

Consolidated Financial Statements of

WHITE OWL ENERGY SERVICES INC.

December 31, 2020 and 2019

(Expressed in thousands of Canadian dollars)

To the Shareholders of White Owl Energy Services Inc.:

Opinion

We have audited the consolidated financial statements of White Owl Energy Services Inc. and its subsidiaries (the "Company"), which comprise the consolidated statement of financial position as at December 31, 2020, and the consolidated statements of comprehensive loss, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the consolidated financial statements, which indicates that as at December 31, 2020 the Company had negative working capital, an accumulated deficit and a net loss for the year ended December 31, 2020. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion of Financial Results.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. We obtained Management's Discussion of Financial Results prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Calgary, Alberta
March 26, 2021

MNP LLP
Chartered Professional Accountants

WHITE OWL ENERGY SERVICES INC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(Expressed in thousands of Canadian dollars)

	December 31, 2020	December 31, 2019
ASSETS		
CURRENT		
Cash	1,375	2,491
Trade and other receivables (Note 21)	3,005	5,919
Promissory notes (Note 23)	23	23
Deposits and prepaid expenses	1,488	1,638
	5,891	10,071
Property, plant and equipment (Note 6)	24,578	27,962
Goodwill (Note 7)	-	8,277
Intangible assets (Note 8)	242	-
Total assets	30,711	46,310
LIABILITIES		
CURRENT		
Operating loan (Note 9)	-	682
Term loan (Note 9)	9,665	10,543
Current portion of loans payable (Note 10)	457	-
Current portion of promissory notes (Note 11)	311	1,694
Current portion of mortgage payable (Note 12)	10	10
Current portion of lease liabilities (Note 13)	161	50
Current portion of deferred consideration (Note 14)	108	110
Trade and other payables	3,393	4,779
Current portion of decommissioning liabilities (Note 15)	179	678
	14,284	18,546
Loans payable (Note 10)	60	-
Promissory notes (Note 11)	-	6
Mortgage payable (Note 12)	102	114
Lease liabilities (Note 13)	213	184
Deferred consideration (Note 14)	1,404	1,542
Decommissioning liabilities (Note 15)	5,271	4,303
Total liabilities	21,334	24,695
SHAREHOLDERS' EQUITY		
Share capital (Note 17)	33,471	33,471
Contributed surplus	1,449	1,413
Accumulated other comprehensive income	3,595	3,274
Deficit	(29,138)	(16,543)
Total shareholders' equity	9,377	21,615
Total liabilities and shareholders' equity	30,711	46,310

Going concern (Note 2)
Commitments (Note 24)
Subsequent events (Note 27)

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 consolidated financial statements.

WHITE OWL ENERGY SERVICES INC.
CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS
(Expressed in thousands of Canadian dollars)

	Year ended December 31,	
	2020	2019
REVENUE (Note 19)		
Oilfield disposal and processing services	12,240	16,844
Production revenue	1	99
	12,241	16,943
EXPENSES		
Operating costs	9,568	11,867
General and administrative (Note 26)	1,574	2,616
Depreciation and depletion (Note 6)	1,849	1,803
Amortization (Note 8)	64	-
Impairment (Note 6 & 7)	12,360	7,148
Finance costs (Note 20)	795	1,241
Foreign exchange gains	(256)	(138)
Share-based payments (Note 18)	36	58
Gain on settlement of promissory note (Note 11)	(1,100)	-
Loss on disposal of property, plant and equipment – net (Note 6)	46	4
Loss on abandonment (Note 15)	-	83
Insurance recovery – business interruption (Note 6)	-	(2,274)
Insurance recovery – property damage (Note 6)	-	(4,823)
	24,936	17,585
NET LOSS BEFORE INCOME TAXES	(12,695)	(642)
INCOME TAXES		
Current income tax expense (Note 16)	5	-
Deferred income tax recovery (Note 5 & 16)	(105)	-
	(100)	-
NET LOSS	(12,595)	(642)
OTHER COMPREHENSIVE INCOME (LOSS)		
Exchange gain (loss) on translating foreign operations	151	(1,763)
Change in fair value of net investment hedges (Note 21)	170	650
	321	(1,113)
NET COMPREHENSIVE LOSS	(12,274)	(1,755)

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

WHITE OWL ENERGY SERVICES INC.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(Expressed in thousands of Canadian dollars)

	Share Capital	Contributed surplus	Accumulated other comprehensive income	Deficit	Total
Balance at December 31, 2018	31,745	1,355	4,387	(15,901)	21,586
Net loss	-	-	-	(642)	(642)
Other comprehensive loss	-	-	(1,113)	-	(1,113)
Share-based payments (Note 18)	-	58	-	-	58
Common shares issued (Note 17)	1,765	-	-	-	1,765
Share issue costs (Note 17)	(39)	-	-	-	(39)
Balance at December 31, 2019	33,471	1,413	3,274	(16,543)	21,615
Net loss	-	-	-	(12,595)	(12,595)
Other comprehensive income	-	-	321	-	321
Share-based payments (Note 18)	-	36	-	-	36
Balance at December 31, 2020	33,471	1,449	3,595	(29,138)	9,377

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

WHITE OWL ENERGY SERVICES INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
(Expressed in thousands of Canadian dollars)

	Year ended December 31,	
	2020	2019
CASH FLOWS RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Net loss	(12,595)	(642)
Adjustments for non-cash items:		
Depreciation and depletion (Note 6)	1,849	1,803
Amortization (Note 8)	64	-
Impairment (Note 6 & 7)	12,360	7,148
Accretion of decommissioning obligations (Note 15)	62	119
Interest on lease liabilities (Note 13)	23	19
Unrealized foreign exchange gains	(352)	(143)
Gain on settlement of promissory note (Note 11)	(1,100)	-
Loss on disposal of property, plant and equipment – net (Note 6)	46	4
Loss on abandonment (Note 15)	-	83
Deferred income tax recovery (Note 5 & 16)	(105)	-
Share-based payments (Note 18)	36	58
Insurance recovery – property damage (Note 6)	-	(4,823)
Abandonment expenditures (Note 15)	-	(103)
Change in non-cash working capital (Note 25)	1,341	(336)
Cash from operating activities	1,629	3,187
INVESTING		
Additions to property, plant and equipment (Note 6)	(837)	(5,762)
Acquisition of joint operation, net of cash acquired (Note 5)	(1,000)	-
Insurance recovery – property damage (Note 6)	-	4,823
Proceeds from the sale of royalty interest (Note 14)	-	1,796
Proceeds from the sale of property, plant and equipment (Note 6)	14	-
Change in non-cash working capital (Note 25)	321	(1,020)
Cash used in investing activities	(1,502)	(163)
FINANCING		
Proceeds from issuance of shares, net of costs (Note 17)	-	1,726
Proceeds from operating loan (Note 9)	2,051	6,381
Repayment of operating loan (Note 9)	(2,733)	(6,006)
Repayment of term loan (Note 9)	(709)	(3,537)
Proceeds from loans payable (Note 10)	552	-
Repayment of mortgage payable (Note 12)	(10)	(9)
Repayment of promissory notes payable (Note 11)	(313)	(31)
Repayment of lease liabilities (Note 13)	(112)	(92)
Repayment of due to related party payable (Note 23)	-	(20)
Proceeds from promissory note receivable (Note 23)	-	20
Change in non-cash working capital (Note 25)	58	35
Cash used in financing activities	(1,216)	(1,533)
Foreign exchange loss on cash held in foreign currency	(27)	(75)
NET (DECREASE) INCREASE IN CASH	(1,116)	1,416
CASH, BEGINNING OF YEAR	2,491	1,075
CASH, END OF YEAR	1,375	2,491

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

WHITE OWL ENERGY SERVICES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Years ended December 31, 2020 and 2019
(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. White Owl Energy Services Ltd. (“White Owl Ltd.”) was incorporated under the Business Corporations Act of the province of Alberta on February 3, 2015 and is a wholly owned subsidiary of White Owl.

The Company is headquartered in Calgary, Alberta and is actively involved in the collection, processing, and disposal of oilfield waste in North Dakota. The Company also owns and operates the Clairmont terminal in Alberta which provides third-party oil treating, clean oil terminalling, blending and water disposal services. On October 27, 2020, the Company signed a Blending, Construction, Ownership and Operating Agreement with Pivotal Energy Partners (“Pivotal”), under which Pivotal will provide the necessary capital, marketing and trucking services for the business. In December 2020, the Clairmont terminal was recommissioned following an eight-month shut-down period due to market conditions. The Company’s registered office is 1150, 1122 – 4th Street SW, Calgary, AB T2R 1M1.

The consolidated financial statements were approved and authorized for issuance by the Board of Directors on March 26, 2021.

2. BASIS OF PRESENTATION AND GOING CONCERN

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

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.

At December 31, 2020, the Company had negative working capital of \$8,393,000, an accumulated deficit of \$29,138,000 and net loss for the year ended December 31, 2020 of \$12,595,000. In addition, the current challenging economic climate brought about by factors including COVID-19 and commodity price volatility may lead to adverse changes in cash flows, working capital levels and/or debt balances, which may also have an effect on the Company’s consolidated operating results and consolidated financial position. These factors indicate the existence of material uncertainties which may cast significant doubt about the Company’s ability to continue as a going concern. On April 30, 2020, the Company’s senior lender accepted interest only payments until December 2020. The Company is in compliance with all terms of the amended and restated credit agreement as at December 31, 2020. Under the terms of the amended and restated loan agreement certain subsequent conditions must be satisfied in 2021 to maintain the ongoing availability of the Term Loan and Operating Loan, including the repayment of all facilities by December 31, 2021 (see note 9). The ability of the Company to continue as a going concern and realize the carrying value of its assets and discharge its liabilities when they become 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, competition, successfully raising capital for acquisition and development opportunities and successful implementation of management’s plans.

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.

WHITE OWL ENERGY SERVICES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Years ended December 31, 2020 and 2019
(All figures expressed in Canadian dollars unless otherwise noted)

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of measurement

The consolidated financial statements have been prepared using historical costs and fair value of certain items, as detailed in the accounting policies set out in this note.

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, which are the entities over which the Company has control. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefit from its activities. All intercompany transactions and balances are eliminated on consolidation.

Functional and presentation currency

Each of the Company's subsidiaries is measured using the currency of the primary economic environment in which the entity operates (the "Functional Currency"). The consolidated financial statements are presented in Canadian dollars, which is the Functional Currency of White Owl.

For foreign entities whose Functional Currency is not the Canadian dollar, the Company translates assets and liabilities at period-end rates and income and expense accounts at average exchange rates. Adjustments resulting from these translations are reflected in the consolidated statement of comprehensive loss as exchange differences on translating foreign operations.

Transactions in currencies other than the Company's Functional Currency are translated at rates in effect at the time of the transaction. Foreign currency monetary assets and liabilities are translated at current rates. Gains or losses from the changes in exchange rates are recognized in the consolidated statement of comprehensive loss in the period of occurrence as foreign exchange gains (losses).

Use of judgments and estimates

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates, assumptions and judgments that affect the reported amounts of assets, liabilities, revenue and expenses. Such estimates relate to unsettled transactions and events as of the date of the consolidated financial statements. Accordingly, actual results may differ from estimated amounts as transactions are settled in the future. Estimates and assumptions are reviewed on an ongoing basis. Revisions to estimates are applied prospectively.

The following are the critical judgments that management made in applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements:

- Determining the ability of the Company to continue as a going concern;
- Determining the aggregation of assets into cash generating units ("CGUs");
- Determining whether indicators of impairment exist for goodwill and property, plant and equipment; and,
- Determining the existence of contingent liabilities or whether an outflow of resources is probable and needs to be accounted for as a provision.

WHITE OWL ENERGY SERVICES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Years ended December 31, 2020 and 2019
(All figures expressed in Canadian dollars unless otherwise noted)

The following are the critical estimates and assumptions with the most significant effect on amounts recognized in the consolidated financial statements. They are discussed further in the accounting policies that follow.

- Recoverability of asset carrying values for impairment testing purposes;
- Determining key assumptions for impairment testing of goodwill, intangible assets, and property, plant and equipment;
- Determining the consideration given and allocation of the purchase price to the fair value of the assets acquired and liabilities assumed in business combinations;
- Fair value determination of share-based payments;
- Determining the useful lives of intangible assets and property, plant and equipment; and
- Determining the amount, timing and inflation of decommissioning liabilities.

Revenue recognition

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.

Share-based payments

The Company has a share-based option incentive plan (the “Option Plan”). Under the Option Plan, the Company may grant to directors, officers and employees of the Company or any of its affiliates, rights to acquire up to 10% of the issued and outstanding cumulative total of the common and preferred shares of the Company. The Option Plan is equity settled. The fair value of options at the date of grant is calculated using the Black-Scholes option pricing model method with the share-based payment expense recognized over the vesting period of the option and a corresponding increase to contributed surplus. When options are exercised, the proceeds, together with the amount recorded in contributed surplus, are transferred to share capital. Forfeitures are estimated and accounted for at the grant date and adjusted, if necessary, in subsequent periods.

Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets and financial liabilities are recognized on the consolidated statement of financial position at the time the Company becomes a party to the contractual provisions. Upon initial recognition, financial instruments are measured at fair value. Subsequent measurement is dependent on the financial instrument’s classification which in the case of financial assets, is determined by the context of the Company’s business model and the contractual cash flow characteristics of the financial asset. Financial assets are classified into two categories: (1) measured at amortized cost; and, (2) fair value through profit and loss (“FVTPL”). Financial liabilities are subsequently measured at amortized cost, other than financial liabilities that are measured at FVTPL or designated as FVTPL where any change in fair value resulting from an entity’s own credit risk is recorded as other comprehensive income (“OCI”).

The Company has made the following classifications:

- FVTPL: Financial instruments under this classification include cash.
- Amortized cost: Financial instruments under this classification included trade and other receivables, promissory notes receivable/payable, deposits, operating loan, term loan, loans payable, lease liabilities, mortgage payable, deferred consideration and trade and other payables.

Transaction costs related to financial instruments classified as FVTPL are expensed as incurred. All other transaction costs related to financial instruments are recorded as part of the instrument and are amortized using the effective interest method.

WHITE OWL ENERGY SERVICES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Years ended December 31, 2020 and 2019
(All figures expressed in Canadian dollars unless otherwise noted)

IFRS establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy are described below:

Level 1: Values based on quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2: Values based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.

Level 3: Values based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

When the inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measure in its entirety.

Impairment of financial assets

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to twelve months of expected credit losses.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in comprehensive loss. The asset, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account.

Derivative instruments and hedging activities

All derivative instruments are recorded on the consolidated statement of financial position at fair value unless they qualify for and are designated under a normal purchase and normal sales exemption or are considered to meet other permitted exemptions.

The Company applies hedge accounting to arrangements that qualify and are designated for hedge accounting treatment, which includes hedges of foreign currency exposures of net investments in foreign operations. Hedge accounting is discontinued prospectively if the hedging relationship ceases to be effective or the hedging or hedged items cease to exist as a result of maturity, expiry, sale, termination, cancellation or exercise.

In hedging, the foreign currency exposure of a net investment in a foreign operation, the effective portion of foreign exchange gains and losses on the hedging instruments is recognized in OCI and the ineffective portion is recognized in net income (loss). The amounts recognized previously in accumulated other comprehensive income (loss) are reclassified to net income (loss) in the event the Company reduces its net investment in a foreign operation.

In some cases, derivatives do not meet the specific criteria for hedge accounting treatment. In these instances, the changes in fair value are recorded in the consolidated statement of comprehensive loss in the period of change.

WHITE OWL ENERGY SERVICES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Years ended December 31, 2020 and 2019
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Derivatives embedded in other financial instruments or contracts (host instrument) are recorded as separate derivatives. Embedded derivatives are measured at fair value if their economic characteristics are not clearly and closely related to those of the host instrument, their terms are the same as those of a stand-alone derivative and the total contract is not held for trading or accounted for at fair value. When changes in the fair value of embedded derivatives are measured separately, they are included in the consolidated statement of comprehensive loss.

Business combinations

The Company uses the acquisition method of accounting to account for business combinations. The consideration transferred is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Company. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

Joint operations

A portion of the Company's petroleum and natural gas exploration and production activities are conducted jointly with others, and, accordingly, these consolidated financial statements reflect only the Company's proportionate interest in such activities.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation, depletion and any recognized impairment losses.

Depreciation is based on a straight-line basis and is calculated over the estimated useful life of the assets, which has been estimated at 15-20 years for disposal wells, plant infrastructure and equipment. The expected useful lives of property, plant and equipment are reviewed annually to ensure that they remain appropriate. Changes in useful lives are accounted for prospectively as a change in estimate.

The net carrying value of oil and gas properties plus future development costs are depleted using the unit of production method based on proved and probable reserves, as determined by independent reserve evaluators.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of net assets acquired and liabilities assumed in a business combination. Goodwill is not amortized but is reviewed for impairment at least annually. An impairment loss in respect of goodwill is not reversed in a subsequent period.

Intangibles

Intangible assets that are acquired by the Company are measured at cost less accumulated amortization and any accumulated impairment losses. Intangible assets are amortized on a straight-line basis.

Impairment of non-financial assets

The carrying values of the Company's assets or CGUs are reviewed at each reporting date to determine whether there is an indication of impairment loss. If any such indication exists, the Company will prepare an impairment test. For the purpose of impairment testing, goodwill is allocated to CGUs expected to benefit from the business combination in which the goodwill arose. To the extent that the carrying amount of a CGU exceeds its recoverable amount, the excess would first reduce the carrying value of goodwill and any remainder would reduce the carrying values of the long-term assets of the CGUs on a pro-rated basis.

WHITE OWL ENERGY SERVICES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Years ended December 31, 2020 and 2019
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Impairment testing compares the carrying values of the assets or CGUs being tested with their recoverable amounts (recoverable amounts being the greater of the assets' or CGUs' value-in-use or their fair values less costs of disposal). Value-in-use is assessed using the present value of the expected future cash flows of the relevant asset. When it is not possible to estimate the recoverable amount of an individual asset, the asset is tested as part of a CGU, which is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The key assumptions for the value-in-use calculation include discount and growth rate estimates of the risks associated with the projected cash flows, based on the best information available as of the date of the impairment test. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs.

Impairment losses are immediately recognized to the extent that the asset or CGU carrying values exceed their recoverable amounts. Should the recoverable amounts for previously impaired assets or CGUs subsequently increase, the impairment losses previously recognized (other than in respect of goodwill) may be reversed to the extent that the resulting carrying value does not exceed the carrying value that would have been the result if no impairment losses had been previously recognized.

At December 31, 2020, the Company has six salt water disposal facility CGUs in North Dakota and one CGU for the Company's Alberta properties (December 31, 2019 – six salt water disposal facility CGUs and one CGU for Alberta properties).

Deferred consideration

Deferred consideration is generated when a sale of a royalty interest linked to revenue at a specific facility occurs. Proceeds for sale of a royalty interest are an upfront payment received for future salt water disposal services that will generate future royalties. The estimated future salt water disposal revenues from the facility are multiplied by the royalty rate to derive the upfront payment received, which is accounted for as deferred consideration and recognized as an offset to royalty expense over the life of the facility.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of that obligation.

Decommissioning liabilities

The Company provides for estimated future decommissioning costs for all of its facilities based on the useful lives of the assets and the long-term commitments of certain sites. Over this period, the Company recognizes the liability for the future decommissioning liabilities associated with property, plant and equipment. These obligations are initially measured at the discounted future value of the liability. This value is capitalized as part of the cost of the related asset and amortized over the asset's useful life. The balance of the liability is adjusted each period for the unwinding of the discount, with the associated expense included within finance costs as accretion expense. Decommissioning costs and timing are estimated by management, in consultation with the Company's engineers and environmental, health and safety staff, on the basis of current regulations, costs, technology and industry standards. Other key estimates include discount and inflation rates. Actual decommissioning costs are charged against the provision as incurred.

Taxes

Tax expense is comprised of current and deferred tax. Tax expense is recognized in the consolidated statement of comprehensive loss except to the extent that it relates to items recognized in OCI or directly in equity.

Current tax expense is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

WHITE OWL ENERGY SERVICES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Years ended December 31, 2020 and 2019
(All figures expressed in Canadian dollars unless otherwise noted)

Deferred tax is recorded, using the asset and liability method, on temporary differences between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes. However, deferred tax is not recorded on taxable temporary differences arising on the initial recognition of goodwill. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Government grants

Government grants are assistance by the government in the form of transfers of resources to the Company in return for past or future compliance with certain conditions relating to the operations of the Company. Grants are recognized when there is reasonable assurance that the Company will comply with the conditions attached to them and the grants are received. If a grant is received before it is certain whether compliance with all conditions will be achieved, the grant is recognized as a deferred liability until such conditions are fulfilled. When the conditions of a grant related to income or expense, the grant is recognized in comprehensive loss on a systematic basis in the periods the Company recognizes the expenses which the grant is intended to compensate. Where government grants are provided in the form of a forgivable loan, proceeds are recorded as a financial liability and not recognized as a reduction of the cost of the related expenditures incurred. Upon reasonable assurance that forgiveness has been obtained the Company will derecognize the portion of the loan forgiven and record a gain on settlement of loans payable in statement of comprehensive loss.

Share capital

Common shares and preferred shares are classified as equity. Incremental costs directly attributable to the issue of common and preferred shares are recognized as a deduction from equity.

4. CHANGES IN ACCOUNTING POLICIES

Standards and amendments effective in the current year

Effective January 1, 2020, White Owl adopted the amendment to IFRS 3 Business Combinations. This amendment narrowed and clarified the definition of a business and permits a simplified assessment to determine whether an acquired set of activities and assets can be recognized as an asset acquisition, rather than a business combination. There was no change or adjustments to the Company's financial statements as a result of applying the amendment to IFRS 3.

5. JOINT OPERATION

In 2016, White Owl entered into a joint arrangement for the construction and operation of a salt-water disposal facility near Tioga, North Dakota ("Tioga Joint Venture"). The Company contributed equipment, permitting, engineering and project development with a carrying value of US\$651,471 and a fair value of US\$1,200,000 in exchange for a 32% interest in the Tioga Joint Venture. The Company recorded a gain of \$719,584 (US\$548,529) on the property, plant and equipment contributed to the Tioga Joint Venture. An operating committee governs the Tioga Joint Venture with an appointee from each of the Tioga Joint Venture partners. Decisions of the operating committee require unanimous consent of the appointees.

A portion of the Tioga Joint Venture was originally financed in 2016 through Tioga LLC (40% owner) whereby Tioga LLC owners purchased 12.5% per annum debentures. The debentures agreement contained an optional redemption provision, whereby after September 30, 2019, the Company had the option to redeem the total amount of the Debentures (the "Redemption") at par and in exchange would earn an additional 15% interest in the Tioga Joint Venture.

WHITE OWL ENERGY SERVICES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Years ended December 31, 2020 and 2019
(All figures expressed in Canadian dollars unless otherwise noted)

Effective January 1, 2020, White Owl completed the Redemption and earned an additional 15% interest in the Tioga Joint Venture for proceeds of \$1,016,624 (US\$782,500). As a result, White Owl Tioga LLC's interest in the Tioga Joint Venture has decreased to 25% and White Owl's interest has increased to 47% after completion of the Redemption.

The acquisition is considered a business combination under IFRS as the assets meet the definition of a business. The acquisition has been accounted for using the acquisition method of accounting, whereby the assets acquired, and the liabilities assumed were recorded at their estimated fair values. White Owl determined the following estimated fair values of the net assets acquired and liabilities assumed based on management's best estimate of fair value and available external documentation, which takes into consideration the condition of the assets acquired, current industry conditions and the discounted future cash flows expected to be received for the assets and expended to settle the outstanding liabilities.

The following table sets out the details of the above acquisition including the consideration given and allocation of the purchase price to the fair value of the assets acquired and liabilities assumed:

(\$000's)

Consideration:

Cash	1,017
15% Tioga Joint Venture payable due to White Owl	14
Total consideration	1,031

Allocated to:

Cash	17
Accounts receivable	110
Property, plant and equipment	794
Intangible assets	308
Accounts payable	(46)
Decommissioning obligations	(47)
Deferred tax liability	(105)
Net assets acquired	1,031

The Company accounts for this joint arrangement as a joint operation and accounts for its interest in the Tioga Joint Venture by recognizing its share of assets, liabilities, revenues and expenses of the joint operation.

WHITE OWL ENERGY SERVICES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Years ended December 31, 2020 and 2019
(All figures expressed in Canadian dollars unless otherwise noted)

6. PROPERTY, PLANT AND EQUIPMENT

COST

(\$000's)	Land	Right-of-use assets	Plant & equipment	Disposal wells	Oil and Gas properties	Total
Balance at December 31, 2018	752	-	33,368	7,292	729	42,141
Additions	-	-	5,743	19	-	5,762
IFRS 16 adoption (Note 13)	-	288	-	-	-	288
IFRS 16 reclassification of finance lease asset	-	64	(64)	-	-	-
Derecognized – impairment	-	-	(5,967)	-	-	(5,967)
Dispositions	-	(24)	-	-	-	(24)
Change in decommissioning costs (Note 15)	-	-	224	37	65	326
Foreign exchange effect	(36)	(8)	(1,225)	(342)	-	(1,611)
Balance at December 31, 2019	716	320	32,079	7,006	794	40,915
Additions	-	-	682	155	-	837
Acquisition (Note 5)	-	3	728	210	-	941
Dispositions	-	-	(58)	(75)	-	(133)
IFRS 16 addition (Note 13)	-	230	-	-	-	230
Change in decommissioning costs (Note 15)	-	-	230	10	156	396
Foreign exchange effect	(14)	(6)	(526)	(136)	-	(682)
Balance at December 31, 2020	702	547	33,135	7,170	950	42,504

ACCUMULATED DEPRECIATION AND IMPAIRMENT

(\$000's)	Land	Right-of-use assets	Plant & equipment	Disposal wells	Oil and Gas properties	Total
Balance at December 31, 2018	(159)	-	(6,475)	(3,449)	(331)	(10,414)
Depreciation	-	(91)	(1,334)	(355)	-	(1,780)
Depletion	-	-	-	-	(23)	(23)
Derecognized - impairment	-	-	1,222	-	-	1,222
Impairment – Clairmont	-	(150)	(2,253)	-	-	(2,403)
IFRS 16 reclassification of finance lease	-	(12)	12	-	-	-
Foreign exchange effect	9	1	260	175	-	445
Balance at December 31, 2019	(150)	(252)	(8,568)	(3,629)	(354)	(12,953)
Depreciation	-	(113)	(1,380)	(356)	-	(1,849)
Acquisition (Note 5)	-	(3)	(123)	(21)	-	(147)
Disposition	-	-	53	19	-	72
Impairment – Canadian assets	-	-	(3,154)	(165)	-	(3,319)
Foreign exchange effect	3	5	173	89	-	270
Balance at December 31, 2020	(147)	(363)	(12,999)	(4,063)	(354)	(17,926)

WHITE OWL ENERGY SERVICES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Years ended December 31, 2020 and 2019
(All figures expressed in Canadian dollars unless otherwise noted)

CARRYING AMOUNTS

(\$000's)	Land	Right-of-use asset	Plant & equipment	Disposal wells	Oil and Gas properties	Total
Balance at December 31, 2019	566	68	23,511	3,377	440	27,962
Balance at December 31, 2020	555	184	20,136	3,107	596	24,578

Dispositions

During the year ended December 31, 2020, the Company disposed of property, plant and equipment for cash consideration of \$13,654 (2019 - \$nil). The dispositions resulted in a loss of \$46,439 (2019 - \$3,659 loss) recognized in comprehensive loss.

Impairment

December 31, 2020

At December 31, 2020, White Owl evaluated its property, plant and equipment for indicators or any potential impairment or related reversal. As a result of this assessment, indicators of impairment were identified and the Company completed impairment tests on all CGUs. As a result of these impairment tests no additional impairment was recorded on White Owl's property, plant and equipment assets at December 31, 2020.

March 31, 2020

At March 31, 2020, White Owl evaluated its property, plant and equipment for indicators of any potential impairment or related reversal. As a result of lower than forecasted results at the Clairmont CGU due to the shutting down of this facility in 2020, and due to lower than forecasted results at Watford City salt water disposal facility ("SWD") CGU and New Town SWD CGU, all due to the current challenging economic climate brought about by factors including the COVID-19 and commodity price volatility, the Company completed an impairment test on the assets. The recoverable amounts of these assets were assessed at \$17,058,594. As a result of the impairment test performed, the Company recognized an impairment expense of \$12,359,945. This expense comprised \$3,318,703 against property, plant and equipment and \$9,041,242 against goodwill. The impairment expense of \$3,318,703 against property, plant and equipment relates to \$3,048,990 for the Clairmont facility with the balance of \$269,713 relating to the impairment of equipment stored at Saddle Hills, Alberta. The impairment expense of \$9,041,242 against goodwill relates to the Watford SWD CGU (\$2,549,289) and the New Town SWD CGU (\$6,491,953).

The Company used the fair value less cost of disposal and value in use method to determine the recoverable amount of the assets. The cash flow projections included specific estimates for five years and a terminal valuation. The estimated cash flows were based on the 2020 run rate with revenue and margins increasing in correlation with anticipated oil and gas industry activity and oil price differentials over the following five years, and a terminal value thereafter was applied. The terminal valuation is determined based on management's estimate of the long-term compound growth rate of annual net earnings excluding depreciation, depletion, accretion, share-based payments, interest, and taxes, consistent with the assumption that a market participant would make. The Company used a terminal growth rate of 2.5%. The discount rate used to calculate the net present value of cash flows is based on estimates of the Company's weighted average cost of capital, taking into account the nature of the assets being valued and their specific risk profile. The Company used a pre-tax discount rate of 17.8% - 20.0%. Should economic conditions improve, the Company may be able to reinstate amounts previously written off against property, plant and equipment, but goodwill cannot be reinstated.

WHITE OWL ENERGY SERVICES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Years ended December 31, 2020 and 2019
(All figures expressed in Canadian dollars unless otherwise noted)

Assumptions that are valid at the time of preparing the cash flow projections may change significantly when new information becomes available. The estimated value in use for the assets tested are particularly sensitive to the following estimates:

- An increase of 1% in the pre-tax discount rate would have increased the impairment by approximately \$1,070,970; and
- A decrease of 1% in the terminal growth rate would have increased the impairment by approximately \$767,480.

December 31, 2019

At December 31, 2019, White Owl evaluated its property, plant and equipment for indicators of any potential impairment or related reversal. As a result of lower than forecasted results, the Company completed an impairment test on the assets acquired as part of the Clairmont facility acquisition in 2017. The recoverable amounts of the assets were assessed at \$4,612,900. As a result of the impairment test performed, the Company recognized an impairment expense of \$2,403,000 against the midstream property, plant and equipment, right-of-use equipment and right-of-use surface leases.

The Company used the fair value less cost of disposal method to determine the recoverable amount of the assets acquired. The cash flow projections included specific estimates for five years and a terminal valuation. The estimated cash flows were based on the 2019 run rate with revenue and margins increasing in correlation with anticipated oil and gas industry activity and oil price differentials over the following five years, and a terminal value thereafter was applied. The terminal valuation is determined based on management's estimate of the long-term compound growth rate of annual net earnings excluding depreciation, depletion, accretion, share-based payments, interest, and taxes, consistent with the assumption that a market participant would make. The Company used a terminal growth rate of 2.5%. The discount rate used to calculate the net present value of cash flows is based on estimates of the Company's weighted average cost of capital, taking into account the nature of the assets being valued and their specific risk profile. The Company used a pre-tax discount rate of 20%.

Assumptions that are valid at the time of preparing the cash flow projections may change significantly when new information becomes available. The estimated value in use for the assets tested are particularly sensitive to the following estimates:

- An increase of 1% in the pre-tax discount rate would have increased the impairment by approximately \$300,250; and
- A decrease of 1% in the terminal growth rate would have increased the impairment by approximately \$200,000.

Regardless if any indicators of impairment are present, the Company must complete an annual impairment assessment for any CGU, or group of CGUs, whose net carrying value includes indefinite-life intangible assets or an allocation of goodwill. White Owl completed this review as at December 31, 2019, which included impairment tests for the Company's Watford and New Town SWD CGUs. No additional impairment was recorded as a result of these impairment tests.

Watford

On January 17, 2019, a fire destroyed the Company's Watford salt water disposal facility located near Watford City, North Dakota ("Watford Facility"). There were no injuries to onsite personnel, nearby residents, businesses, or emergency responders. The Company has property insurance to cover the costs to rebuild the facility as well as business interruption insurance for the loss on income over the reconstruction period. During the year ended December 31, 2019, the Company derecognized the net carrying value of property, plant and equipment of \$4,745,348.

WHITE OWL ENERGY SERVICES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Years ended December 31, 2020 and 2019
(All figures expressed in Canadian dollars unless otherwise noted)

In March 2019, the Company received \$2,005,200 (US\$1,500,000) in insurance proceeds which partially offset the property damage and operating losses related to the Watford facility. In May 2019 and September 2019, the Company received an additional \$2,018,850 (US\$1,500,000) and \$1,324,100 (US\$1,000,000), respectively, in insurance proceeds. At December 31, 2019, the Company had accrued an additional \$1,718,266 (US\$1,322,964) in expected insurance proceeds. In February 2020, the Company received the final insurance proceeds of \$1,748,428 (US\$1,322,964).

7. GOODWILL

(\$000's)

Balance at December 31, 2018	8,694
Foreign exchange effect	(417)
Balance at December 31, 2019	8,277
Impairment	(9,041)
Foreign exchange effect	764
Balance at December 31, 2020	-

As a result of impairment testing performed at March 31, 2020, the Company recognized an impairment on goodwill of \$6,491,953 for the New Town SWD CGU and \$2,549,289 for the Watford SWD CGU. Please refer to Note 6 for further details of the March 31, 2020 impairment test.

8. INTANGIBLE ASSETS

(\$000's)

Balance at December 31, 2019	-
Acquisition (Note 5)	308
Amortization	(64)
Foreign exchange effect	(2)
Balance at December 31, 2020	242

On January 1, 2020, White Owl acquired an additional 15% interest in the Tioga Joint Venture (Note 5). As part of the acquisition the Company allocated \$308,082 to intangible assets for customer relationships in the Tioga Joint Venture. The intangible assets will be amortized over five years.

9. TERM LOAN AND OPERATING LOAN

Effective December 21, 2020, the Company signed an amended and restated credit agreement ("Commitment Letter") with Alberta Treasury Branches ("ATB") 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\$7,691,031 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 matures January 1, 2025, is payable on demand and bears interest at an annual rate of US prime plus 3.00%. Until demand, the Term Loan is repayable in monthly payments of interest, quarterly payments of US\$100,000 until June 30, 2021 and additional quarterly payments of 80% of the Company's excess cash flow. Excess cash flow is calculated as quarterly earnings before interest, taxes, depreciation, depletion and amortization ("EBITDA") less maintenance capital expenditures of \$85,125, loan renewal fee of US\$25,000 and principal and interest payments on the Term Loan and Operating Loan. 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 3.00%. During the year ended December 31, 2020, the Company made principal payments on the Term Loan of \$708,582 (US\$526,622) (2019 - \$3,536,775 (US\$2,680,041)). The facilities are subject to review by the lender with the next annual review date set for June 30, 2021.

WHITE OWL ENERGY SERVICES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Years ended December 31, 2020 and 2019
(All figures expressed in Canadian dollars unless otherwise noted)

Term Loan

(\$000's)

Balance at December 31, 2018	14,730
Principal payments	(3,537)
Foreign exchange effect	(650)
Balance at December 31, 2019	10,543
Principal payments	(709)
Foreign exchange effect	(169)
Balance at December 31, 2020	9,665

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, 2019 - \$53,862) and credit card balances of \$12,334 (December 31, 2019 - \$10,426). The Company had drawn \$nil on the Operating Loan at December 31, 2020 (December 31, 2019 - \$681,870 (US\$525,000)).

Covenants

Under the loan agreement for the Term Loan and Operating Loan, the Company is required to maintain the following minimum EBITDA, debt service coverage and working capital ratios:

Period	EBITDA	Working capital ratio	Debt service ratio
	three months ended (\$000's)		
December 31, 2020	44	1.40:1	0.90:1
March 31, 2021	71	1.35:1	0.45:1
June 30, 2021	181	1.35:1	0.80:1
July 1, 2021 and thereafter	-	1.50:1	1.25:1

The debt service coverage ratio is calculated as follows:

$$\text{Debt service coverage ratio} = \frac{\text{EBITDA}}{\text{Debt service obligations}}$$

The debt service coverage ratio at December 31, 2020 was 1.17 (December 31, 2019 - 1.73). The ratio is calculated based on the trailing four quarters at December 31, 2020.

The working capital ratio is calculated as follows:

$$\text{Working capital ratio} = \frac{\text{Current assets}}{\text{Current liabilities excluding term loan, deferred consideration, lease liabilities, loans payable and decommissioning obligations}}$$

The working capital ratio at December 31, 2020 was 1.59 to 1 (December 31, 2019 - 1.75 to 1).

WHITE OWL ENERGY SERVICES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Years ended December 31, 2020 and 2019
(All figures expressed in Canadian dollars unless otherwise noted)

Conditions subsequent

Under the loan agreement, the following subsequent conditions must be satisfied to maintain the ongoing availability of the Term Loan and Operating Loan:

- On or before January 31, 2021, White Owl's Board of Directors shall form a special committee and engage a financial advisor to consider strategic alternatives, including a process in respect of either the issuance of equity or the sale of assets with the result being the repayment of the Term Loan and Operating Loan;
- On or before March 31, 2021, White Owl shall have a comprehensive plan recommended by the special committee and approved by the Board of Directors with specific milestones, appointment of a financial advisor, all to the satisfaction of ATB, for the purposes of assessing the strategic alternatives;
- On or before May 31, 2021, White Owl and ATB will agree upon and revise the quarterly Term Loan principal repayments due on September 30, 2021 and December 31, 2021; and
- On or before December 31, 2021, White Owl shall repay in full all indebtedness payable to ATB under the Term Loan and Operating Loan.

It shall be a default or event of default of the Commitment Letter if White Owl fails to satisfy any of the conditions above.

On January 15, 2021, White Owl's Board of Directors formed a special committee in accordance with the requirements of the conditions subsequent of the Commitment Letter.

On March 15, 2021, White Owl's Board of Directors appointed a financial advisor to consider strategic alternatives that will include repayment in full of all indebtedness payable to ATB by December 31, 2021.

10. LOANS PAYABLE

(\$000's)	PPP loan	CEBA loan	Total
Balance at December 31, 2019	-	-	-
Issuance	492	60	552
Accrued interest	2	-	2
Foreign exchange effect	(37)	-	(37)
Balance at December 31, 2020	457	60	517
Less current portion	(457)	-	(457)
Total non-current portion	-	60	60

Paycheck Protection Program Loan ("PPP loan")

The Company has a PPP loan of \$456,565 (US\$358,596) that bears interest at 1% per annum and requires monthly payments of principal and interest of approximately US\$36,144 for the period from August 13, 2021 until May 13, 2022. The PPP loan is forgivable if the Company incurs applicable costs over the 24-week period ending October 28, 2020 for payroll, interest on mortgages, rent and utility payments. The Company has incurred the applicable costs, filed the required paperwork and expects that the PPP loan will be forgiven in 2021. Upon forgiveness, the Company will derecognize the carrying value of the PPP loan and offset to gain on settlement of loans payable in comprehensive loss.

Canadian Emergency Business Account Loan ("CEBA loan")

The Company has a non-interest bearing CEBA loan of \$60,000 that matures December 31, 2022. Repaying the balance of the loan on or before December 31, 2022 will result in loan forgiveness of 33.3 percent (up to \$20,000).

WHITE OWL ENERGY SERVICES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Years ended December 31, 2020 and 2019
(All figures expressed in Canadian dollars unless otherwise noted)

11. PROMISSORY NOTES

(\$000's)	Truck note 1	Truck note 2	Truck note 3	Vendor note	Partner note	Total
Balance at December 31, 2018	9	10	34	1,400	257	1,710
Principal payments	(9)	(10)	(12)	-	-	(31)
Accrued interest	-	-	-	-	24	24
Foreign exchange effect	-	-	(3)	-	-	(3)
Balance at December 31, 2019	-	-	19	1,400	281	1,700
Gain on settlement of promissory note	-	-	-	(1,100)	-	(1,100)
Principal payments	-	-	(13)	(300)	-	(313)
Accrued interest	-	-	-	-	24	24
Balance at December 31, 2020	-	-	6	-	305	311
Less current portion	-	-	(6)	-	(305)	(311)
Total non-current portion	-	-	-	-	-	-

The Company has 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.

As part of the Clairmont property acquisition in August 2017, the Company entered into the following promissory notes:

- The \$2,700,000 promissory note from the Clairmont property acquisition vendor (the "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 Vendor Note gave the vendor a first charge on the Clairmont property 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 Subordination Agreement specified that if the remaining \$1,000,000 was not paid by White Owl to the vendor on or before November 18, 2018, the amount due increases to \$1,400,000 and is payable on or before June 22, 2019. White Owl Ltd. did not pay the vendor the remaining \$1,000,000 on November 18, 2018, and as a result a loss on settlement of promissory note of \$400,000 was recognized in comprehensive loss in the year ended December 31, 2018. On January 17, 2020, White Owl Ltd. entered into a release agreement with the vendor for a final repayment of \$300,000 to fully repay the remaining \$1,400,000 outstanding on the Vendor Note. As a result, a gain on settlement of promissory note of \$1,100,000 was recorded in comprehensive loss for the year ended December 31, 2020.
- The \$240,000 promissory note is payable to White Owl Ltd.'s 5% partner in the Clairmont property (the "Partner Note"). The Partner Note is non-interest bearing and due in 12 equal monthly payments of \$20,000, with the first payment due November 22, 2017. 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. At December 31, 2020, the Company has accrued \$64,997 (December 31, 2019 - \$40,997) of interest on the Partner Note.

WHITE OWL ENERGY SERVICES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Years ended December 31, 2020 and 2019
(All figures expressed in Canadian dollars unless otherwise noted)

12. MORTGAGE PAYABLE

(\$000's)

Balance at December 31, 2018	140
Principal payments	(9)
Foreign exchange effect	(7)
Balance at December 31, 2019	124
Principal payments	(10)
Foreign exchange effect	(2)
Balance at December 31, 2020	112
Less current portion	(10)
Total non-current portion	102

The Company has a mortgage agreement that bears interest at 4.95% and requires annual payments of US\$12,091 until January 1, 2025, at which time the annual payment will be adjusted based on changes in interest rates for the subsequent five-year term.

13. LEASE LIABILITIES

(\$000's)

Balance at December 31, 2018	48
IFRS 16 adoption	288
Right-of-use assets disposed	(24)
Principal payments	(92)
Interest expense	19
Foreign exchange effect	(5)
Balance at December 31, 2019	234
Recognized	230
Principal payments	(112)
Interest expense	23
Foreign exchange effect	(1)
Balance at December 31, 2020	374
Less current portion	(161)
Total non-current portion	213

The lease liabilities are payable as follows:

(\$000's)	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	180	19	161
Between one and five years	144	36	108
Five years and greater	148	43	105
Balance at December 31, 2020	472	98	374

During the year ended December 31, 2020, the Company recognized \$22,653 (2019 - \$18,725) of interest expense from lease liabilities.

WHITE OWL ENERGY SERVICES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Years ended December 31, 2020 and 2019
(All figures expressed in Canadian dollars unless otherwise noted)

Depreciation expense recorded on right-of-use assets related to lease liabilities is as follows:

(\$000's)	December 31, 2020	December 31, 2019
Equipment	62	83
Office leases	48	-
Surface leases	3	8
Total depreciation expense – right-of-use assets	113	91

14. DEFERRED CONSIDERATION

In January 2019, the Company sold a nine percent royalty interest for \$1,795,635 (US\$1,350,000) of the salt water disposal revenue from the Company's Watford facility effective February 1, 2019. The Company has accounted for the royalty interest sale as deferred consideration. Deferred consideration is generated when a sale of a royalty interest linked to revenue at a specific facility occurs. Proceeds for sale of a royalty interest are an upfront payment received for future salt water disposal services that will generate future royalties. The estimated future salt water disposal revenues from the facility are multiplied by the royalty rate of 9% per annum to derive the upfront payment received, which is accounted for as deferred consideration and recognized as an offset to royalty expense over the life of the facility.

(\$000's)	
Balance at December 31, 2018	-
Deferred	1,796
Recognized	(103)
Foreign exchange effect	(41)
Balance at December 31, 2019	1,652
Recognized	(114)
Foreign exchange effect	(26)
Balance at December 31, 2020	1,512
Less current portion	(108)
Total non-current portion	1,404

15. DECOMMISSIONING LIABILITIES

(\$000's)	
Balance at December 31, 2018	4,623
Accretion	119
Well abandonment	(20)
Change in estimate	326
Foreign exchange effect	(67)
Balance at December 31, 2019	4,981
Accretion	62
Acquisition (Note 5)	47
Change in estimate	396
Foreign exchange effect	(36)
Balance at December 31, 2020	5,450
Less current portion	(179)
Total non-current portion	5,271

WHITE OWL ENERGY SERVICES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Years ended December 31, 2020 and 2019
(All figures expressed in Canadian dollars unless otherwise noted)

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 December 31, 2020 based on a total undiscounted future liability of \$6,337,299 (December 31, 2019 – \$6,611,562). These costs are expected to be incurred in approximately one to 20 years (December 31, 2019 – one to 20 years). The Company used risk-free interest rates at December 31, 2020 of 0.67% to 1.45% (December 31, 2019 – 1.76% to 2.25%) and an inflation rate of 2.00% (December 31, 2019 – 2.00%) to calculate the net present value of its decommissioning liabilities.

During the year ended December 31, 2019, the Company incurred \$102,797 for actual abandonment costs incurred a portion of which were not previously accounted for in the Company's decommissioning liabilities. The Company recorded the \$83,175 in abandonment costs as a loss on abandonment in comprehensive loss for the year ended December 31, 2019.

16. TAXES

The components of the Company's net tax expense which has been recorded in these consolidated financial statements are as follows:

(\$000's)	December 31, 2020	December 31, 2019
Net loss before income taxes	(12,695)	(642)
Statutory income tax rate	24%	26.5%
Recovery at statutory rate	(3,047)	(170)
Tax rate differential between Canada and United States	(30)	77
Non-deductible share-based payments	9	15
Other	(38)	(24)
Change in deferred tax asset not recognized	3,106	102
Current income tax expense – state taxes	5	-
Deferred income tax recovery (Note 5)	(105)	-
Total	(100)	-

Details of deferred tax assets (liabilities) are as follows:

(\$000's)	December 31, 2020	December 31, 2019
Property, plant and equipment	(4,136)	(4,825)
Investment in Tioga Joint Venture and Epping	(574)	(368)
Non-capital loss carry forwards	4,710	5,193
	-	-

Details of the unrecognized deductible temporary differences are as follows:

(\$000's)	December 31, 2020	December 31, 2019
Share issue costs	53	66
Other	5,755	3,353
Non-capital loss carry forwards	31,240	21,050
Unrecognized deductible temporary differences	37,048	24,469

WHITE OWL ENERGY SERVICES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Years ended December 31, 2020 and 2019
(All figures expressed in Canadian dollars unless otherwise noted)

At December 31, 2020, the Company has estimated non-capital losses carry forwards in the United States of \$21,035,162 (December 31, 2019 - \$20,711,972) and in Canada of \$17,148,011 (December 31, 2019 - \$14,210,422) which, if not utilized, will expire between 2033 and 2040.

17. SHARE CAPITAL

Authorized

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

Issued

(\$000's)	December 31, 2020	December 31, 2019
Common shares	21,118	21,118
Preferred shares	12,353	12,353
	33,471	33,471

COMMON SHARES

	Number (000's)	Amount (\$000's)
Balance at December 31, 2018	47,983	19,392
Shares issued	17,650	1,765
Share issue costs	-	(39)
Balance at December 31, 2019 and December 31, 2020	65,633	21,118

At December 31, 2020, there were 4,000,000 (December 31, 2019 – 4,000,000) common shares held in escrow.

In November 2019, the Company issued 17,650,000 common shares at \$0.10 per common share for total proceeds of \$1,765,000 before share issue costs of \$38,789.

PREFERRED SHARES

	Number (000's)	Amount (\$000's)
Balance at December 31, 2019 and December 31, 2020	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.

18. SHARE-BASED PAYMENT PLANS

The Company has established an Option Plan pursuant to which shares are available for the granting of incentive stock options. Pursuant to the Option Plan, the exercise price of an option cannot be less than the current market price of shares at the date of issuing the option. Options generally vest over a three-year period and are generally issued for a maximum term of five years from date of grant.

WHITE OWL ENERGY SERVICES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Years ended December 31, 2020 and 2019
(All figures expressed in Canadian dollars unless otherwise noted)

	Number of Options (000's)	Weighted Average Exercise Price (\$)
Balance at December 31, 2018	4,169	0.42
Cancelled/forfeited	(455)	0.42
Expired	(2,025)	0.50
Balance at December 31, 2019	1,689	0.32
Granted	4,704	0.05
Cancelled/forfeited	(100)	0.30
Expired	(89)	0.75
Balance at December 31, 2020	6,204	0.11

The following table summarizes information about options outstanding at December 31, 2020:

Options Outstanding			Options Exercisable	
Weighted Average Exercise Price \$	Number of Options (000's)	Weighted Average Contractual Life Remaining (years)	Number of Options (000's)	Weighted Average Exercise Price \$
0.05	4,704	4.06	-	-
0.30	1,500	1.02	1,500	0.30
0.11	6,204	3.33	1,500	0.30

The Company records share-based payments over the vesting period based on the fair value of options granted to employees and directors. The value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. The model assumptions for the options issued are as follows:

	2020
Risk-free interest rate	0.38%
Expected life of options	4.4 years
Expected volatility	100%
Expected dividend rate	0%
Expected forfeiture rate	5.1%
Weighted average fair value	\$0.04

The risk-free interest rate is based on the Government of Canada bond yields for five-year terms. Expected volatility is based on the historical volatility of the Company's shares. Expected forfeiture rate is based on the historical forfeiture rate of the Company's stock options.

During the year ended December 31, 2020, \$35,591 (2019 - \$57,605) in share-based payment expense related to equity-settled stock options has been recognized in comprehensive loss.

WHITE OWL ENERGY SERVICES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Years ended December 31, 2020 and 2019
(All figures expressed in Canadian dollars unless otherwise noted)

19. 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.

(\$000's)	December 31, 2020	December 31, 2019
Recovered oil sales	2,046	3,235
Water disposal and processing services	9,839	13,136
Production	1	99
Other revenue	355	473
Total revenue	12,241	16,943

20. FINANCE COSTS

(\$000's)	December 31, 2020	December 31, 2019
Interest on Term Loan	616	989
Interest on promissory notes, loans payable and mortgage payable	37	35
Interest on lease liabilities (Note 13)	23	19
Loan commitment fee	32	53
Accretion of decommissioning obligations (Note 15)	62	119
Interest (income) expense, bank charges and other	25	26
Total finance costs	795	1,241

21. 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 \$9,664,901 (US\$7,591,031) at December 31, 2020 (December 31, 2019 - \$10,543,208 (US\$8,117,653)). No hedge ineffectiveness was recognized during the year ended December 31, 2020 and 2019.

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, deposits, promissory notes receivable/payable, Operating Loan, Term Loan, loans payable, lease liabilities, trade and other payables, deferred consideration and mortgage payable. The fair values of the cash, trade and other receivables, deposits, promissory notes receivable, Operating Loan, Term Loan and trade and other payables approximate their carrying value due to the short-term or demand nature of these instruments. Promissory notes payable, loans payable, mortgage payable, deferred consideration and lease liabilities are carried at amortized cost.

WHITE OWL ENERGY SERVICES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Years ended December 31, 2020 and 2019
(All figures expressed in Canadian dollars unless otherwise noted)

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. 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 derived significant revenue from three major customers, which exceeded 10% of revenues from operations for the year ended December 31, 2020 (2019 – three customers). The customers accounted for 17%, 15% and 11% of revenue for the year ended December 31, 2020 respectively (2019 – 19%, 19% and 19%). At December 31, 2020, 8%, 20% and 0% of trade and other receivables were receivable from these customers respectively (December 31, 2019 – 6%, 8% and 15%). The Company's maximum exposure to credit risk at December 31, 2020 was the total of cash, trade and other receivables and promissory notes receivable of \$4,401,923 (December 31, 2019 - \$8,432,173). The Company believes that there is no unusual exposure associated with the collection of these trade and other receivables and promissory notes receivable 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 December 31, 2020, trade and other receivables includes \$541,519 (December 31, 2019 - \$502,460) in amounts invoiced to the joint venture owners for their proportionate share of operating losses and capital expenditures of the facility, while trade and other payables includes \$572,950 (December 31, 2019 - \$386,020) in amounts payable for operating income.

The aging of trade and other receivables is as follows:

(\$000's)	Current	30-60 days	60-90 days	90+days	Total
	1,612	585	236	572	3,005

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet financial obligations at the point at which they are due. The Company's operating cash requirements are continuously monitored by management. As factors impacting cash requirements change, liquidity risks may necessitate the need for the Company to raise capital by issuing equity or obtaining debt financing. The Company also mitigates liquidity risk by maintaining an insurance program to minimize exposure to insurable losses.

WHITE OWL ENERGY SERVICES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Years ended December 31, 2020 and 2019
(All figures expressed in Canadian dollars unless otherwise noted)

The following are the contractual maturities of financial liabilities at December 31, 2020:

(\$000's)	2021	2022	2023	2024	2025+	Total
Term Loan ⁽¹⁾	9,665	-	-	-	-	9,665
Loans payable	457	60	-	-	-	517
Promissory notes	311	-	-	-	-	311
Mortgage payable ⁽²⁾	10	11	11	12	68	112
Lease liabilities	161	86	8	7	112	374
Trade and other payables	3,393	-	-	-	-	3,393
	13,997	157	19	19	180	14,372

(1) Reflects demand nature of loan and assumes no change in US prime rate.

(2) Assumes no change in applicable interest during term outstanding.

Foreign currency risk

The Company generates revenue and expenses in US dollars and, therefore, fluctuations in the value of the Canadian dollar relative to the US dollar can affect the Company's comprehensive loss. Some of this foreign exchange impact is partially offset by interest expense on US dollar-denominated debt. The Company does not hedge its exposure to currency fluctuations other than the use of US dollar denominated debt. As the Company's US dollar-denominated operations continue to grow, exposure to changes in currency rates will increase.

Interest rate risk

The Company has floating interest rate debt which subjects it to interest rate cash flow risk. The Company does not maintain an active hedge program to mitigate the Company's exposure to interest rate fluctuations. If interest rates had been 10% higher during the year, and all other variables were held constant, the Company's comprehensive loss would be approximately \$1,059,233 higher for the year ended December 31, 2020 (December 31, 2019 – comprehensive loss \$1,245,636 higher).

Commodity risk

The Company recovers and sells crude oil which subjects it to the commodity price of crude oil. The Company does not maintain an active hedge program to mitigate the Company's exposure to commodity price fluctuations. Additional commodity price risk information is provided in Note 2.

22. 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 so as to sustain future development of the business and to maintain shareholder confidence. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its assets. Management considers capital to be the Company's total debt facilities, loans payable, promissory notes, mortgage payable, lease liabilities 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 9).

WHITE OWL ENERGY SERVICES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Years ended December 31, 2020 and 2019
(All figures expressed in Canadian dollars unless otherwise noted)

The Company's capital structure is as follows:

(\$000's)	December 31, 2020	December 31, 2019
Operating Loan	-	682
Term Loan	9,665	10,543
Loans payable	517	-
Promissory notes	311	1,700
Mortgage payable	112	124
Lease liabilities	374	234
Total equity	9,377	21,615
	20,356	34,898

23. RELATED PARTY TRANSACTIONS

The Company had promissory notes receivable from officers of the Company of \$23,000 at December 31, 2020 (December 31, 2019 - \$23,000). These unsecured promissory notes are due on demand and bear interest at 3% per annum. In November 2019, an officer of the Company repaid \$19,500 of promissory notes receivable.

In July 2018, an officer of the Company loaned White Owl \$20,175 to be used towards the repayment of the Vendor Note. The \$20,175 was repaid in November 2019.

At December 31, 2020, the Company has recorded \$16,894 (December 31, 2019 - \$66,883) 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.

At December 31, 2020 and December 31, 2019, certain management and directors own 1.66% of the Tioga SWD Facility and 5.62% of the Epping SWD Facility. These transactions with related parties have been recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Management and directors purchased these ownership interests at fair value.

The Company considers its directors and executives to be key management personnel. In addition to their salaries and director fees, the Company also provides non-cash benefits to key management personnel through participation in the Company's option program. The remuneration of key management personnel was as follows:

(\$000's)	December 31, 2020	December 31, 2019
Compensation and short-term benefits	851	1,176
Share-based payments	28	43
	879	1,219

Key management personnel of the Company controlled 11% of the outstanding voting shares of the Company at December 31, 2020 (December 31, 2019 – 11%).

WHITE OWL ENERGY SERVICES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Years ended December 31, 2020 and 2019
(All figures expressed in Canadian dollars unless otherwise noted)

24. COMMITMENTS

Operating leases

The Company has entered into operating land lease agreements at the Company's facilities and operating leases for office space. The agreements require future minimum payments as follows:

(\$000's)	2021	2022	2023	2024	2025	Total
Office lease	50	5	-	-	-	55
Land lease agreements ⁽¹⁾	99	99	99	99	99	495
	149	104	99	99	99	550

(1) Perpetual leases

Letters of Credit

At December 31, 2020, the Company had issued \$53,862 (December 31, 2019 - \$53,862) in letters of credit. The letters of credit have been deducted from the Company's available operating line (Note 9). The letters of credit relate to security for the Company's decommissioning liabilities and are held with regulatory bodies.

25. CHANGES IN NON-CASH WORKING CAPITAL

(\$000's)	December 31, 2020	December 31, 2019
Trade and other receivables	3,111	(2,339)
Deposits and prepaid expenses	102	459
Trade and other payables	(1,379)	662
Deferred consideration	(114)	(103)
	1,720	(1,321)
Allocated to:		
Operating	1,341	(336)
Investing	321	(1,020)
Financing	58	35
	1,720	(1,321)

26. GOVERNMENT ASSISTANCE

In response to the COVID-19 pandemic, governments have established various programs to assist companies through this period of uncertainty, like the implementation of the Canadian Emergency Wage Subsidy ("CEWS") and Canadian Emergency Rent Subsidy ("CERS"). During the year ended December 31, 2020, the Company recorded non-refundable contributions under CEWS of \$228,534 and CERS of \$3,966. The grants are recognized in general and administrative expenses in the statement of comprehensive loss on a systematic basis in the periods the Company recognizes the expenses which the grants are intended to compensate.

27. SUBSEQUENT EVENTS

On January 15, 2021, White Owl's Board of Directors formed a special committee in accordance with the requirements of the conditions subsequent of the Commitment Letter (see note 9).

WHITE OWL ENERGY SERVICES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Years ended December 31, 2020 and 2019
(All figures expressed in Canadian dollars unless otherwise noted)

On March 15, 2021, White Owl's Board of Directors appointed a financial advisor to consider strategic alternatives that will include repayment in full of all indebtedness payable to ATB by December 31, 2021.