

Condensed Consolidated Interim Financial Statements of

WHITE OWL ENERGY SERVICES INC.

For the three and six months ended June 30, 2021 and 2020

(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 six months ended June 30, 2021 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)

	June 30, 2021	December 31, 2020
ASSETS		
CURRENT		
Cash	1,439	1,375
Trade and other receivables (Note 14)	1,878	3,005
Promissory notes (Note 16)	23	23
Deposits and prepaid expenses	2,265	1,488
	5,605	5,891
Property, plant and equipment (Note 3)	22,939	24,578
Intangible assets (Note 4)	206	242
Total assets	28,750	30,711
LIABILITIES		
CURRENT		
Term loan (Note 5)	8,925	9,665
Promissory notes (Note 7)	317	311
Current portion of loans payable (Note 6)	943	457
Current portion of mortgage payable (Note 8)	10	10
Current portion of lease liabilities (Note 9)	123	161
Current portion of deferred consideration (Note 10)	105	108
Trade and other payables	2,871	3,393
Current portion of decommissioning liabilities (Note 11)	177	179
	13,471	14,284
Loans payable (Note 6)	60	60
Mortgage payable (Note 8)	94	102
Lease liabilities (Note 9)	174	213
Deferred consideration (Note 10)	1,314	1,404
Decommissioning liabilities (Note 11)	4,845	5,271
Total liabilities	19,958	21,334
SHAREHOLDERS' EQUITY		
Share capital	33,471	33,471
Contributed surplus	1,498	1,449
Accumulated other comprehensive income	3,112	3,595
Deficit	(29,289)	(29,138)
Total shareholders' equity	8,792	9,377
Total liabilities and shareholders' equity	28,750	30,711

Going concern (Note 2)
Subsequent events (Note 19)

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 June 30,		Six months ended June 30,	
	2021	2020	2021	2020
REVENUE (Note 12)				
Oilfield disposal and processing services	2,417	2,606	4,647	7,254
Production revenue	1	1	1	1
	2,418	2,607	4,648	7,255
EXPENSES				
Operating costs	1,620	2,486	3,384	5,603
General and administrative (Note 17)	329	351	670	918
Depreciation (Note 3)	428	433	850	926
Amortization (Note 4)	15	16	30	33
Impairment (Note 3)	-	-	-	12,360
Finance costs (Note 13)	233	176	412	399
Foreign exchange (gains) losses	(89)	(294)	(175)	278
Share-based payments	25	1	49	3
Gain on settlement of promissory note (Note 7)	-	-	-	(1,100)
Gain on disposal of property, plant and equipment (Note 3)	(420)	(6)	(420)	(6)
	2,141	3,163	4,800	19,414
NET INCOME (LOSS) BEFORE INCOME TAXES	277	(556)	(152)	(12,159)
INCOME TAXES				
Current income tax (recovery) expense	1	1	(1)	3
Deferred income tax recovery	-	-	-	(105)
	1	1	(1)	(102)
NET INCOME (LOSS)	276	(557)	(151)	(12,057)
OTHER COMPREHENSIVE INCOME (LOSS)				
Exchange (loss) gain on translating foreign operations	(393)	(1,269)	(738)	2,199
Change in fair value of net investment hedges (Note 14)	136	430	255	(519)
	(257)	(839)	(483)	1,680
NET COMPREHENSIVE INCOME (LOSS)	19	(1,396)	(634)	(10,377)

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, 2019	33,471	1,413	3,274	(16,543)	21,615
Net loss	-	-	-	(12,057)	(12,057)
Other comprehensive income	-	-	1,680	-	1,680
Share-based payments	-	3	-	-	3
Balance at June 30, 2020	33,471	1,416	4,954	(28,600)	11,241
Balance at December 31, 2020	33,471	1,449	3,595	(29,138)	9,377
Net loss	-	-	-	(151)	(151)
Other comprehensive loss	-	-	(483)	-	(483)
Share-based payments	-	49	-	-	49
Balance at June 30, 2021	33,471	1,498	3,112	(29,289)	8,792

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

(Unaudited) (Expressed in thousands of Canadian dollars)

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
CASH FLOWS RELATED TO THE FOLLOWING ACTIVITIES:				
OPERATING				
Net income (loss)	276	(557)	(151)	(12,057)
Adjustments for non-cash items:				
Depreciation (Note 3)	428	433	850	926
Amortization (Note 4)	15	16	30	33
Impairment (Note 3)	-	-	-	12,360
Accretion of decommissioning obligations (Note 11)	22	14	36	38
Interest on lease liabilities (Note 9)	5	6	10	10
Unrealized foreign exchange (gains) losses	(99)	(291)	(194)	198
Gain on settlement of promissory note (Note 7)	-	-	-	(1,100)
Deferred income tax recovery	-	-	-	(105)
Gain on disposal of property, plant and equipment (Note 3)	(420)	(6)	(420)	(6)
Share-based payments	25	1	49	3
Change in non-cash working capital (Note 18)	(212)	1,356	502	2,343
Cash from operating activities	40	972	712	2,643
INVESTING				
Proceeds on disposal of property, plant and equipment (Note 3)	420	10	420	10
Additions to property, plant and equipment (Note 3)	(96)	(116)	(230)	(278)
Acquisition of joint operation interest, net of cash acquired	-	-	-	(1,000)
Change in non-cash working capital (Note 18)	(132)	(133)	(671)	(323)
Cash from (used in) investing activities	192	(239)	(481)	(1,591)
FINANCING				
Proceeds from operating loan (Note 5)	368	765	463	1,753
Repayment of operating loan (Note 5)	(368)	(1,226)	(463)	(2,435)
Proceeds from loans payable (Note 6)	488	532	488	532
Repayment of term loan (Note 5)	(359)	-	(485)	(581)
Repayment of mortgage payable (Note 8)	(2)	(3)	(5)	(5)
Repayment of promissory notes payable (Note 7)	(3)	(4)	(6)	(307)
Repayment of lease liabilities (Note 9)	(37)	(22)	(83)	(53)
Change in non-cash working capital (Note 18)	8	26	(50)	12
Cash from (used in) financing activities	95	68	(141)	(1,084)
Foreign exchange (loss) gain on cash held in foreign currency	(13)	(79)	(26)	89
NET DECREASE IN CASH	314	722	64	57
CASH, BEGINNING OF PERIOD	1,125	1,826	1,375	2,491
CASH, END OF PERIOD	1,439	2,548	1,439	2,548

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

WHITE OWL ENERGY SERVICES INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Three and six months ended June 30, 2021 and 2020

(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. 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 condensed consolidated interim financial statements (“consolidated financial statements”) were approved and authorized for issuance by the Board of Directors on September 1, 2021.

2. BASIS OF PRESENTATION AND GOING CONCERN

These consolidated financial statements have been prepared in accordance with International Accounting Standard 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 operations.

These consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2020.

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, 2020. 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.

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

At June 30, 2021, the Company had negative working capital of \$7,866,000, an accumulated deficit of \$29,289,000 and net loss for the six months ended June 30, 2021 of \$151,000. 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. The Company is in compliance with all terms of the amended and restated credit agreement as at June 30, 2021. 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 5). 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.

3. 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, 2019	716	320	32,079	7,006	794	40,915
Additions	-	-	682	155	-	837
Acquisition	-	3	728	210	-	941
Dispositions	-	-	(58)	(75)	-	(133)
IFRS 16 addition (Note 9)	-	230	-	-	-	230
Change in decommissioning costs (Note 11)	-	-	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
Additions	-	-	68	162	-	230
Dispositions	-	-	(45)	-	-	(45)
Change in decommissioning costs (Note 11)	-	-	(263)	(47)	(119)	(429)
Foreign exchange effect	(19)	(5)	(671)	(180)	-	(875)
Balance at June 30, 2021	683	542	32,224	7,105	831	41,385

WHITE OWL ENERGY SERVICES INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Three and six months ended June 30, 2021 and 2020

(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, 2019	(150)	(252)	(8,568)	(3,629)	(354)	(12,953)
Depreciation	-	(113)	(1,380)	(356)	-	(1,849)
Acquisition	-	(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)
Depreciation	-	(53)	(634)	(163)	-	(850)
Disposition	-	-	45	-	-	45
Foreign exchange effect	4	4	173	104	-	285
Balance at June 30, 2021	(143)	(412)	(13,415)	(4,122)	(354)	(18,446)

CARRYING AMOUNTS

(\$000's)	Land	Right-of-use assets	Plant & equipment	Disposal wells	Oil and Gas properties	Total
Balance at December 31, 2020	555	184	20,136	3,107	596	24,578
Balance at June 30, 2021	540	130	18,809	2,983	477	22,939

Impairment

June 30, 2021

At June 30, 2021, 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 June 30, 2021.

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 salt water disposal facility ("SWD") CGU and New Town SWD CGU, all due to the current challenging economic climate brought about by factors including 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).

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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.

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.

Dispositions

During the six months ended June 30, 2021, the Company disposed of property, plant and equipment for cash consideration of \$419,627 (2020 - \$10,461). The dispositions resulted in a gain of \$419,627 (2020 - \$5,926 gain) recognized in comprehensive income (loss).

4. INTANGIBLE ASSETS

(\$000's)

Balance at December 31, 2019	-
Acquisition	308
Amortization	(64)
Foreign exchange effect	(2)
Balance at December 31, 2020	242
Amortization	(30)
Foreign exchange effect	(6)
Balance at June 30, 2021	206

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.

WHITE OWL ENERGY SERVICES INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Three and six months ended June 30, 2021 and 2020

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

5. 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 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 six months ended June 30, 2021, the Company made principal payments on the Term Loan of \$485,364 (US\$390,000) (2020 - \$581,262 (US\$426,622)).

Term Loan

(\$000’s)

Balance at December 31, 2019	10,543
Principal payments	(709)
Foreign exchange effect	(169)
Balance at December 31, 2020	9,665
Principal payments	(485)
Foreign exchange effect	(255)
Balance at June 30, 2021	8,925

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, 2020 - \$53,862) and credit card balances of \$10,561 (December 31, 2020 - \$12,334). The Company had drawn \$nil on the Operating Loan at June 30, 2021 (December 31, 2020 – \$nil).

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)		
June 30, 2021	181	1.35:1	0.80:1
July 1, 2021 and thereafter	-	1.50:1	1.25:1

WHITE OWL ENERGY SERVICES INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Three and six months ended June 30, 2021 and 2020

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

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 June 30, 2021 was 1.09 (December 31, 2020 – 1.17). The ratio is calculated based on the trailing four quarters at June 30, 2021.

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 June 30, 2021 was 1.75 to 1 (December 31, 2020 – 1.59 to 1).

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.

ATB has extended the requirement from May 31, 2021, for White Owl and ATB to agree upon and revise the quarterly Term Loan principal repayments due on September 30, 2021 and December 31, 2021.

WHITE OWL ENERGY SERVICES INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Three and six months ended June 30, 2021 and 2020

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

6. LOANS PAYABLE

(\$000's)	PPP loan 1	PPP loan 2	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
Issuance	-	488	-	488
Accrued interest	2	1	-	3
Foreign exchange effect	(13)	8	-	(5)
Balance at June 30, 2021	446	497	60	1,003
Less current portion	(446)	(497)	-	(943)
Total non-current portion	-	-	60	60

Paycheck Protection Loans

The Company has a paycheck protection loan ("PPP loan") of \$446,637 (US\$360,365) 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 ("PPP loan 1"). The PPP loan 1 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 the PPP loan 1 was forgiven on August 18, 2021. Upon forgiveness in August 2021, the Company derecognized the carrying value of the PPP loan with an offset to gain on settlement of loans payable in comprehensive income (loss).

On May 6, 2021, the Company received a second draw PPP loan of \$488,321 (US\$400,263) that bears interest at 1% per annum ("PPP loan 2"). The PPP loan 2 is forgivable if the Company incurs applicable costs over a maximum 24-week period starting May 6, 2021 for payroll, interest on mortgages, rent and utility payments. Upon forgiveness, the Company will derecognize the carrying value of the PPP loan and offset to gain on settlement of loans payable in comprehensive income (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).

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7. PROMISSORY NOTES

(\$000's)	Truck note	Vendor note	Partner note	Total
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
Principal payments	(6)	-	-	(6)
Accrued interest	-	-	12	12
Balance at June 30, 2021	-	-	317	317
Less current portion	-	-	(317)	(317)
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"). 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 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 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 six months ended June 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 June 30, 2021, the Company has accrued \$76,899 (December 31, 2020 - \$64,997) of interest on the Partner Note.

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8. MORTGAGE PAYABLE

(\$000's)

Balance at December 31, 2019	124
Principal payments	(10)
Foreign exchange effect	(2)
Balance at December 31, 2020	112
Principal payments	(5)
Foreign exchange effect	(3)
Balance at June 30, 2021	104
Less current portion	(10)
Total non-current portion	94

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.

9. LEASE LIABILITIES

(\$000's)

Balance at December 31, 2019	234
Recognized	230
Principal payments	(112)
Interest expense	23
Foreign exchange effect	(1)
Balance at December 31, 2020	374
Principal payments	(83)
Interest expense	10
Foreign exchange effect	(4)
Balance at June 30, 2021	297
Less current portion	(123)
Total non-current portion	174

The lease liabilities are payable as follows:

(\$000's)	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	138	15	123
Between one and five years	109	34	75
Five years and greater	139	40	99
Balance at June 30, 2021	386	89	297

During the three and six months ended June 30, 2021, the Company recognized \$5,128 and \$9,851 (2020 - \$5,424 and \$9,722) of interest expense from lease liabilities.

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

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	Three months ended June 30,		Six months ended June 30,	
(\$000's)	2021	2020	2021	2020
Equipment	12	18	23	35
Office leases	18	-	30	-
Total depreciation expense – right-of-use assets	30	18	53	35

10. 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, 2019	1,652
Recognized	(114)
Foreign exchange effect	(26)
Balance at December 31, 2020	1,512
Recognized	(53)
Foreign exchange effect	(40)
Balance at June 30, 2021	1,419
Less current portion	(105)
Total non-current portion	1,314

11. DECOMMISSIONING LIABILITIES

(\$000's)

Balance at December 31, 2019	4,981
Accretion	62
Acquisition	47
Change in estimate	396
Foreign exchange effect	(36)
Balance at December 31, 2020	5,450
Accretion	36
Change in estimate	(429)
Foreign exchange effect	(35)
Balance at June 30, 2021	5,022
Less current portion	(177)
Total non-current portion	4,845

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The Company's decommissioning liabilities were estimated by management based on the Company's estimated costs to remediate, reclaim and abandon the Company's facilities and estimated timing of the costs to be incurred in future periods. The Company has estimated the net present value of its decommissioning obligations at June 30, 2021 based on a total undiscounted future liability of \$6,268,928 (December 31, 2020 – \$6,337,299). These costs are expected to be incurred in approximately one to 19 years (December 31, 2020 – one to 20 years). The Company used risk-free interest rates at June 30, 2021 of 1.39% to 2.00% (December 31, 2020 – 0.67% to 1.45%) and an inflation rate of 2.00% (December 31, 2020 – 2.00%) to calculate the net present value of its decommissioning liabilities.

12. REVENUE

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

	Three months ended June 30,		Six months ended June 30,	
(\$000's)	2021	2020	2021	2020
Recovered oil sales	800	320	1,607	1,109
Water disposal and processing services	1,555	2,188	2,914	5,946
Production	1	1	1	1
Other revenue	62	98	126	199
Total revenue	2,418	2,607	4,648	7,255

13. FINANCE COSTS

	Three months ended June 30,		Six months ended June 30,	
(\$000's)	2021	2020	2021	2020
Interest on Term Loan	151	146	311	325
Interest on promissory notes, loans payable and mortgage payable	11	8	21	16
Interest on lease liabilities (Note 9)	5	6	10	10
Accretion of decommissioning obligations (Note 11)	22	14	36	38
Interest (income) expense, bank charges and other	44	2	34	10
Total finance costs	233	176	412	399

14. 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 \$8,924,958 (US\$7,201,031) at June 30, 2021 (December 31, 2020 - \$9,664,901 (US\$7,591,031)). No hedge ineffectiveness was recognized during the six months ended June 30, 2021 and 2020.

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.

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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, 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, 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.

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 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 June 30, 2021 was the total of cash, trade and other receivables and promissory notes receivable of \$3,338,885 (December 31, 2020 - \$4,401,923). The Company believes that there is no unusual exposure associated with the collection of these trade and other receivables and promissory notes receivable. As at June 30, 2021, the Company has an allowance for doubtful accounts of \$nil (December 31, 2020 - \$2,369).

Pursuant to the White Owl Epping Joint Venture Agreement ("Epping Agreement") dated July 18, 2018, White Owl as operator is responsible for the payment and discharge of all expenses of the joint venture and is entitled to be reimbursed for these expenses. Under the Epping Agreement, the Company will be reimbursed for all direct operating costs and will be paid an operating fee of 8% of the cost of operations and a fee of 3% of capital expenditures. As at June 30, 2021, trade and other receivables includes \$nil (December 31, 2020 - \$541,519) 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 \$18,564 (December 31, 2020 - \$572,950) 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
	1,370	240	159	109	1,878

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15. CAPITAL MANAGEMENT

The Company's objective is to ensure adequate sources of funding 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, meet ongoing obligations as they become due and to maintain shareholder confidence. The Company manages its balance sheet structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its assets. Management considers funding 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 balance sheet 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 5).

The Company's capital structure is as follows:

(\$000's)	June 30, 2021	December 31, 2020
Term Loan	8,925	9,665
Loans payable	1,003	517
Promissory notes	317	311
Mortgage payable	104	112
Lease liabilities	297	374
Total equity	8,792	9,377
	19,438	20,356

16. RELATED PARTY TRANSACTIONS

The Company had promissory notes receivable from officers of the Company of \$23,000 at June 30, 2021 (December 31, 2020 - \$23,000). These unsecured promissory notes are due on demand and bear interest at 3% per annum.

At June 30, 2021, the Company has recorded \$14,594 (December 31, 2020 - \$16,894) in amounts owing from the Tioga Joint Venture in trade and other receivables. 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 June 30, 2021, and December 31, 2020, 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.

17. 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 three and six months ended June 30, 2021, the Company recorded non-refundable contributions under CEWS of \$45,706 and \$67,542 (2020 - \$93,419 and \$93,419) and CERS of \$8,210 and \$19,233 (2020 - \$nil and \$nil). The grants are recognized in general and administrative expenses in the statement of comprehensive income (loss) on a systematic basis in the periods the Company recognizes the expenses which the grants are intended to compensate.

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18. CHANGES IN NON-CASH WORKING CAPITAL

(\$000's)	Three months ended June 30, 2021	2020	Six months ended June 30, 2021	2020
Trade and other receivables	(199)	1,803	1,083	3,850
Deposits and prepaid expenses	(780)	(998)	(776)	(982)
Trade and other payables	669	624	(473)	(778)
Deferred consideration	(26)	(180)	(53)	(58)
	(336)	1,249	(219)	2,032
Allocated to:				
Operating	(212)	1,356	502	2,343
Investing	(132)	(133)	(671)	(323)
Financing	8	26	(50)	12
	(336)	1,249	(219)	2,032

19. SUBSEQUENT EVENTS

Term Sheet

On August 4, 2021, the Company signed a non-binding term sheet with a new senior lender to facilitate repayment of all indebtedness payable to ATB under the Term Loan and Operating Loan (please see Note 5). The term sheet includes a number of conditions precedent, including bank due diligence and board of directors approval.

PPP Loan forgiveness

On August 18, 2021, the Company received confirmation that PPP loan 1 was forgiven. Upon forgiveness in August 2021, the Company derecognized the carrying value of the PPP loan with an offset to gain on settlement of loans payable in comprehensive income (loss).