

Condensed Consolidated Interim Financial Statements of

WHITE OWL ENERGY SERVICES INC.

For the three and nine months ended September 30, 2024 and 2023

(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, 2024 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, 2024	December 31, 2023
ASSETS		
CURRENT		
Cash and cash equivalents	2,867	1,810
Trade and other receivables (Note 15)	3,488	3,365
Promissory note (Note 17)	23	23
Deposits and prepaid expenses	960	245
	7,338	5,443
Property, plant and equipment (Note 5)	23,845	22,070
Intangible assets (Note 6)	16	63
Total assets	31,199	27,576
LIABILITIES		
CURRENT		
Trade and other payables (Note 3)	3,925	3,646
Contingent liability (Note 3)	270	-
Current portion of long-term debt (Note 8)	1,632	1,533
Current portion of lease liabilities (Note 9)	122	119
Current portion of deferred consideration (Note 10)	114	112
Current portion of decommissioning liabilities (Note 12)	10	10
	6,073	5,420
Long-term debt (Note 8)	955	2,142
Lease liabilities (Note 9)	127	45
Deferred consideration (Note 10)	1,060	1,122
Decommissioning liabilities (Note 12)	1,470	1,309
Total liabilities	9,685	10,038
SHAREHOLDERS' EQUITY (DEFICIT)		
Share capital	33,556	33,471
Contributed surplus	1,623	1,645
Accumulated other comprehensive income	5,150	4,452
Deficit	(18,815)	(22,030)
Total shareholders' equity	21,514	17,538
Total liabilities and shareholders' equity	31,199	27,576

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, 2024		Nine months ended September 30, 2024	
	2024	2023	2024	2023
CONTINUING OPERATIONS				
REVENUE (Note 13)	4,962	5,834	15,335	14,989
EXPENSES				
Operating costs	2,619	3,376	8,063	8,390
General and administrative	668	574	1,777	1,650
Bad debt	-	-	19	-
Depreciation (Note 5)	617	490	1,686	1,440
Amortization (Note 6)	16	16	48	48
Finance costs (Note 14)	152	302	511	841
Foreign exchange (gain) loss	(310)	401	390	66
Share-based payments	2	9	13	41
Bargain purchase gain (Note 3)	-	-	(750)	-
Loss on disposition of joint operation interest (Note 3)	-	-	375	-
Gain on disposal of property, plant and equipment – net (Note 5)	(20)	-	(20)	(9)
Gain on loan payable forgiveness (Note 11)	-	(20)	-	(20)
	3,744	5,148	12,112	12,447
NET INCOME BEFORE INCOME TAXES	1,218	686	3,223	2,542
INCOME TAXES	2	1	8	7
NET INCOME FROM CONTINUING OPERATIONS	1,216	685	3,215	2,535
NET INCOME FROM DISCONTINUED OPERATION (Note 4)	-	-	-	502
NET INCOME	1,216	685	3,215	3,037
OTHER COMPREHENSIVE INCOME (LOSS)				
Exchange gain (loss) on translating foreign operations	(653)	854	788	(36)
Change in fair value of net investment hedges (Note 15)	40	(117)	(90)	66
	(613)	737	698	30
NET COMPREHENSIVE INCOME	603	1,422	3,913	3,067

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, 2022	33,471	1,599	5,269	(25,837)	14,502
Net income	-	-	-	3,037	3,037
Other comprehensive loss	-	-	30	-	30
Share-based payments	-	41	-	-	41
Balance at September 30, 2023	33,471	1,640	5,299	(22,800)	17,610
Balance at December 31, 2023	33,471	1,645	4,452	(22,030)	17,538
Net income	-	-	-	3,215	3,215
Other comprehensive income	-	-	698	-	698
Exercise of stock options (Note 17)	85	(35)	-	-	50
Share-based payments	-	13	-	-	13
Balance at September 30, 2024	33,556	1,623	5,150	(18,815)	21,514

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,		Nine months ended September 30,	
	2024	2023	2024	2023
CASH FLOWS RELATED TO THE FOLLOWING ACTIVITIES:				
OPERATING				
Net income	1,216	685	3,215	3,037
Adjustments for non-cash items:				
Depreciation (Note 5)	617	490	1,686	1,471
Amortization (Note 6)	16	16	48	48
Accretion of decommissioning obligations (Note 12)	15	14	44	84
Interest on lease liabilities (Note 9)	7	3	13	12
Accretion of transaction costs (Note 8)	39	45	130	116
Unrealized foreign exchange loss (gain)	(321)	384	372	20
Gain on disposition of subsidiary (Note 4)	-	-	-	(566)
Bargain purchase gain (Note 3)	-	-	(750)	-
Loss on disposition of joint operation interest (Note 3)	-	-	375	-
Gain on disposal of property, plant and equipment – net (Note 5)	(20)	-	(20)	(9)
Gain on loan payable forgiveness (Note 11)	-	(20)	-	(20)
Share-based payments	2	9	13	41
Government abandonment grant in-kind (Note 18)	-	-	-	(10)
Abandonment expenditures (Note 12)	-	-	-	(248)
Change in non-cash working capital (Note 19)	384	10	(464)	(800)
Cash from operating activities	1,955	1,636	4,662	3,176
INVESTING				
Subsidiary cash disposed (Note 4)	-	-	-	(1,100)
Acquisition of joint operation interest (Note 3)	(274)	-	(547)	-
Proceeds on disposition of joint operation interest (Note 3)	-	-	409	-
Additions to property, plant and equipment (Note 5)	(1,005)	(656)	(1,968)	(1,012)
Proceeds from the sale of property, plant and equipment (Note 5)	20	-	20	7
Change in non-cash working capital (Note 19)	330	184	(151)	(1,844)
Cash used in investing activities	(929)	(472)	(2,237)	(3,949)
FINANCING				
Proceeds from operating loan (Note 7)	-	568	-	1,727
Repayment of operating loan (Note 7)	-	(813)	-	(1,727)
Repayment of long-term debt (Note 8)	(437)	(2,933)	(1,309)	(4,474)
Repayment of lease liabilities (Note 9)	(42)	(30)	(103)	(73)
Repayment of loan payable (Note 11)	-	(40)	-	(40)
Proceeds from exercise of stock options (Note 17)	-	-	50	-
Change in non-cash working capital (Note 19)	(4)	(25)	(13)	6
Cash used in financing activities	(483)	(3,273)	(1,375)	(4,581)
Foreign exchange (gain) loss on cash held in foreign currency	(30)	39	7	(21)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	513	(2,070)	1,057	(5,375)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	2,354	3,504	1,810	6,809
CASH AND CASH EQUIVALENTS, END OF PERIOD	2,867	1,434	2,867	1,434

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, 2024 and 2023

(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 4).

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, 2023.

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, 2023. 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, 2024.

3. JOINT OPERATION

Acquisition

On June 1, 2024, White Owl and North Dakota SWD Well #1, LLC (“ND SWD Well #1”) entered into a joint venture for the purposes of upgrading, operating, decommissioning, and reclaiming (at the end of the joint venture) a saltwater disposal facility located near Killdeer, North Dakota (“Killdeer joint venture”). In exchange for a 50% participating interest in the Killdeer joint venture, the Company paid \$272,700 (US\$200,000) to ND SWD Well#1 and committed to spending an additional US\$800,000 (US\$400,000 net to White Owl) (the “initial expenditure”) to the joint venture to complete plant turnaround activities and maintenance work. White Owl shall be entitled to distributions from net cash flow of 80% before pay-out of the initial expenditure and 50% after pay-out (see *Amendment to Killdeer Joint Venture Agreement* below). An operating committee governs the Killdeer joint venture with an appointee from each of White Owl and ND SWD Well#1. Decisions of the operating committee require unanimous consent of the appointees.

WHITE OWL ENERGY SERVICES INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Three and nine months ended September 30, 2024 and 2023

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

The acquisition is considered a business combination under IFRS as the assets meet the definition of a business. The acquisition has been accounted for using the acquisition method of accounting, whereby the assets acquired, and the liabilities assumed were recorded at their estimated fair values. White Owl determined the following estimated fair values of the net assets acquired and liabilities assumed based on management's best estimate of fair value and available external documentation, which takes into consideration the condition of the assets acquired, current industry conditions and the discounted future cash flows expected to be received for the assets and expended to settle the outstanding liabilities.

The following table sets out the details of the above acquisition including the consideration given and allocation of the purchase price to the fair value of the assets acquired and liabilities assumed:

(\$000's)

Consideration:

Cash	273
Contingent liability	545
Total consideration	818

Allocated to:

Property, plant and equipment (Note 5)	1,702
Decommissioning liability (Note 12)	(134)
Net assets and liabilities	1,568

Bargain purchase gain (750)

The following table summarizes the contingent liability activity recorded for the nine months ended September 30, 2024:

(\$000's)

Balance at December 31, 2023	-
Acquisition consideration	545
Payments	(274)
Foreign exchange effect	(1)
Balance at September 30, 2024	270

The Company accounts for this joint arrangement as a joint operation and accounts for its interest in the Killdeer joint venture by recognizing its share of assets, liabilities, revenues and expenses of the joint operation.

At September 30, 2024, the Company has recorded \$95,351 in amounts owing from the Killdeer 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.

WHITE OWL ENERGY SERVICES INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Three and nine months ended September 30, 2024 and 2023

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

Disposition

Effective June 1, 2024, the Company disposed of a 50% effective interest in White Owl's 50% participating interest in the Killdeer joint venture for \$409,050 (US\$300,000) which reflects the partner's 50% share of the \$818,100 (US\$600,000) in consideration that White Owl is obligated to pay to ND SWD Well#1 under the terms of the Killdeer joint venture agreement. In addition, the partner paid cash of \$272,700 (US\$200,000) to White Owl for its 25% share of White Owl's initial expenditure to the Killdeer joint venture, this amount is recorded in trade and other payables and will be decreased as White Owl incurs the initial expenditure costs to complete the plant turnaround activities and maintenance work. The partner's economic interest is equivalent to a 25% interest in the Killdeer joint venture. The partner, indirectly via White Owl, is entitled to a 25% share of the Killdeer joint venture assets and liabilities and distributions from net cash flow (40% before pay-out of the initial expenditure and 25% after pay-out).

The following table summarizes the effect of the disposition of the joint operation interest on the financial position of the Company:

(\$000's)

Consideration:

Cash	409
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Net assets and liabilities disposed:

Property, plant and equipment (Note 5)	851
Decommissioning liabilities (Note 12)	(67)
Net assets and liabilities	784

<u>Loss on disposition of joint operation interest</u>	(375)
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Amendment to Killdeer Joint Venture Agreement

Effective September 1, 2024, due to the Killdeer disposal well requiring remedial work which is estimated at a gross cost of US\$1,000,000, the following amendments were made to the Killdeer joint venture agreement:

- The remedial work of US\$1,000,000 will be paid 75% (US\$750,000) by ND SWD Well #1 and 25% (US\$250,000) by White Owl;
- White Owl shall be entitled to distributions from net cash flow of 50% until the date that ND SWD Well #1 has recouped its net share of the remedial costs paid of US\$750,000; and
- Once ND SWD Well #1 has recouped its net share of the remedial costs paid of US\$750,000, White Owl shall be entitled to distributions from net cash flow of 80% before pay-out of the initial expenditure and 50% after pay-out.

White Owl's 50% partner in the Killdeer Joint Venture is obligated to pay 50% (US\$125,000) of White Owl's US\$250,000 payment for the disposal well remedial work and will be entitled to a 25% share of distributions from net cash flow of the Killdeer Joint Venture until ND SWD Well #1 has recouped its net share of the remedial costs paid of US\$750,000.

WHITE OWL ENERGY SERVICES INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Three and nine months ended September 30, 2024 and 2023

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

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

Net income from discontinued operation

(\$000's)	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
Revenue	-	-	-	-
Expenses				
Operating costs	-	-	-	30
General and administrative	-	-	-	3
Depreciation	-	-	-	31
Finance costs (Note 14)	-	-	-	10
Government abandonment grant in-kind (Note 18)	-	-	-	(10)
	-	-	-	64
Gain on disposition of subsidiary	-	-	-	566
Net income from discontinued operation	-	-	-	502

Change in cash and cash equivalents from discontinued operation

(\$000's)	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
Cash flow used in operating activities	-	-	-	(529)
Cash flow used in investing activities	-	-	-	-
Cash flow from financing activities	-	-	-	9
Net decrease in cash and cash equivalents from discontinued operation	-	-	-	(520)

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

WHITE OWL ENERGY SERVICES INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Three and nine months ended September 30, 2024 and 2023

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

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 White Owl. As of May 24, 2023 and September 30, 2024, the Company has not recorded a contingent asset with regard to the 1,000,000 resulting issuer shares as the outcome is uncertain. 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 note, surface lease liabilities and all decommissioning liabilities associated with the Clairmont oil and gas assets.

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

Three and nine months ended September 30, 2024 and 2023

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

5. 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, 2022	764	690	27,021	9,829	1,850	40,154
Additions	-	49	1,877	39	-	1,965
Dispositions	-	(88)	(283)	-	(1,859)	(2,230)
Change in decommissioning costs (Note 12)	-	-	36	(18)	9	27
Foreign exchange effect	(18)	(9)	(668)	(225)	-	(920)
Balance at December 31, 2023	746	642	27,983	9,625	-	38,996
Additions	-	173	1,968	-	-	2,141
Acquisition (Note 3)	-	-	971	731	-	1,702
Dispositions (Note 3)	-	-	(540)	(365)	-	(905)
Change in decommissioning costs (Note 12)	-	-	17	9	-	26
Foreign exchange effect	15	7	554	190	-	766
Balance at September 30, 2024	761	822	30,953	10,190	-	42,726

ACCUMULATED DEPRECIATION AND IMPAIRMENT

(\$000's)	Land	Right-of-use assets	Plant & equipment	Disposal wells	Oil and gas properties	Total
Balance at December 31, 2022	(156)	(490)	(9,519)	(5,047)	(1,850)	(17,062)
Depreciation	-	(94)	(1,428)	(479)	(9)	(2,010)
Dispositions	-	88	286	-	1,859	2,233
Impairment – US assets	(1)	-	(469)	-	-	(470)
Foreign exchange effect	2	7	249	125	-	383
Balance at December 31, 2023	(155)	(489)	(10,881)	(5,401)	-	(16,926)
Depreciation	-	(84)	(1,225)	(377)	-	(1,686)
Dispositions	-	-	54	-	-	54
Foreign exchange effect	(3)	(5)	(211)	(104)	-	(323)
Balance at September 30, 2024	(158)	(578)	(12,263)	(5,882)	-	(18,881)

CARRYING AMOUNTS

(\$000's)	Land	Right-of-use asset	Plant & equipment	Disposal wells	Oil and gas properties	Total
Balance at December 31, 2023	591	153	17,102	4,224	-	22,070
Balance at September 30, 2024	603	244	18,690	4,308	-	23,845

WHITE OWL ENERGY SERVICES INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Three and nine months ended September 30, 2024 and 2023

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

Impairment

September 30, 2024

At September 30, 2024, 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, 2023

At December 31, 2023, White Owl evaluated its property, plant and equipment for indicators or any potential impairment or related reversal. The Company completed an impairment test on certain potential future business development properties as management now does not plan to pursue or develop these properties. The recoverability of these assets were assessed at \$nil. As a result of the impairment test performed, the Company recognized an impairment expense of \$470,406 against land 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

Effective June 1, 2024, the Company disposed of a 50% effective interest in White Owl's 50% participating interest in the Killdeer joint venture for \$409,050 (US\$300,000). The disposition resulted in a loss on disposition of joint operation interest of \$375,225 recognized in comprehensive income (see note 3).

During the nine months ended September 30, 2024, the Company disposed of property, plant and equipment for cash consideration of \$19,795 (2023 - \$7,251). The dispositions resulted in a gain of \$19,795 (2023 - \$9,493) recognized in comprehensive income.

6. INTANGIBLE ASSETS

(\$000's)

Balance at December 31, 2022	129
Amortization	(64)
Foreign exchange effect	(2)
Balance at December 31, 2023	63
Amortization	(48)
Foreign exchange effect	1
Balance at September 30, 2024	16

On January 1, 2020, White Owl acquired an additional 15% interest in the Tioga Joint Venture. As part of the acquisition the Company allocated \$308,082 to intangible assets for customer relationships in the Tioga Joint Venture. The intangible assets will be amortized over five years.

WHITE OWL ENERGY SERVICES INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Three and nine months ended September 30, 2024 and 2023

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

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. 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, 2024, the Company’s borrowing limit under the operating loan was US\$1,000,000 (December 31, 2023 - US\$1,000,000). The Company had drawn \$nil on the operating loan at September 30, 2024 (December 31, 2023 – \$nil).

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

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

Covenant description	Position at September 30, 2024	Position at December 31, 2023
Cash Flow Coverage Ratio	14.75	7.37
Debt to Tangible Net Worth Ratio	0.45	0.57
Current Ratio	1.20	1.00

As at December 31, 2023, the Company was compliant with the Cash Flow Coverage Ratio and the Debt to Tangible Net Worth Ratio financial covenants. During the twelve months ended December 31, 2023, the Company used its excess cash and cash equivalents to make additional principal prepayments on long-term debt as part of a de-leveraging strategy (see Note 8). As a result, the Current Ratio financial covenant is 1.00 as at December 31, 2023, which is below the lender’s requirement of 1.25. As at December 31, 2023, the lender acknowledges early receipt of notice provided by the Company and requires the Company to return to compliance by April 5, 2024. The Company is compliant with all other covenants provided for in the operating loan agreement.

The lender acknowledges the improvement in the Current Ratio financial covenant to 1.20 as at September 30, 2024 from 1.00 as at December 31, 2023, and will continue to make the operating loan available to the Company. The Company had drawn \$nil on the operating loan at September 30, 2024 (December 31, 2023 - \$nil).

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)

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. 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, 2023, no additional annual principal payment was paid by the Company on April 1, 2024. An additional annual principal payment equal to the maximum of US\$500,000 was paid by the Company on April 1, 2023. 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.

During the year ended December 31, 2023, the Company used its excess cash and cash equivalents to make additional principal prepayments on long-term debt as part of a de-leveraging strategy. As a result, the Company made total principal payments of \$5,596,344 (US\$4,165,322) for the year ended December 31, 2023, comprising \$2,407,775 (US\$1,783,280) of scheduled principal payments and \$3,188,569 (US\$2,382,042) of principal prepayments in accordance with the loan agreement. The additional principal payments resulted in the Company’s operating loan Current Ratio financial covenant being less than the minimum requirement as at December 31, 2023, which allows the senior lender to demand full repayment of the outstanding principal (See Note 7). However, as at December 31, 2023 and September 30, 2024, the senior lender has agreed to waive the full repayment of the outstanding principal to just the monthly principal payments required under the loan agreement of US\$106,940 for a total of US\$1,283,280 for the twelve months ended December 31, 2024.

(\$000’s)

Balance at December 31, 2022	9,244
Principal payments	(5,596)
Accretion of transaction costs	167
Foreign exchange effect	(140)
Balance at December 31, 2023	3,675
Principal payments	(1,309)
Accretion of transaction costs	130
Foreign exchange effect	91
Balance at September 30, 2024	2,587
Less current portion	(1,632)
Total non-current portion	955

The financial covenant related to the loan agreement is as follows:

Covenant description	Position at September 30, 2024	Position at December 31, 2023
Fixed charge coverage ratio	1.60	1.56

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As at September 30, 2024 and December 31, 2023, except as noted above, the Company was compliant with all covenants provided for in the loan agreement.

9. LEASE LIABILITIES

(\$000's)

Balance at December 31, 2022	259
Recognized	49
Principal payments	(102)
Disposed (Note 4)	(56)
Interest expense	16
Foreign exchange effect	(2)
Balance at December 31, 2023	164
Recognized	173
Principal payments	(103)
Interest expense	13
Foreign exchange effect	2
Balance at September 30, 2024	249
Less current portion	(122)
Total non-current portion	127

The lease liabilities are payable as follows:

(\$000's)	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	143	21	122
Between one and five years	135	8	127
Five years and greater	-	-	-
Balance at September 30, 2024	278	29	249

During the three and nine months ended September 30, 2024, the Company recognized \$7,173 and \$12,543 (2023 - \$3,500 and \$12,200) of interest expense from lease liabilities.

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

	Three months ended September 30,		Nine months ended September 30,	
(\$000's)	2024	2023	2024	2023
Equipment	6	5	14	15
Office leases	29	18	70	47
Total depreciation expense – right-of-use assets	35	23	84	62

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10. 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, 2022	1,379
Recognized	(114)
Foreign exchange effect	(31)
Balance at December 31, 2023	1,234
Recognized	(87)
Foreign exchange effect	27
Balance at September 30, 2024	1,174
Less current portion	(114)
Total non-current portion	1,060

11. LOAN PAYABLE

The Company had a non-interest-bearing Canadian Emergency Business Loan ("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.

12. DECOMMISSIONING LIABILITIES

(\$000's)

Balance at December 31, 2022	4,106
Accretion	98
Change in estimate	17
Disposed (Note 4)	(2,597)
Abandonment	(271)
Foreign exchange effect	(34)
Balance at December 31, 2023	1,319
Accretion	44
Change in estimate	26
Acquisition (Note 3)	134
Disposed (Note 3)	(67)
Foreign exchange effect	24
Balance at September 30, 2024	1,480
Less current portion	(10)
Total non-current portion	1,470

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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, 2024 based on a total undiscounted future liability of \$2,723,422 (December 31, 2023 – \$2,538,727). These costs are expected to be incurred in approximately one to 16 years (December 31, 2023 – one to 16 years). The Company used a risk-free interest rate at September 30, 2024 of 4.00% (December 31, 2023 – 4.20%) and an inflation rate of 2.00% (December 31, 2023 – 2.00%) to calculate the net present value of its decommissioning liabilities.

During the nine months ended September 30, 2023, the Company incurred \$247,997 of abandonment costs related to phase 1 and phase 2 environmental site assessment work for the Clairmont oil and gas wells.

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.

(\$000's)	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
Recovered oil sales	1,740	2,209	5,935	5,586
Water disposal and processing services	3,018	3,500	8,970	9,088
Other revenue	204	125	430	315
Total revenue	4,962	5,834	15,335	14,989

14. FINANCE COSTS

(\$000's)	Continuing operations Three months ended September 30,		Discontinued operation (Note 4) Three months ended September 30,		Total Three months ended September 30,	
	2024	2023	2024	2023	2024	2023
Interest on long-term debt	81	176	-	-	81	176
Interest on lease liabilities (Note 9)	7	3	-	-	7	3
Accretion of decommissioning obligations (Note 12)	15	14	-	-	15	14
Accretion of transaction costs (Note 8)	39	45	-	-	39	45
Interest (income) expense, bank charges and other	10	64	-	-	10	64
Total finance costs	152	302	-	-	152	302

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	Continuing operations		Discontinued operation (Note 4)		Total	
	Nine months ended		Nine months ended		Nine months ended	
(\$000's)	September 30, 2024	September 30, 2023	September 30, 2024	September 30, 2023	September 30, 2024	September 30, 2023
Interest on long-term debt	283	596	-	-	283	596
Interest on promissory notes and loans payable	-	-	-	9	-	9
Interest on lease liabilities (Note 9)	13	10	-	2	13	12
Accretion of decommissioning obligations (Note 12)	44	40	-	44	44	84
Accretion of transaction costs (Note 8)	130	116	-	-	130	116
Interest (income) expense, bank charges and other	41	79	-	(45)	41	34
Total finance costs	511	841	-	10	511	851

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 \$2,701,255 (US\$2,001,078) at September 30, 2024 (December 31, 2023 - \$3,919,575 (US\$2,963,538)). No hedge ineffectiveness was recognized during the three and nine months ended September 30, 2024 and 2023.

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 condensed consolidated interim statement of financial position consist of cash and cash equivalents, trade and other receivables, promissory note receivable, deposits, operating loan, trade and other payables, contingent liability, 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, contingent liability and trade and other payables approximate their carrying value due to the short-term or demand nature of these instruments. 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.

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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 the financial conditions of its customers and the industries in which they operate. The Company's maximum exposure to credit risk at September 30, 2024 was the total of cash and cash equivalents, trade and other receivables and promissory note receivable of \$6,377,453 (December 31, 2023 - \$5,197,591). 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, 2024, the Company has an allowance for doubtful accounts of \$nil (December 31, 2023 - \$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, 2024, trade and other receivables includes \$nil (December 31, 2023 - \$51,122) 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 \$64,532 (December 31, 2023 - \$nil) 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
	3,433	35	10	10	3,488

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, 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 and nine months ended September 30, 2024.

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, 2024	December 31, 2023
Lease liabilities	249	164
Long-term debt	2,587	3,675
Total shareholders' equity	21,514	17,538
	24,350	21,377

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17. RELATED PARTY TRANSACTIONS

At September 30, 2024, the Company has a \$22,500 (December 31, 2023 - \$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, 2024, the Company has recorded \$230,343 (December 31, 2023 - \$47,736) 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, 2024, the Company has recorded \$95,351 in amounts owing from the Killdeer 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, 2024, certain management and directors own 1.04% (December 31, 2023 – 1.04%) of the Tioga SWD Facility and 5.54% (December 31, 2023 – 5.54%) 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.

On April 12, 2024, an executive and director of the Company exercised 1,000,000 options at an exercise price of \$0.05 for total proceeds to the Company of \$50,000.

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 and nine months ended September 30, 2024, the Company recognized \$nil (2023 - \$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.

19. CHANGES IN NON-CASH WORKING CAPITAL

(\$000's)	Three months ended		Nine months ended	
	September 30, 2024	September 30, 2023	September 30, 2024	September 30, 2023
Trade and other receivables	(105)	(664)	(56)	(1,404)
Deposits and prepaid expenses	277	248	(722)	(689)
Trade and other payables	567	613	237	(459)
Deferred consideration	(29)	(28)	(87)	(86)
	710	169	(628)	(2,638)
Allocated to:				
Operating	384	10	(464)	(800)
Investing	330	184	(151)	(1,844)
Financing	(4)	(25)	(13)	6
	710	169	(628)	(2,638)