

Condensed Consolidated Interim Financial Statements of

WHITE OWL ENERGY SERVICES INC.

For the three and nine months ended September 30, 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 and nine months ended September 30, 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)

	September 30, 2023	December 31, 2022
ASSETS		
CURRENT		
Cash and cash equivalents	1,434	6,809
Trade and other receivables (Note 15)	4,241	2,957
Promissory note (Note 17)	23	23
Deposits and prepaid expenses	879	1,483
	6,577	11,272
Property, plant and equipment (Note 4)	22,438	23,092
Intangible assets (Note 5)	80	129
Total assets	29,095	34,493
LIABILITIES		
CURRENT		
Trade and other payables	4,056	4,590
Loans payable (Note 8)	-	60
Promissory notes (Note 9)	-	353
Current portion of long-term debt (Note 7)	1,573	2,277
Current portion of lease liabilities (Note 10)	88	87
Current portion of deferred consideration (Note 11)	115	115
Current portion of decommissioning liabilities (Note 12)	-	1,472
	5,832	8,954
Long-term debt (Note 7)	3,248	6,967
Lease liabilities (Note 10)	55	172
Deferred consideration (Note 11)	1,175	1,264
Decommissioning liabilities (Note 12)	1,175	2,634
Total liabilities	11,485	19,991
SHAREHOLDERS' EQUITY (DEFICIT)		
Share capital	33,471	33,471
Contributed surplus	1,640	1,599
Accumulated other comprehensive income	5,299	5,269
Deficit	(22,800)	(25,837)
Total shareholders' equity	17,610	14,502
Total liabilities and shareholders' equity	29,095	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 September 30, 2023		Nine months ended September 30, 2023	
		2022 ⁽¹⁾		2022 ⁽¹⁾
CONTINUING OPERATIONS				
REVENUE (Note 13)	5,834	4,098	14,989	12,036
EXPENSES				
Operating costs	3,376	1,576	8,390	4,690
General and administrative	574	567	1,650	1,543
Depreciation (Note 4)	490	426	1,440	1,240
Amortization (Note 5)	16	16	48	46
Finance costs (Note 14)	302	271	841	671
Foreign exchange loss	401	825	66	1,034
Share-based payments	9	23	41	51
Loss (gain) on disposal of property, plant and equipment – net (Note 4)	-	6	(9)	6
Gain on loan payable forgiveness (Note 8)	(20)	-	(20)	(511)
	5,148	3,710	12,447	8,770
NET INCOME BEFORE INCOME TAXES	686	388	2,542	3,266
INCOME TAXES	1	-	7	2
NET INCOME FROM CONTINUING OPERATIONS	685	388	2,535	3,264
NET INCOME (LOSS) FROM DISCONTINUED OPERATION (Note 3)	-	(64)	502	(681)
NET INCOME	685	324	3,037	2,583
OTHER COMPREHENSIVE INCOME (LOSS)				
Exchange gain (loss) on translating foreign operations	854	2,279	(36)	2,811
Change in fair value of net investment hedges (Note 15)	(117)	(632)	66	(792)
	737	1,647	30	2,019
NET COMPREHENSIVE INCOME	1,422	1,971	3,067	4,602

⁽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	-	-	-	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
Balance at December 31, 2022	33,471	1,599	5,269	(25,837)	14,502
Net income	-	-	-	3,037	3,037
Other comprehensive income	-	-	30	-	30
Share-based payments	-	41	-	-	41
Balance at September 30, 2023	33,471	1,640	5,299	(22,800)	17,610

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, 2023		Nine months ended September 30, 2023	
	2023	2022	2023	2022
CASH FLOWS RELATED TO THE FOLLOWING ACTIVITIES:				
OPERATING				
Net income	685	324	3,037	2,583
Adjustments for non-cash items:				
Depreciation (Note 4)	490	436	1,471	1,271
Amortization (Note 5)	16	16	48	46
Accretion of decommissioning obligations (Note 12)	14	33	84	80
Interest on lease liabilities (Note 10)	3	4	12	10
Accretion of transaction costs (Note 7)	45	35	116	101
Unrealized foreign exchange loss	384	841	20	1,029
Gain on disposition of subsidiary (Note 3)	-	-	(566)	-
Gain on disposal of property, plant and equipment – net (Note 4)	-	(7)	(9)	(7)
Gain on loan payable forgiveness (Note 8)	(20)	-	(20)	(511)
Share-based payments	9	23	41	51
Loss on abandonment (Note 12)	-	1	-	111
Government abandonment grant in-kind (Note 18)	-	-	(10)	-
Abandonment expenditures (Note 12)	-	(1)	(248)	(232)
Change in non-cash working capital (Note 19)	10	73	(800)	(583)
Cash from operating activities	1,636	1,778	3,176	3,949
INVESTING				
Subsidiary cash disposed (Note 3)	-	-	(1,100)	-
Additions to property, plant and equipment (Note 4)	(656)	(810)	(1,012)	(1,102)
Proceeds from the sale of property, plant and equipment (Note 4)	-	46	7	46
Change in non-cash working capital (Note 19)	184	1,256	(1,844)	1,310
Cash from (used in) investing activities	(472)	492	(3,949)	254
FINANCING				
Proceeds from operating loan (Note 6)	568	-	1,727	-
Repayment of operating loan (Note 6)	(813)	-	(1,727)	-
Repayment of long-term debt (Note 7)	(2,933)	-	(4,474)	-
Long-term debt transaction costs (Note 7)	-	-	-	(15)
Repayment of loan payable (Note 8)	(40)	-	(40)	-
Repayment of lease liabilities (Note 10)	(30)	(32)	(73)	(80)
Change in non-cash working capital (Note 19)	(25)	12	6	(212)
Cash used in financing activities	(3,273)	(20)	(4,581)	(307)
Foreign exchange (gain) loss on cash held in foreign currency	39	309	(21)	351
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,070)	2,559	(5,375)	4,247
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	3,504	4,002	6,809	2,314
CASH AND CASH EQUIVALENTS, END OF PERIOD	1,434	6,561	1,434	6,561

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, 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 was a wholly owned subsidiary of White Owl until May 24, 2023 (see Note 3).

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 November 21, 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. Effective November 21, 2022, for accounting purposes, the Clairmont CGU, which consists of the remaining oil and gas properties held by the wholly owned subsidiary White Owl Energy Services Ltd., 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.

WHITE OWL ENERGY SERVICES INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Three and nine months ended September 30, 2023 and 2022

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

Net income (loss) from discontinued operation

(\$000's)	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Revenue (Note 13)	-	316	-	808
Expenses				
Operating costs	-	353	30	1,256
General and administrative	-	3	3	35
Depreciation (Note 4)	-	10	31	30
Finance costs (Note 14)	-	26	10	70
Loss on abandonment (Note 12)	-	1	-	111
Gain on disposal of property, plant and equipment (Note 4)	-	(13)	-	(13)
Government abandonment grant in-kind (Note 18)	-	-	(10)	-
	-	380	64	1,489
Gain on disposition of subsidiary	-	-	566	-
Net income (loss) from discontinued operation	-	(64)	502	(681)

Change in cash and cash equivalents from discontinued operation

(\$000's)	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Cash flow used in operating activities	-	(372)	(529)	(922)
Cash flow from (used in) investing activities	-	9	-	(215)
Cash flow from financing activities	-	6	9	9
Net decrease in cash and cash equivalents from discontinued operation	-	(357)	(520)	(1,128)

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

Effective May 24, 2023, the Company disposed of its wholly owned subsidiary White Owl Energy Services Ltd. for nominal cash consideration of \$10. In addition to the cash consideration, in the event the buyer completes a liquidity event on or before November 24, 2024, the buyer will cause the resulting issuer to issue 1,000,000 resulting issuer shares from treasury to the Company. As of May 24, 2023, and September 30, 2023, the Company has determined the fair value of the 1,000,000 resulting issuer shares to be negligible. This subsidiary held the remaining oil and gas properties at Clairmont. The disposition included cash and cash equivalents, deposits, trade and other receivables, oil and gas property, plant and equipment and the assumption of trade and other payables, promissory notes, surface lease liabilities and all decommissioning liabilities associated with the Clairmont oil and gas assets.

WHITE OWL ENERGY SERVICES INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Three and nine months ended September 30, 2023 and 2022

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

Effect of the disposition of subsidiary on the financial position of the Company

(\$000's)

Consideration:

Cash	-
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Net assets and liabilities disposed:

Cash	1,100
Trade and other receivables	123
Deposits and prepaid expenses	1,296
Trade and other payables	(70)
Promissory notes	(362)
Lease liabilities	(56)
Decommissioning liabilities	(2,597)
Net assets and liabilities	(566)

Gain on disposition of subsidiary	(566)
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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	974	38	-	1,013
Dispositions	-	(88)	(245)	-	(1,859)	(2,192)
Change in decommissioning costs (Note 12)	-	-	(101)	(65)	9	(157)
Foreign exchange effect	(1)	-	(41)	(17)	-	(59)
Balance at September 30, 2023	763	603	27,608	9,785	-	38,759

WHITE OWL ENERGY SERVICES INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Three and nine months ended September 30, 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	-	(62)	(1,042)	(358)	(9)	(1,471)
Dispositions	-	88	247	-	1,859	2,194
Foreign exchange effect	-	-	11	7	-	18
Balance at September 30, 2023	(156)	(464)	(10,303)	(5,398)	-	(16,321)

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 September 30, 2023	607	139	17,305	4,387	-	22,438

Impairment

September 30, 2023

At September 30, 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 of any potential impairment or related reversal. The Company completed an impairment test on the Clairmont CGU as the Company planned to abandon all of the remaining oil and gas wells at the Clairmont CGU in 2023. The recoverability of these assets was assessed at \$nil as they will be abandoned and reclaimed and are not expected to generate any future cash flows 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 and nine months ended September 30, 2023 and 2022

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

During the nine months ended September 30, 2023, the Company disposed of property, plant and equipment for cash consideration of \$7,251 (2022 - \$45,915). The dispositions resulted in a gain of \$9,493 (2022 - \$7,149) 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	(48)
Foreign exchange effect	(1)
Balance at September 30, 2023	80

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 any time exceed the lesser of the margin requirements as defined in the loan agreement and US\$1,000,000. As at September 30, 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 September 30, 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 September 30, 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 and nine months ended September 30, 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 was paid by the Company on April 1, 2023. For the three months ended September 30, 2023, the Company made principal payments of US\$2,202,862, comprising US\$320,820 of scheduled principal payments and US\$1,882,042 of principal prepayments (Note 20). 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	(4,474)
Accretion of transaction costs	116
Foreign exchange effect	(65)
Balance at September 30, 2023	4,821
Less current portion	(1,573)
Total non-current portion	3,248

As at September 30, 2023 and December 31, 2022, the financial covenant related to the loan agreement is as follows:

Covenant description	Position at September 30, 2023	Position at December 31, 2022
Fixed charge coverage ratio	1.34	1.56

As at September 30, 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 and nine months ended September 30, 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 December 31, 2022	-	60	60
Principal payments	-	(40)	(40)
Forgiveness	-	(20)	(20)
Balance at September 30, 2023	-	-	-

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 loan payable forgiveness in comprehensive income.

Canadian Emergency Business Account Loan ("CEBA loan")

The Company had a non-interest-bearing CEBA loan of \$60,000 that matured December 31, 2023, repaying the balance of the loan on or before December 31, 2023, would result in loan forgiveness of 33.3% (up to \$20,000). On September 12, 2023, the Company repaid \$40,000 of the CEBA loan and received loan forgiveness of \$20,000. Upon forgiveness on September 12, 2023, the Company derecognized the carrying value of the CEBA loan with an offset to gain on loan payable forgiveness in comprehensive income.

9. PROMISSORY NOTE

(\$000's)	
Balance at December 31, 2021	329
Accrued interest	24
Balance at December 31, 2022	353
Accrued interest	9
Disposed (Note 3)	(362)
Balance at September 30, 2023	-

Effective May 24, 2023, the Company disposed of its wholly owned subsidiary White Owl Energy Services Ltd. for nominal cash consideration of \$10 (see Note 3). The disposition included the \$240,000 promissory note and accrued interest of \$122,466 payable to White Owl Ltd.'s former 5% partner in the Clairmont facility.

WHITE OWL ENERGY SERVICES INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Three and nine months ended September 30, 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 (Notes 3&4)	(68)
Interest expense	14
Foreign exchange effect	4
Balance at December 31, 2022	259
Principal payments	(73)
Interest expense	12
Disposed (Note 3)	(56)
Foreign exchange effect	1
Balance at September 30, 2023	143
Less current portion	(88)
Total non-current portion	55

The lease liabilities are payable as follows:

(\$000's)	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	97	9	88
Between one and five years	57	2	55
Five years and greater	-	-	-
Balance at September 30, 2023	154	11	143

During the three and nine months ended September 30, 2023, the Company recognized \$3,500 and \$12,200 (2022 - \$3,754 and \$9,980) 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,		Nine months ended September 30,	
	2023	2022	2023	2022
Equipment	5	7	15	14
Office leases	18	18	47	47
Total depreciation expense – right-of-use assets	23	25	62	61

WHITE OWL ENERGY SERVICES INC.

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

11. DEFERRED CONSIDERATION

In January 2019, the Company sold a nine percent royalty interest for \$1,795,635 (US\$1,350,000) of the saltwater disposal revenue from the Company's Watford City 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 saltwater disposal services that will generate future royalties. The estimated future saltwater 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, 2021	1,398
Recognized	(110)
Foreign exchange effect	91
Balance at December 31, 2022	1,379
Recognized	(85)
Foreign exchange effect	(4)
Balance at September 30, 2023	1,290
Less current portion	(115)
Total non-current portion	1,175

12. DECOMMISSIONING LIABILITIES

(\$000's)

Balance at December 31, 2021	4,909
Accretion	105
Incurred	33
Change in estimate	379
Disposed (Notes 3&4)	(1,223)
Abandonment	(167)
Foreign exchange effect	70
Balance at December 31, 2022	4,106
Accretion	84
Change in estimate	(167)
Disposed (Note 3)	(2,597)
Abandonment	(248)
Foreign exchange effect	(3)
Balance at September 30, 2023	1,175
Less current portion	-
Total non-current portion	1,175

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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 September 30, 2023 based on a total undiscounted future liability of \$2,528,171 (December 31, 2022 – \$5,583,800). These costs are expected to be incurred in approximately one to 16 years (December 31, 2022 – one to 17 years). The Company used a range of risk-free interest rates at September 30, 2023 of 4.87% to 4.92% (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 and nine months ended September 30, 2023, the Company incurred \$nil and \$247,997 of abandonment costs related to phase 1 and phase 2 environmental site assessment work for the Clairmont oil and gas wells.

During the three and nine months ended September 30, 2022, the Company incurred \$1,000 and \$232,224 of abandonment costs to derecognize \$120,843 of decommissioning liabilities. The Company recorded a loss on abandonment of \$1,000 and \$111,381 in comprehensive income for the three and nine months ended September 30, 2022.

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	
	Three months ended September 30,		Three months ended September 30,		Three months ended September 30,	
(\$000's)	2023	2022	2023	2022	2023	2022
Recovered oil sales	2,209	1,739	-	-	2,209	1,739
Water disposal and processing services	3,500	2,231	-	316	3,500	2,547
Other revenue	125	128	-	-	125	128
Total revenue	5,834	4,098	-	316	5,834	4,414

	Continuing operations		Discontinued operation (Note 3)		Total	
	Nine months ended September 30,		Nine months ended September 30,		Nine months ended September 30,	
(\$000's)	2023	2022	2023	2022	2023	2022
Recovered oil sales	5,586	5,786	-	-	5,586	5,786
Water disposal and processing services	9,088	5,975	-	808	9,088	6,783
Other revenue	315	275	-	-	315	275
Total revenue	14,989	12,036	-	808	14,989	12,844

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14. FINANCE COSTS

	Continuing operations		Discontinued operation (Note 3)		Total	
	Three months ended September 30,		Three months ended September 30,		Three months ended September 30,	
(\$000's)	2023	2022	2023	2022	2023	2022
Interest on long-term debt	176	180	-	-	176	180
Interest on promissory notes and loans payable	-	-	-	6	-	6
Interest on lease liabilities (Note 10)	3	2	-	2	3	4
Accretion of decommissioning obligations (Note 12)	14	10	-	23	14	33
Accretion of transaction costs (Note 7)	45	35	-	-	45	35
Interest (income) expense, bank charges and other	64	44	-	(5)	64	39
Total finance costs	302	271	-	26	302	297

	Continuing operations		Discontinued operation (Note 3)		Total	
	Nine months ended September 30,		Nine months ended September 30,		Nine months ended September 30,	
(\$000's)	2023	2022	2023	2022	2023	2022
Interest on long-term debt	596	509	-	-	596	509
Interest on promissory notes and loans payable	-	1	9	18	9	19
Interest on lease liabilities (Note 10)	10	3	2	7	12	10
Accretion of decommissioning obligations (Note 12)	40	25	44	55	84	80
Accretion of transaction costs (Note 7)	116	101	-	-	116	101
Interest (income) expense, bank charges and other	79	32	(45)	(10)	34	22
Total finance costs	841	671	10	70	851	741

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 \$5,116,452 (US\$3,784,358) at September 30, 2023 (December 31, 2022 - \$9,655,328 (US\$7,128,860)). No hedge ineffectiveness was recognized during the three and nine months ended September 30, 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.

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Risk management is carried out by senior management.

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 September 30, 2023 was the total of cash and cash equivalents, trade and other receivables and promissory note receivable of \$5,697,372 (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 September 30, 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 September 30, 2023, trade and other receivables includes \$114,094 (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 \$4,449 (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
	3,114	498	446	183	4,241

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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 nine months ended September 30, 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)	September 30, 2023	December 31, 2022
Loans payable	-	60
Promissory notes	-	353
Lease liabilities	143	259
Long-term debt	4,821	9,244
Total shareholders' equity	17,610	14,502
	22,574	24,418

17. RELATED PARTY TRANSACTIONS

At September 30, 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 September 30, 2023, the Company has recorded \$18,918 (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 September 30, 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 and nine months ended September 30, 2023, the Company recognized \$nil and \$10,000 for SRP grants for prior period decommissioning liability activities completed. The benefit of the in-kind grant is recognized in comprehensive income.

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19. CHANGES IN NON-CASH WORKING CAPITAL

(\$000's)	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Trade and other receivables	(664)	1,792	(1,404)	(1,105)
Deposits and prepaid expenses	248	(323)	(689)	(781)
Trade and other payables	613	(101)	(459)	2,482
Deferred consideration	(28)	(27)	(86)	(81)
	169	1,341	(2,638)	515
Allocated to:				
Operating	10	73	(800)	(583)
Investing	184	1,256	(1,844)	1,310
Financing	(25)	12	6	(212)
	169	1,341	(2,638)	515

20. SUBSEQUENT EVENT

Subsequent to September 30, 2023, the Company made a long-term debt principal prepayment of US\$500,000 and two scheduled monthly principal payments of US\$106,940, for a total repayment of US\$713,880, which was funded from the Company's cash and cash equivalents.