28	6
Accretion of promissory notes (Note 5)	80	-	166	-
Accretion of asset retirement obligations (Note 7)	31	8	60	16
Interest, bank charges and other	18	20	21	31
	399	273	774	523

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Net investment in foreign operations

The Company hedges its net investment in foreign operations with US dollar denominated debt that has a carrying value of \$14,987,030 (US\$11,381,402) at June 30, 2018 (December 31, 2017 - \$14,277,969 (US\$11,381,402)). No hedge ineffectiveness was recognized during the six months ended June 30, 2018 and year ended December 31, 2017.

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.

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Fair values

The Company's financial instruments recognized on the consolidated statement of financial position consist of cash, trade and other receivables, promissory notes receivable, promissory notes payable, operating loan, term loan, trade and other payables and mortgage payable. The fair values of the cash, trade and other receivables, promissory notes receivable, promissory notes payable, operating loan, term loan and trade and other payables approximates their carrying value due to the short term or demand nature of these instruments. Mortgage payable is carried at amortized cost which approximates fair value as interest rates at June 30, 2018 and December 31, 2017 were consistent with interest rates in these instruments.

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 flow 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. The Company records cash at fair value using level 1 inputs. There were no transfers from levels 1, 2 and 3 during the year.

Credit risk

Credit risk arises when a failure by counter parties to discharge their obligations could reduce the amount of future cash inflows from financial assets at the reporting date. A substantial portion of the Company's trade and other receivables balance is with customers in the petroleum industry and is subject to normal industry credit risks.

The Company manages its exposure to credit risk through standard credit granting procedures and short payment terms. The Company attempts to monitor financial conditions of its customers and the industries in which they operate. The Company's maximum exposure to credit risk at June 30, 2018 was the total of cash, trade and other receivables and promissory notes receivable of \$10,218,796 (December 31, 2017 - \$4,410,457). The Company believes that there is no unusual exposure associated with the collection of these trade and other receivables and no allowance for doubtful accounts is required.

Pursuant to the White Owl Epping Joint Venture Agreement ("Epping Agreement") dated July 18, 2018, White Owl as operator is responsible for the payment and discharge of all expenses of the joint venture and is entitled to be reimbursed for these expenses. Under the Epping Agreement the Company will be reimbursed for all direct operating costs and will be paid an operating fee of 8% of the cost of operations and a fee of 3% of capital expenditures. As at June 30, 2018, trade and other receivables includes \$4,336 in amounts invoiced to the joint venture owners for their proportionate share of construction costs of the facility, while trade and other payables includes \$4,336 in amounts payable for these construction costs.

The aging of trade and other receivables is as follows:

(\$000's)	Current	30-60 days	60-90 days	90+days	Total
	5,661	1,308	261	100	7,330

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12. CAPITAL MANAGEMENT

The Company's objective is to ensure adequate sources of capital are available to carry out its planned capital program, to achieve operational growth and increased cash flow to sustain future development of the business and to maintain shareholder confidence. The Company manages its capital structure and makes adjustments to it considering changes in economic conditions and the risk characteristics of its assets. Management considers capital to be the Company's total debt facilities, promissory notes payable, mortgage payable and equity as the components of capital to be managed. In order to maintain or adjust the capital structure, the Company may issue shares, raise debt and/or adjust its capital spending to manage its projected debt levels.

The Company strives to manage its capital to meet the Company's objective and maintain compliance with the financial covenants contained within its debt facilities (Note 4).

The Company's capital structure is as follows:

(\$000's)	June 30, 2018	December 31, 2017
Operating loan	66	659
Term loan	14,987	14,278
Promissory notes	3,057	3,156
Mortgage payable	140	137
Total equity	21,284	19,302
	39,534	37,532

13. RELATED PARTY TRANSACTIONS

The Company had promissory notes receivable from officers of the Company of \$42,000 at June 30, 2018 (December 31, 2017 - \$170,000). These unsecured promissory notes are due on demand and bear interest at 3% per annum. In June 2018, an officer of the Company surrendered 256,000 White Owl common shares to repay \$128,000 of promissory notes receivable. The common shares were subsequently cancelled by the Company. No additional repayments were made during the six months ended June 30, 2018 (2017 - \$nil). These transactions are initially measured at fair value.

At June 30, 2018, the Company has recorded \$79,664 (December 31, 2017 - \$141,295) in amounts owing from the Tioga Joint Venture. These amounts have been recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties and is equal to fair value.

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(Unaudited) (All figures expressed in Canadian dollars unless otherwise noted)

14. CHANGES IN NON-CASH WORKING CAPITAL

(\$000's)	2018	Three months ended June 30, 2017	2018	Six months ended June 30, 2017
Trade and other receivables	(3,940)	(466)	(4,069)	(27)
Deposits and prepaid expenses	(429)	(1,085)	(671)	(1,501)
Trade and other payables	5,150	239	5,414	117
	781	(1,312)	674	(1,411)
Allocated to:				
Operating	327	(1,049)	426	(995)
Investing	492	(382)	326	(541)
Financing	(38)	119	(78)	125
	781	(1,312)	674	(1,411)

15. IMPAIRMENT AND LOSS ON ABANDONMENT

During 2017, White Owl applied for a Class 1 permit at the Killdeer site. Pressure testing related to the Class 1 application for downhole work at Killdeer was unsuccessful due to poor casing and the decision was made to abandon the well. During the six months ended June 30, 2017, White Owl has recognized an impairment expense of \$1,076,000 for costs previously capitalized to property, plant and equipment and a loss on abandonment of \$69,000.

16. SUBSEQUENT EVENTS

Effective July 17, 2018 the Company signed an amended and restated credit agreement with ATB ("Commitment Letter") which amends and restates in its entirety the previous credit agreement between the Company and ATB. Under the terms of the Commitment Letter, the Company will have a non-revolving reducing loan facility (the "Term Loan") in the amount of US\$11,381,402 (CA\$14,987,030) and a revolving, operating demand loan facility (the "Operating Loan") in the amount of US\$1,000,000, secured by a security interest over all present and future property and a floating charge on all lands. The Term Loan is payable on demand and bears interest at an annual rate of US prime plus 1.75%. Until demand, the Term Loan is repayable: (i) in blended equal monthly payments of principal and interest of US\$185,256 with the first payment made on August 31, 2018 and the final payment due on December 31, 2024, and; (ii) a lump sum principal payment on January 31, 2019 of US\$1,000,000, after which monthly payments will be reduced to maintain the original amortization period. The Operating Loan is a revolving demand facility in the maximum amount of US\$1,000,000 bearing interest at the US prime rate plus 1.75%. The Company is required to maintain a minimum debt service coverage ratio of 1.25 to 1.00 and, a working capital ratio of 1.4 to 1.0 as at September 30, 2018 increasing to 1.5 to 1.0 as at March 31, 2019.

On July 12, 2018, the Company entered into the Epping arrangement with White Owl Epping LLC ("Epping LLC") for the construction and operation of a Salt Water Disposal ("SWD") facility at Epping in the state of North Dakota. Epping LLC is an independent entity formed pursuant to the laws of North Dakota. Epping LLC together with certain service providers will fund the development of the project. The Company will operate and hold a 20% carried interest in the facility. In addition to the Company's ownership interest, the Company will be reimbursed for all direct operating costs and will be paid an operating fee of 8% of the cost of operations and a fee of 3% of capital expenditures. Construction of the facility commenced during the second quarter of 2018 and became fully operational on September 17, 2018.