

Condensed Consolidated Interim Financial Statements of

WHITE OWL ENERGY SERVICES INC.

For the three months ended March 31, 2023 and 2022

(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 months ended March 31, 2023 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)

	March 31, 2023	December 31, 2022
ASSETS		
CURRENT		
Cash and cash equivalents	5,176	6,809
Trade and other receivables (Note 15)	3,286	2,957
Promissory note (Note 17)	23	23
Deposits and prepaid expenses	1,482	1,483
	9,967	11,272
Property, plant and equipment (Note 4)	22,739	23,092
Intangible assets (Note 5)	112	129
Total assets	32,818	34,493
LIABILITIES		
CURRENT		
Trade and other payables	2,807	4,590
Loans payable (Note 8)	60	60
Promissory notes (Note 9)	359	353
Current portion of long-term debt (Note 7)	2,285	2,277
Current portion of lease liabilities (Note 10)	87	87
Current portion of deferred consideration (Note 11)	115	115
Current portion of decommissioning liabilities (Note 12)	1,323	1,472
	7,036	8,954
Long-term debt (Note 7)	6,555	6,967
Lease liabilities (Note 10)	156	172
Deferred consideration (Note 11)	1,234	1,264
Decommissioning liabilities (Note 12)	2,727	2,634
Total liabilities	17,708	19,991
SHAREHOLDERS' EQUITY (DEFICIT)		
Share capital	33,471	33,471
Contributed surplus	1,617	1,599
Accumulated other comprehensive income	5,250	5,269
Deficit	(25,228)	(25,837)
Total shareholders' equity	15,110	14,502
Total liabilities and shareholders' equity	32,818	34,493

Subsequent event (Note 20)

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
(Unaudited) (Expressed in thousands of Canadian dollars)

	Three months ended	
	March 31,	
	2023	2022 ⁽¹⁾
CONTINUING OPERATIONS		
REVENUE (Note 13)	4,352	3,632
EXPENSES		
Operating costs	2,429	1,543
General and administrative	511	461
Depreciation (Note 4)	471	406
Amortization (Note 5)	16	15
Finance costs (Note 14)	248	199
Foreign exchange gain	(1)	(138)
Share-based payments	18	12
Gain on disposal of property, plant and equipment – net (Note 4)	(9)	-
Gain on loan payable forgiveness (Note 8)	-	(511)
	3,683	1,987
NET INCOME BEFORE INCOME TAXES	669	1,645
INCOME TAXES	4	1
NET INCOME FROM CONTINUING OPERATIONS	665	1,644
NET LOSS FROM DISCONTINUED OPERATION (Note 3)	(56)	(303)
NET INCOME	609	1,341
OTHER COMPREHENSIVE INCOME (LOSS)		
Exchange gain (loss) on translating foreign operations	(28)	(447)
Change in fair value of net investment hedges (Note 15)	9	140
	(19)	(307)
NET COMPREHENSIVE INCOME	590	1,034

⁽¹⁾ Comparative information has been re-presented due to a discontinued operation. See note 3.

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, 2021	33,471	1,531	3,583	(29,193)	9,392
Net income	-	-	-	1,341	1,341
Other comprehensive loss	-	-	(307)	-	(307)
Share-based payments	-	12	-	-	12
Balance at March 31, 2022	33,471	1,543	3,276	(27,852)	10,438
Balance at December 31, 2022	33,471	1,599	5,269	(25,837)	14,502
Net income	-	-	-	609	609
Other comprehensive loss	-	-	(19)	-	(19)
Share-based payments	-	18	-	-	18
Balance at March 31, 2023	33,471	1,617	5,250	(25,228)	15,110

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 March 31,	
	2023	2022
CASH FLOWS RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Net income	609	1,341
Adjustments for non-cash items:		
Depreciation (Note 4)	502	417
Amortization (Note 5)	16	15
Accretion of decommissioning obligations (Note 12)	42	20
Interest on lease liabilities (Note 10)	4	3
Accretion of transaction costs (Note 7)	38	32
Unrealized foreign exchange gain	(8)	(155)
Gain on disposal of property, plant and equipment – net (Note 4)	(9)	-
Gain on loan payable forgiveness (Note 8)	-	(511)
Share-based payments	18	12
Government abandonment grant in-kind (Note 18)	(10)	-
Abandonment expenditures (Note 12)	(159)	-
Change in non-cash working capital (Note 19)	(198)	(287)
Cash from operating activities	845	887
INVESTING		
Additions to property, plant and equipment (Note 4)	(93)	(51)
Proceeds from the sale of property, plant and equipment (Note 4)	7	-
Change in non-cash working capital (Note 19)	(1,967)	(220)
Cash used in investing activities	(2,053)	(271)
FINANCING		
Proceeds from operating loan (Note 6)	310	-
Repayment of operating loan (Note 6)	(310)	-
Repayment of long-term debt (Note 7)	(434)	-
Long-term debt transaction costs (Note 7)	-	(13)
Repayment of lease liabilities (Note 10)	(20)	(28)
Change in non-cash working capital (Note 19)	34	(211)
Cash used in financing activities	(420)	(252)
Foreign exchange loss on cash held in foreign currency	(5)	(29)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,633)	335
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	6,809	2,314
CASH AND CASH EQUIVALENTS, END OF PERIOD	5,176	2,649

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 months ended March 31, 2023 and 2022

(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'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, 2022.

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, 2022. 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 May 24, 2023.

3. DISCONTINUED OPERATION

On October 14, 2022, the Company closed the disposition of the Clairmont terminal assets and associated liabilities 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. Management plans to abandon all of the remaining oil and gas wells at the Clairmont CGU in 2023 and complete all reclamation work in the years 2023 to 2025. Effective November 21, 2022, for accounting purposes, the Clairmont CGU is considered a discontinued operation.

The comparative condensed consolidated interim statement of comprehensive income has been re-presented to show the discontinued operation separately from continuing operations.

The following tables summarize financial information related to the Clairmont CGU discontinued operation.

Net loss from discontinued operation for the three months ended March 31, 2023 and 2022 is as follows:

WHITE OWL ENERGY SERVICES INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Three months ended March 31, 2023 and 2022

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

(\$000's)	March 31, 2023	March 31, 2022
Revenue (Note 13)	-	173
Expenses		
Operating costs	28	425
General and administrative	2	20
Depreciation (Note 4)	31	11
Finance costs (Note 14)	5	20
Government abandonment grant in-kind (Note 18)	(10)	-
	56	476
Net loss from discontinued operation	(56)	(303)

Change in cash and cash equivalents from discontinued operation for the three months ended March 31, 2023 and 2022 is as follows:

(\$000's)	March 31, 2023	March 31, 2022
Cash flow used in operating activities	(219)	(352)
Cash flow used in investing activities	-	(198)
Cash flow from (used in) financing activities	6	(3)
Net decrease in cash and cash equivalents from discontinued operation	(213)	(553)

The net loss from discontinued operation and net income from continuing operations is attributable entirely to the owners of the Company.

On May 24, 2023, the Company approved the disposition of its wholly owned subsidiary White Owl Energy Services Ltd. for nominal consideration, subject to closing conditions and adjustments. The disposition included cash and cash equivalents, deposits, accounts receivable, oil and gas property, plant and equipment and the assumption of accounts payable, promissory notes, surface lease liabilities and all decommissioning liabilities associated with the Clairmont oil and gas assets.

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, 2021	699	546	32,575	7,447	803	42,070
Additions	17	209	565	2,259	-	3,050
Dispositions	-	(82)	(7,010)	(513)	(16)	(7,621)
Change in decommissioning costs (Note 12)	-	-	(779)	128	1,063	412
Foreign exchange effect	48	17	1,670	508	-	2,243
Balance at December 31, 2022	764	690	27,021	9,829	1,850	40,154
Additions	-	1	102	(9)	-	94
Dispositions	-	-	(57)	-	-	(57)
Change in decommissioning costs (Note 12)	-	-	39	24	9	72
Foreign exchange effect	-	-	(21)	(8)	-	(29)
Balance at March 31, 2023	764	691	27,084	9,836	1,859	40,234

WHITE OWL ENERGY SERVICES INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Three months ended March 31, 2023 and 2022

(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, 2021	(146)	(470)	(14,084)	(4,400)	(354)	(19,454)
Depreciation	-	(89)	(1,285)	(399)	-	(1,773)
Dispositions	-	82	6,245	52	9	6,388
Impairment – Canadian assets	-	-	162	-	(1,505)	(1,343)
Foreign exchange effect	(10)	(13)	(557)	(300)	-	(880)
Balance at December 31, 2022	(156)	(490)	(9,519)	(5,047)	(1,850)	(17,062)
Depreciation	-	(17)	(356)	(120)	(9)	(502)
Dispositions	-	-	59	-	-	59
Foreign exchange effect	-	-	6	4	-	10
Balance at March 31, 2023	(156)	(507)	(9,810)	(5,163)	(1,859)	(17,495)

CARRYING AMOUNTS

(\$000's)	Land	Right-of-use asset	Plant & equipment	Disposal wells	Oil and gas properties	Total
Balance at December 31, 2022	608	200	17,502	4,782	-	23,092
Balance at March 31, 2023	608	184	17,274	4,673	-	22,739

Impairment

March 31, 2023

At March 31, 2023, White Owl evaluated its property, plant and equipment for indicators of 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.

December 31, 2022

At December 31, 2022, White Owl evaluated its property, plant and equipment for indicators or any potential impairment or related reversal. The Company completed an impairment test on the Clairmont CGU as the Company plans to abandon all of the remaining oil and gas wells at the Clairmont CGU in 2023. The recoverability of these assets were assessed at \$nil as they will be abandoned and reclaimed in the years 2023 to 2025 and are not expected to generate any future cashflows for the Company. As a result of the impairment test performed, the Company recognized an impairment expense of \$1,342,949 against oil and gas properties and property, plant and equipment.

No indicators were identified and no impairment or related reversal was recorded on North Dakota CGUs' property, plant and equipment assets.

Dispositions

On October 14, 2022, the Company closed the disposition of the Clairmont terminal assets and associated liabilities 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. The disposition resulted in a gain of \$1,387,621 recognized in comprehensive income.

WHITE OWL ENERGY SERVICES INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Three months ended March 31, 2023 and 2022

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

During the three months ended March 31, 2023, the Company disposed of property, plant and equipment for cash consideration of \$7,251 (2022 - \$nil). The dispositions resulted in a gain of \$9,493 (2022 - \$nil) recognized in comprehensive income.

5. INTANGIBLE ASSETS

(\$000's)

Balance at December 31, 2021	180
Amortization	(62)
Foreign exchange effect	11
Balance at December 31, 2022	129
Amortization	(16)
Foreign exchange effect	(1)
Balance at March 31, 2023	112

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. 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. 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 March 31, 2023, the Company's borrowing limit under the operating loan was US\$1,000,000 (December 31, 2022 - US\$1,000,000). The Company had drawn \$nil on the operating loan at March 31, 2023 (December 31, 2022 - \$nil).

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

- Fiscal Year 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; and
- Annual Current Ratio not less than 1.25x.

Covenant description	Position at December 31, 2022
Cash Flow Coverage Ratio	7.09
Debt to Tangible Net Worth Ratio	1.39
Current Ratio	1.26

As at March 31, 2023, the Company was compliant with all covenants provided for in the operating loan agreement.

WHITE OWL ENERGY SERVICES INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Three months ended March 31, 2023 and 2022

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

7. 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. 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%. A one-time principal payment of US\$107,260 was 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. Based on the financial results for the year ended December 31, 2022, an additional annual principal payment equal to the maximum of US\$500,000 is payable by the Company on April 1, 2023 and is included in the current portion of long-term debt as at March 31, 2023. In addition, commencing December 31, 2022, the Company is required to maintain at all times a fixed charge 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.

(\$000’s)

Balance at December 31, 2021	9,229
Principal payments	(779)
Transaction costs	(15)
Accretion of transaction costs	137
Foreign exchange effect	672
Balance at December 31, 2022	9,244
Principal payments	(434)
Accretion of transaction costs	38
Foreign exchange effect	(8)
Balance at March 31, 2023	8,840
Less current portion	(2,285)
Total non-current portion	6,555

As at March 31, 2023 and December 31, 2022, the financial covenant related to the loan agreement is as follows:

Covenant description	Position at March 31, 2023	Position at December 31, 2022
Fixed charge coverage ratio	1.58	1.56

As at March 31, 2023, the Company was compliant with all covenants provided for in the loan agreement.

WHITE OWL ENERGY SERVICES INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Three months ended March 31, 2023 and 2022

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

8. LOANS PAYABLE

(\$000's)	PPP loan	CEBA loan	Total
Balance at December 31, 2021	511	60	571
Accrued interest	1	-	1
Forgiveness	(511)	-	(511)
Foreign exchange effect	(1)	-	(1)
Balance at March 31, 2023 and December 31, 2022	-	60	60
Less current portion	-	(60)	(60)
Total non-current portion	-	-	-

Paycheck Protection Program Loan ("PPP loan")

On May 6, 2021, the Company received a PPP loan of \$488,321 (US\$400,263) that bears interest at 1% per annum. The PPP loan 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 was forgiven on March 18, 2022. Upon forgiveness in March 2022, the Company derecognized the carrying value of the PPP loan with an offset to gain on settlement of loans payable in comprehensive income.

Canadian Emergency Business Account Loan ("CEBA loan")

The Company has a non-interest bearing CEBA loan of \$60,000 that matures December 31, 2023. The Company intends to repay the balance of the loan on or before December 31, 2023 which will result in loan forgiveness of 33.3% (up to \$20,000).

9. PROMISSORY NOTE

(\$000's)	
Balance at December 31, 2021	329
Accrued interest	24
Balance at December 31, 2022	353
Accrued interest	6
Balance at March 31, 2023	359

The \$240,000 promissory note is payable to White Owl Ltd.'s former 5% partner in the Clairmont facility (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 March 31, 2023, the Company has accrued \$118,915 (December 31, 2022 - \$112,997) of interest on the Partner Note.

WHITE OWL ENERGY SERVICES INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Three months ended March 31, 2023 and 2022

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

10. LEASE LIABILITIES

(\$000's)

Balance at December 31, 2021	216
Recognized	74
Modification	135
Principal payments	(116)
Disposed (Note 3&4)	(68)
Interest expense	14
Foreign exchange effect	4
Balance at December 31, 2022	259
Principal payments	(20)
Interest expense	4
Foreign exchange effect	-
Balance at March 31, 2023	243
Less current portion	(87)
Total non-current portion	156

The lease liabilities are payable as follows:

(\$000's)	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	103	16	87
Between one and five years	135	18	117
Five years and greater	60	21	39
Balance at March 31, 2023	298	55	243

During the three months ended March 31, 2023, the Company recognized \$4,082 (2022 - \$3,051) 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 March 31,	
	2023	2022
Equipment	5	3
Office leases	12	12
Total depreciation expense – right-of-use assets	17	15

11. 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.

WHITE OWL ENERGY SERVICES INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Three months ended March 31, 2023 and 2022

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

(\$000's)

Balance at December 31, 2021	1,398
Recognized	(110)
Foreign exchange effect	91
Balance at December 31, 2022	1,379
Recognized	(29)
Foreign exchange effect	(1)
Balance at March 31, 2023	1,349
Less current portion	(115)
Total non-current portion	1,234

12. DECOMMISSIONING LIABILITIES

(\$000's)

Balance at December 31, 2021	4,909
Accretion	105
Incurred	33
Change in estimate	379
Disposed (Note 3&4)	(1,223)
Abandonment	(167)
Foreign exchange effect	70
Balance at December 31, 2022	4,106
Accretion	42
Change in estimate	62
Abandonment	(159)
Foreign exchange effect	(1)
Balance at March 31, 2023	4,050
Less current portion	(1,323)
Total non-current portion	2,727

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 March 31, 2023 based on a total undiscounted future liability of \$5,395,467 (December 31, 2022 – \$5,583,800). These costs are expected to be incurred in approximately one to 17 years (December 31, 2022 – one to 17 years). The Company used a range of risk-free interest rates at March 31, 2023 of 3.74% to 3.81% (December 31, 2022 – 4.06% to 4.14%) and an inflation rate of 2.00% (December 31, 2022 – 2.00%) to calculate the net present value of its decommissioning liabilities.

During the three months ended March 31, 2023, the Company incurred \$158,881 of abandonment costs related to phase 1 and phase 2 environmental site assessment work for the Clairmont oil and gas wells.

WHITE OWL ENERGY SERVICES INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Three months ended March 31, 2023 and 2022

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

13. 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.

	Continuing operations		Discontinued operation (Note 3)		Total	
	March 31,		March 31,		March 31,	
(\$000's)	2023	2022	2023	2022	2023	2022
Recovered oil sales	1,696	1,972	-	-	1,696	1,972
Water disposal and processing services	2,568	1,590	-	173	2,568	1,763
Other revenue	88	70	-	-	88	70
Total revenue	4,352	3,632	-	173	4,352	3,805

14. FINANCE COSTS

	Continuing operations		Discontinued operation (Note 3)		Total	
	March 31,		March 31,		March 31,	
(\$000's)	2023	2022	2023	2022	2023	2022
Interest on long-term debt	190	157	-	-	190	157
Interest on promissory notes and loans payable	-	1	6	6	6	7
Interest on lease liabilities (Note 10)	3	1	1	2	4	3
Accretion of decommissioning obligations (Note 12)	14	7	28	13	42	20
Accretion of transaction costs (Note 7)	38	32	-	-	38	32
Interest (income) expense, bank charges and other	3	1	(30)	(1)	(27)	-
Total finance costs	248	199	5	20	253	219

15. 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 \$9,213,321 (US\$6,808,040) at March 31, 2023 (December 31, 2022 - \$9,655,328 (US\$7,128,860)). No hedge ineffectiveness was recognized during the three months ended March 31, 2023 and 2022.

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 months ended March 31, 2023 and 2022

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

Fair values

The Company's financial instruments recognized on the condensed consolidated interim statement of financial position consist of cash and cash equivalents, trade and other receivables, promissory note receivable, deposits, promissory notes payable, operating loan, trade and other payables, loans payable, long-term debt, lease liabilities and deferred consideration. The fair values of the cash and cash equivalents, trade and other receivables, promissory note receivable, deposits, operating loan and 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 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 and cash equivalents 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 March 31, 2023 was the total of cash and cash equivalents, trade and other receivables and promissory note receivable of \$8,484,337 (December 31, 2022 - \$9,788,652). 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 March 31, 2023, the Company has an allowance for doubtful accounts of \$nil (December 31, 2022 - \$nil).

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 March 31, 2023, trade and other receivables includes \$316,903 (December 31, 2022 - \$386,022) 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 \$161,366 (December 31, 2022 - \$57,652) 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
	1,725	1,051	276	234	3,286

WHITE OWL ENERGY SERVICES INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Three months ended March 31, 2023 and 2022

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

16. 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. There has been no change in how the Company manages its capital during the three months ended March 31, 2023.

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 6 & 7).

The Company's capital structure is as follows:

(\$000's)	March 31, 2023	December 31, 2022
Loans payable	60	60
Promissory notes	359	353
Lease liabilities	243	259
Long-term debt	8,840	9,244
Total shareholders' equity	15,110	14,502
	24,612	24,418

17. RELATED PARTY TRANSACTIONS

At March 31, 2023, the Company has a \$22,500 (December 31, 2022 - \$22,500) promissory note receivable from an officer of the Company. The unsecured promissory note is due on demand and bears interest at 3% per annum.

At March 31, 2023, the Company has recorded \$29,705 (December 31, 2022 - \$25,201) 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 March 31, 2023 and December 31, 2022, 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.

18. GOVERNMENT ASSISTANCE

The Government of Alberta's SRP provides grant funding through service providers to abandon or remediate oil and gas sites. For the three months ended March 31, 2023, the Company recognized \$10,000 for SRP grants for prior period decommissioning liability activities completed. The benefit of the in-kind grant is recognized in comprehensive income.

WHITE OWL ENERGY SERVICES INC.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL
STATEMENTS

Three months ended March 31, 2023 and 2022

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

19. CHANGES IN NON-CASH WORKING CAPITAL

(\$000's)	Three months ended March 31,	
	2023	2022
Trade and other receivables	(331)	(610)
Deposits and prepaid expenses	1	(88)
Trade and other payables	(1,772)	7
Deferred consideration	(29)	(27)
	(2,131)	(718)
Allocated to:		
Operating	(198)	(287)
Investing	(1,967)	(220)
Financing	34	(211)
	(2,131)	(718)

20. SUBSEQUENT EVENT

On May 24, 2023, the Company approved the disposition of its wholly owned subsidiary White Owl Energy Services Ltd. for nominal consideration, subject to closing conditions and adjustments. The disposition included cash and cash equivalents, deposits, accounts receivable, oil and gas property, plant and equipment and the assumption of accounts payable, promissory notes, surface lease liabilities and all decommissioning liabilities associated with the Clairmont oil and gas assets.