

Condensed Consolidated Interim Financial Statements of

WHITE OWL ENERGY SERVICES INC.

For the three and nine months ended September 30, 2020 and 2019

(Unaudited) (Expressed in thousands of 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 nine months ended September 30, 2020 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 STATEMENT OF
FINANCIAL POSITION
(Unaudited) (Expressed in thousands of Canadian dollars)

	September 30, 2020	December 31, 2019
ASSETS		
CURRENT		
Cash	1,751	2,491
Trade and other receivables (Note 16)	2,557	5,919
Promissory notes (Note 18)	23	23
Deposits and prepaid expenses	2,286	1,638
	6,617	10,071
Property, plant and equipment (Note 4)	25,942	27,962
Goodwill (Note 5)	-	8,277
Intangible assets (Note 6)	269	-
Total assets	32,828	46,310
LIABILITIES		
CURRENT		
Operating loan (Note 7)	-	682
Term loan (Note 7)	10,259	10,543
Current portion of loans payable (Note 8)	477	-
Current portion of promissory notes (Note 9)	309	1,694
Current portion of mortgage payable (Note 10)	10	10
Current portion of lease liabilities (Note 11)	155	50
Current portion of deferred consideration (Note 12)	113	110
Trade and other payables	3,545	4,779
Current portion of decommissioning liabilities (Note 13)	-	678
	14,868	18,546
Promissory notes (Note 9)	-	6
Mortgage payable (Note 10)	110	114
Lease liabilities (Note 11)	247	184
Loans payable (Note 8)	40	-
Deferred consideration (Note 12)	1,499	1,542
Decommissioning liabilities (Note 13)	5,650	4,303
Total liabilities	22,414	24,695
SHAREHOLDERS' EQUITY		
Share capital	33,471	33,471
Contributed surplus	1,425	1,413
Accumulated other comprehensive income	4,517	3,274
Deficit	(28,999)	(16,543)
Total shareholders' equity	10,414	21,615
Total liabilities and shareholders' equity	32,828	46,310

Going concern (Note 2)
Subsequent event (Note 21)

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 STATEMENT OF
COMPREHENSIVE INCOME (LOSS)
(Unaudited) (Expressed in thousands of Canadian dollars)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2020	2019	2020	2019
REVENUE (Note 14)				
Oilfield disposal and processing services	2,606	4,776	9,860	11,555
Production revenue	-	-	1	99
	2,606	4,776	9,861	11,654
EXPENSES				
Operating costs	2,122	2,737	7,725	8,794
General and administrative	314	579	1,232	1,768
Depreciation and depletion (Note 4)	465	415	1,391	1,296
Amortization (Note 6)	16	-	49	-
Impairment (Note 4 & 5)	-	-	12,360	4,745
Finance costs (Note 15)	180	325	579	999
Foreign exchange (gains) losses	(154)	79	124	(32)
Share-based payments (Note 19)	9	17	12	49
Loss on disposal of property, plant and equipment (Note 4)	52	-	46	4
Loss on abandonment	-	6	-	79
Gain on settlement of promissory note (Note 9)	-	-	(1,100)	-
Insurance recovery – business interruption (Note 4)	-	(588)	-	(1,913)
Insurance recovery – property damage (Note 4)	-	(1,325)	-	(4,024)
	3,004	2,245	22,418	11,765
NET INCOME (LOSS) BEFORE INCOME TAXES	(398)	2,531	(12,557)	(111)
INCOME TAXES				
Current income tax expense	1	-	4	-
Deferred income tax recovery	-	-	(105)	-
	1	-	(101)	-
NET INCOME (LOSS)	(399)	2,531	(12,456)	(111)
OTHER COMPREHENSIVE INCOME (LOSS)				
Exchange gain (loss) on translating foreign operations	(659)	397	1,540	(1,042)
Change in fair value of net investment hedges (Note 16)	222	(141)	(297)	444
	(437)	256	1,243	(598)
NET COMPREHENSIVE INCOME (LOSS)	(836)	2,787	(11,213)	(709)

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

WHITE OWL ENERGY SERVICES INC.
CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY
(Unaudited) (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	-	-	-	(111)	(111)
Other comprehensive loss	-	-	(598)	-	(598)
Share-based payments (Note 19)	-	49	-	-	49
Balance at September 30, 2019	31,745	1,404	3,789	(16,012)	20,926
Balance at December 31, 2019	33,471	1,413	3,274	(16,543)	21,615
Net loss	-	-	-	(12,456)	(12,456)
Other comprehensive income	-	-	1,243	-	1,243
Share-based payments (Note 19)	-	12	-	-	12
Balance at September 30, 2020	33,471	1,425	4,517	(28,999)	10,414

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

WHITE OWL ENERGY SERVICES INC.
CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH
FLows

(Unaudited) (Expressed in thousands of Canadian dollars)

	Three months ended		Nine months ended	
	September 30,	September 30,	September 30,	September 30,
	2020	2019	2020	2019
CASH FLOWS RELATED TO THE FOLLOWING ACTIVITIES:				
OPERATING				
Net income (loss)	(399)	2,531	(12,456)	(111)
Adjustments for non-cash items:				
Depreciation and depletion (Note 4)	465	415	1,391	1,296
Amortization (Note 6)	16	-	49	-
Impairment (Note 4 & 5)	-	-	12,360	4,745
Accretion of decommissioning obligations (Note 13)	12	28	50	92
Interest on lease liabilities (Note 15)	6	4	16	14
Unrealized foreign exchange (gains) losses	(161)	76	37	(28)
Gain on settlement of promissory note (Note 9)	-	-	(1,100)	-
Deferred income tax recovery	-	-	(105)	-
Loss on disposal of property, plant and equipment (Note 4)	52	-	46	4
Loss on abandonment	-	6	-	79
Share-based payments (Note 19)	9	17	12	49
Insurance recovery – property damage (Note 4)	-	(1,325)	-	(4,024)
Abandonment expenditures	-	(6)	-	(99)
Change in non-cash working capital (Note 20)	(521)	(760)	1,822	(20)
Cash from operating activities	(521)	986	2,122	1,997
INVESTING				
Proceeds on the disposal of property, plant and equipment (Note 4)	4	-	14	-
Additions to property, plant and equipment (Note 4)	(241)	(2,622)	(519)	(4,576)
Acquisition of joint operation interest, net of cash acquired (Note 3)	-	-	(1,000)	-
Insurance recovery – property damage (Note 4)	-	1,325	-	4,024
Proceeds from the sale of royalty interest (Note 12)	-	-	-	1,796
Change in non-cash working capital (Note 20)	40	(340)	(283)	(106)
Cash from (used in) investing activities	(197)	(1,637)	(1,788)	1,138
FINANCING				
Proceeds from operating loan (Note 7)	201	1,458	1,954	4,665
Repayment of operating loan (Note 7)	(201)	(1,388)	(2,636)	(4,608)
Proceeds from loans payable (Note 8)	-	-	532	-
Repayment of term loan (Note 7)	-	(519)	(581)	(2,998)
Repayment of mortgage payable (Note 10)	(3)	(2)	(8)	(7)
Repayment of promissory notes payable (Note 9)	(3)	(9)	(310)	(27)
Repayment of lease liabilities (Note 11)	(27)	(20)	(80)	(71)
Change in non-cash working capital (Note 20)	7	(79)	19	66
Cash used in financing activities	(26)	(559)	(1,110)	(2,980)
Foreign exchange gain (loss) on cash held in foreign currency	(53)	21	36	(34)
NET INCREASE (DECREASE) IN CASH	(797)	(1,189)	(740)	121
CASH, BEGINNING OF PERIOD	2,548	2,385	2,491	1,075
CASH, END OF PERIOD	1,751	1,196	1,751	1,196

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 nine months ended September 30, 2020 and 2019

(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. 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. Operations at the Clairmont terminal were suspended during April 2020 until commodity prices recover. 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 November 10, 2020.

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 White Owl, 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, 2019.

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, 2019. 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.

WHITE OWL ENERGY SERVICES INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Three and nine months ended September 30, 2020 and 2019

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

At September 30, 2020, the Company had negative working capital of \$8,251,000 (December 31, 2019 - \$8,475,000), an accumulated deficit of \$28,999,000 (December 31, 2019 - \$16,543,000) and net loss for the nine months ended September 30, 2020 of \$12,456,000 (2019 - \$111,000 net loss). However, 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, which may continue for an undefined period, subject to the agreement of the senior lender. The Company is in compliance with all terms of the amended and restated credit agreement as at September 30, 2020. The ability of the Company to continue as a going concern and realize the carrying value of its assets and discharge its liabilities when due is dependent on achieving future profitable operations. There is no certainty that the Company will achieve profitable operations in the future due to factors such as commodity prices, industry activity levels in the regions in which the Company operates, 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.

3. 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.

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:

WHITE OWL ENERGY SERVICES INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Three and nine months ended September 30, 2020 and 2019

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

(\$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.

4. 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 11)	-	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 13)	-	-	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	-	-	519	-	-	519
Acquisition (Note 3)	-	3	728	210	-	941
Dispositions	-	-	(58)	(75)	-	(133)
IFRS 16 addition (Note 11)	-	230	-	-	-	230
Change in decommissioning costs (Note 13)	-	-	313	30	191	534
Foreign exchange effect	19	4	682	189	-	894
Balance at September 30, 2020	735	557	34,263	7,360	985	43,900

WHITE OWL ENERGY SERVICES INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Three and nine months ended September 30, 2020 and 2019

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

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	-	(72)	(1,053)	(266)	-	(1,391)
Acquisition (Note 3)	-	(3)	(123)	(21)	-	(147)
Disposition	-	-	53	19	-	72
Impairment – Canadian assets	-	-	(3,154)	(165)	-	(3,319)
Foreign exchange effect	(4)	(2)	(120)	(94)	-	(220)
Balance at September 30, 2020	(154)	(329)	(12,965)	(4,156)	(354)	(17,958)

CARRYING AMOUNTS

(\$000's)	Land	Right-of-use assets	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 September 30, 2020	581	228	21,298	3,204	631	25,942

Impairment

Watford

On January 17, 2019, a fire destroyed the Company's Watford City salt-water disposal facility ("Watford City SWD") located near Watford City, North Dakota. 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 nine months ended September 30, 2019, the Company derecognized the net carrying value of property, plant and equipment of \$4,745,348.

In March 2019, the Company received \$2,005,200 (\$US1,500,000) 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. In February 2020, the Company received the final insurance proceeds of \$1,748,248 (US\$1,322,964).

WHITE OWL ENERGY SERVICES INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Three and nine months ended September 30, 2020 and 2019

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

September 30, 2020

At September 30, 2020, White Owl evaluated its property, plant and equipment for indicators or any potential impairment or related reversal. As a result of this assessment, no indicators were identified and no impairment or related reversal was recorded on White Owl's property, plant and equipment assets for the three months ended September 30, 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 cash generating unit ("CGU") due to the shutting down of this facility in 2020, and due to lower than forecasted results at Watford City 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 \$27,987,000. 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 CGU (\$2,549,289) and the New Town 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%. 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.

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 and a 1% decrease in the terminal growth rate combined would have increased the impairment by approximately \$1,372,000.

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 property acquisition in 2017. The recoverable amounts of the assets were assessed at \$6,952,000. 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.

WHITE OWL ENERGY SERVICES INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Three and nine months ended September 30, 2020 and 2019

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

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 and a 1% decrease in the terminal growth rate combined would have increased the impairment by approximately \$300,000.

Regardless of whether 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 City SWD and New Town SWD CGUs. No additional impairment was recorded as a result of these impairment tests.

Dispositions

During the nine months ended September 30, 2020, the Company disposed of property, plant and equipment for cash consideration of \$13,654 (2019 - \$nil). The disposition resulted in a loss of \$46,439 (2019 - \$3,659) recognized in comprehensive income (loss).

5. 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 September 30, 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 City SWD CGU. Please refer to Note 4 for further details of the March 31, 2020 impairment test.

WHITE OWL ENERGY SERVICES INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Three and nine months ended September 30, 2020 and 2019

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

6. INTANGIBLE ASSETS

(\$000's)

Balance at December 31, 2019	-
Acquisition (Note 3)	308
Amortization	(49)
Foreign exchange effect	10
Balance at September 30, 2020	269

On January 1, 2020, White Owl acquired an additional 15% interest in the Tioga Joint Venture. 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.

7. TERM LOAN AND OPERATING LOAN

Effective December 19, 2019, 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\$9,106,681 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 1.75%. Until demand, the Term Loan is repayable in blended equal monthly payments of principal and interest of US\$186,650 over an amortization period ending December 31, 2024. 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%. During the nine months ended September 30, 2020, the Company made principal payments on the Term Loan of \$581,262 (US\$426,622) (2019 - \$2,997,707 (US\$2,269,973)). The facilities are subject to review by the lender with the next annual review date set for September 30, 2020, but may be set at a later date at the sole discretion of the lender. On April 30, 2020, the Company's senior lender accepted interest-only payments, which may continue for an undefined period, subject to the agreement of the senior lender.

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	(581)
Foreign exchange effect	297
Balance at September 30, 2020	10,259

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 \$1,262 (December 31, 2019 - \$10,426). The Company had drawn \$nil on the Operating Loan at September 30, 2020 (December 31, 2019 - \$681,870 (US\$525,000)).

WHITE OWL ENERGY SERVICES INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Three and nine months ended September 30, 2020 and 2019

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

Covenants

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

Period	Working capital ratio	Debt service ratio
December 31, 2019 to December 31, 2020	1.30:1	1.25:1
January 1, 2021 to June 30, 2021	1.40:1	1.25:1
July 1, 2021 and thereafter	1.50:1	1.25:1

The debt service coverage ratio is calculated as follows:

$$\text{Debt service coverage ratio} = \frac{\text{Earnings before interest, depreciation, taxes and amortization}}{\text{Debt service obligations}}$$

The debt service coverage ratio at September 30, 2020 was 1.46 (December 31, 2019 – 1.73). The ratio is calculated based on the trailing four quarters at September 30, 2020.

The working capital ratio is calculated as follows:

$$\text{Working capital ratio} = \frac{\text{Current assets}}{\text{Current liabilities excluding term loan, vendor note and decommissioning obligations}}$$

The working capital ratio at September 30, 2020 was 1.71 to 1 (December 31, 2019 – 1.75 to 1).

Security

The Term Loan and Operating Loan are secured by all of the Company's present and future acquired property and a floating charge on all lands.

8. LOANS PAYABLE

(\$000's)	PPP loan	CEBA loan	Total
Balance at December 31, 2019	-	-	-
Issuance	492	40	532
Accrued interest	1	-	1
Foreign exchange effect	(16)	-	(16)
Balance at September 30, 2020	477	40	517
Less current portion	(477)	-	(477)
Total non-current portion	-	40	40

Paycheck Protection Loan ("PPP loan")

The Company has a PPP loan of \$477,151 (US\$357,711) that bears interest at 1% per annum and requires monthly payments of principal and interest of US\$20,080 for the period from December 2020 until May 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 and expects that the PPP loan will be forgiven.

WHITE OWL ENERGY SERVICES INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Three and nine months ended September 30, 2020 and 2019

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

Canadian Emergency Business Account Loan ("CEBA loan")

The Company has a non-interest bearing CEBA loan of \$40,000 that matures December 31, 2022. Repaying the balance of the loan on or before December 31, 2022 will result in loan forgiveness of 25 percent (up to \$10,000).

9. 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	-	-	(10)	(300)	-	(310)
Accrued interest	-	-	-	-	18	18
Foreign exchange effect	-	-	1	-	-	1
Balance at September 30, 2020	-	-	10	-	299	309
Less current portion	-	-	(10)	-	(299)	(309)
Total non-current portion	-	-	-	-	-	-

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 income (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 specifies that if the remaining \$1,000,000 is 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 income (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 income (loss) for the nine months ended September 30, 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 September 30, 2020, the Company has accrued \$58,964 (December 31, 2019 - \$40,997) of interest on the Partner Note.

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.

WHITE OWL ENERGY SERVICES INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Three and nine months ended September 30, 2020 and 2019

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

10. 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	(8)
Foreign exchange effect	4
Balance at September 30, 2020	120
Less current portion	(10)
Total non-current portion	110

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.

11. 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	(80)
Interest expense	16
Foreign exchange effect	2
Balance at September 30, 2020	402
Less current portion	(155)
Total non-current portion	247

The lease liabilities are payable as follows:

(\$000's)	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	177	22	155
Between one and five years	177	36	141
Five years and greater	148	42	106
Balance at September 30, 2020	502	100	402

During the nine months ended September 30, 2020, the Company recognized \$72,300 (2019 - \$82,550) in depreciation (\$45,098 (2019 - \$76,503) for equipment, \$23,841 (2019 - \$nil) for office leases and \$3,361 (2019 - \$6,047) for surface leases) and \$15,590 (2019 - \$14,295) of interest expense from the lease liabilities.

WHITE OWL ENERGY SERVICES INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Three and nine months ended September 30, 2020 and 2019

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

12. DEFERRED CONSIDERATION

In January 2019, the Company sold a 9% 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	(86)
Foreign exchange effect	46
Balance at September 30, 2020	1,612
Less current portion	(113)
Total non-current portion	1,499

13. 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	50
Acquisition (Note 3)	47
Change in estimate	534
Foreign exchange effect	38
Balance at September 30, 2020	5,650
Less current portion	-
Total non-current portion	5,650

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 September 30, 2020 based on a total undiscounted future liability of \$6,475,955 (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 September 30, 2020 of 0.57% to 1.23% (December 31, 2019 – 1.76% to 2.25%) and an inflation rate of 2.0% (December 31, 2019 – 2.0%) to calculate the net present value of its decommissioning liabilities.

WHITE OWL ENERGY SERVICES INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Three and nine months ended September 30, 2020 and 2019

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

14. 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 September 30,		Nine months ended September 30,	
(\$000's)	2020	2019	2020	2019
Recovered oil sales	348	976	1,457	2,244
Water disposal and processing services	2,170	3,696	8,116	8,942
Production	-	-	1	99
Other revenue	88	104	287	369
Total revenue	2,606	4,776	9,861	11,654

15. FINANCE COSTS

	Three months ended September 30,		Nine months ended September 30,	
(\$000's)	2020	2019	2020	2019
Interest on Term Loan	142	221	467	791
Interest on promissory notes, loans payable and mortgage payable	11	9	27	25
Interest on lease liabilities (Note 11)	6	4	16	14
Accretion of decommissioning obligations (Note 13)	12	28	50	92
Interest (income) expense, bank charges and other	9	63	19	77
Total finance costs	180	325	579	999

16. 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 \$10,259,067 (US\$7,691,031) at September 30, 2020 (December 31, 2019 - \$10,543,208 (US\$8,117,653)). No hedge ineffectiveness was recognized during the three and nine months ended September 30, 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.

WHITE OWL ENERGY SERVICES INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Three and nine months ended September 30, 2020 and 2019

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

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, loans payable and trade and other payables approximate their carrying value due to the short-term or demand nature of these instruments. Promissory notes payable, mortgage payable, deferred consideration and lease liabilities are carried at amortized cost.

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 period.

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 September 30, 2020 was the total of cash, trade and other receivables and promissory notes receivable of \$4,330,446 (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 September 30, 2020, trade and other receivables includes \$551,542 (December 31, 2019 - \$502,460) in amounts invoiced to the joint venture owners for their proportionate share of operating and construction costs of the facility, while trade and other payables includes \$515,158 (December 31, 2019 - \$386,020) in amounts payable for operating costs.

The aging of trade and other receivables is as follows:

(\$000's)	Current	30-60 days	60-90 days	90+days	Total
	1,569	218	192	578	2,557

WHITE OWL ENERGY SERVICES INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Three and nine months ended September 30, 2020 and 2019

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

17. 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 7).

The Company's capital structure is as follows:

(\$000's)	September 30, 2020	December 31, 2019
Operating Loan	-	682
Term Loan	10,259	10,543
Loans payable	517	-
Promissory notes	309	1,700
Mortgage payable	120	124
Lease liabilities	402	234
Total equity	10,414	21,615
	22,021	34,898

18. RELATED PARTY TRANSACTIONS

The Company had promissory notes receivable from officers of the Company of \$23,000 at September 30, 2020 (December 31, 2019 - \$23,000). These unsecured promissory notes are due on demand and bear interest at 3% per annum.

At September 30, 2020, the Company has recorded \$24,269 (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 September 30, 2020 and December 31, 2019, certain management and directors own 1.66% of the Tioga SWD and 5.62% of the Epping SWD. 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.

19. 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 CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Three and nine months ended September 30, 2020 and 2019

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

	Number (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	4,404	0.05
Expired	(89)	0.75
Balance at September 30, 2020	6,004	0.12

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.

During the nine months ended September 30, 2020, \$11,690 (2019 - \$49,407) in share-based payment expense related to equity-settled stock options has been recognized in comprehensive income (loss).

20. CHANGES IN NON-CASH WORKING CAPITAL

(\$000's)	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Trade and other receivables	(183)	(1,068)	3,667	(998)
Deposits and prepaid expenses	309	53	(673)	(1,435)
Trade and other payables	(572)	(110)	(1,350)	2,448
Deferred consideration	(28)	(54)	(86)	(75)
	(474)	(1,179)	1,558	(60)
Allocated to:				
Operating	(521)	(760)	1,822	(20)
Investing	40	(340)	(283)	(106)
Financing	7	(79)	19	66
	(474)	(1,179)	1,558	(60)

21. SUBSEQUENT EVENT

On October 27, 2020, the Company entered into an agreement with Pivotal Energy Partners ("Pivotal"), aimed at creating a marketing, infrastructure, and crude oil optimization business at the Clairmont terminal. Under the terms of the agreement, Pivotal will provide \$700,000 for the recommissioning of the Clairmont terminal and the recompletion of an existing Clairmont property suspended oil well for water disposal (the Company is responsible for any costs in excess of \$700,000). In addition, Pivotal will provide additional capital to add butane blending capability to the Clairmont terminal and any future expansion projects agreed to by the parties. Pivotal will own 100% of the butane blending facility until the capital costs of the facility have been recovered at which time the ownership of the blending facility will transfer to the Company. Under the agreement, the Company will receive 70% of the net revenues, including butane blending revenue, from the Clairmont facility and will be responsible for 100% of the facility operating costs.