

Condensed Consolidated Interim Financial Statements of

WHITE OWL ENERGY SERVICES INC.

For the three and nine months ended September 30, 2022 and 2021

(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, 2022 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, 2022	December 31, 2021
ASSETS		
CURRENT		
Cash	6,561	2,314
Trade and other receivables (Note 16)	3,618	2,234
Promissory note (Note 18)	23	23
Deposits and prepaid expenses	2,284	1,461
Assets held for sale (Note 4)	1,154	-
	13,640	6,032
Property, plant and equipment (Note 3)	22,034	22,616
Intangible assets (Note 5)	146	180
Total assets	35,820	28,828
LIABILITIES		
CURRENT		
Trade and other payables (Note 18)	5,580	2,784
Loans payable (Note 9)	-	571
Promissory notes (Note 10)	347	329
Current portion of long-term debt (Note 8)	1,630	407
Current portion of lease liabilities (Note 11)	42	91
Current portion of deferred consideration (Note 12)	116	108
Current portion of decommissioning liabilities (Note 13)	61	201
Liabilities associated with assets held for sale (Note 4)	1,291	-
	9,067	4,491
Loans payable (Note 9)	60	-
Lease liabilities (Note 11)	115	125
Deferred consideration (Note 12)	1,308	1,290
Decommissioning liabilities (Note 13)	2,748	4,708
Long-term debt (Note 8)	8,477	8,822
Total liabilities	21,775	19,436
SHAREHOLDERS' EQUITY		
Share capital	33,471	33,471
Contributed surplus	1,582	1,531
Accumulated other comprehensive income	5,602	3,583
Deficit	(26,610)	(29,193)
Total shareholders' equity	14,045	9,392
Total liabilities and shareholders' equity	35,820	28,828

Subsequent event (Note 21)

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 September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
REVENUE (Note 14)	4,415	2,651	12,844	7,299
EXPENSES				
Operating costs	1,930	1,890	5,946	5,274
General and administrative (Note 19)	570	374	1,577	1,044
Depreciation (Note 3)	436	423	1,271	1,273
Amortization (Note 5)	16	15	46	45
Finance costs (Note 15)	297	151	741	563
Foreign exchange losses	825	267	1,034	92
Share-based payments	23	21	51	70
(Gain) loss on disposal of property, plant and equipment - net (Note 3)	(7)	15	(7)	(405)
Gain on loan payable forgiveness (Note 9)	-	(455)	(511)	(455)
Gain on modification of lease liabilities (Note 11)	-	(12)	-	(12)
Loss on abandonment (Note 13)	1	-	111	-
	4,091	2,689	10,259	7,489
NET INCOME (LOSS) BEFORE INCOME TAXES	324	(38)	2,585	(190)
Income tax expense	-	1	2	-
NET INCOME (LOSS)	324	(39)	2,583	(190)
OTHER COMPREHENSIVE INCOME (LOSS)				
Exchange gain on translating foreign operations	2,279	793	2,811	55
Change in fair value of net investment hedges (Note 16)	(632)	(250)	(792)	5
	1,647	543	2,019	60
NET COMPREHENSIVE INCOME (LOSS)	1,971	504	4,602	(130)

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, 2020	33,471	1,449	3,595	(29,138)	9,377
Net loss	-	-	-	(190)	(190)
Other comprehensive income	-	-	60	-	60
Share-based payments	-	70	-	-	70
Balance at September 30, 2021	33,471	1,519	3,655	(29,328)	9,317
Balance at December 31, 2021	33,471	1,531	3,583	(29,193)	9,392
Net income	-	-	-	2,583	2,583
Other comprehensive income	-	-	2,019	-	2,019
Share-based payments	-	51	-	-	51
Balance at September 30, 2022	33,471	1,582	5,602	(26,610)	14,045

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 September 30, 2022		Nine months ended September 30, 2022	
	2022	2021	2022	2021
CASH FLOWS RELATED TO THE FOLLOWING ACTIVITIES:				
OPERATING				
Net income (loss)	324	(39)	2,583	(190)
Adjustments for non-cash items:				
Depreciation (Note 3)	436	423	1,271	1,273
Amortization (Note 5)	16	15	46	45
Accretion of decommissioning obligations (Note 13)	33	22	80	58
Interest on lease liabilities (Note 11)	4	4	10	14
Accretion of transaction costs (Note 8)	35	-	101	-
Unrealized foreign exchange loss	841	264	1,029	70
Share-based payments	23	21	51	70
Gain on loan payable forgiveness (Note 9)	-	(455)	(511)	(455)
(Gain) loss on disposal of property, plant and equipment – net (Note 3)	(7)	15	(7)	(405)
Gain on modification of lease liabilities (Note 11)	-	(12)	-	(12)
Loss on abandonment (Note 13)	1	-	111	-
Abandonment expenditures (Note 13)	(1)	-	(232)	-
Change in non-cash working capital (Note 20)	73	(57)	(583)	445
Cash from operating activities	1,778	201	3,949	913
INVESTING				
Proceeds on disposal of property, plant and equipment (Note 3)	46	199	46	619
Additions to property, plant and equipment (Note 3)	(810)	(36)	(1,102)	(266)
Change in non-cash working capital (Note 20)	1,256	(32)	1,310	(703)
Cash from (used in) investing activities	492	131	254	(350)
FINANCING				
Proceeds from operating facility (Note 6)	-	730	-	1,193
Repayment of operating facility (Note 6)	-	(506)	-	(969)
Proceeds from loans payable (Note 9)	-	-	-	488
Long-term debt transaction costs (Note 8)	-	-	(15)	-
Repayment of term loan (Note 6)	-	-	-	(485)
Repayment of mortgage payable	-	(105)	-	(110)
Repayment of promissory notes payable (Note 10)	-	-	-	(6)
Repayment of lease liabilities (Note 11)	(32)	(38)	(80)	(121)
Change in non-cash working capital (Note 20)	12	(188)	(212)	(238)
Cash used in financing activities	(20)	(107)	(307)	(248)
Foreign exchange gain on cash held in foreign currency	309	33	351	7
NET INCREASE IN CASH	2,559	258	4,247	322
CASH, BEGINNING OF PERIOD	4,002	1,439	2,314	1,375
CASH, END OF PERIOD	6,561	1,697	6,561	1,697

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, 2022 and 2021

(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 (see Note 4 & 21). The Company’s registered office is 1150, 1122 – 4th Street SW, Calgary, AB T2R 1M1.

2. BASIS OF PRESENTATION

These condensed consolidated interim financial statements (“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, 2021.

The consolidated financial statements have been prepared using the same accounting policies and methods as those used in the audited consolidated financial statements for the year ended December 31, 2021. 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 were approved and authorized for issuance by the Board of Directors on November 21, 2022.

WHITE OWL ENERGY SERVICES INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

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, 2020	702	547	33,135	7,170	950	42,504
Additions	-	-	221	351	-	572
Dispositions	-	-	(427)	-	-	(427)
Change in decommissioning costs (Note 13)	-	-	(245)	(46)	(147)	(438)
Foreign exchange effect	(3)	(1)	(109)	(28)	-	(141)
Balance at December 31, 2021	699	546	32,575	7,447	803	42,070
Additions	16	74	262	824	-	1,176
Dispositions	-	-	(78)	-	-	(78)
Change in decommissioning costs (Note 13)	-	-	(583)	(163)	(173)	(919)
Reclassification to assets held for sale (Note 4)	-	(82)	(7,376)	-	(17)	(7,475)
Foreign exchange effect	58	20	2,010	586	-	2,674
Balance at September 30, 2022	773	558	26,810	8,694	613	37,448

ACCUMULATED DEPRECIATION AND IMPAIRMENT

(\$000's)	Land	Right-of-use assets	Plant & equipment	Disposal wells	Oil and gas properties	Total
Balance at December 31, 2020	(147)	(363)	(12,999)	(4,063)	(354)	(17,926)
Depreciation	-	(107)	(1,279)	(349)	-	(1,735)
Disposition	-	-	179	-	-	179
Foreign exchange effect	1	-	15	12	-	28
Balance at December 31, 2021	(146)	(470)	(14,084)	(4,400)	(354)	(19,454)
Depreciation	-	(61)	(942)	(268)	-	(1,271)
Disposition	-	-	40	-	-	40
Reclassification to assets held for sale (Note 4)	-	82	6,230	-	9	6,321
Foreign exchange effect	(12)	(16)	(665)	(357)	-	(1,050)
Balance at September 30, 2022	(158)	(465)	(9,421)	(5,025)	(345)	(15,414)

CARRYING AMOUNTS

(\$000's)	Land	Right-of-use asset	Plant & equipment	Disposal wells	Oil and gas properties	Total
Balance at December 31, 2021	553	76	18,491	3,047	449	22,616
Balance at September 30, 2022	615	93	17,389	3,669	268	22,034

Impairment

At September 30, 2022, 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.

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Dispositions

During the nine months ended September 30, 2022, the Company disposed of property, plant and equipment for cash consideration of \$45,915 (2021 - \$618,709). The dispositions resulted in a gain of \$7,149 (2021 - \$404,998) recognized in comprehensive income (loss).

4. ASSETS HELD FOR SALE

(\$000's)	September 30, 2022	December 31, 2021
Assets held for sale		-
Property, plant and equipment (Note 3)	1,154	-
Liabilities associated with assets held for sale		
Lease liabilities (Note 11)	68	-
Decommissioning liabilities (Note 13)	1,223	-
	1,291	-

On October 14, 2022, the Company closed the disposition of the Clairmont terminal assets and associated liabilities presented as assets held for sale at September 30, 2022 for \$1,400,000 (\$1,250,000 net of costs), prior to closing adjustments. The disposition consisted of Clairmont terminal property, plant and equipment and associated decommissioning liabilities and surface lease liabilities.

5. INTANGIBLE ASSETS

(\$000's)	
Balance at December 31, 2020	242
Amortization	(59)
Foreign exchange effect	(3)
Balance at December 31, 2021	180
Amortization	(46)
Foreign exchange effect	12
Balance at September 30, 2022	146

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.

6. TERM LOAN AND OPERATING FACILITY

The Company had a non-revolving reducing demand loan facility (the "term loan") in the amount of US\$7,691,031 and a revolving, operating demand loan facility (the "operating facility") 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 was payable on demand and bore interest at an annual rate of US prime plus 3.00%. The operating facility was 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 nine months ended September 30, 2021, the Company made principal payments on the term loan of \$485,364 (US\$390,000).

Under the term loan agreement, the Company had to satisfy certain conditions to maintain the ongoing availability of the term loan and operating facility, including the repayment in full of all indebtedness payable under the term loan and

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operating facility on or before December 31, 2021. In December 2021, the Company repaid the full amount of the term loan outstanding of \$9,228,842 (US\$7,201,031) and the operating facility of \$70,960 (US\$55,463) (see Note 8).

Term loan

(\$000's)

Balance at December 31, 2020	9,665
Principal payments	(9,714)
Foreign exchange effect	49
Balance at December 31, 2021 and September 30, 2022	-

7. OPERATING LOAN

On October 18, 2021, the Company entered into a US\$1,000,000 demand operating loan ("operating loan") agreement with an additional lender which replaced the Company's previous operating facility (see Note 6). The operating loan is a revolving demand facility bearing interest, payable monthly, at the US prime rate plus 2.25%. The total outstanding on the operating loan will not at anytime exceed the lesser of the margin requirements as defined in the loan agreement and US\$1,000,000. As at September 30, 2022, the Company's borrowing limit under the operating loan was US\$1,000,000 (December 31, 2021 - US\$791,782). The Company had drawn \$nil on the operating loan at September 30, 2022 (December 31, 2021 - \$nil).

The following are the financial covenants governing the operating loan, all capitalized terms are defined in the operating loan agreement:

- Four quarter trailing Cash Flow Coverage Ratio of not less than 1.25:1.00
- Annual Debt to Tangible Net Worth Ratio not greater than 3.00:1.00
- Annual Current Ratio not less than 1.25x

As at September 30, 2022 and December 31, 2021, the Company was compliant with all covenants provided for in the operating loan agreement.

8. LONG-TERM DEBT

On October 14, 2021, the Company entered into an agreement with a new senior lender ("loan agreement") for a US\$7,700,000 loan to facilitate the repayment of the term loan due on or before December 31, 2021 to its previous lender and for working capital growth. In December 2021, the Company received the full amount of \$9,868,320 (US\$7,700,000) to repay the term loan (see Note 6). The new long-term debt matures September 1, 2028 and bears interest on the outstanding principal balance, payable monthly, at the US dollar floating base rate plus 1.50%. Effective March 7, 2022, the interest on the outstanding principal balance was adjusted by the Company for one year to the US dollar fixed interest rate plus 1.50%. The next interest adjustment date for the fixed interest rate is March 1, 2023. A one-time principal payment of US\$107,260 is due October 1, 2022, with subsequent monthly principal payments of US\$106,940 due until maturity. Commencing April 2023, additional annual principal payments will be required for 50% of excess cash flow ("ECF") realized by White Owl to a maximum of US\$500,000. The annual ECF limit is calculated as EBITDA less US\$350,000 of maintenance capital expenditures and principal and interest payments on long-term debt and operating loan. The annual ECF principal payment is only due up to the amount that would not cause the Company to be in default with the debt covenants and financial requirements of the Company's lenders. In addition, starting December 31, 2022, the Company is required to maintain at all times a fixed coverage ratio equal to or greater than 1.25:1.00. The Company incurred \$550,916 in transaction costs related to the issuance which will be amortized over the term of the loan using the effective interest method.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Three and nine months ended September 30, 2022 and 2021

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

(\$000's)

Balance at December 31, 2020	-
Issuance	9,868
Transaction costs	(536)
Accretion of transaction costs	3
Foreign exchange effect	(106)
Balance at December 31, 2021	9,229
Transaction costs	(15)
Accretion of transaction costs	101
Foreign exchange effect	792
Balance at September 30, 2022	10,107
Less current portion	(1,630)
Total non-current portion	8,477

As at September 30, 2022 and December 31, 2021, the Company was compliant with all covenants provided for in the loan agreement.

9. LOANS PAYABLE

(\$000's)	PPP loan 1	PPP loan 2	CEBA loan	Total
Balance at December 31, 2020	457	-	60	517
Issuance	-	488	-	488
Accrued interest	3	3	-	6
Forgiveness	(455)	-	-	(455)
Foreign exchange effect	(5)	20	-	15
Balance at December 31, 2021	-	511	60	571
Accrued interest	-	1	-	1
Forgiveness	-	(511)	-	(511)
Foreign exchange effect	-	(1)	-	(1)
Balance at September 30, 2022	-	-	60	60
Less current portion	-	-	-	-
Total non-current portion	-	-	60	60

Paycheck Protection Program Loan ("PPP loan")

On May 13, 2020, the Company received a paycheck protection loan ("PPP loan") of \$491,937 (US\$356,812) that bears interest at 1% per annum ("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 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 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 the 24-week period ending October 30, 2021 for payroll, interest on mortgages, rent and utility payments. As at October 30, 2021, the Company incurred the applicable costs, filed the required paperwork and the PPP loan 2 was forgiven on March 18, 2022. Upon forgiveness in March 2022, the Company derecognize the carrying value of the PPP loan with an offset to gain on settlement of loans payable in comprehensive income (loss).

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(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 \$60,000 that matures December 31, 2023. Repaying the balance of the loan on or before December 31, 2023 will result in loan forgiveness of 33.3% (up to \$20,000).

10. PROMISSORY NOTES

(\$000's)	Truck note	Partner note	Total
Balance at December 31, 2020	6	305	311
Principal payments	(6)	-	(6)
Accrued interest	-	24	24
Balance at December 31, 2021	-	329	329
Accrued interest	-	18	18
Balance at September 30, 2022	-	347	347
Less current portion	-	(347)	(347)
Total non-current portion	-	-	-

The Company had 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") with monthly payments of US\$857 until July 5, 2021.

As part of the Clairmont property acquisition in August 2017, the Company entered into a \$240,000 promissory note 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, 2022, the Company has accrued \$106,948 (December 31, 2021 - \$88,997) of interest on the Partner Note.

11. LEASE LIABILITIES

(\$000's)	
Balance at December 31, 2020	374
Modification	(12)
Principal payments	(161)
Interest expense	19
Foreign exchange effect	(4)
Balance at December 31, 2021	216
Recognized	74
Principal payments	(80)
Interest expense	10
Reclassification of liabilities associated with assets held for sale (Note 4)	(68)
Foreign exchange effect	5
Balance at September 30, 2022	157
Less current portion	(42)
Total non-current portion	115

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

The lease liabilities are payable as follows:

(\$000's)	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	51	9	42
Between one and five years	89	21	68
Five years and greater	66	19	47
Balance at September 30, 2022	206	49	157

During the three and nine months ended September 30, 2022, the Company recognized \$3,754 and \$9,980 (2021 - \$4,496 and \$14,347) of interest expense from lease liabilities.

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

(\$000's)	Three months ended September 30, 2022		Nine months ended September 30, 2022	
		2021		2021
Equipment	7	7	14	30
Office leases	18	18	47	48
Total depreciation expense – right-of-use assets	25	25	61	78

12. 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, 2020	1,512
Recognized	(106)
Foreign exchange effect	(8)
Balance at December 31, 2021	1,398
Recognized	(82)
Foreign exchange effect	108
Balance at September 30, 2022	1,424
Less current portion	(116)
Total non-current portion	1,308

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13. DECOMMISSIONING LIABILITIES

(\$000's)

Balance at December 31, 2020	5,450
Accretion	79
Change in estimate	(438)
Abandonment	(178)
Foreign exchange effect	(4)
Balance at December 31, 2021	4,909
Accretion	80
Change in estimate	(919)
Abandonment	(121)
Reclassification of liabilities associated with assets held for sale (Note 4)	(1,223)
Foreign exchange effect	83
Balance at September 30, 2022	2,809
Less current portion	(61)
Total non-current portion	2,748

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, 2022 based on a total undiscounted future liability of \$4,192,447 (December 31, 2021 – \$6,044,358). These costs are expected to be incurred in approximately one to 18 years (December 31, 2021 – one to 18 years). The Company used risk-free interest rates at September 30, 2022 of 3.09% to 4.08% (December 31, 2021 – 1.42% to 1.94%) and an inflation rate of 2.00% (December 31, 2021 – 2.00%) to calculate the net present value of its decommissioning liabilities.

During the nine months ended September 30, 2022, the Company incurred \$232,224 (2021 – \$nil) of abandonment costs to derecognize \$120,843 (2021 - \$nil) of decommissioning liabilities. The Company recorded a loss on abandonment of \$111,381 (2021 - \$nil) in comprehensive income (loss) for the nine months ended September 30, 2022.

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.

(\$000's)	Three months ended		Nine months ended	
	September 30,		September 30,	
	2022	2021	2022	2021
Recovered oil sales	1,739	800	5,786	2,407
Water disposal and processing services	2,547	1,780	6,783	4,694
Production	-	-	-	1
Other revenue	129	71	275	197
Total revenue	4,415	2,651	12,844	7,299

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15. FINANCE COSTS

	Three months ended September 30,		Nine months ended September 30,	
(\$000's)	2022	2021	2022	2021
Interest on long-term debt	180	-	509	-
Interest on term loan	-	155	-	466
Interest on promissory notes, loans payable and mortgage payable	6	11	19	32
Interest on lease liabilities (Note 11)	4	4	10	14
Accretion of decommissioning obligations (Note 13)	33	22	80	58
Accretion of transaction costs (Note 8)	35	-	101	-
Interest (income) expense, bank charges and other	39	(41)	22	(7)
Total finance costs	297	151	741	563

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 excluding unamortized transaction costs of \$10,554,390 (US\$7,700,000) at September 30, 2022 (December 31, 2021 - \$9,762,060 (US\$7,700,000)). No hedge ineffectiveness was recognized during the nine months ended September 30, 2022 and 2021.

Financial instruments and risk management

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

Risk management is carried out by senior management.

Fair values

The Company's financial instruments recognized on the consolidated statement of financial position consist of cash, trade and other receivables, promissory note receivable, deposits, operating loan, trade and other payables, promissory notes payable, loans payable, long-term debt, lease liabilities and deferred consideration. The fair values of the cash, trade and other receivables, promissory note receivable, deposits, operating loan, trade and other payables approximate their carrying value due to the short-term or demand nature of these instruments. Loans payable, promissory notes payable, long-term debt, lease liabilities and deferred consideration 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.

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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, 2022 was the total of cash, trade and other receivables and promissory note receivable of \$10,202,363 (December 31, 2021 - \$4,570,291). The Company believes that there is no unusual exposure associated with the collection of these trade and other receivables and promissory note receivable. As at September 30, 2022 and December 31, 2021, the Company has no allowance for doubtful accounts recorded.

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, 2022, trade and other receivables includes \$646,000 (December 31, 2021 - \$2,410) in amounts invoiced to the joint venture owners for their proportionate share of operating losses and capital expenditures of the facility, while trade and other payables includes \$572,498 (December 31, 2021 - \$53,543) in amounts payable for operating income and capital expenditures of the facility.

The aging of trade and other receivables is as follows:

(\$000's)	Current	30-60 days	60-90 days	90+days	Total
	2,291	897	245	185	3,618

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 operating loan, loans payable, promissory notes payable, lease liabilities, long-term debt and shareholders' 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 (see Note 7 & 8).

The Company's capital structure is as follows:

(\$000's)	September 30, 2022	December 31, 2021
Loans payable	60	571
Promissory notes	347	329
Lease liabilities	157	216
Long-term debt	10,107	9,229
Total shareholders' equity	14,045	9,392
	24,716	19,737

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18. RELATED PARTY TRANSACTIONS

At September 30, 2022, the Company has a \$23,000 (December 31, 2021 - \$23,000) promissory note receivable from an officer of the Company. This unsecured promissory note is due on demand and bears interest at 3% per annum.

At September 30, 2022, the Company has recorded \$13,135 (December 31, 2021 - \$31,520 amounts owing to) in amounts owing to 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, 2022 and December 31, 2021, 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.

19. 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 nine months ended September 30, 2022, the Company recorded non-refundable contributions under CEWS of \$nil (2021 - \$31,969 and \$99,511) and CERS of \$nil (2021 - \$6,924 and \$26,157). 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. The CEWS and CERS programs were discontinued in October 2021.

20. CHANGES IN NON-CASH WORKING CAPITAL

(\$000's)	Three months ended		Nine months ended	
	September 30, 2022	2021	September 30, 2022	2021
Trade and other receivables	1,792	(64)	(1,105)	1,019
Deposits and prepaid expenses	(323)	(8)	(781)	(784)
Trade and other payables	(101)	(178)	2,482	(651)
Deferred consideration	(27)	(27)	(81)	(80)
	1,341	(277)	515	(496)
Allocated to:				
Operating	73	(57)	(583)	445
Investing	1,256	(32)	1,310	(703)
Financing	12	(188)	(212)	(238)
	1,341	(277)	515	(496)

21. SUBSEQUENT EVENT

On October 14, 2022, the Company closed the disposition of the Clairmont terminal assets and associated liabilities presented as assets held for sale at September 30, 2022 for \$1,400,000 (\$1,250,000 net of costs), prior to closing adjustments (Note 4). The disposition consisted of Clairmont terminal property, plant and equipment and associated decommissioning liabilities and surface lease liabilities.