

WHITEMUD RESOURCES INC.

FILING STATEMENT

Dated as of September 30, 2019

Neither the TSX Venture Exchange Inc. (the "Exchange") nor any securities regulatory authority has in any way passed upon the merits of the Change of Business described in this Filing Statement.

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GLOSSARY

- (a) “**ABCA**” means the *Business Corporations Act* (Alberta).
- (b) “**Board**” means the Board of Directors of the Issuer.
- (c) “**BIA**” means the *Bankruptcy and Insolvency Act* (Canada).
- (d) “**CEO**” means the Chief Executive Officer.
- (e) “**CFO**” means Chief Financial Officer.
- (f) “**Change of Business**” means the change of business of the Issuer from mining issuer to an industrial issuer, all as further described herein.
- (g) “**Class A Exercise Price**” has the meaning ascribed to that term under “*Part I - Information Concerning the Issuer - Stock Option Plans*”.
- (h) “**Class A Option**” has the meaning ascribed to that term under “*Part I - Information Concerning the Issuer - Stock Option Plans*”.
- (i) “**Class A Plan**” has the meaning ascribed to that term under “*Part I - Information Concerning the Issuer - Stock Option Plans*”.
- (j) “**Class B Common Shares**” refers to Class “B” non-voting common shares in the capital of the Issuer.
- (k) “**Class B Exercise Price**” has the meaning ascribed to that term under “*Part I - Information Concerning the Issuer - Stock Option Plans*”.
- (l) “**Class B Option**” has the meaning ascribed to that term in under “*Part I - Information Concerning the Issuer - Stock Option Plans*”.
- (m) “**Class B Plan**” has the meaning ascribed to that term in under “*Part I - Information Concerning the Issuer - Stock Option Plans*”.
- (n) “**Common Shares**” refers to Class “A” common shares in the capital of the Issuer.
- (o) “**Creditors**” means, collectively, Kasten and Petrogas.
- (p) “**Exchange**” means the TSX Venture Exchange Inc.
- (q) “**Filing Statement**” means this filing statement prepared in accordance with Exchange Policy 5.2 – *Changes of Business and Reverse Takeovers*.
- (r) “**Gollier Creek Mine and Plant**” means the Company’s open-pit kaolin mine, processing facility and rail reload centre located near the Town of Wood Mountain, Saskatchewan.
- (s) “**Governance Guidelines**” means all applicable policies and guidelines of the Exchange and of Canadian Securities Administrators including National Policy 58-201 – *Corporate Governance Guidelines*.
- (t) “**IFRS**” means International Financial Reporting Standards.
- (u) “**Issuer**” or “**Company**” or “**Whitemud**” means Whitemud Resources Inc., a corporation existing under the provisions of the ABCA.
- (v) “**Kasten**” means Kasten Resources Inc.
- (w) “**LPG**” means liquefied petroleum gas.

- (x) **“MD&A”** means management’s discussion and analysis prepared in accordance with National Instrument 51-102 - *Ongoing Requirements for Issuers and Insiders*.
- (y) **“Midstream Energy Partners”** or **“MEP”** means the Issuer’s petroleum product marketing division.
- (z) **“NEO”** means Named Executive Officer as such term is defined by Form 51-102 F6 – *Statement of Executive Compensation* and for the purposes of this Filing Statement means, Stan Owerko, David Koplovich and David Storoshenko.
- (aa) **“Order”** means a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation that was in effect for a period of more than 30 consecutive days.
- (bb) **“Petrogas”** means Petrogas Energy Corp.
- (cc) **“Preferred Shares”** means preferred shares in the share capital of the Issuer.
- (dd) **“SEDAR”** means the System for Electronic Document Analysis and Retrieval, the system for the official filing of documents by public companies across Canada.
- (ee) **“Stock Option Plans”** means the Issuer’s stock option plans, consisting of the Class A Plan and Class B Plan.

FORWARD-LOOKING STATEMENTS

Certain statements in this Filing Statement and the schedules attached hereto are forward-looking statements which may include, but are not limited to: the market for LPGs and the potential profit to be made by the Company in respect of the purchase and sale of LPGs; the Company's anticipated number of employees following the Change of Business; the application of a transition services agreement with Petrogas following the Change of Business; the Company's margins relating to its purchase and sale of propane and butane; the renewal of the Company's existing contracts or the entering into of new contracts to purchase and sell LPGs; the Company's target markets for its LPG business; and the Company's ability to raise or obtain funds to finance its stated business objectives. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", or "believes" or variations (including negative variations) of such words and phrases, or statements that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties, assumptions and other factors that may cause the actual results, performance or achievements of the Issuer to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, but are not limited to: termination of its existing LPG purchase and sale contracts; an inability to secure further LPG purchase and sale contracts; inability to raise necessary capital to fund the Company's operations; inability to secure the knowledgeable staff to run its LPG business segment; and other factors set out under "Risk Factors" herein. Forward-looking statements contained herein are made as of the date of this Filing Statement and, other than as required by law, the Issuer disclaims any obligation to update any forward-looking statements, whether as a result of new information, future events or results, or otherwise. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.

SUMMARY OF FILING STATEMENT

The following is a summary of information relating to the Issuer and the new business of the Issuer (assuming completion of the Change of Business) and should be read together with the more detailed information and financial data and statements contained elsewhere in this Filing Statement.

The Issuer

The Company was incorporated under the ABCA on April 28, 2005. The articles of incorporation of the Company were amended on May 4, 2005 to change its name from "White Mud Resources Inc." to "Whitemud Resources Inc." and further amended on July 28, 2006 to remove the private company restrictions.

The corporate head office of the Company is located at Suite 3900, Bow Valley Square 2, 205 - 5th Avenue SW, Calgary, AB, T2P 2V7, Canada. The registered and records office is located at 900, 332 6th Avenue SW, Calgary Alberta T2P 0B2. The Issuer is a reporting issuer in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario and Quebec.

Whitemud was formed to engage in the business mining kaolin, processing kaolin into high-reactivity metakaolin and then subsequently marketing and selling the metakaolin (the "**Metakaolin Business**"). Metakaolin is a high performance supplementary cementing material used as a performance enhancing additive to concrete and can replace up to 20% of the cement used to make concrete while enhancing performance and reducing cost. The Company holds mineral rights for a large kaolin deposit in southern Saskatchewan along with a processing facility. The metakaolin product produced at the Gollier Creek Mine and Plant, "Whitemud (MK)" is a cement grade metakaolin that enhances the performance of cement for oil and gas wells and construction applications.

Reason for the Change of Business

After operating the Metakaolin Business for 5 years, demand for kaolin and metakaolin was well below the Company's expectations and on November 16, 2010, the Company announced that it was suspending operations and a receiver and manager for the Company was appointed in December 2010. Following the Company's emergence from receivership in August 2011, the Company continued to carry on the Metakaolin Business with the financial support of the Creditors. The Company continued to produce and stockpile cement-grade metakaolin but has, due to market conditions, been unsuccessful in selling its product. The Company intends to maintain the kaolin mineral rights while reducing expenses at the Gollier Creek Mine and Plant and seeking maximum value for stockpiled kaolin and the processing facility. As of this date, the only assets of the Company are its kaolin mineral licenses and the Gollier Creek Mine and Plant. See "*General Development of the Business - History*" below.

In 2015, in an effort to diversify the Company's business, the Company formed Midstream Energy Partners through which it began operating its LPG business segment (the "**LPG Business**"). The Company's LPG Business focuses on wholesale LPG distribution and has generated revenue since its inception, which revenue has helped to offset the annual losses incurred in the Metakaolin Business during that time period. The Company believed the LPG Business was a viable business going forward and applied to the Exchange for the Change of Business. The Exchange has provided conditional acceptance to Whitemud for graduation from the NEX to Tier 2 of the Exchange. Upon receipt of the final acceptance from the Exchange, the Company will be reclassified as a Tier 2, Industrial Issuer.

Going forward the primary focus of the Company will be continued operation of the LPG Business. The current active operations of the LPG Business consist of buying and selling propane and butane through physical deliveries and by inventory transfer by conducting buy/sell marketing transactions. See "*Narrative Description of the History of the New Business – General*" below. In the future, the Company may commence marketing activities in all types of commodities and engage in all activities ancillary thereto including, but not limited to, the storage, logistics and transportation of physical commodities.

Insiders, Promoter or Control Persons

Petrogas is a Creditor and Control Person (as such term is defined in the policies of the Exchange) of the Company holding 44% of the total issued and outstanding Common Shares on a fully-diluted basis. Messrs. Owerko and Storoshenko are executive officers and directors both of the Company and of Petrogas. Mr. Kroontje is the President of Kasten, a Creditor of the Company and serves as the Company's Chairman of the Board. The Creditors have agreed to forgive all of the interest accrued on the promissory notes payable, to make such notes non-interest bearing, to extend the maturity date of the loans until December 31, 2019, and have provided the Exchange with an undertaking not to call the debt (and provide relief from the repayment requirements thereof) until December 31, 2019 and thereafter on a year-by-year basis. The Creditors have also waived all interest payments payable under the loans, including for 2017 and 2018.

In conjunction with the Change of Business, the Issuer has made a transition services arrangement (the "**Transition Services Agreement**") with Petrogas pursuant to which Petrogas will provide the Company with head office administrative services at fair market rates until such time that the LPG Business generates sufficient cash flow to create and maintain its own administrative infrastructure to conduct its operations.

In addition, the propane volumes currently marketed by the LPG Business are sold exclusively to Petrogas at market rates and recorded by the parties as inventory transfers.

Availability of Funds and Principal Purposes

Currently the Issuer has approximately \$4,000,000 of working capital available. There is no financing being conducted in connection with the Change of Business. The Issuer expects to use the total funds available set forth above for the principal purposes described below:

Use of Funds	Estimated Amount
Estimated expenses of Exchange application for Change of Business (includes legal fees, filing fees and other administrative and incidental expenses)	\$200,000
Satisfaction of estimated general administrative and other operational expenses of the Issuer for 18 months from the date hereof	\$2,300,000
General corporate expenses and working capital	\$300,000

The Issuer intends to spend the funds available for the Change of Business as stated in this Filing Statement. There may be circumstances however, where for sound business reasons, a reallocation of funds may be necessary. See "*Risk Factors*" below.

Financial Information

Included as Schedule "A" to this Filing Statement are the audited financial statements of the Issuer for the fiscal years ended December 31, 2018, 2017 and 2016 and the interim financial statements for the period ended June 30, 2019. The Issuer's financial statements are also available on SEDAR at www.sedar.com.

The following tables set forth selected historical financial information for the Issuer and should be read in conjunction with the aforementioned financial statements.

Financial Information

	6-Months Ended June 30, 2019 (\$)	Year Ended December 31, 2018 (\$)	Year Ended December 31, 2017 (\$)	Year Ended December 31, 2016 (\$)
Revenue	2,090,386	3,011,315	3,150,470	1,659,574
Total Expenses	880,406	5,743,278	3,435,868	7,173,511
Net earnings (loss)	1,089,279	13,495,571	(408,696)	(5,507,706)
Cash	169,846	52,266	66,118	278,357
Liabilities	27,187,744	29,237,220	50,869,473	43,180,089

Stock Exchange Listing and Market Price of Issuer's Shares

The Common Shares of the Company are listed on the Exchange and trade under the symbol "WMK.H".

No Common Shares are being issued in connection with the Change of Business. The following table provides the price ranges and volume traded on the Exchange for the periods listed below:

Period	High (\$)	Low (\$)	Volume
September 2019	0.015	0.01	278,600
August 2019	0.01	0.01	12,935
July 2019	0.01	0.01	1,290
Q2, 2019	0.01	0.01	558,397
Q1, 2019	0.025	0.005	1,436,894
Q4, 2018	0.015	0.01	183,769
Q3, 2018	0.015	0.01	751,980
Q2, 2018	0.05	0.01	2,136,561
Q1, 2018	0.02	0.01	499,653
Q4, 2017	0.02	0.01	366,173
Q3, 2017	0.02	0.01	278,493
Q2, 2017	0.02	0.005	378,210
Q1, 2017	0.02	0.005	687,667

The closing price of the Common Shares the Company on September 30, 2019, the date of this Filing Statement, was \$0.015.

The authorized share capital of the Issuer currently consists of an unlimited number of Common Shares without nominal or par value, an unlimited number of Class B Common Shares, without nominal or par value and an unlimited number of Preferred Shares without nominal or par value. As of the date of this Filing Statement there are 34,026,300 Common Shares, 326,499,700 Class B Common Shares and no Preferred Shares issued and outstanding.

Conditions to Completion of Change of Business

The Exchange has conditionally accepted the Company's graduation from NEX to a Tier 2 Industrial Issuer subject to Whitemud Resources Inc. fulfilling all of the requirements of the Exchange.

Interests of Experts

No person or company, whose profession or business gives authority to a statement made by the person or company and who is named as having prepared or certified a part of this Filing Statement or as having prepared or certified a report or valuation described or included in this Filing Statement, holds any beneficial interest, directly or indirectly, in the Issuer and no such

person is expected to be elected, appointed or employed as a director, senior officer or employee of the Issuer and no such person is a promoter of the Issuer. See “*General Matters – Interests of Experts*”.

Summary of Risk Factors

An investment in securities of the Issuer is highly speculative and involves a high degree of risk and should only be made by investors who can afford to lose their entire investment.

The Company will be subject to certain general risks that should be carefully considered, including the following:

- **the Company may not be able to continue as a going concern;**
- **the Company is subject to liquidity risk;**
- **the Company is subject to financing risk;**
- **the Company’s LPG Business has a limited history of operations;**
- **the Company is subject to risks of commodity marketing and distribution;**
- **the Company operates in a competitive market and is not a market leader;**
- **the Company is subject to health, safety and environmental risks;**
- **the Company is subject to global financial conditions;**
- **the Company’s share price is subject to volatility and price fluctuations;**
- **the Company’s securities are subject to general market risk; and**
- **the Company’s residual Metakaolin Business is subject to certain risks, including contingent liabilities associated with the preservation, management and sale of its stock-piled kaolin and the facilities.**

The stated business objectives of the Issuer are also subject to the following specific risks:

- **the Company’s LPG Business depends on its ability to maintain positive marketing margins;**
- **the Company depends on the support of the Creditors’ continued forbearance in order to continue operations; and**
- **the Company’s LPG Business depends on the extension, renewal or replacement of certain supply contracts and continued sales.**

For a detailed description of certain risk factors related to the ownership of Common Shares, which should be carefully considered before making an investment decision, see “*Risk Factors*” and “*Narrative Description of the Business – Stated Business Objectives – Perceived Risks with Stated Business Objectives*” below.

RISK FACTORS

AN INVESTMENT IN SECURITIES OF THE ISSUER IS HIGHLY SPECULATIVE AND INVOLVES A HIGH DEGREE OF RISK AND SHOULD ONLY BE MADE BY INVESTORS WHO CAN AFFORD TO LOSE THEIR ENTIRE INVESTMENT.

Prior to making an investment decision, investors should consider the investment risks set forth below and those described elsewhere in this document, which are in addition to the usual risks associated with an investment in a business at an early stage of development. The Issuer considers the risks set forth below to be the most significant, but does not consider them to be all of the risks associated with an investment in securities of the Issuer. If any of these risks materialize into actual events or circumstances or other possible additional risks and uncertainties of which the directors are currently unaware or which they

consider not to be material in connection with the Issuer's business, actually occur, the Issuer's assets, liabilities, financial condition, results of operations (including future results of operations), business and business prospects, are likely to be materially and adversely affected. In such circumstances, the price of the Issuer's securities could decline and investors may lose all or part of their investment.

The Company may not be able to continue as a going concern.

The financial statements attached hereto as Schedule "A" have been prepared on a going concern basis in accordance with IFRS, which assume Whitemud will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. The application of the going concern concept is dependent upon the ability of the Company to raise additional capital to support ongoing activities, receive continued support of its creditors, and achieve profitable operations. To date, the Company's main source of cash resources has been through the issuance of equity and debt. This dependence on the private and public market to fund cash flow needs of the Company has resulted in management including a "Nature of the Organization and Future Operations" note in the financial statements attached hereto.

The Company is subject to liquidity risk.

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. The Company strives to ensure that there are sufficient funds to meet its short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash.

The Company is subject to financing risk.

The Company has finite financial resources, has a limited source of operating cash flow and has no assurance that additional funding will be available to achieve its stated business objectives. Achieving these business objectives will be dependent upon the Company's ability to obtain financing through equity or debt financing or other means.

The Company's LPG Business has a limited history of operations.

The Company has limited history of operations in the LPG Business, and there can be no assurance that the LPG Business will be successful, or profitable, or that it will be able to successfully execute its business model and growth strategy. If the Company cannot execute its business model and growth strategy, it may result in a material and adverse effect on the profitability, results of operation and financial condition of the Company.

There can be no assurance that the Company will ever be profitable in the future. The Company's operating expenses and capital expenditures may increase in subsequent years as needed consultants, personnel and equipment associated with the LPG Business are required. The amount and timing of expenditures will depend on the progress of the LPG Business, and other factors many of which are beyond the Company's control.

The Company is subject to risks of commodity marketing and distribution.

Commodity marketing contracts are subject to a bidding process with contracts usually entered into for terms of one year. The LPG Business is dependent upon commodity price, access to and cost of transportation, risks associated with product supply, risks of customer demand, weather related demand conditions and the ability of customers to pay for LPG's delivered to them. There is no assurance that contracts may be obtained, extended or re-negotiated under commercially acceptable terms.

The Company operates in a competitive market and is not a market leader.

Larger and better capitalized companies are involved in a similar business to the LPG Business. While the Company believes that it has the requisite skills and contacts necessary to be competitive in the commodity marketing business, there is no guarantee that the Company will be able to compete effectively against its competitors.

The Company is subject to health, safety and environmental risks.

The storage and transfer of LPGs and other energy related products has a limited impact on the environment when conducted in compliance with applicable government policies and regulations. However, the potential exists for accidents to occur, or equipment to fail, which could result in the release of waste oil or finished products into the environment, and such release could result in damage to facilities, death or injury and liability to third parties. In Canada, federal and provincial regulators responsible for the safe handling of hazardous materials continue to review, revise and implement new safety standards to

enhance the safety of the public. New safety standards have the potential for a significant cost to implement and maintain; however, the cost and timing to comply with any such new, or proposed, changes is unknown at this time.

The Company is subject to global financial conditions.

Global financial conditions continue to be characterized by volatility. Many industries are impacted by volatile market conditions. Global financial conditions remain subject to sudden and rapid destabilizations in response to economic shocks. A slowdown in the financial markets or other economic conditions, including but not limited to consumer spending, employment rates, business conditions, inflation, fluctuations in fuel and energy costs, consumer debt levels, lack of available credit, the state of the financial markets, interest rates and tax rates, may adversely affect the Company's growth and financial condition. Future economic shocks may be precipitated by a number of causes, including the government debt levels, fluctuations in the price of oil and other commodities, the volatility of metal prices, geopolitical instability, terrorism, the volatility of currency exchanges, the devaluation and volatility of global stock markets and natural disasters. Any sudden or rapid destabilization of global economic conditions could impact the Company's ability to obtain equity or debt financing in the future on terms favourable to the Company or at all. In such an event, the Company's operations and financial condition could be adversely impacted.

The Company's share price is subject to volatility and price fluctuations.

In recent years, the securities markets in Canada have experienced a high level of volatility, and the share prices of securities of many companies, particularly junior companies like the Company, have experienced wide fluctuations which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that these price fluctuations and volatility will not continue to occur.

The Company's securities are subject to general market risk.

The Company's securities trade on public markets and the trading value thereof is determined by the evaluations, perceptions and sentiments of both individual investors and the investment community taken as a whole. Such evaluations, perceptions and sentiments are subject to change; both in short term time horizons and longer term time horizons. An adverse change in investor evaluations, perceptions and sentiments could have a material adverse outcome on the Company and its securities.

The Company's residual Metakaolin Business is subject to certain risks.

The Company intends to sell its stockpiled kaolin and metakaolin and any revenue that the Company may receive from such liquidation will be dependent on the prices the Company can obtain for its product. There is no guarantee that the prices the Company will obtain will be favorable or will provide the Company with significant revenue. In addition, the Company intends to maintain and preserve its metakaolin processing facility until its value can be realized in a manner favorable to the Company. Preserving the value of these assets are subject to various risks associated with maintenance and marketing, including employee and contingent liabilities.

PART I - INFORMATION CONCERNING THE ISSUER

CORPORATE STRUCTURE

Name and Incorporation

The Company was incorporated under the *Business Corporations Act* (Alberta) on April 28, 2005. The articles of incorporation of the Company were amended on May 4, 2005 to change its name from "White Mud Resources Inc." to "Whitemud Resources Inc." and were further amended on July 28, 2006 to remove the private company restrictions. The business of the Corporation commenced on April 28, 2005 as the Whitemud Resources Limited Partnership ("**Whitemud LP**"), an Alberta limited partnership of which the Company was the general partner. Effective July 31, 2006, the Company acquired all of the outstanding units of Whitemud LP in exchange for Common Shares of the Corporation. The restructuring resulted in the Corporation being a continuation of business of Whitemud LP. No change in shareholders or any interests in the organization resulted from the restructuring. In addition, no change in the business activities of the organization occurred and therefore the acquisition of Whitemud LP by the Corporation is considered a continuation of the business of Whitemud LP.

Registered and Records Address

The corporate head office of the Issuer is located at Suite 3900 – Bow Valley Square 2, Calgary, AB, T2P 2V7, Canada. The registered and records office is located at 900, 332 6th Avenue SW, Calgary Alberta T2P 0B2. The Issuer is a reporting issuer in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario and Quebec.

GENERAL DEVELOPMENT OF THE BUSINESS

History

Metakaolin Business

Whitemud was formed to engage in the business mining kaolin, processing kaolin into high-reactivity metakaolin and then subsequently marketing and selling the metakaolin. Metakaolin is a high performance supplementary cementing material used as a performance enhancing additive to concrete. Metakaolin can replace up to 20% of the cement used to make concrete while enhancing performance and reducing cost.

The Company closed its initial public offering on February 28, 2007 and was listed and began trading on the TSX Venture Exchange on March 1, 2007. During the course of 2008, the Company commenced operation of the Gollier Creek Mine and Plant and moved to commercial production in the fall of 2008. The start-up and commissioning phase lasted for the first half of 2008, while the second half of 2008 involved adjusting the process and production of sufficient inventory to last through the early introduction phase of the product. Between incorporation and early 2009, the Company constructed a surface mine for the extraction of kaolin and a processing plant for the production of metakaolin with an initial capacity of approximately 175,000 tonnes per year. The metakaolin product produced at the Gollier Creek Mine and Plant, "Whitemud (MK)" is a cement grade metakaolin that enhances the performance of cement for oil and gas wells and construction applications.

On November 6, 2009, the Company announced that its anticipated growth in sales of Whitemud (MK) was not meeting the Company's expectations and that the Company was minimizing its costs and investigating opportunities to pursue a strategic relationship with major construction material suppliers that could bring additional resources to exploiting and marketing metakaolin in North America.

On November 16, 2010, the Company announced that it was suspending its operations and, pursuant to an order of the Court of Queen's Bench of Alberta granted on December 15, 2010, Deloitte & Touche Inc. was appointed receiver and manager of the Company under the *BIA*. On February 28, 2011 the TSX Venture Exchange transferred Whitemud's listing to the NEX. On August 12, 2011, the Company's proposal under Part III, Division I of the *BIA* was approved by the Court of Queen's Bench of Alberta, Judicial District of Calgary. Subsequent to 2011, the Company continued to engage in its Metakaolin Business as described above.

In the short term, the Company intends to maintain its kaolin mineral rights but reduce expenses at the Gollier Creek Mine and Plant with the intention of selling its stockpiled kaolin and maintaining and preserving the processing facility until its value can be realized in manner favourable to the Company.

Creation of Midstream Energy Partners

In 2015, in an effort to diversify the Company's business, the Company formed Midstream Energy Partners through which it began operating its LPG Business. The Company's LPG Business has generated revenue since its inception, which revenue has helped to offset the annual losses incurred in the Metakaolin Business during that time period. The current active operations of the LPG Business consist of buying and selling propane and butane as a wholesale marketer. MEP conducts buy/sell transactions which are identified and settled through direct negotiation by physical delivery and by inventory transfer. The Company has generated revenue in the amount of \$2,769,858 through the LPG Business in the fiscal year-ended December 31, 2018.

The Exchange has provided conditional acceptance to Whitemud for graduation from NEX to Tier 2 of the Exchange and as a result the Company will be reclassified as a Tier 2, Industrial Issuer upon receipt of the final acceptance from the Exchange. As noted above, the LPG Business has been under development since the fourth quarter of 2015. Going forward the primary focus of the Company will be continued operation of the LPG Business. The current active operations of the LPG Business consist of wholesale marketing activities, including the buying and selling of LPGs as a service provider to producers and marketers in the oil and gas industry and other users of LPG and related products. See "*Narrative Description of the History of the New Business – General*" below.

The Issuer currently has six LPG (butane) supply contracts in place, all of which are in place until March 31, 2020. The Issuer also has two LPG (butane) sales contracts in place until March 31, 2020 with purchasers using it for petroleum blending purposes.

Commodity Marketing

In the future, the Company intends to commence marketing in all types of commodities and engage in all activities ancillary thereto including, but not limited to, the storage, logistics and transportation of physical commodities. As such, the Company will continue to identify additional markets and marketing strategies to enable and expand its operations and intends to realize the implementation of additional contracts, risk management strategies, accounting functions and transportation and settlement execution processes in a manner which provides for price transparency, market monitoring, controlled access and regulatory compliance.

Financing

No financing has been or will be conducted in connection with the Issuer's Change of Business.

SELECTED CONSOLIDATED FINANCIAL INFORMATION AND MANAGEMENT'S DISCUSSION AND ANALYSIS

All of the Issuer's financial projections summarized in this Filing Statement, including the Issuer's MD&A, were prepared by, and are the responsibility of, the Issuer's management, as indicated. MNP LLP, the Issuer's independent auditors, has not provided any assistance in preparing the Issuer's financial projections and has not examined, compiled, or otherwise performed any procedures with respect to the Issuer's financial projections and, accordingly, MNP LLP has not expressed any opinion or given any other form of assurance with respect thereto and they assume no responsibility for the prospective financial information. The MNP LLP reports included into this filing statement relate solely to the historical financial information of the Issuer. Such reports do not extend to the Issuer's financial projections and should not be read to do so.

Selected Financial Information

The following table sets forth selected historical financial information for the Issuer for the years ended December 31, 2018, 2017 and 2016. Such information is derived from the Issuer's financial statements and should be read in conjunction with such financial statements included elsewhere in this Filing Statement including those financial statements attached hereto as Schedule "A". No expenses in connection with the Change of Business were deferred.

Annual Financial Information

	6-Months Ended June 30, 2019	Year Ended December 31, 2018	Year Ended December 31, 2017	Year Ended December 31, 2016
	(\$)	(\$)	(\$)	(\$)
Revenue	2,090,386	3,011,315	3,150,470	1,659,574
Total Expenses	880,406	5,743,278	3,435,868	7,173,511
Net earnings (loss)	1,089,279	13,495,571	(408,696)	(5,507,706)
Cash	169,846	52,266	66,118	278,357
Liabilities	27,187,744	29,237,220	50,869,473	43,180,089

Management's Discussion and Analysis

The Issuer's MD&A for the fiscal years ended December 31, 2018, 2017 and 2016 and for the fiscal quarter ended June 30, 2019 are attached hereto as Schedule "B".

The MD&A of the Issuer should be read in conjunction with the Issuer's audited comparative financial statements and the related notes for the fiscal years ended December 31, 2018, 2017 and 2016 and the six-months ended June 30, 2019.

Certain information included in the Issuer's MD&A is forward-looking and based upon assumptions and anticipated results that are subject to uncertainties. Should one or more of these uncertainties materialize or should the underlying assumptions prove incorrect, actual results may vary significantly from those expected. See "Forward-Looking Statements" herein for further details.

DESCRIPTION OF THE SECURITIES

Securities

The authorized share capital of the Issuer currently consists of an unlimited number of Common Shares without nominal or par value, an unlimited number of Class B Common Shares without nominal or par value and an unlimited number of Preferred Shares without nominal or par value. As of the date of this Filing Statement there are 34,026,300 Common Shares, 326,499,700 Class B Common Shares and no Preferred Shares issued and outstanding.

The holders of the Common Shares and Class B Common Shares are entitled to dividends, if, as and when declared by the board of directors of the Issuer, and upon liquidation, to share equally such assets of the Issuer as are distributable to the holders of the Common Shares and Class B Common Shares. Holders of the Common Shares are entitled to one vote per Common Share at meetings of the shareholders of the Issuer. See *“Information Concerning the Issuer Following the Change of Business – Fully Diluted Share Capital”* and *“Information Concerning the Issuer Following the Change of Business – Available Funds and Principal Purposes – Dividends.”*

STOCK OPTION PLANS

The Issuer has adopted the following Stock Option Plans: (i) a stock option plan for Common Shares (the **“Class A Plan”**); and (ii) a stock option plan for Class B Common Shares (the **“Class B Plan”** and together with the Class A Plan, the **“Stock Option Plans”**). The Stock Option Plans are for the benefit of individuals who provide services to the Issuer or any of its subsidiaries or affiliates, including directors, officers, employees and consultants. The Stock Option Plans are required to be re-approved annually by shareholders of the Issuer. The Stock Option Plans were established to provide an opportunity for the individuals mentioned above to obtain a proprietary interest in the Issuer by permitting them to purchase Common Shares or Class B Common Shares and to aid in attracting, as well as retaining and encourage the continued involvement of, such individuals with the Issuer.

Class A Option Plan

The Class A Plan is a “rolling” plan and provides that the number of Common Shares issuable under the Class A Plan may not exceed 10% of the number of issued and outstanding Common Shares on an undiluted basis, including any Common Shares issued as a result of the exercise of any options under the Class A Plan. In addition, the following restrictions apply to the Class A Plan: (i) the number of Common Shares reserved for issuance to any one individual under the Class A Plan will not exceed 5% of the outstanding Common Shares in any 12-month period; (ii) the number of Common Shares reserved for issuance under stock options granted to insiders of the Issuer, or the number of options granted to insiders of the Issuer, will not permit, in either case, the purchase of in excess of 10% of the then outstanding shares of the Company in any 12-month period; (iii) options representing no more than 2% of the issued Common Shares of the Company may be granted to any one consultant (as defined under the policies of the Exchange) in any 12-month period; and (iv) options representing no more than an aggregate of 2% of the issued Common Shares of the Company may be granted to an employee (as defined under the policies of the Exchange) conducting investor relations activities (as defined under the policies of the Exchange) in any 12-month period.

The number of Common Shares subject to each Common Share stock option (in this section, the **“Class A Option”**), the exercise price of each Class A Option (in this section, the **“Class A Exercise Price”**), the expiration date of each Class A Option, the extent to which each Class A Option is exercisable and/or vested from time to time during the term of the Class A Option and any other terms and conditions relating to the Class A Options are to be determined by the Board of Directors. The term of a Class A Option shall not exceed ten years from the date of grant of the Class A Option. If the shares under the Class A Plan are listed on the Exchange, the Class A Exercise Price shall, in no circumstances, be lower than the closing price of such listed shares on the last trading day preceding the day on which such Class A Options are granted.

If a participant is dismissed as an officer or employee of, or consultant to, the Company or one of its subsidiaries for cause, all unexercised option rights of that participant under the Class A Plan shall immediately become terminated and shall lapse notwithstanding the original term of the Class A Option granted to such participant under the Class A Plan.

If a participant ceases to be a director, officer, management company employee, employee of, or consultant to, the Company or one of its subsidiaries as a result of: (i) retirement at the normal retirement age prescribed by the Company pension plan, if any; or (ii) resignation, such participant shall have the right for a period of 30 days (or until the normal expiry date of the option rights of such participant if earlier) from the date of ceasing to be a director, officer, employee or consultant to exercise the option under the Class A Plan with respect to all optioned shares of such participant to the extent they were exercisable on the date of ceasing to be a director, officer, employee or consultant. Upon the expiration of such 30 day period all unexercised option rights of that participant shall immediately become terminated and shall lapse notwithstanding the original term of the option granted to such participant under the Class A Plan.

If a participant ceases to be an officer or employee of, or consultant to, the Company or of one of its subsidiaries as a result of disability or illness preventing the participant from performing the duties routinely performed by such participant, such participant shall have the right for a period of 90 days (or until the normal expiry date of the option rights of such participant if earlier) from the date of ceasing to be an officer or employee to exercise the option under the Class A Plan with respect to all optioned shares of such participant to the extent they were exercisable on the date of ceasing to be an officer or employee. Upon the expiration of such 90 day period all unexercised option rights of that participant shall immediately become terminated and shall lapse notwithstanding the original term of the option granted to such participant under the Class A Plan.

In the event that an employee who is engaged in investor relations activities ceases to be employed by the Company or its subsidiaries such employee shall have the right for a period of 30 days (or until the normal expiry date of the option rights of such participant if earlier) from the date of ceasing to be an employee to exercise the option under the Class A Plan with respect to all optioned shares of such participant to the extent they were exercisable on the date of ceasing to be an employee. Upon the expiration of such 30 day period all unexercised option rights of that participant shall immediately become terminated and shall lapse notwithstanding the original term of the option granted to such participant under the Class A Plan.

In the event of the death of any participant, the legal representatives of the deceased participant shall have the right for a period of 180 days (or until the normal expiry date of the option rights of such participant if earlier) from the date of death of the deceased participant to exercise the deceased participant's option with respect to all of the optioned shares of the deceased participant to the extent they were exercisable on the date of death. Upon the expiration of such 180 day period all unexercised option rights of the deceased participant shall immediately become terminated and shall lapse notwithstanding the original term of the option granted to the deceased participant under the Class A Plan.

The Company has no outstanding stock options and no options have been granted under the Class A Plan.

Class B Option Plan

The Class B Plan is a "rolling" plan and provides that the number of Class B Common Shares issuable under the Class B Plan may not exceed 10% of the number of issued and outstanding Class B Common Shares on an undiluted basis, including any Class B Common Shares issued as a result of the exercise of any options under the Class B Plan. In addition, the following restrictions apply to the Class B Plan: (i) the number of Class B Common Shares reserved for issuance to any one individual under the Class B Plan will not exceed 5% of the outstanding Class B Common Shares in any 12-month period; (ii) the number of Class B Common Shares reserved for issuance under stock options granted to insiders of the Issuer, or the number of options granted to insiders of the Issuer, will not permit, in either case, the purchase of in excess of 10% of the then outstanding shares of the Company in any 12-month period; (iii) options representing no more than 2% of the issued Class B Common Shares of the Company may be granted to any one consultant (as defined under the policies of the Exchange) in any 12-month period; and (iv) options representing no more than an aggregate of 2% of the issued Class B Common Shares of the Company may be granted to an employee (as defined under the policies of the Exchange) conducting investor relations activities (as defined under the policies of the Exchange) in any 12-month period.

The number of Class B Common Shares subject to each Class B Common Share stock option (in this section, the "**Class B Option**"), the exercise price of each Class B Option (in this section, the "**Class B Exercise Price**"), the expiration date of each Class B Option, the extent to which each Class B Option is exercisable and/or vested from time to time during the term of the Class B Option and any other terms and conditions relating to the Class B Options are to be determined by the Board of Directors. The term of a Class B Option shall not exceed ten years from the date of grant of the Class B Option. If the shares under the Class B Plan are listed on the Exchange, the Class B Exercise Price shall, in no circumstances, be lower than the closing price of such listed shares on the last trading day preceding the day on which such Class B Options are granted.

If a participant is dismissed as an officer or employee of, or consultant to, the Company or one of its subsidiaries for cause, all unexercised option rights of that participant under the Class B Plan shall immediately become terminated and shall lapse notwithstanding the original term of the Class B Option granted to such participant under the Class B Plan.

If a participant ceases to be a director, officer, management company employee, employee of, or consultant to, the Company or of one of its subsidiaries as a result of: (i) retirement at the normal retirement age prescribed by the Company pension plan, if any; or (ii) resignation, such participant shall have the right for a period of 30 days (or until the normal expiry date of the option rights of such participant if earlier) from the date of ceasing to be a director, officer, employee or consultant to exercise the option under the Class B Plan with respect to all optioned shares of such participant to the extent they were exercisable on the date of ceasing to be a director, officer, employee or consultant. Upon the expiration of such 30 day period all unexercised option rights of that participant shall immediately become terminated and shall lapse notwithstanding the original term of the option granted to such participant under the Class B Plan.

If a participant ceases to be an officer or employee of, or consultant to, the Company or of one of its subsidiaries as a result of disability or illness preventing the participant from performing the duties routinely performed by such participant, such participant shall have the right for a period of 90 days (or until the normal expiry date of the option rights of such participant if earlier) from the date of ceasing to be an officer or employee to exercise the option under the Class B Plan with respect to all optioned shares of such participant to the extent they were exercisable on the date of ceasing to be an officer or employee. Upon the expiration of such 90 day period all unexercised option rights of that participant shall immediately become terminated and shall lapse notwithstanding the original term of the option granted to such participant under the Class B Plan.

In the event that an employee who is engaged in investor relations activities ceases to be employed by the Company or its subsidiaries such employee shall have the right for a period of 30 days (or until the normal expiry date of the option rights of such participant if earlier) from the date of ceasing to be an employee to exercise the option under the Class B Plan with respect to all optioned shares of such participant to the extent they were exercisable on the date of ceasing to be an employee. Upon the expiration of such 30 day period all unexercised option rights of that participant shall immediately become terminated and shall lapse notwithstanding the original term of the option granted to such participant under the Class B Plan.

In the event of the death of any participant, the legal representatives of the deceased participant shall have the right for a period of 180 days (or until the normal expiry date of the option rights of such participant if earlier) from the date of death of the deceased participant to exercise the deceased participant's option with respect to all of the optioned shares of the deceased participant to the extent they were exercisable on the date of death. Upon the expiration of such 180 day period all unexercised option rights of the deceased participant shall immediately become terminated and shall lapse notwithstanding the original term of the option granted to the deceased participant under the Class B Plan.

The Company has no outstanding stock options and no options have been granted under the Class B Plan.

An aggregate of 3,402,630 Common Shares and 32,649,970 Class B Common Shares, being the maximum amount issuable under the Stock Option Plans, are reserved for issuance under the Stock Option Plans.

PRIOR SALES

In the 12 months prior to the date of this Filing Statement, no securities have been issued by the Issuer.

STOCK EXCHANGE PRICE

No Common Shares are being issued in connection with the Change of Business. The Common Shares are currently listed on the Exchange under the symbol "WMK.H". The following table provides the price ranges and volume traded on the Exchange for the periods listed below:

Period	High (\$)	Low (\$)	Volume
September 2019	0.015	0.01	278,600
August 2019	0.01	0.01	12,935
July 2019	0.01	0.01	1,290
Q2, 2019	0.01	0.01	558,397
Q1, 2019	0.025	0.005	1,436,894
Q4, 2018	0.015	0.01	183,769
Q3, 2018	0.015	0.01	751,980
Q2, 2018	0.05	0.01	2,136,561
Q1, 2018	0.02	0.01	499,653
Q4, 2017	0.02	0.01	366,173
Q3, 2017	0.02	0.01	278,493
Q2, 2017	0.02	0.005	378,210
Q1, 2017	0.02	0.005	687,667

The closing price of the Issuer's Common Shares on September 30, 2019, the date of this Filing Statement, was \$0.015.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

The Corporate Governance and Compensation Committee of the Issuer, comprised of Messrs. Kroontje and Davoli (who are both independent board members), make determinations and recommendations to the directors of the Issuer with respect to the cash and incentive compensation of the executive officers of the Issuer. Mr. Kroontje and Mr. Davoli both have experience in executive compensation from their other director positions.

The primary goal of the Corporate Governance and Compensation Committee in regards to compensation is to ensure that the overall compensation provided to the executive officers of the Issuer is determined with regard to, and is consistent with, the business strategies and objectives of the Issuer, such that the financial interests of the executive officers of the Issuer are congruent with the financial interests of the shareholders of the Issuer. The compensation program of the Issuer is designed to reward performance that is consistent with this goal.

In arriving at its compensation decisions, the Corporate Governance and Compensation Committee considers a number of factors, including the responsibilities and experience of the individuals, the performance of the individuals, and the overall performance of the Issuer and the long-term interests of the Issuer. The Corporate Governance and Compensation Committee must have a written policy with respect to compensation. The Corporate Governance and Compensation Committee undertakes informal market comparisons of similar sized companies in the same industry and provides advice to the Board of Directors on developing appropriate compensation arrangements, including provisions for severance and change of control. Recommendations for executive compensation are made by the Corporate Governance and Compensation Committee to the full Board of Directors for approval.

The compensation program of the Issuer is comprised of the salary, stock options, and non-equity compensation.

Base Salaries

The Corporate Governance and Compensation Committee recommends to the Board of Directors of the Issuer base salaries for each of the executive officers of the Issuer, taking into consideration the recommendations from the Chief Executive Officer of the Issuer (other than for the Chief Executive Officer), the current potential contribution of the executive officer to the success of the Issuer and competitive industry pay practices for comparable positions at businesses of a comparable size.

Incentive Plan Awards

Stock Option Plan

See “Part I - Information Concerning the Issuer - Stock Option Plans” for a summary of the Issuer’s Stock Option Plans.

Annual Incentive Plans - Non-Equity Compensation

In addition to base salaries, the Issuer may award cash bonuses to employees of the Issuer, including executive officers, based on the performance of the Issuer and individual performance during the year. The award of a bonus is determined, in the case of employees, by senior management of the Issuer. Bonus levels for the Vice-Presidents, the Chief Financial Officer and the President are established by the Chief Executive Officer and approved by the Corporate Governance and Compensation Committee and the Chief Executive Officer. The Chief Executive Officer’s bonus is established by the Corporate Governance and Compensation Committee in consultation with the Board of Directors. In the case of non-executive employees, bonuses are based on the employee’s contribution in adding share value and reducing costs and the employee’s contribution to overall corporate goals. In the case of executive officers, including the Chief Executive Officer, bonus awards are discretionary and there are no specified targets or criteria set out, although matters such as the completion of annual goals, impact of efficiency of operations, and economic outcome of decisions within their respective areas of responsibility are considered in the determination of bonus awards. No maximum bonus has been established for any executive officer. No bonuses were awarded to the Named Executive Officers in 2018, 2017 or 2016 as set forth under “*Summary of Executive Compensation*” below.

The Corporate Governance and Compensation Committee does not follow a specific process for determining perquisites and personal benefits as they do not form a significant portion of the Named Executive Officers compensation package. Any such compensation is determined by the Committee on an *ad hoc* basis.

Summary of Executive Compensation

The Corporate Governance and Compensation Committee and the Board of Directors will continue to review compensation policies to ensure that they are competitive within the mining industry and consistent with the performance of the Issuer. Given the size of the Issuer, the Corporate Governance and Compensation Committee has not considered the risks of the Issuer's compensation policies and practices. The Issuer does not have any policies with respect to Named Executive Officers or directors purchasing financial instruments to hedge market value of equity securities granted as compensation.

The following table sets forth certain information concerning the compensation paid to the Issuer's Chief Executive Officer, President and Chief Financial Officer (the "**Named Executive Officers**") at the end of the year ended December 31, 2018. No executive officer of the Issuer had total annual salary and bonus in the last completed financial year exceeding \$150,000.

Name and principal position	Year	Salary	Share-based awards	Option-based awards	Non-equity incentive plan compensation ⁽²⁾		All other compensation	Total compensation
					Annual incentive plans	Long-term incentive plans		
	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)		
Stan Owerko ⁽¹⁾	2018	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Chief Executive Officer	2017	Nil	Nil	Nil	Nil	Nil	Nil	Nil
	2016	Nil	Nil	Nil	Nil	Nil	Nil	Nil
David Storoshenko ⁽¹⁾	2018	Nil	Nil	Nil	Nil	Nil	Nil	Nil
President	2017	Nil	Nil	Nil	Nil	Nil	Nil	Nil
	2016	Nil	Nil	Nil	Nil	Nil	Nil	Nil
David Koplovich	2018	41,300	Nil	Nil	Nil	Nil	Nil	Nil
Chief Financial Officer	2017	43,200	Nil	Nil	Nil	Nil	Nil	Nil
	2016	54,100	Nil	Nil	Nil	Nil	Nil	Nil

Notes:

- (1) Mr. Owerko was appointed the Chief Executive Officer on August 17, 2011. Mr. Storoshenko was appointed the President on August 17, 2011.
- (2) There are no non-equity incentive plans or awards.

Outstanding share-based awards and option-based awards

There are no outstanding share or option-based awards for Named Executive Officers at the end of the year ended December 31, 2018.

Incentive Plan Awards – Value Vested or Earned During the Year

The following table sets forth, for each Named Executive Officer, the value of options-based awards and share-based awards, which vested during the year-ended December 31, 2018 and the value of non-equity incentive plan compensation earned during the year ended December 31, 2018.

Year Ended December 31, 2018

Name	Option-based awards- value vested during the year (\$)	Share-based awards-Value vested during the year (\$)	Non-equity incentive plan compensation - Value Earned during the years (\$)
Stan Owerko	Nil	Nil	Nil
David Storoshenko	Nil	Nil	Nil
David Koplovich	Nil	Nil	Nil

Pension Plan Benefits

The Issuer does not provide any pension plan benefits or deferred compensation.

Termination and Change of Control Benefits

None of the Named Executive Officers have an employment contract in place. There are no agreements that provide for payment to any of the Named Executive Officers in the event a change of control.

Directors Compensation

Other than the right to participate in the Stock Option Plan and be granted options, directors of the Issuer do not receive any compensation for services rendered in such capacity. Executive officers of the issuers who also act as directors do not receive any compensation for services rendered in such capacity other than as paid by the Issuer to such executive officers in their capacity as executive officers.

Year Ended December 31, 2018

The following table sets forth, for the year ended December 31, 2018, information concerning the compensation paid to directors other than directors who are also Named Executive Officers.

Name	Fees earned (\$)	Option-based Awards (\$)	Non-Equity Based Compensation (\$)	All other Compensation (\$)	Total Compensation (\$)
Vincent Davoli	Nil	Nil	Nil	Nil	Nil
Al Kroontje	Nil	Nil	Nil	Nil	Nil

Director's Outstanding Share-Based Awards and Option-Based Awards

The following table sets forth for each director other than directors who are also Named Executive Officers, the value of option-based awards and share-based awards outstanding at the end of the year ended December 31, 2018.

Year Ended December 31, 2018

Name	Option-based Awards				Share-based Awards	
	Number of securities underlying unexercised options (#)	Option exercise price (\$)	Option expiration date	Value of unexercised in-the-money options (\$)	Number of shares or units of shares that have not vested (#)	Market or payout value of share-based awards that have not vested (\$)
Vincent Davoli	Nil	Nil	N/A	Nil	Nil	Nil
Al Kroontje	Nil	Nil	N/A	Nil	Nil	Nil

Directors' Incentive Plan Awards – Value Vested or Earned during the Year

The following table sets forth for each of our directors other than directors who are also Named Executive Officers, the value of option-based awards and share-based awards, which vested during the year ended December 31, 2018 and the value of non-equity incentive plan compensation earned during the year ended December 31, 2018.

Year Ended December 31, 2018

Name	Option-based Awards		
	Option-based awards - Value vested during the year (\$)	Share-based awards - Value vested during the year (\$)	Non-Equity Incentive plan compensation - Value earned during the year (\$)
Vincent Davoli	Nil	Nil	Nil
Al Kroontje	Nil	Nil	Nil

During the financial year ended December 31, 2018, there were no options vested and no non-equity incentive plan compensation was provided to any director of the Company.

Securities Authorized for Issuance Under Equity Compensation Plans

There were no securities authorized for issuance under Equity Compensation Plans as at December 31, 2018.

Management Contracts

Other than as described herein, management functions of the Company are substantially performed by directors or senior officers of the Company and not, to any substantial degree, by any other person with whom the Company has contracted.

NON-ARM'S LENGTH PARTY TRANSACTIONS/ARM'S LENGTH TRANSACTIONS

In conjunction with the Change of Business, the Company intends to permanently employ marketing personnel necessary to operate the LPG Business and will employ a Transition Services Agreement with Petrogas, a Control Person and primary Creditor of the Company, pursuant to which Petrogas will provide the Company with head office administrative services at fair market rates. At such time that the LPG Business generates sufficient cash flow, the Company will create and maintain its own administrative infrastructure to conduct its operations.

The propane volumes historically traded by the Company were sold to Petrogas, which propane volumes were received by the Company by inventory transfer and then immediately delivered by inventory transfer to Petrogas at wholesale marketing margins commensurate with market rates. MEP also has a \$50,000 monthly retainer with Petrogas to negotiate the supply of LPGs for and on behalf of Petrogas.

Mr. Owerko is the CEO and a director of the Company and is also director and officer of Petrogas. Mr. Storoshenko is the President of the Issuer and is also an officer of Petrogas. Mr. Kroontje is both a director and the Chairman of the Board of the Company and is a director of Kasten. Both Petrogas and Kasten are primary Creditors of the Company and have agreed to an extension of the maturity date of the loans that are currently outstanding to the Creditors until December 31, 2019, and thereafter on a year-by-year basis and have further provided an undertaking to the Company and the Exchange to provide relief from the repayment requirements of the loans so that the Company meets the Exchange's minimum listing requirements. These loans were made in connection with the Company's emergence from the receivership process in 2011 and provided necessary operational funding for the Company to continue to carry on its business.

Kasten provided operational and proposal funding of \$1,139,561 during the Company's receivership and the outstanding balance as at December 31, 2018 to Kasten included accrued interest of \$868,257 which has been forgiven under an agreement with Kasten. Petrogas provided operational and proposal funding of \$15,984,062 during the Company's receivership and operational funding of \$7,515,938 after receivership to recommence operations, and the outstanding balance as at December 31, 2018 to Petrogas included accrued interest of \$15,215,805 which has been forgiven under an agreement with Petrogas. The notes payable to Kasten and Petrogas include a fully advanced term loans in the amount of \$24,639,561, which was due on demand and had an initial maturity date of January 16, 2014. The loans were not repaid on January 16, 2014. The Company has not made the required principal and interest payments to Kasten and Petrogas and is currently in default of the loans to Kasten and Petrogas. The Creditors have agreed to extend the maturity date of the loans to December 31, 2019 and to make the notes payable non-interest bearing. The Creditors have forgiven accrued interest in the amount of \$16,084,062.

The Issuer has had significant transactions with Petrogas, a related party. In 2018, the Company made sales of LPGs in the aggregate amount of \$48,602,553 (2017 - \$38,026,176) to Petrogas and the cost of goods sold was \$45,832,695 (2017- \$35,384,359). As disclosed in Note 16 of the Issuer's audited annual financial statements for the fiscal year ended December 31, 2018, attached hereto as Schedule "A", the Issuer had significant transactions with Petrogas, a related party. In 2018, the Company made sales of LPGs in the aggregate amount of \$48,602,553 (2017 - \$38,026,176) to Petrogas. The cost of goods sold was \$45,832,695 (2017- \$35,384,359). The Company reports the net revenue (sales less cost of goods sold) in its financial statements in the note 16 describing "Operating Segments". The net revenue was \$2,769,858 (2017 - \$ 2,641,817). The Issuer intends to continue with its marketing and distribution initiatives with Petrogas in an attempt to generate income and to stabilize the Issuer financially.

To assist directors, officers and employees in exercising stock options granted, in 2006 the Issuer made loans to certain directors and officers. These loans were interest free, secured by a promissory note, and were due for a period not to exceed four years. In 2012 the Issuer took action to collect the loans from former directors and officers. The results of legal actions prompted the Issuer to record a full provision for an uncollectible amount of \$372,775 in its Statement of Net Loss and Comprehensive Loss

for the year ended December 31, 2017. The provision of \$372,775 is included in general and administrative expenses in the Issuer's audited annual financial statements for the fiscal year ended December 31, 2017.

Please also refer to *Part II - Information Concerning the Business of the Company - Narrative Description of the History of the Business* with respect to the Company's prior propane supply arrangements with Petrogas.

LEGAL PROCEEDINGS

There are no material pending legal proceedings to which the Issuer is a party or of which any of its property is the subject matter nor are any such proceedings known to the Issuer to be contemplated.

AUDITOR, TRANSFER AGENTS AND REGISTRARS

The auditors of the Issuer are MNP LLP whose principal office is located at Calgary, Canada. The transfer agent and registrar for the Issuer is Computershare Trust Company of Canada at its office located at Calgary, Canada.

MATERIAL CONTRACTS

Other than contracts entered into in the ordinary course of business, the Issuer has executed the following material contracts:

1. Six LPG Supply (Butane) Contracts at market rates with purchasers, expiring March 31, 2020.
2. Two LPG Sales (Butane) Contracts at market rates, expiring March 31, 2020.

PART II - INFORMATION CONCERNING THE NEW BUSINESS OF THE COMPANY

NARRATIVE DESCRIPTION OF THE HISTORY OF THE NEW BUSINESS

General

In late 2015, Whitemud created the LPG Business and began operating the same under the name "Midstream Energy Partners". The intention behind the creation of the LPG Business was to diversify the Company's revenue streams through the marketing of LPGs in addition to mining, refining and marketing kaolin and metakaolin products. Since the inception of the LPG Business, market demand for kaolin and metakaolin had not materialized as management had hoped and the Issuer has not, and continues to not, earn sufficient revenues from its kaolin and Metakaolin Business. Accordingly, without a diversification of the Issuer's business, the Issuer's future would be entirely dependent on customer acceptance of its metakaolin product, further development of metakaolin markets, and the Issuer's ability to obtain additional financing.

The Company initially focused MEP on marketing propane and butane and has generated net revenue in the amount of \$1,244,668 in the 12-month period ended December 31, 2016, \$2,641,817 in the 12-month period ended December 31, 2017 and \$2,769,858 in the 12-month period ended December 31, 2018 through the LPG Business.

Principal Services and Operations

Description of LPG Business

Currently, MEP acts in the capacity of an LPG wholesale marketer, that is, MEP purchases LPGs from oil and gas producers and midstream companies in Western Canada, specifically, HD-5 propane and field grade butane, and then sells the LPGs to third and related parties at a profit. To effect the sales, MEP negotiates direct contractual arrangements with end users and other third parties to purchase and sell LPGs on daily basis.

MEP uses a virtual bulletin board that allows buyers and sellers to be matched in order to negotiate and conclude a commercial arrangement. Bids and offers are constantly being posted back and forth through the virtual bulletin board until a price is agreed upon. The bids and offers are posted anonymously and only once a price is agreed upon does MEP find out who the buyer or seller is. Once LPGs have been purchased, MEP then sells the LPGs to customers in Western Canada. The sales transactions occur at the same third party terminals and storage facilities where the purchases take place. The purchaser will then either store the LPGs at their cost or arrange transportation via railcars and trucks. It is solely the purchaser's responsibility to accept delivery of the LPGs and arrange for transport. To mitigate its risk, MEP typically does not purchase LPGs without having a sale to a purchaser lined-up. All LPGs acquired by MEP are either pre-sold via contract or the price is hedged. Because MEP usually

sells or purchases commodities at the same time, there is immediate invoicing and a short time line for payment. This process further reduces the foreign exchange and liquidity risk for the LPG transactions that are conducted in US Dollars.

Personnel

MEP has a dedicated employee to manage the wholesale marketing operations and to conduct the foregoing activities for the LPG Business. In conjunction with the Change of Business, the Company will permanently employ the marketing personnel necessary to operate the LPG Business and will employ the Transition Services Agreement with Petrogas pursuant to which Petrogas will provide Whitemud with head office administrative services at fair market rates. At such time that the LPG Business generates sufficient cash flow, it will create and maintain its own administrative infrastructure to conduct its operations.

The Company intends to add three to five employees or consultants (in addition to the current employee) with experience in operations and execution of LPG marketing activities consistent with the Issuer's LPG Business, including risk management skills, success hedging product derivatives, knowledge of physical commodity trading, experienced in position taking using financial instruments and suitable backgrounds in chemical engineering or sciences, business, finance, accounting, and economics.

Contracts and Spot Opportunities

The Company currently has six one-year term butane supply contracts in place which expire on March 31, 2020. The Company does not currently have any propane supply contracts in place but continues to explore marketing opportunities and contracts suitable and consistent with its business and marketing strategies.

The propane volumes are historically sold to Petrogas and are received by inventory transfer from the vendor to the Company at one of the Edmonton area storage hubs and are then delivered to Petrogas by inventory transfer and the Company would earn a marketing fee at market rates on these transfers.

The butane volumes are used to support a sale contract that the Company has with a customer who uses it for unprocessed petroleum blending purposes. The butane is lifted out of Edmonton area hubs by contracted trucking carriers and then delivered to the customers' oilfield operations in northern Alberta. These sales contracts have a term that expires on March 31, 2020.

In addition to the above term contracts, the marketplace has ongoing "spot" opportunities for midstream wholesale marketing companies like MEP to purchase and sell both propane and butane. The Company is constantly watching and analysing the market for these opportunities. The Company has been participating in this marketplace by acquiring excess butane, selling the same and realizing a margin of between 2-4% on these spot transactions.

If any of the Company's existing LPG supply contracts were terminated or renegotiated on terms significantly adverse to the Company in the year following the date of this Filing Statement, the Company would be required to obtain replacement LPG supply contracts to operate its LPG Business and the Company's results of operations could be significantly adversely affected.

Supply and Demand for LPGs

The volatility of commodity prices has a significant impact on the Company's financial performance. In general propane and, to a lesser extent, butane prices in Canada are seasonal in nature, with higher demand in the winter months (November to March) and lower demand in the summer months (April to October). LPG prices are also impacted by the amount of gas in local and North America-wide storage, or inventory within the market, the quality of the LPG products, the distance to market and access to downstream transportation and the length of contract term as well as other contractual terms that are determined by negotiation between buyers and sellers. The Company intends to pursue a balanced portfolio of term periods in its sales contracts; short, medium and long term, which cover the range of seasonal cycles.

Environmental Regulations and Risks of Foreign Operations

The environmental risks in connection with the purchase and sale of LPGs are mitigated by the fact that the Company's LPG sales transactions occur at the same third party terminals and storage facilities where the purchases take place. However, in general, commodity storage, refining and transportation activities conducted by the Company's LPG suppliers or purchasers involve numerous risks that may result in environmental damage or otherwise adversely affect the operations of the Company's business. Such environmental risks could also affect the ability of the Company's LPG suppliers or purchasers to fulfill the terms of any contract with the Company, which would adversely affect the operations of the Company's business.

Environmental risks inherent in the storage, refining and transportation of LPGs include, but are not limited to, accidental spills or releases of unprocessed oil, liquid petroleum products, chemicals or other hazardous substances. The occurrence or continuance of such risks could result in significant environmental pollution; damage to local property, wildlife populations and natural resources; impairment or suspension of operations of the Company's LPG suppliers or purchasers; modifications to or revocation of existing regulatory approvals of the Company's LPG suppliers or purchasers; fines; and serious reputational damage, any of which could materially and adversely affect the Company's business, prospects, results of operations and/or financial condition. As noted above, although the Company does not own or operate the methods used to transport LPGs to and from the purchase point of the LPG sales transactions, releases or other incidents involving such methods could result in significant disruptions to shipping activities and impede the Company's ability to purchase and sell LPGs in any affected areas.

The Company is also exposed to foreign exchange risk in connection with any LPG purchase and sale transactions that are conducted in US Dollars. Changes in the Canada/United States currency exchange rate could impact the earnings of the Company and the cash generated from the LPG Business. The Company mitigates this currency risk by either pre-selling LPGs prior to the Company's purchase, or hedging the foreign exchange price. Further, because MEP usually sells or purchases commodities at the same time, there is prompt invoicing and a short time line for payments.

Further, given the Company's stated intention to operate its LPG Business throughout North America, the Company will be actively involved in US markets, and a significant percentage of its sales and purchases will potentially be made in the United States. The Company's potential reliance on the United States means that it may be subject to downturns in the US economy, weather patterns in the US, protectionist actions by US legislators and other political developments, all of which could have an adverse impact on the Company's financial results.

Market

Target Market

MEP currently purchases LPGs from oil and gas producers and midstream companies in Western Canada and sells the purchased LPGs to other customers in Western Canada. The Company ultimately plans on expanding its LPG purchase and sale operations to encompass all of North America and international markets, as the nature of the Company's LPG Business does not restrict it to a specific geographic location. Please refer to "*Narrative Description of the New Business - Principal Services and Operations - Supply and Demand for LPGs*" for further information on the potential for seasonal variations to impact the purchase and sale of LPGs.

Competitive Conditions

To the Company's knowledge, the Company's main competitors are exploration and production oil and gas companies and other companies with LPG refining capability that also incorporate LPG marketing into their main business. Such companies include, but may not be limited to midstream petroleum transportation and energy firms, the LPG marketing divisions of integrated petroleum and energy producers and other independent wholesale LPG marketers. While practices vary from company to company, the Issuer believes that its competitors generally do not enter into long term contracts relating to the purchase and sale of LPGs and generally buy and sell products using the "spot" market. A potential source of new competition to the Company's LPG Business could be from other existing oil and gas companies and other companies with LPG refining capability expanding into the LPG purchase and sale business.

Future Developments

The Company intends to continue to enter into additional LPG supply contracts as well as locate interested buyers for such LPGs in future. The Company also intends to increase its participation in the "spot" marketplace as described above under the heading "*Contracts and Spot Opportunities*".

In addition to the above, as the Company expands its LPG Business to engage in further commodity marketing, the Company will consider the economics of constructing and developing distribution terminals to support its marketing activities and to allow it to take delivery of and store LPG product for short periods of time. If implemented, such distribution facilities will give the Company the flexibility to be able to purchase LPGs at competitive prices without the need to pre-sell or hedge its LPG sales transactions. The Company does not currently have a timeline or estimate of the development costs necessary to develop storage hub or distribution facilities.

With respect to the Company's existing kaolin and Metakaolin Business, the Company intends to maintain its kaolin mineral rights but reduce expenses at the mine with the intention of selling stockpiled kaolin and maintaining and preserving its processing facility until its value can be realized in a manner favourable to the Company.

PART III - INFORMATION CONCERNING THE ISSUER FOLLOWING THE CHANGE OF BUSINESS

CORPORATE STRUCTURE

Name and Incorporation

In connection with the Change of Business, the Issuer will not be renamed. No other changes to the constating documents of the Issuer will be made. See “*Information Concerning the Issuer – Corporate Structure – Name and Incorporation*”.

Intercorporate Relationships

The Company has no subsidiaries.

NARRATIVE DESCRIPTION OF THE BUSINESS

Stated Business Objectives

The Company intends to continue to operate and grow its LPG Business as described above in *Part II - Information Concerning the New Business of the Company*. In addition to those business objectives, the Company intends to use its available funds as described in “*Part III - Information Concerning the Issuer Following the Change of Business - Available Funds and Principal Purposes*”. The Company also anticipates that future expenditures with respect to the LPG Business will be financed out of current cash balances and cash flow provided by operating activities.

In terms of specific objectives, the following are a list of non-exhaustive business objectives that the Company seeks to achieve in respect of its LPG Business:

- Increases in the volume of LPGs purchased and sold, by hiring additional personnel and the application of the Transition Services Agreement with Petrogas to assist with administrative services in the short term.
- Renew and expand its LPG marketing contracts to other oil and gas commodities.
- Analyze and consider profitability developing physical storage and distribution capacity in connection with LPG marketing contracts.
- Maintain, preserve and sell stockpiled kaolin and the metakaolin processing facility while maintaining existing kaolin mineral leases and reducing personnel and associated administrative expense.

Milestones

In order for the Company to continue to successfully grow the LPG Business, the following events must occur (the specific time period in which each event must occur is noted below):

- *Extension of Loan by Creditors:* The Company negotiated an extension of the maturity date of the loans currently outstanding to the Creditors until December 31, 2019 and will be seeking, and believes that the Creditors are agreeable to, further extension on a year-by-year basis. The Company may also attempt to recapitalize and pay out the outstanding loans. The Company expects these events to occur as soon as practicable following the completion of the Change of Business.
- *Extension, renewal or replacement of existing LPG supply and sales contracts:* The Company’s existing supply contracts for LPGs will need to be extended, renewed or replaced beyond March 31, 2020 and from time to time thereafter. The Company’s current sales contracts for butane will also need to be extended beyond March 31, 2020.
- *Personnel and transition services:* The Company intends to add three to five employees (in addition to the current employee) shortly following the completion of the Change of Business to ramp up the activities of the LPG Business at an anticipated cost of approximately \$300,000. The Company also intends to employ a Transition Services Agreement with Petrogas in conjunction with the Change of Business pursuant to which Petrogas will provide the Company with head office administrative services at fair market rates. At such time that the LPG Business generates sufficient cash flow, it will create and maintain its own administrative infrastructure to conduct its operations.

- *Sale of stockpiled kaolin and maintenance of kaolin processing facility:* As noted above, the Company intends to sell its stockpiled kaolin as well as to maintain and preserve the processing facility until its value can be favourably realized by the Company. As the Company intends to receive the highest value possible for both its stockpiled kaolin and its processing facility, the timing of such events will depend largely on market factors.

Perceived Risks with Business Objectives

In addition to the risks outlined under the heading “Risk Factors” herein, the stated business objectives of the Company are also subject to the following specific risks:

The Company’s LPG Business depends on its ability to maintain positive margins.

The profitability of the LPG Business depends on its ability to sell its LPG volumes at wholesale LPG marketing margins that are greater than the Company’s operating costs. There is no guarantee that the Company will be able to do so in future.

The Company depends on the support of the Creditors to continue operations.

The Company is indebted to the Creditors in the aggregate amount of \$24,639,561. The Creditors have extended the maturity date of the loans to December 31, 2019 and there is no assurance that demand for payment will not be made at that date. Should financing not be readily available, market acceptance not achieved, or support from the Creditors not obtained, the Company will face a severe lack of liquidity that could lead to a further cessation of operations.

The Company’s LPG Business depends on the renewal of supply contracts and sales.

The Company’s current supply and sales contracts will continue until March 31, 2020. The survival of the LPG Business depends on the renewal of these LPG supply and sale contracts.

DESCRIPTION OF THE SECURITIES

The Common Shares of the Issuer will not be affected by the Change of Business. Please see “*Information Concerning the Issuer – Description of the Securities*” above.

CONSOLIDATED CAPITALIZATION

Consolidated Capitalization of the Issuer

There is no effect on the consolidated capitalization of the Issuer as a result of the Change of Business. The table below sets out the number and percentage of securities of the Issuer that will be outstanding on a fully diluted basis after giving effect to the Change of Business.

Designation of Security	Amount authorized or to be authorized	Amount outstanding after giving effect to the Transaction⁽¹⁾
Common Shares	Unlimited	34,026,300 (100%)
Class B Common Shares	Unlimited	326,499,700 (100%)
Preferred Shares	Unlimited	Nil

Note (1): There is no transaction contemplated in connection with the Change of Business.

Fully Diluted Share Capital

There will be no changes to the number and percentage of securities of the Company issued and outstanding as a result of the Change of Business.

AVAILABLE FUNDS AND PRINCIPAL PURPOSES

Available Funds

Currently the Issuer has approximately \$4,000,000 of working capital available to repay debt and to utilize for business operations. There is no financing being conducted in connection with the Change of Business.

Principal Purposes of Funds

The Issuer expects to use the total funds available set forth above for the principal purposes described below:

Use of Funds	Estimated Amount
Estimated expenses of Exchange application for Change of Business (includes legal fees, filing fees and other administrative and incidental expenses)	\$200,000
Satisfaction of estimated general administrative and other operational expenses of the Issuer for 18 months from the date hereof	\$2,300,000
General corporate expenses and working capital	\$300,000

The Issuer intends to spend the funds available as stated in this Filing Statement. There may be circumstances however, where for sound business reasons, a reallocation of funds may be necessary. See “*Risk Factors*”.

Dividends

No dividends on the Common Shares have been paid by the Issuer to date. Payment of any future dividends will be at the discretion of the board of directors of the Issuer after taking into account many factors, including the Issuer’s operating results, financial condition and current and anticipated cash needs.

PRINCIPAL SECURITYHOLDERS

To the knowledge of the directors and officers of the Issuer, no person beneficially owns, directly or indirectly, or exercises control or direction over, shares carrying more than 10% of voting rights attached to the outstanding Common Shares, other than Petrogas, who holds 14,976,000 Common Shares or approximately 44% of the total issued and outstanding Common Shares on a fully-diluted basis, and holds 309,245,703 Class B Common Shares or approximately 95% of the total issued and outstanding Class B Common Shares on a fully-diluted basis. Petrogas is a Creditor and Control Person (as such term is defined in the policies of the Exchange) of the Company and Messrs. Owerko and Storoshenko are executive officers and directors both of the Company and of Petrogas.

Kasten who holds 1,024,000 Common Shares or approximately 3% of the total issued and outstanding Common Shares on a fully-diluted basis, and holds 17,253,997 Class B Common Shares or approximately 5% of the total issued and outstanding Class B Common Shares on a fully-diluted basis. Kasten is a Creditor of the Company and Mr. Kroontje is a director and the Chairman of the Board of the Company.

DIRECTORS, OFFICERS AND PROMOTERS**Name, Address, Occupation and Security Holdings**

The following are the names and municipalities of residence of each director and officer of the Issuer, the positions and offices held with the Issuer, their respective principal occupations within the five preceding years and the number and percentage of Common Shares of the Issuer held by each of them. Each director of the Company listed below holds office until the next annual meeting of the shareholders of the Company unless he resigns or is removed as a director of the Company in accordance with the by-laws of the Company prior to such date.

Name and city of residence of each Director and Officer	Position held with the Issuer	Principal Occupation for the last five years	Director or Officer of since	Number and Percentage of Common Shares⁽¹⁾
Stan Owerko ⁽¹⁾ Calgary, Alberta, Canada Age 74	Director and Chief Executive Officer	Chief Executive Officer of the Company since 2011; President and Chief Executive Officer of Petrogas Energy Corp. since 1986.	August 12, 2011	100,000 0.29%
Vincent Davoli ⁽¹⁾⁽²⁾ Calgary, Alberta, Canada Age 63	Director	Senior Vice President of Ellis Don Construction Services since 1991. He joined Ellis Don in 1983 and has extensive experience in the construction industry.	August 12, 2011	Nil
Al Kroontje ⁽¹⁾⁽²⁾ Calgary Alberta, Canada Age 63	Director and Chairman of the Board of Directors	President of DAC Financial Group (1997) Inc. (his private investment company), a director and officer of certain TSXV listed companies engaged in the resource sector.	August 12, 2011	Nil
David Storoshenko Calgary, Alberta, Canada Age 52	President	Chief Operating Officer of Petrogas Energy Corp.	August 17, 2011	Nil
David Koplovich, Calgary, Alberta, Canada Age 65	Chief Financial Officer	Business consultant since 1994 and director of Jade Capital Corp.	December, 2012	11,000 0.03%
Robert Iverach	Corporate Secretary	Barrister and Solicitor since 1974, serving as Counsel (Tax) with Burstall LLP.	August 17, 2011	Nil

Notes:

- (1) Member of the Audit Committee. Mr. Davoli is the Chair of the Audit Committee.
- (2) Member of the Corporate Governance and Compensation Committee. Mr. Kroontje is the Chair of the Corporate Governance and Compensation Committee.

Shareholdings of Directors and Officers

As at the date hereof, the directors and officers of the Company as a group owned, directly or indirectly, or controlled or directed, in aggregate 111,000 Common Shares or approximately 0.33% of the issued and outstanding Common Shares.

Management

Stan Owerko, Director and Chief Executive Officer, age 74, has also been a director and officer of Petrogas since 1986. Mr. Owerko obtained a teaching certificate from the University of Alberta in 1968. Mr. Owerko has been a director of several TSX listed companies and is the owner of several private companies involved in, among other things, primarily the oil and gas

industry. As a founder of Petrogas, Mr. Owerko has been involved in all aspects of successfully managing the growing business of the company, including without limitation oversight of various acquisitions, dispositions and bank financing transactions. Mr. Owerko will devote a portion of his time to the Company sufficient to meet his responsibilities as CEO.

Al Kroontje, Chairman of the Board of Directors, age 63, is the President of his private investment company, DAC Financial Group (1997) Inc., and the President of Kasten. Mr. Kroontje has been involved with numerous corporate start-ups and corporate restructurings. Mr. Kroontje holds a Bachelor of Science degree (Chemical Engineering) from the University of Waterloo, Ontario. Mr. Kroontje also holds a P. Eng designation from the Association of Professional Engineers and Geologists of Alberta but is currently a non-practicing engineer. Mr. Kroontje serves as a Director and Officer of several public companies and is currently a Director of PetroFrontier Corp., Lithium Chile Inc. (formerly Kairos Capital Corporation), Border Petroleum Limited and Whitemud Resources Inc., all public companies listed on TSX Venture Exchange. Over the past 10 years, Mr. Kroontje has been a past director of several public companies, including Novus Energy Inc., QYOU Media Inc. (formerly Galleria Opportunities Ltd. and Galleria Opportunities Inc.), Polar Star Mining Corporation and Cobalt Coal Ltd., public companies that were listed on the TSX Venture Exchange or on the TSX. He is also a past director of Deepwell Energy Services Ltd., the operating subsidiary of Deepwell Energy Services Trust, a public oil and gas services trust that was listed on the TSX. Mr. Kroontje will devote a portion of his time to the Company sufficient to meet his responsibilities as Chairman of the Board.

David Storoshenko, President, age 52, is the Chief Operating Officer of Petrogas and previously served as its Senior Vice President of Supply and Trading and will devote a portion of his time to the Company sufficient to meet his responsibilities as President.

David Koplovich, Chief Financial Officer, age 65, is a CPA, CA and has been the Chief Financial Officer of Whitemud Resources Inc. since 2012. He will work as an independent contractor for the Company going forward.

Vincent Davoli, Director, age 63, is the chair of the Audit Committee and was a Senior Vice President of EllisDon Construction Services Inc. until his recent retirement in early 2017. He obtained his B.Sc. Civil Engineering at the University of Calgary and joined EllisDon in 1983. He has been involved in all aspects of projects from the initial design to final completion. As Senior Vice President for Western Canada, Mr. Davoli has been instrumental in leading a team of results oriented construction professionals who have earned the respect of clients for delivering projects on time and within budget. The Western Canada Division of EllisDon completes more than \$750 million in new construction annually. Mr. Davoli also serves as a Director for Renfrew Educational Services, a non-profit organization. Mr. Davoli will devote a portion of his time to the Company sufficient to meet his responsibilities as a member of the Board.

Robert Iverach, Q.C., Corporate Secretary, age 71, is a Barrister and Solicitor. He obtained a Bachelor of Laws from the University of Alberta and a Master of Laws from the London School of Economics (U.K.). Bob is a member of the Law Society of Alberta (Barrister and Solicitor) and has specialized in income tax law since 1974. In 1990, he received the honorary distinction of Queen's Counsel (Alberta). On December 31, 2004, Bob retired as a partner of the law firm Felesky Flynn LLP in Calgary, Alberta, which he co-founded with Ron Bell and Brian Felesky in 1978. The firm's practice is restricted to taxation law. In his income tax law practice, Bob acted for numerous corporations and income trusts (both public and private) in diverse businesses and in various transactions, including equity and debt financings, mergers, acquisitions, reorganizations, conversions to income trusts and loss utilizations. He also has dealt extensively with the Canada Revenue Agency in corporate and personal income tax matters. In 2005, Bob completed the Directors Education Program and was certified by the Institute of Corporate Directors. As such, he is entitled to use the designation: "ICD.D". He has also been an examiner for the ICD.D certification process. Since 2009, Bob has been Counsel (Tax) with Burstall LLP (a Calgary law firm). Bob is currently the Chairman of the Board of PetroFrontier Corp. (a public energy company TSXV) and a Director of Chinook Energy Inc. (a public energy company - TSX), as well as several private corporations. In the past, Bob has served on the Boards of Directors (or as Chairman) of numerous public and private corporations, often serving on the Audit, Corporate Governance and Compensation committees.

Promoter Consideration

The Issuer does not have any written or oral agreement or understanding with any person to provide any promotional or investor relations services for the Issuer.

Cease Trade Orders or Bankruptcies

Other than as set forth below, no director, officer or promoter of the Company:

- (a) is, as at the date of this Filing Statement, or has been, within 10 years before the date of this Filing Statement, a director, officer or promoter of any company (including the Company) that was subject to an order that was issued while the director, officer or promoter was acting in that capacity;

- (b) is, as at the date of this Filing Statement, or has been within 10 years before the date of this Filing Statement, a director, officer or promoter of any company (including the Company) that, while that person was acting in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or
- (c) has, within the 10 years before the date of this Filing Statement, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or become subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold the assets of the director, officer or promoter.

For purpose of the above, “Order” means:

- (a) a cease trade order;
- (b) an order similar to a cease trade order; or
- (c) an order that denied the relevant company access to any exemptions under applicable securities legislation for a period of more than 30 consecutive days.

Al Kroontje was a director of Cobalt Coal Ltd. from October 2009 to February 2014. On October 5, 2012, the Alberta and British Columbia Securities Commissions issued cease trade orders as a result of Cobalt’s failure to meet a deadline to file an updated technical report, compliant with National Instrument 43-101 – *Standards of Disclosure for Mineral Projects*. The technical report was filed on November 15, 2012 and the orders were revoked on November 27, 2012.

Mr. Kroontje was appointed a director of Kasten Energy Inc. (formerly Kasten Chase Applied Research Limited) the day before the Alberta Securities Commission issued a cease trade order on February 20, 2007 for failure to file its unaudited financial statements for the periods ending June 30, 2006 and September 30, 2006. Mr. Kroontje was not involved with the failure to file the required interim financial statements but rather, was appointed a director as part of the implementation of a restructuring plan. The cease trade order was subsequently revoked on March 28, 2008 in connection with a court approved restructuring plan.

Mr. Owerko and Mr. Kroontje were appointed as directors of the Company on August 12, 2011 pursuant to the Company’s proposal under Part III, Division I of the *BIA*, approved by the Court of Queen’s Bench of Alberta, Judicial District of Calgary. As of August 12, 2011, the Company was subject to a cease trade order that had been issued by the Alberta Securities Commission on December 3, 2011. The cease trade order was revoked on April 3, 2013.

Penalties or Sanctions

No proposed director, officer or promoter of the Company has been subject to:

- (a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or
- (b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable security holder in deciding whether to vote for a proposed director.

Indebtedness of Directors and Officers

None of the directors or officers of the Company or their associates are indebted to the Company or another entity which indebtedness is the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by the Company.

Conflicts of Interest

Directors and officers of the Issuer may also serve as directors and/or officers of other companies engaged in a similar business to the Issuer and may be presented from time to time with situations or opportunities which give rise to apparent conflicts of interest which cannot be resolved by arm’s length negotiations but only through exercise by the officers and directors of such judgment as is consistent with their fiduciary duties to the Issuer which arise under applicable corporate law, especially insofar as taking advantage, directly or indirectly, of information or opportunities acquired in their capacities as directors or officers of the Issuer. It is expected that all conflicts of interest will be resolved in accordance with the ABCA. It is expected that any transactions with

officers and directors will be on terms consistent with industry standards and sound business practice in accordance with the fiduciary duties of those persons to the Issuer, and, depending upon the magnitude of the transactions and the absence of any disinterested board members, may be submitted to the shareholders for their approval.

In addition to the foregoing, Mr. Kroontje is both a director of the Company and a director of Kasten (a creditor and significant shareholder of the Corporation), Mr. Owerko is both a director of the Company and a director and officer of Petrogas (a Creditor and Control Person of the Company), and Mr. Storoshenko is an officer of Petrogas.

The Company has obligations to Petrogas and Kasten under a fully advanced term loans in the amount of \$24,639,561, which is due on demand, is non-interest bearing and has an extended maturity date of December 31, 2019. The Creditors have provided the Exchange with an undertaking not to demand repayment of the loans on a year-by-year basis. The Creditors have also waived interest payments for 2017 and 2018.

Other Reporting Issuer Experience

The following table sets out the directors, officers and promoters of the Issuer that are, or have been within the last five years, directors, officers or promoters of other reporting issuers:

<u>Name</u>	<u>Name of Reporting Issuer</u>	<u>Exchange or Market</u>	<u>Position</u>	<u>From</u>	<u>To</u>
Al Kroontje	PetroFrontier Corp.	TSXV	Director	December 31, 2010	Present
	Polar Star Mining Corporation	TSX	Director	April 17, 2009	December 16, 2014
	Big Dougie Capital Corp.	TSXV	Director, Chief Executive Officer and Promoter	December 14, 2017	Present
	Border Petroleum Limited	TSXV	Interim Chief Executive Officer and Director	May 19, 2010	Present
	Tailwind Capital Corporation	TSXV	Director	March 2017	Present
	QYOU Media Inc. (formerly, Galleria Opportunities Ltd. and Galleria Opportunities Inc.)	TSXV	Interim President and Director	September 1994	March 2017
	Lithium Chile Inc. (formerly Kairos Capital Corporation)	TSXV	Director	May 2013	Present
	Kairos Metals Corp.	N/A	Director and President	July 2018	Present
David Koplovich	Jade Capital Corp.	N/A	Director	July 16, 2018	Present

EXECUTIVE COMPENSATION

No significant changes are expected to the current executive compensation strategy of the Issuer in connection with the Change of Business. It is anticipated that the executive compensation structure and philosophy will continue to comply in all material respects with the applicable policies and guidelines of the Exchange and of the Canadian Securities Administrators, including National Policy 58-201 – *Corporate Governance Guidelines* (the “**Governance Guidelines**”). The Governance Guidelines deal with matters such as the constitution and independence of corporate boards, their functions, the effectiveness and education of board members and other items dealing with sound corporate governance practices. See “*Information Concerning the Issuer – Executive Compensation*”.

INVESTOR RELATIONS ARRANGEMENTS

The Issuer does not have any written or oral agreement or understanding with any person to provide any promotional or investor relations services for the Issuer.

OPTIONS TO PURCHASE SECURITIES**Options to Purchase Securities**

The Company has no outstanding stock options and no options have been granted under its current stock option plans.

Stock Option Plan

For information on the Issuer's Stock Option Plan, please see "*Information Concerning the Issuer – Stock Option Plan*". No changes to the Issuer's Stock Option Plan are contemplated in connection with the Change of Business.

ESCROWED SECURITIES

No securities of the Issuer are held in escrow and no securities will be held in escrow in connection with the Change of Business.

AUDITORS, TRANSFER AGENT AND REGISTRAR

The auditors of the Issuer are MNP LLP whose principal office is located at Calgary, Canada. The transfer agent and registrar for the Issuer is Computershare Trust Company of Canada at its office located at Calgary, Canada.

PART IV – GENERAL MATTERS***SPONSORSHIP*****Sponsor**

The Issuer has obtained an exemption from the sponsorship requirements of the Exchange in connection with the Change of Business.

INTERESTS OF EXPERTS

The Issuer used MNP LLP for external audit services for the fiscal years ended December 31, 2017 and 2018. MNP LLP has advised that it is independent within the meaning of the Rules of Professional Conduct of the Chartered Professional Accountants of Alberta.

OTHER MATERIAL FACTS

The Issuer is not aware of any other material facts relating to the Issuer or the Change of Business that are necessary in order for this Filing Statement to contain full, true and plain disclosure of all material facts relating to the Issuer and the Change of Business.

BOARD APPROVAL

The Board has approved this Filing Statement.

FINANCIAL STATEMENT REQUIREMENTS***FINANCIAL STATEMENTS OF THE ISSUER***

Attached to and forming part of this Filing Statement are:

- Schedule A: Annual Financial Statements of the Issuer for the years ended December 31, 2018, 2017 and 2016.
Interim Financial Statements of the Issuer for the six-months ended June 30, 2019.
- Schedule B: Management's Discussion and Analysis of the Issuer for the years ended December 31, 2018, 2017 and 2016.
Management's Discussion and Analysis of the Issuer for the six-months ended June 30, 2019.

Schedule A

To the Filing Statement dated September 30, 2019 of Whitemud Resources Inc.

Annual Financial Statements for the years ended December 31, 2018, 2017 and 2016.

Interim Financial Statements for the six-months ended June 30, 2019

Whitemud Resources Inc.
Financial Statements
For the years ended December 31, 2018 and 2017

Independent Auditors' Report

To the Shareholders of Whitemud Resources Inc.

Opinion

We have audited the financial statements of Whitemud Resources Inc. (the "Company"), which comprise the statements of financial position as at December 31, 2018 and December 31, 2017, and the statements of net income (loss) and comprehensive income (loss), changes in shareholders' deficiency and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and December 31, 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the financial statements which describes matters and conditions that indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Management Discussion and Analysis but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Scott Laluk.

Calgary, Alberta
March 14, 2019

MNP LLP
Chartered Professional Accountants

WHITEMUD RESOURCES INC.**Statements of Financial Position**

As at December 31,

(Expressed in Canadian Dollars)

	2018	2017
Assets		
Current Assets		
Cash	\$ 52,266	\$ 66,118
Accounts receivable [notes 15 and 17]	7,948,190	11,227,428
Taxes recoverable	21,030	436,848
Inventory [note 5]	870,702	1,434,239
Prepaid expenses and deposits	22,896	22,542
Total Current Assets	8,915,084	13,187,175
Property, plant and equipment [note 7]	1,455,496	5,320,087
Total Assets	\$ 10,370,580	\$ 18,507,262
Liabilities and Shareholders' Deficiency		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 3,633,434	\$ 9,209,285
Notes payable [note 8]	24,639,561	40,723,623
Total Current Liabilities	28,272,995	49,932,908
Asset retirement obligation [note 9]	964,225	936,565
Total Liabilities	29,237,220	50,869,473
Shareholders' Deficiency		
Share capital [note 10]	77,902,637	77,902,637
Contributed surplus	5,353,381	5,353,381
Deficit	(102,122,658)	(115,618,229)
Total Shareholders' Deficiency	(18,866,640)	(32,362,211)
Total Liabilities and Shareholders' Deficit	\$ 10,370,580	\$ 18,507,262

Going concern [note 1]

On behalf of the Board of Directors:

"signed" Stan Owerko
Director"signed" Al Kroontje
Director

WHITEMUD RESOURCES INC.
Statements of Net Income (Loss) and Comprehensive Income (Loss)
For the years ended December 31,
(Expressed in Canadian Dollars)

	2018	2017
Revenue	\$ 3,011,315	\$ 3,150,470
Expenses		
Operating	1,280,924	1,619,041
General and administration	568,931	592,895
Finance charges <i>[note 12]</i>	22,592	22,006
Impairment <i>[note 7]</i>	3,010,705	-
Depreciation <i>[note 7]</i>	860,126	1,201,926
	5,743,278	3,435,868
Loss before interest and other income	(2,731,963)	(285,398)
Gain on forgiven interest on debt <i>[note 8]</i>	16,084,062	-
Interest and other income	143,472	(123,298)
Net income (loss) and comprehensive income (loss)	13,495,571	(408,696)
Net income (loss) per share, basic and diluted <i>[note 13]</i>	\$ 0.04	\$ (0.00)

WHITEMUD RESOURCES INC.
Statement of Changes in Shareholders' Deficiency
For the years ended December 31,
(Expressed in Canadian Dollars)

	Share Capital	Contributed Surplus	Deficit	Total
Balance December 31, 2016	\$ 77,902,637	\$ 5,353,381	\$ (115,209,533)	\$ (31,953,515)
Net loss and comprehensive loss	-	-	(408,696)	(408,696)
Balance December 31, 2017	\$ 77,902,637	\$ 5,353,381	\$ (115,618,229)	\$ (32,362,211)
Net income and comprehensive income	-	-	13,495,571	13,495,571
Balance December 31, 2018	\$ 77,902,637	\$ 5,353,381	\$ (102,122,658)	\$ (18,866,640)

WHITEMUD RESOURCES INC.**Statements of Cash Flows**For the years ended December 31,
(Expressed in Canadian Dollars)

	2018	2017
Cash provided by (used) in:		
OPERATING ACTIVITIES:		
Net income (loss) and comprehensive income (loss)	\$ 13,495,571	\$ (408,696)
Items not involving cash:		
Depreciation	860,126	1,201,926
Impairment	3,010,705	-
Gain on forgiven interest on debt <i>[note 8]</i>	(16,084,062)	-
Accretion of asset retirement obligations <i>[note 9]</i>	21,420	20,644
Change in non-cash working capital	(1,317,615)	(1,024,700)
Cash flows used in operating activities	(13,852)	(210,826)
INVESTING ACTIVITIES:		
Purchase of property, plant and equipment <i>[note 7]</i>	-	(1,413)
Cash flows used in investing activities	-	(1,413)
Decrease in cash and cash equivalents	(13,852)	(212,239)
Cash and cash equivalents, beginning of year	66,118	278,357
Cash and cash equivalents, end of year	\$ 52,266	\$ 66,118

1. NATURE OF THE ORGANIZATION AND FUTURE OPERATIONS

Whitemud Resources Inc. (the "Company") was originally incorporated as the General Partner of Whitemud Resources Limited Partnership (the "Partnership") on April 28, 2005 under the laws of the Province of Alberta, Canada. The Company was restructured through an amalgamation between the Company and the Partnership under the laws of the Province of Alberta on July 27, 2006. The Company is headquartered in Calgary, Alberta, Canada. The registered address of the Company is 3900 Bow Valley Square 2, Calgary, Alberta T2P 2V7.

The Company was formed to engage in the business of developing a process to mine and process kaolin into a high-reactivity metakaolin that imparts beneficial properties to concrete mixtures containing up to 20% replacement of Portland cement. Since inception, the efforts of the Company have been devoted to the development of a process of producing kaolin and metakaolin, developing market demand, and planning and constructing the production facilities to manufacture the product. The Company has launched industrial production from its facility. However, the Company has not earned sufficient revenues and the future is dependent on customer acceptance of the product, further development of markets, and its ability to obtain additional financing. With the formation of a new division, Midstream Energy Partners, the Company will also market hydrocarbon products. To date, the Company has been funded primarily from proceeds of an initial public offering, private placements of special warrants, the issuance of convertible debentures and notes payable.

Going Concern

These financial statements were prepared by management in accordance with International Financial Reporting Standards ("IFRS") applicable to a going concern entity which assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. The uncertainty in the use of the going concern assumption is impacted by the following factors.

As at December 31, 2018, the Company had a working capital deficiency of \$19,357,911 (December 31, 2017 – \$36,745,733). During the year ended December 31, 2018, the Company had a net income (loss) of \$13,495,571 (2017 – (\$408,696)) and operating cash outflows \$13,852 (2017 – \$210,826) with a resulting accumulated deficit at December 31, 2018 of \$102,122,658 (2017 - \$115,618,229). In order for the Company to continue operations for the longer term, including generating sufficient cash flows and ultimately attaining profitable operations, additional financing will be required. As a result of the economic uncertainties surrounding the oil and gas industry, an impairment of \$3,010,705 (2017- \$nil) was recorded in the year ended December 31, 2018.

The matters and conditions noted above indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Based on the Company's current projections, including budgeted loss and negative cash flows for fiscal 2019, future operations are dependent on the Company's ability to identify financing options, to generate improved market acceptance for the Company's product and the ongoing support of its creditors. Management is currently reviewing its options for additional financing. The creditors have not demanded repayment of the loan to date and have given assurance that they will not demand repayment of the loans before the maturity date. There may be significant challenges in obtaining long term financing in order to meet its obligations.

The ability of the Company to continue as a going concern and realize the carrying value of its assets and discharge its liabilities when due, is dependent on the successful completion of the actions taken or planned by management. There is no certainty that these and other strategies will be sufficient to permit the Company to continue beyond the foreseeable future as such strategies are contingent upon new equity or debt funds from shareholders, investors and lenders, as well as improved market acceptance and revenues for the Company's product.

1. NATURE OF THE ORGANIZATION AND FUTURE OPERATIONS *(continued)*

The financial statements do not reflect any adjustments relating to the recoverability and classification of recorded assets or liabilities that may be necessary should the Company be unable to continue as a going concern. If the going concern assumption was not appropriate for these financial statements, then adjustments would be necessary in the carrying value of assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used. Those adjustments would be material.

2. BASIS OF PREPARATION

These financial statements, including comparatives, have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committees ("IFRIC") effective as at January 1, 2018.

These financial statements were authorized for issuance by the Board of Directors of the Company on March 14, 2019.

These financial statements have been prepared on a historical cost basis except for financial instruments classified as financial assets at fair value through profit or loss ("FVTPL") that have been measured at fair value. In addition, these financial statements have been prepared using the accrual basis of accounting, except cash flow information.

Changes in Accounting Policies

IFRS 9

On January 1, 2018, the Company adopted IFRS 9 - Financial instruments, which replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. The new standard includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

The three principal classification categories under the new standard for financial instruments are: measured at amortized cost, fair value through other comprehensive income ("FVOCI") and fair value through profit and loss ("FVTPL"). The classification of financial instruments under IFRS 9 is generally based on the business model in which a financial instrument is managed and its contractual cash flow characteristics. The previous categories under IAS 39 of held to maturity, loans and receivables and available for sale have been removed.

IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected loss" model. The new impairment model applies to financial instruments measured at amortized cost, and contract assets and debt investments measured at FVOCI. Under IFRS 9, credit losses will be recognized earlier than under IAS 39.

Accounts receivable, taxes recoverable and accounts payable and accrued liabilities continue to be measured at amortized cost and are now classified as "amortized cost". Cash continues was measured at FVTPL; and is now classified as "amortized cost". There were no changes to the Company's classifications of its financial instrument assets and liabilities as FVTPL. None of the Company's financial instruments have been classified as FVOCI.

The Company did not formerly apply hedge accounting to its financial instruments and has not elected to apply hedge accounting to any of its financial instruments upon adoption of IFRS 9. There was no impact to the Company as a result of adopting the new standard.

2. BASIS OF PREPARATION *(continued)*

IFRS 15

On January 1, 2018, the Company adopted IFRS 15 – Revenue from Contracts with Customers, which establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. The Company has adopted IFRS 15 using the modified retrospective approach on January 1, 2018. Based on the Company's review of contracts with customers and its assessment of various revenue streams using the IFRS 15 five step model there were no material changes to net income, the timing of revenue recognized, income statement line classification or to opening retained earnings as at January 1, 2018. As a result of adopting IFRS 15 the Company's revenue recognition policy is now:

Revenue Recognition

Revenue from the sale of metakaolin is recorded when the purchaser obtains control of the metakaolin, the transaction price can be determined, and collection is probable. Control is achieved when the metakaolin is transferred to the customer.

Revenue from the sale of natural gas liquids is recorded when control of the product is transferred to the buyer based on the consideration specified in the contracts with customers. This usually occurs when the product is physically transferred at the delivery point agreed upon in the contract and legal title to the product passes to the customer. The Company evaluates its arrangements with third parties and partners to determine if the Company acts as the principal or as an agent. In making this evaluation, the Company considers if it obtains control of the product delivered or services provided, which is indicated by the Company having the primary responsibility for the delivery of the product or rendering of the service, having the ability to establish prices or having inventory risk. If the Company acts in the capacity of an agent rather than as a principal in a transaction, then the revenue is recognized on a net-basis, only reflecting the fee, if any, realized by the Company from the transaction.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the Company's significant accounting policies as outlined below:

a) Foreign currencies

The presentation and functional currency of the Company is the Canadian dollar, which is the currency of the primary economic environment on which the Company operates. Transactions in currencies other than the Canadian dollar are recorded at the rates of exchange prevailing on the dates of transactions. At the end of each reporting period, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at that date. Any gains or losses are recorded in the statement of net loss and comprehensive loss.

b) Financial Instruments

The Company does not have any derivative instruments.

Non-derivative financial assets

The Company has the following non-derivative financial assets.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)**Financial assets at fair value through profit or loss ("FVTPL")*

Financial assets are designated as FVTPL if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy. Attributable transaction costs are recognized in profit or loss when incurred. Financial assets at FVTPL are measured at fair value, and changes therein are recognized in profit or loss. The Company has not financial assets at FVTPL.

Financial assets at amortized cost

Financial assets at amortized cost are assets the Company holds with the objective of collecting contractual cash flows of principal and interest. Such assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, financial assets at amortized cost are measured at amortized cost using the effective interest rate method, less any impairment losses. Cash, accounts receivable and taxes recoverable are classified as financial assets at amortized cost.

Other financial liabilities

The Company has other financial liabilities including accounts payable and accrued liabilities and notes payable.

Such financial liabilities are recognized initially at fair value net of any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

c) Use of estimates and judgments

The preparation of financial statements in accordance with IFRS requires management to make critical estimates and judgments that affects the reported amounts of assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. In the process of applying the Company's accounting policies management takes into consideration existing circumstances and estimates at the date of these financial statements, which affects the reported amounts of income and expenses during the reporting periods. Given the uncertainty inherent in determining these factors, actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Significant areas requiring the use of management estimates relate to, but are not limited to:

(i) Impairment tests

The Company assesses, at the end of each reporting period, whether there is an indication that an asset may be impaired. If any indication of impairment exists, the Company determines the recoverable amount of the asset group. The impairment for long-lived assets is based on assumptions regarding future business volumes, sales prices, costs, cash flows, changes in customer or industry dynamics, new technologies, environmental considerations, economic declines, discount rates and other relevant assumptions.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(ii) Asset retirement obligation

The Company applies a number of assumptions in estimating provisions that are recorded for asset retirement obligations and environmental remediation at the mine site. These factors include estimated future costs, discount rates, anticipated life of the plant and inflation.

(iii) Inventories

The Company values inventories at the lower of cost and net realizable value through inventory allowances. Inventory allowances require estimates and assumptions about forecasted selling prices and the demand for kaolin and metakaolin.

(iv) Trade and other receivables

The Company implemented a simplified expected credit loss model. Expected credit losses of trade and other receivables which include receivables from shareholders are constantly monitored. Expected credit losses are based upon historical values, observed customer solvency, external credit ratings, aging of the receivable and industry risks. The Company has recognized expected credit losses of \$nil (2017 - \$nil).

(v) Taxes

Uncertainties exist with respect to the interpretation of the amount and timing of future taxable income. Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable earnings will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable earnings together with future tax planning strategies.

d) Cash

Cash is classified as FVTPL and include balances with Canadian chartered banks.

e) Inventory

Inventories of finished goods, raw materials and operating and maintenance supplies are valued at the lower of cost and net realizable value, with cost determined on a weighted average cost basis. The cost of finished goods includes direct materials and direct labor.

f) Property, plant and equipment

Property, plant and equipment are recorded at historical cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. This includes the purchase price, any other costs directly attributable to bringing the assets to a working condition for intended use, the costs of dismantling and removing the items and restoring the site on which they are located and borrowing costs on qualifying assets.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Where an item of property, plant and equipment comprises significant parts with useful lives that are significantly different from that of the asset as a whole, the parts are accounted for as separate items of property, plant and equipment and depreciated accordingly.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from derecognizing an asset determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in the Statement of Net Loss and Comprehensive Loss.

Expenditures incurred that renew or refurbish plant and equipment to extend its useful life or increase its productive capacity are capitalized when it is determined that a future benefit will flow to the Company as a result of the renewal.

The Company depreciates the costs of its property, plant and equipment over their estimated useful lives using the following rates and methods:

Processing plant, mine preparation and mine expansion	35% declining balance
Buildings	20% declining balance
Plant equipment	30% declining balance
Computer equipment	30% declining balance
Vehicles	3 year straight line
Furniture and equipment	20% declining balance
Leasehold improvements	Over term of lease
Assets under capital lease	Over term of lease

g) Mineral properties

The Company expenses mineral exploration costs in the year they are incurred unless deferral criteria are met, and it is probable that they will be recovered from future operations. Upon determining that the mineral property can be economically developed through proven and probable reserves, the costs of future exploration and development to further delineate the reserves on such property are capitalized. Determination of proven and probable reserves is based upon results of technical reports indicating whether the property is economically viable.

Expenditures that meet the criteria for capitalization are amortized on a unit of production basis from the point of commencing commercial production. Such costs include all acquisition, geological, testing, product development, exploration and direct general and administration charges associated with the exploration and development of the property.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)***h) Impairment of non-financial assets**

The Company assesses at each reporting date, whether there is an indication that an asset or a cash generating unit ("CGU") may be impaired. A CGU is the smallest identifiable group of assets that generates cash flows largely independent of the cash inflows from other assets or groups of assets. If any indication of impairment exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of the those from other assets or groups of assets, in which case the asset is tested as part of a larger CGU. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and an impairment loss is charged to the Statement of Net Loss and Comprehensive Loss.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflect current market assessments of the time value of money and the risks specific to the asset.

These assessments require the use of estimates and assumptions such as long-term selling prices and volumes, discount rates, future capital requirements, exploration potential and operating performance.

Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. The best evidence of fair value is the value obtained from an active market or binding sale agreement. Where neither exists, fair value is based on the best information available to reflect the amount the Company could receive for the CGU in an arm's length transaction. This is often estimated using discounted cash flow techniques.

Impairment losses are reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. Impairment losses are reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been previously recognized.

i) Impairment of financial assets

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. The criteria used to determine if objective evidence of an impairment loss include: significant financial difficulty of the obligor; delinquencies in interest or principal payments; and the probability that the borrower will enter bankruptcy or other financial reorganization. If such evidence exists, the Company recognizes an impairment loss, as follows:

(i) Financial assets carried at amortized cost:

The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Asset retirement obligations

The Company's operations give rise to decommissioning, restoration and rehabilitation activities. Environmental costs arise when environmental disturbances are caused by the exploration, development or ongoing production of a mineral property interest. The net present value of future restoration cost estimates arising from the decommissioning, restoration and rehabilitation are capitalized to related assets with a corresponding increase in the restoration provision in the period incurred. Discounting using risk free rates that reflect the time value of money are used to calculate the net present value. The capitalized restoration costs are charged against income and loss over the economic life of the related asset, through depreciation on a unit of production method. The restoration provision is accreted to net present value each reporting period with the unwinding of the restoration provision being charged to finance expense in the Statement of Net Loss and Comprehensive Loss. Actual costs incurred to settle the site restoration obligation are charged against the provision. Any difference between the actual costs incurred and the provision is recognized as a gain or loss in the Statement of Net Loss and Comprehensive Loss in the period in which the settlement occurs. The Company's estimates of restoration costs could change as result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to related assets with a corresponding entry to the restoration provision.

(k) Taxes

Taxes on the profit or loss for the periods presented comprise current and deferred tax. Tax is recognized in profit or loss except to the extent that relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax legislation enacted or substantively enacted at year end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amount used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities using the tax rates enacted or substantively enacted at the financial position reporting date applicable to the period of expected realization or settlement. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

(l) Royalties

Royalty payments for kaolin quarried and processed under the Quarrying Regulations are recorded to operating expenses as incurred.

(m) Leases

A lease that transfers substantially all of the benefits of ownership is classified as a finance lease. At the inception of the lease, an asset and a payment obligation are recorded at an amount equal to the lesser of the present value of the minimum lease payments and the property's fair market value. Assets under finance lease are depreciated on a straight-line basis over the term of the lease. All other leases are accounted for as operating leases under which lease costs are expensed on as incurred.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Loss per common share amounts

Basic loss per common share amounts is calculated using the weighted average number of shares outstanding during the year. Diluted loss per common share amounts are calculated based on the treasury-stock method, which assumes that any proceeds obtained on the exercise of in-the-money options would be used to purchase shares at the average market price. The weighted average number of basic shares outstanding is then adjusted by the net change.

(o) Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses. All operating segments' results are reviewed by the Company's management in order to make decisions regarding the allocation of resources to the segment. Segment results include items directly attributable to a segment as those that can be allocated on a reasonable basis.

4. RECENT AND FUTURE ACCOUNTING PRONOUNCEMENTS

Future accounting pronouncements issued but not yet applied

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing IFRS standards have been published but are not yet effective and have not been adopted early by the Company. Management anticipates that all of the pronouncements will be adopted in the Company's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Company's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Company's financial statements.

IFRS 16, "Leases" was issued and IAS 17 "Leases" was amended. IFRS 16 specifies how to recognize, measure, present and disclose leases effective for annual period beginning on or after January 1, 2019. The standard provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12 months or less or the underlying asset has a low value. Lessor accounting however remains largely unchanged from IAS 17 and the distinction between operating and finance leases is retained. IAS 17, as revised, now prescribes the accounting policies and disclosures applicable to leases, both for lessees and lessors. The Company is currently assessing the impact of this standard.

5. INVENTORY

The Company has inventory as follows:

	2018	2017
Metakaolin	\$ 558,558	\$ 788,950
Kaolinized mineral resource	-	333,828
Spare parts	297,360	297,360
Fuels, coal and miscellaneous	14,784	14,101
	\$ 870,702	\$ 1,434,239

Operating expenses includes \$230,392 (2017 - \$408,183) related to the cost of inventory from sales.

5. INVENTORY (continued)

During the year, the Company determined the net realizable value (“NRV”) of the kaolinized mineral resource is \$nil as there is no market for the unrefined product, and the Company has no intention of refining the kaolinized mineral resource for the foreseeable future. Operating expenses therefore include \$333,828 attributable to the kaolinized mineral resource NRV write down.

6. RECLAMATION BOND

In 2012, a \$50,000 letter of credit and corresponding \$50,000 deposit was replaced by a \$1 million letter of credit to the Saskatchewan Ministry of Environment as the first installment towards a reclamation bond for the plant and mine site. The letter of credit was issued by Petrogas Energy Corp.

7. PROPERTY, PLANT AND EQUIPMENT

Cost	Land and buildings	Plant and equipment	Assets under capital lease	Leasehold improvements, computer equipment, office furniture	Vehicles	Total
Balance December 31, 2016	\$ 28,946,657	\$ 33,985,672	\$ 457,956	\$ 56,821	\$ 40,644	\$ 63,487,750
Additions	-	20,610	-	1,413	-	22,023
Disposals	-	-	-	-	-	-
Balance December 31, 2017	\$ 28,946,657	\$ 34,006,282	\$ 457,956	\$ 58,234	\$ 40,644	\$ 63,509,773
Additions	-	6,240	-	-	-	6,240
Disposals	-	-	-	-	-	-
Balance December 31, 2018	\$ 28,946,657	\$ 34,012,522	\$ 457,956	\$ 58,234	\$ 40,644	\$ 63,516,013
Depreciation and impairment losses						
Balance December 31, 2016	\$ 24,078,397	\$ 32,371,969	\$ 457,956	\$ 38,794	\$ 40,644	\$ 56,987,760
Depreciation	876,320	316,619	-	8,987	-	1,201,926
Impairment	-	-	-	-	-	-
Balance December 31, 2017	\$ 24,954,717	\$ 32,688,588	\$ 457,956	\$ 47,781	\$ 40,644	\$ 58,189,686
Depreciation	701,056	156,008	-	3,062	-	860,126
Impairment	2,010,705	1,000,000	-	-	-	3,010,705
Balance December 31, 2018	\$ 27,666,478	\$ 33,844,596	\$ 457,956	\$ 50,843	\$ 40,644	\$ 62,060,517
Carrying Amounts						
At December 31, 2018	\$ 1,280,179	\$ 167,926	\$ -	\$ 7,391	\$ -	\$ 1,455,496
At December 31, 2017	\$ 4,211,020	\$ 1,352,770	\$ -	\$ 10,453	\$ -	\$ 5,320,087

7. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Included in land and buildings is land with a cost of \$486,657 (2017 - \$486,657). Additions to plant and equipment relate to non-cash adjustments to a change in the ARO liability estimate described in note 10.

As a result of the going concern circumstances noted in note 1 and the economic uncertainties surrounding the oil and gas industry, an impairment of \$3,010,705 (2017- \$nil) was recorded in the fourth quarter ended December 31, 2018. The Company determined the recoverable amounts for its CGU using the fair value less costs of disposal method.

8. NOTES PAYABLE

The Company has the following notes payable:

	December 31, 2018		December 31, 2017	
Kasten Resources ("Kasten") (a)	\$	1,139,561	\$	2,007,818
Petrogas Energy Corp. ("Petrogas") (b)		23,500,000		38,715,805
	\$	24,639,561	\$	40,723,623

(a) Kasten provided funding of \$1,139,561 during receivership. Accrued interest of \$868,257 (2017 - \$868,257) has been forgiven under an agreement with Kasten.

(b) Petrogas provided funding during receivership of \$15,984,062 and operational funding of \$7,515,938 (2017 - \$7,515,938) after receivership to recommence operations totaling \$23,500,000. Accrued interest of \$15,215,805 (2017 - \$15,215,805) has been forgiven under an agreement with Petrogas.

9. ASSET RETIREMENT OBLIGATION

The Company's asset retirement obligation ("ARO") results from ownership of a processing facility and mine property in southern Saskatchewan. The Company has completed construction of the plant and preparation of the mine and commissioned the facility. A third-party assessment of costs to decommission the plant and clean the plant site amounts to \$1,000,000, to be incurred by 2033. Internal assessments of costs to decommission the plant were conducted and revaluations of ARO due to inflation factors and discount rate changes as required by IFRS resulted in revisions of \$6,240 (2017 - \$20,610) due to inflation factors and a decrease in the risk-free interest rate to 2.15% (2017 - 2.20%). The amounts are subject to measurement uncertainty with respect to estimated costs, the actual timing of reclamation, the inflation rate and the discount rates used.

	December 31, 2018		December 31, 2017	
Balance beginning of year	\$	936,565	\$	895,311
Change in estimate		6,240		20,610
Accretion		21,420		20,644
Balance end of year	\$	964,225	\$	936,565

10. SHAREHOLDERS' EQUITY

Authorized

Unlimited number of Class A common shares without par value and voting
Unlimited number of Class B common shares without par value and non-voting
Unlimited number of preferred shares

Common Shares Issued

		Number of Shares		Amount
Class A Common Shares, December 31, 2017 and December 31, 2018	\$	34,026,300	\$	77,902,637
		Number of Shares		Amount
Class B Non-voting Common Share, December 31, 2017 and December 31, 2018	\$	326,449,700	\$	-

11. CAPITAL MANAGEMENT

As part of the management of capital, the Company prepares annual operating and capital budgets and may from time to time issue new equity or debt in order to finance its capital expenditures. The Company has not declared or paid any dividends on its outstanding shares and any decision to pay dividends in the future would be based upon the financial condition of the Company. The Company may elect to alter its capital structure through the issuance of new shares, issuance of new debt, refinancing of existing debt or by acquiring or disposing of assets.

The capital structure, as disclosed on the Statements of Financial Position, consists of cash, notes payable, and shareholders' deficiency.

		December 31, 2018		December 31, 2017
Cash	\$	52,266	\$	66,118
Notes payable		24,639,561		40,723,623
Shareholders' deficiency	\$	(18,866,640)	\$	(32,362,211)

Since August 2011, all operational funding has been provided by Petrogas as disclosed in Note 8 through notes payable.

With respect to the notes payable, the Company has not made required principal and interest payments to creditors and is in default of its loan agreement. The lenders have agreed to a forgiveness of interest in the amount of \$16,084,062, to make the note non-interest bearing and to extend the maturity date of the loan to December 31, 2019. The creditors have agreed that they will not demand repayment of the loan before the maturity date. The lenders have waived interest since the inception of the notes.

12. FINANCE CHARGES

Financing charges are comprised of:

	2018	2017
Debt service	\$ 1,172	\$ 1,362
Accretion from asset retirement obligations (note 9)	21,420	20,644
	\$ 22,592	\$ 22,006

13. PER SHARE

Net loss per share is calculated using the weighted average number of shares outstanding. The weighted average number of shares outstanding for the period ended December 31, 2018 is 360,526,000 (2017 - 360,526,000).

14. TAXES

The tax recovery differs from the amount that would be computed by applying the expected tax rates to the loss before taxes. The reasons for the difference are as follows:

	2018	2017
Statutory tax rate	27.00%	27.00%
Income (Loss) before taxes	\$ 13,495,571	\$ (408,696)
Expected tax recovery	3,643,804	(110,348)
Change in deferred tax asset not recognised	(3,643,804)	110,348
Tax recovery	\$ -	\$ -

The components of the unrecognized deductible temporary differences are as follows:

	2018	2017
Non-capital losses	\$ 79,496,000	\$ 96,848,000
Property, plant and equipment	17,221,000	13,344,000
Asset retirement obligation	964,000	937,000
Other	-	49,000
	\$ 97,681,000	\$ 110,060,000

The Company has non-capital losses of approximately \$79,496,000 (2017 - \$96,848,000) that are available to offset future taxable income. The non-capital losses will expire as follows:

2029	979,000
2030	12,631,000
2031	1,171,000
2032	18,586,000
2033	14,785,000
2034	12,200,000
2035	10,650,000
2036	8,475,000

14. TAXES (continued)

The Company has undepreciated capital cost and resource tax pools of \$18,677,000 (2017 - \$18,700,000) which are available for deduction against future taxable income. The realization of tax benefits related to these future potential tax deductions is uncertain and cannot be viewed as probable. Accordingly, no deferred tax asset has been recognized.

15. RELATED PARTY TRANSACTIONS

Included in accounts payable and accruals is \$nil (2017 – \$4,531,668) payable to Petrogas Energy Corp. and \$123,569 (2017 - \$678) payable to Express Tankers Inc.; a company related to Petrogas Energy Corp. Included in accounts receivable is \$4,682,935 (2017 - \$nil) due from Petrogas Energy Corp. and \$1,721,684 (2017 - \$11,499,008) due from Petrogas Inc.

The notes payable in note 8 are held by Petrogas Energy Corp. Petrogas has forgiven the interest charges in the amount of \$15,215,805 and has agreed to extend the notes to December 31, 2019.

The Company has charged Petrogas Energy Corp. \$50,000 per month for services rendered by Midstream Energy Partners division.

The remuneration of directors and executive officers during the period is as follows:

		2018		2017
Salaries and other short-term benefits:	\$	41,300	\$	29,200

16. OPERATING SEGMENTS

For management purposes, the Company is organized into divisions based on their products and services provided. Management monitors the operating results of each division separately for the purpose of making decisions about resource allocation and performance assessment.

The Company has two reportable operating segments as follows:

1. Metakaolin - mining, processing and marketing kaolin and metakaolin
2. Commodities - Midstream Energy Partners – managing and marketing commodities

December 2018		Metakaolin		Commodities		Total
Revenue	\$	241,457	\$	2,769,858	\$	3,011,315
Operating costs		(1,280,924)		-		(1,280,924)
Amortization and impairment		(3,870,831)		-		(3,870,831)
General and administrative		(224,652)		(344,279)		(568,931)
Finance charges		(22,592)		-		(22,592)
Forgiveness of debt		16,084,062		-		16,084,062
Other income		1,889		141,583		143,472
Income (loss) before taxes	\$	10,928,409		2,567,162		13,495,571
Current assets	\$	944,887	\$	7,970,197	\$	8,915,084
Total assets	\$	2,400,383	\$	7,970,197	\$	10,370,580
Current liabilities	\$	24,726,860	\$	3,546,135	\$	28,272,995
Total liabilities	\$	25,691,085	\$	3,546,135	\$	29,237,220

16. OPERATING SEGMENTS *(continued)*

December 2017	Metakaolin		Hydrocarbons		Total
Revenue	\$	508,653	\$	2,641,817	\$ 3,150,470
Operating costs		(1,319,485)		(299,556)	(1,619,041)
Depletion and amortization		(1,201,296)		-	(1,201,926)
General and administrative		(531,809)		(61,086)	(592,895)
Finance charges		(22,006)		-	(22,006)
Other income		797		(124,095)	(123,298)
Income (loss) before taxes	\$	(2,565,776)	\$	2,157,080	\$ (408,696)
Current assets	\$	1,522,021	\$	11,665,154	\$ 13,187,175
Total assets	\$	6,842,108	\$	11,665,154	\$ 18,507,262
Current liabilities	\$	45,177,314	\$	4,755,594	\$ 49,932,908
Total liabilities	\$	46,033,879	\$	4,835,594	\$ 50,869,473

17. FINANCIAL INSTRUMENTS

The Company examines the various financial instrument risks to which it is exposed and assesses the impact and likelihood of those risks. These risks may include credit risk, liquidity risk, currency risk, and interest rate risk. Where material, these risks are reviewed and monitored by the Board of Directors.

Fair Values

The Company's financial instruments consist of cash, accounts receivable, accounts payable and accrued liabilities, and notes payable. The fair value of cash, accounts receivable, accounts payable and accrued liabilities, and notes payable approximate their carrying values due to the immediate or short-term maturity of these financial instruments.

The financial assets classified as fair value through profit or loss are measured within level 1 of the fair value hierarchy as described below:

Level 1 – Unadjusted quotes prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 – Inputs to the valuation methodology included quoted prices for identical assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

Level 3 –Inputs to the valuation methodology are not based on observable market data.

The following table outlines the Company's financial assets and liabilities carrying values and estimated fair values, including the level of measurement of fair values within the fair value hierarchy described below.

17. FINANCIAL INSTRUMENTS *(continued)*

Risk Management

The Company's risk management program focuses on minimizing the potential adverse effects on the Company's financial performance. The Company manages risks and risk exposure through a combination of a system of internal and disclosure controls, as well as insurance and sound business practices.

Risk management is primarily the responsibility of the Company's corporate finance function. Any significant risks are monitored and when appropriate, actions will be taken according to the Company's policies established related to that purpose. In addition, as required, the risks are reviewed with the Company's Board of Directors.

Interest Rate Risk

The Company defines interest rate risk as the financial risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in the market interest rates. The Company currently maintains cash balances and notes payable. The Company's current policy is to invest any excess cash not required for operations in guaranteed investment certificates with short-term maturities. The Company's sensitivity to interest rate risk on its guaranteed investment certificates is immaterial as the funds available for investment are minimal due to the funds being needed to fund ongoing operations. Any change in interest rates would not result in any material change in expected interest income.

Credit Risk

Credit risk is defined as the financial risk associated with non-performance of contractual obligations by counterparties. Credit risk arises from cash held with the Company's bank along with credit exposure to customers and other outstanding accounts receivable. The maximum exposure to credit risk is equal to the carrying value of the financial assets.

The Company's objective for managing the counterparty credit risk is to prevent losses on its financial assets. The Company is not yet in full commercial production, but upon full commercial production will assess the credit quality of its counterparties, taking into consideration their financial position, past payment histories and other factors. Management will regularly monitor counterparty credit limits and perform credit reviews. The Company's current sensitivity to credit risk is managed by dealing with reputable customers. Prior to significant commercial sales, relatively minimal supplies are required, with the Company's counterparty credit risk limited to government agencies and select companies that do not present any material concerns.

The Company's financial assets consist of accounts receivable of \$7,948,190 and taxes recoverable of \$21,030. None of the trade accounts receivable is over 90 days past due. There is a receivable due from Petrogas Inc. in the amount of \$1,721,684, and from Petrogas Energy Corp in the amount of \$4,682,935 for commodity sales made by Midstream Energy Partners, a division of Whitemud Resources Inc. The allowance for doubtful accounts as at December 31, 2018 is \$nil (2017 - \$nil). Approximately 100% (2017 - 100%) of the Company's sales are with four customers.

The allowance for doubtful accounts is charged to the statements of net loss and comprehensive loss. Shortfalls in collections are applied against this provision. Estimates for allowance for doubtful accounts are determined by a customer-by customer evaluation of collectability at each statement of financial position reporting date, taking into account the amounts that are past due and any available relevant information on the customers' liquidity and going concern problems.

17. FINANCIAL INSTRUMENTS *(continued)*

Foreign Currency Exchange Risk

The Company currently operates in Canada and deals periodically with suppliers and customers in the United States. The functional currency of the Company and reporting currency is the Canadian dollar. Current dealings with suppliers in the United States are very minimal in comparison to dealings with Canadian suppliers. The Company has not entered into any derivative agreements to mitigate this risk.

As at December 31, 2018, the Company had \$1,328,464 (2017 – \$8,897,719) in US\$ receivables and \$2,436,545 (2017 – \$2,646,082) in US\$ payables. A 1% change in the exchange rate at December 31, 2018 of the US dollar is estimated to have approximately a \$11,100 effect on the net income (loss) and comprehensive income (loss) for the year.

Liquidity Risk

The Company defines liquidity risk as the financial risk that the Company will encounter difficulties meeting its obligations associated with financial liabilities. The Company's objective for managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. The matters and conditions noted in Note 1 indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

At December 31, 2018, the Company had a working capital deficiency of \$19,357,911 (2017 – \$36,745,733). The Company's trade payables and accrued liabilities are \$3,633,434 (2017 – \$9,209,285), of which, \$8,724 (2017 - \$nil) was 90 days overdue.

The Company has demand notes payable in the amount of \$24,639,561 as described in Note 8. The Company has not made the required principal and interest payments under the loan agreement. The lenders have agreed to forgive interest in the amount of \$16,084,062, make the notes non-interest bearing and extend the maturity date of the loan to December 31, 2019. The Company requires the ongoing support of its creditors. All of the Company's operations since 2012 have been funded by Petrogas. As at December 31, 2018, Petrogas has advanced \$7,515,938 (2017 - \$7,515,938) for operational and capital funding.

Whitemud Resources Inc.
Financial Statements
For the years ended December 31, 2017 and 2016

Independent Auditors' Report

To the Shareholders of Whitemud Resources Inc.

We have audited the accompanying financial statements of Whitemud Resources Inc. (the "Company") which comprise the statements of financial position as at December 31, 2017 and December 31, 2016, the statements of net loss and comprehensive loss, changes in shareholders' deficiency and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risks assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2017 and December 31, 2016, and its financial performance and its cash flows for the years then ended, in accordance with International Financial Reporting Standards.

Emphasis of Matter – Going Concern

Without qualifying our opinion, we draw attention to Note 1 in the financial statements which describes matters and conditions that indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern.

Calgary, Alberta
April 17, 2018

MNP LLP
Chartered Professional Accountants

WHITEMUD RESOURCES INC.**Statements of Financial Position**

As at December 31

(Expressed in Canadian Dollars)

	2017	2016
Assets		
Current Assets		
Cash and cash equivalents <i>[note 5]</i>	\$ 66,118	278,357
Accounts receivable <i>[notes 17 and 19]</i>	11,227,428	1,598,945
Taxes recoverable	436,848	788,938
Inventory <i>[note 6]</i>	1,434,239	2,037,716
Prepaid expenses and deposits	22,542	22,628
Total Current Assets	13,187,175	4,726,584
Property, plant and equipment <i>[note 8]</i>	5,320,087	6,499,990
Total Assets	\$ 18,507,262	11,226,574
Liabilities and Shareholders' Deficiency		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 9,209,285	1,561,155
Notes payable <i>[note 9]</i>	40,723,623	40,723,623
	49,932,908	42,284,778
Total Current Liabilities		
Asset retirement obligation <i>[note 10]</i>	936,565	895,311
Total Liabilities	50,869,473	43,180,089
Shareholders' Deficiency		
Share capital <i>[note 11]</i>	77,902,637	77,902,637
Contributed surplus	5,353,381	5,353,381
Deficit	(115,618,229)	(115,209,533)
Total Shareholders' Deficiency	(32,362,211)	(31,953,515)
Total Liabilities and Shareholders' Deficit	\$ 18,507,262	11,226,574

Going concern *[note 1]*Contingencies *[note 20]*

On behalf of the Board of Directors:

“signed” Stan Owerko
Director

“signed” Al Kroontje
Director

WHITEMUD RESOURCES INC.
Statements of Net Loss and Comprehensive Loss
For the years ended December 31
(Expressed in Canadian Dollars)

	2017	2016
Revenue <i>[note 18]</i>	\$ 3,150,470	1,659,574
Expenses		
Operating	1,619,041	1,217,780
General and administration	592,895	499,695
Finance charges <i>[note 13]</i>	22,006	3,861,298
Depreciation <i>[note 8]</i>	1,201,926	1,594,738
	3,435,868	7,173,511
Loss before interest and other income	(285,398)	(5,513,937)
Interest and other expenses	(123,298)	6,231
Net loss and comprehensive loss	(408,696)	(5,507,706)
Net loss per share, basic and diluted <i>[note 14]</i>	\$ (0.000)	(0.015)

WHITEMUD RESOURCES INC.
Statement of Changes in Shareholders' Deficiency
For the years ended December 31,
(Expressed in Canadian Dollars)

	Share Capital	Contributed Surplus	Deficit	Total
Balance December 31, 2015	\$ 77,902,637	\$ 5,353,381	\$ (109,701,827)	\$ (26,445,809)
Net loss and comprehensive loss	-	-	(5,507,706)	(5,507,706)
Balance December 31, 2016	\$ 77,902,637	\$ 5,353,381	\$ (115,209,533)	\$ (31,953,515)
Net loss and comprehensive loss	-	-	(408,696)	(408,696)
Balance December 31, 2017	\$ 77,902,637	\$ 5,353,381	\$ (115,618,229)	\$ (32,362,211)

WHITEMUD RESOURCES INC.**Statements of Cash Flows**

For the years ended December 31

(Expressed in Canadian Dollars)

	2017	2016
Cash provided by (used) in:		
OPERATING ACTIVITIES:		
Net loss and comprehensive loss	\$ (408,696)	(5,507,706)
Items not involving cash:		
Depreciation	1,201,926	1,594,738
Accrued interest on notes payable <i>[note 9]</i>	-	3,842,095
Accretion of asset retirement obligations <i>[note 10]</i>	20,644	18,013
Change in non-cash working capital <i>[note 16]</i>	(1,024,700)	66,416
Cash flows provided by (used in) operating activities	(210,826)	13,556
INVESTING ACTIVITIES:		
Purchase of property, plant and equipment <i>[note 8]</i>	(1,413)	(4,129)
Cash flows used in investing activities	(1,413)	(4,129)
(Decrease) increase in cash and cash equivalents	(212,239)	9,427
Cash and cash equivalents, beginning of year	278,357	268,930
Cash and cash equivalents, end of year	\$ 66,118	278,357

1. NATURE OF THE ORGANIZATION AND FUTURE OPERATIONS

Whitemud Resources Inc. (the “Company”) was originally incorporated as the General Partner of Whitemud Resources Limited Partnership (the “Partnership”) on April 28, 2005 under the laws of the Province of Alberta, Canada. The Company was restructured through an amalgamation between the Company and the Partnership under the laws of the Province of Alberta on July 27, 2006. The Company is headquartered in Calgary, Alberta, Canada. The registered address of the Company is 3900 Bow Valley Square 2, Calgary, Alberta T2P 2V7.

The Company was formed to engage in the business of developing a process to mine and process kaolin into a high-reactivity metakaolin that imparts beneficial properties to concrete mixtures containing up to 20% replacement of Portland cement. Since inception, the efforts of the Company have been devoted to the development of a process of producing kaolin and metakaolin, developing market demand, and planning and constructing the production facilities to manufacture the product. The Company has launched industrial production from its facility. However the Company has not earned sufficient revenues and the future is dependent on customer acceptance of the product, further development of markets, and its ability to obtain additional financing. With the formation of a new division, Midstream Energy Partners, the Company will also market hydrocarbon products. To date, the Company has been funded primarily from proceeds of an initial public offering, private placements of special warrants, the issuance of convertible debentures and notes payable.

Going Concern

These financial statements were prepared by management in accordance with International Financial Reporting Standards applicable to a going concern entity which assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. The uncertainty in the use of the going concern assumption is impacted by the following factors.

As at December 31, 2017, the Company had a working capital deficiency of \$36,745,733 (December 31, 2016 – \$37,558,194). During the year ended December 31, 2017, the Company had a net loss of \$408,696 (2016 – \$5,507,706) and operating cash flows of negative \$210,826 (2016 – \$13,556) with a resulting accumulated deficit at December 31, 2017 of \$115,618,229 (2016 - \$115,209,533). In order for the Company to continue operations for the longer term, including generating sufficient cash flows and ultimately attaining profitable operations, additional financing will be required.

The matters and conditions noted above indicate the existence of a material uncertainty that may cast significant doubt about the Company’s ability to continue as a going concern.

Based on the Company’s current projections, including budgeted loss and negative cash flows for fiscal 2018, future operations are dependent on the Company’s ability to identify financing options, to generate improved market acceptance for the Company’s product and the ongoing support of its creditors. Management is currently reviewing its options for additional financing. The Company has not made required interest payments to creditors and is in default under the loan agreement. The creditors have not demanded repayment of the loan to date. There is no assurance that the creditors will not demand repayments of the loans before the maturity date. There may be significant challenges in obtaining long term financing in order to meet its obligations.

In the fourth quarter of 2015, the Company formed Midstream Energy Partners, a new division, with the intention of diversifying the Company’s revenue streams through the marketing of hydrocarbon commodities in addition to kaolin and metakaolin. This division was formed to generate new revenue streams to assist the Company in paying down its debts and stabilize its operations.

1. NATURE OF THE ORGANIZATION AND FUTURE OPERATIONS *(continued)*

The ability of the Company to continue as a going concern and realize the carrying value of its assets and discharge its liabilities when due, is dependent on the successful completion of the actions taken or planned by management. There is no certainty that these and other strategies will be sufficient to permit the Company to continue beyond the foreseeable future as such strategies are contingent upon new equity or debt funds from shareholders, investors and lenders, as well as improved market acceptance and revenues for the Company's product.

The financial statements do not reflect any adjustments relating to the recoverability and classification of recorded assets or liabilities that may be necessary should the Company be unable to continue as a going concern. If the going concern assumption was not appropriate for these financial statements, then adjustments would be necessary in the carrying value of assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used. Those adjustments would be material.

2. BASIS OF PREPARATION

These financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committees ("IFRIC") effective as at January 1, 2017.

These financial statements were authorized for issuance by the Board of Directors of the Company on April 17, 2018.

These financial statements have been prepared on a historical cost basis except for financial instruments that have been measured at fair value. In addition, these financial statements have been prepared using the accrual basis of accounting, except cash flow information.

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted for the current year.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the Company's significant accounting policies as outlined below:

a) Foreign currencies

The presentation and functional currency of the Company is the Canadian dollar, which is the currency of the primary economic environment on which the Company operates. Transactions in currencies other than the Canadian dollar are recorded at the rates of exchange prevailing on the dates of transactions. At the end of each reporting period, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at that date. Any gains or losses are recorded in the statement of net loss and comprehensive loss.

b) Financial Instruments

The Company does not have any derivative instruments.

Non-derivative financial assets

The Company has the following non-derivative financial assets: financial assets at fair value through profit or loss and loans and receivables.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)**Financial assets at fair value through profit or loss ("FVTPL")*

A financial asset is classified at FVTPL if they are held for trading or are designated as such upon initial recognition. Financial assets are designated as FVTPL if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy. Attributable transaction costs are recognized in profit or loss when incurred. Financial assets at FVTPL are measured at fair value, and changes therein are recognized in profit or loss. Cash is included in FVTPL.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest rate method, less any impairment losses. Accounts receivable are classified as loans and receivables.

Other financial liabilities

The Company has other financial liabilities including accounts payable and accrued liabilities and notes payable.

Such financial liabilities are recognized initially at fair value net of any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

c) Use of estimates and judgments

The preparation of financial statements in accordance with IFRS requires management to make critical estimates and judgments that affects the reported amounts of assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. In the process of applying the Company's accounting policies management takes into consideration existing circumstances and estimates at the date of these financial statements, which affects the reported amounts of income and expenses during the reporting periods. Given the uncertainty inherent in determining these factors, actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Significant areas requiring the use of management estimates relate to, but are not limited to:

(i) Impairment tests

The Company assesses, at the end of each reporting period, whether there is an indication that an asset may be impaired. If any indication of impairment exists, the Company determines the recoverable amount of the asset group. The impairment for long-lived assets is based on assumptions regarding future business volumes, sales prices, costs, cash flows, changes in customer or industry dynamics, new technologies, environmental considerations, economic declines, discount rates and other relevant assumptions.

(ii) Share based compensation plans

The Company accounts for share-based compensation plans in accordance with IFRS 2 Share-based Payment which requires companies to recognize the cost of such awards of equity instruments based on the fair value of those awards. The Company estimates the fair value of stock option awards on the date of grant utilizing a Black-Scholes option valuation model. Certain key assumptions include the stock price volatility, forfeiture rates, and expected term.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)**(iii) Asset retirement obligation*

The Company applies a number of assumptions in estimating provisions that are recorded for asset retirement obligations and environmental remediation at the mine site. These factors include estimated future costs, discount rates, anticipated life of the plant and inflation.

(iv) Inventories

The Company values inventories at the lower of cost and net realizable value through inventory allowances. Inventory allowances require estimates and assumptions about forecasted selling prices and the demand for kaolin and metakaolin.

(v) Property, plant and equipment

Depreciation and amortization are calculated using the declining balance method based upon the useful life of assets. The estimated useful life and residual value are management's best estimates and are based upon historical experience and market conditions.

(vi) Trade and other receivables

Impairment of trade and other receivables which include receivables from shareholders are constantly monitored. Impairments are based upon historical values, observed customer solvency, external credit ratings, aging of the receivable and industry risks.

(vii) Taxes

Uncertainties exist with respect to the interpretation of the amount and timing of future taxable income. Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable earnings will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable earnings together with future tax planning strategies.

d) Cash and equivalents

Cash is classified as FVTPL and include balances with Canadian chartered banks.

e) Inventory

Inventories of finished goods, raw materials and operating and maintenance supplies are valued at the lower of cost and net realizable value, with cost determined on a weighted average cost basis. The cost of finished goods includes direct materials and direct labor.

f) Property, plant and equipment

Property, plant and equipment are recorded at historical cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. This includes the purchase price, any other costs directly attributable to bringing the assets to a working condition for intended use, the costs of dismantling and removing the items and restoring the site on which they are located and borrowing costs on qualifying assets.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Where an item of property, plant and equipment comprises significant parts with useful lives that are significantly different from that of the asset as a whole, the parts are accounted for as separate items of property, plant and equipment and depreciated accordingly.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from derecognizing an asset determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in the Statement of Net Loss and Comprehensive Loss.

Expenditures incurred that renew or refurbish plant and equipment to extend its useful life or increase its productive capacity are capitalized when it is determined that a future benefit will flow to the Company as a result of the renewal.

The Company depreciates the costs of its property, plant and equipment over their estimated useful lives using the following rates and methods:

Processing plant, mine preparation and mine expansion	35% declining balance
Buildings	20% declining balance
Plant equipment	30% declining balance
Computer equipment	30% declining balance
Vehicles	3 year straight line
Furniture and equipment	20% declining balance
Leasehold improvements	Over term of lease
Assets under capital lease	Over term of lease

The Company commenced the depreciation of its processing plant in October 2008.

Change in accounting estimate

The Company changed the rate of depreciation on the processing plant and buildings during the year ended December 31, 2016 to more properly reflect the systematic amortization of the assets over their economic useful life. Under IFRS, this change is considered a change in accounting estimate and accounted for prospectively by amortizing the cumulative changes over the remaining useful life of the related assets.

g) Stripping costs

Deferred stripping costs represent the cost incurred to remove overburden and other waste materials to access ore. Stripping costs incurred prior to the production phase of the mine are capitalized and included as part of the carrying value of the mineral property to the extent of future economic benefit. During the production phase, stripping costs, which provide probable future economic benefits, improved access to an identifiable ore body and which can be measured reliably are capitalized to inventory. Capitalized stripping costs are amortized using a unit of production basis over the proven and probable reserve to which they relate. If it is determined that there are no future economic benefits, the stripping costs are expensed as incurred.

h) Mineral properties

The Company expenses mineral exploration costs in the year they are incurred unless deferral criteria are met and it is probable that they will be recovered from future operations. Upon determining that the mineral property can be economically developed through proven and probable reserves, the costs of future exploration and development to further delineate the reserves on such property are capitalized. Determination of proven and probable reserves is based upon results of technical reports indicating whether the property is economically viable.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Expenditures that meet the criteria for capitalization are amortized based on the declining balance method based upon the useful life of the asset. Such costs include all acquisition, geological, testing, product development, exploration and direct general and administration charges associated with the exploration and development of the property.

i) Impairment of non-financial assets

The Company assesses at each reporting date, whether there is an indication that an asset or a cash generating unit ("CGU") may be impaired. A CGU is the smallest identifiable group of assets that generates cash flows largely independent of the cash inflows from other assets or groups of assets. If any indication of impairment exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of the those from other assets or groups of assets, in which case the asset is tested as part of a larger CGU. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and an impairment loss is charged to the Statement of Net Loss and Comprehensive Loss.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflect current market assessments of the time value of money and the risks specific to the asset.

These assessments require the use of estimates and assumptions such as long-term selling prices and volumes, discount rates, future capital requirements, exploration potential and operating performance.

Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. The best evidence of fair value is the value obtained from an active market or binding sale agreement. Where neither exists, fair value is based on the best information available to reflect the amount the Company could receive for the CGU in an arm's length transaction. This is often estimated using discounted cash flow techniques.

Impairment losses are reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. Impairment losses are reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been previously recognized.

j) Impairment of financial assets

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. The criteria used to determine if objective evidence of an impairment loss include: significant financial difficulty of the obligor; delinquencies in interest or principal payments; and the probability that the borrower will enter bankruptcy or other financial reorganization. If such evidence exists, the Company recognizes an impairment loss, as follows:

(i) Financial assets carried at amortized cost:

The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)***k) Asset retirement obligations**

The Company's operations give rise to decommissioning, restoration and rehabilitation activities. Environmental costs arise when environmental disturbances are caused by the exploration, development or ongoing production of a mineral property interest. The net present value of future restoration cost estimates arising from the decommissioning, restoration and rehabilitation are capitalized to related assets with a corresponding increase in the restoration provision in the period incurred. Discounting using risk free rates that reflect the time value of money are used to calculate the net present value. The capitalized restoration costs are charged against income and loss over the economic life of the related asset, through depreciation on a unit of production method. The restoration provision is accreted to net present value each reporting period with the unwinding of the restoration provision being charged to finance expense in the Statement of Net Loss and Comprehensive Loss. Actual costs incurred to settle the site restoration obligation are charged against the provision. Any difference between the actual costs incurred and the provision is recognized as a gain or loss in the Statement of Net Loss and Comprehensive Loss in the period in which the settlement occurs. The Company's estimates of restoration costs could change as result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to related assets with a corresponding entry to the restoration provision.

l) Taxes

Taxes on the profit or loss for the periods presented comprise current and deferred tax. Tax is recognized in profit or loss except to the extent that relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax legislation enacted or substantively enacted at year end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amount used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities using the tax rates enacted or substantively enacted at the financial position reporting date applicable to the period of expected realization or settlement. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

m) Revenue recognition

Revenue from the sale of kaolin and metakaolin is recorded when the title passes to the customer, amounts are fixed or can be determined and the Company's ability to collect is probable.

Revenue from the sale of hydrocarbons is recorded when the product is delivered to the Company's customers, provided the Company has not retained any significant risks of ownership or future obligations with respect to the product. Revenue related to purchase arrangements, where the Company earns a fee on net sales, is recognized when the service is provided and is recorded on a net basis.

n) Royalties

Royalty payments for kaolin quarried and processed under the Quarrying Regulations are recorded to operating expenses as incurred.

o) Leases

A lease that transfers substantially all of the benefits of ownership is classified as a finance lease. At the inception of the lease, an asset and a payment obligation are recorded at an amount equal to the lesser of the present value of the minimum lease payments and the property's fair market value. Assets

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

under finance lease are depreciated on a straight-line basis over the term of the lease. All other leases are accounted for as operating leases under which lease costs are expensed on as incurred.

p) Loss per common share amounts

Basic loss per common share amounts is calculated using the weighted average number of shares outstanding during the year. Diluted loss per common share amounts are calculated based on the treasury-stock method, which assumes that any proceeds obtained on the exercise of in-the-money options would be used to purchase shares at the average market price. The weighted average number of basic shares outstanding is then adjusted by the net change.

q) Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses. All operating segments' results are reviewed by the Company's management in order to make decisions regarding the allocation of resources to the segment. Segment results include items directly attributable to a segment as those that can be allocated on a reasonable basis.

4. RECENT AND FUTURE ACCOUNTING PRONOUNCEMENTS

Future accounting pronouncements issued but not yet applied

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing IFRS standards have been published but are not yet effective, and have not been adopted early by the Company. Management anticipates that all of the pronouncements will be adopted in the Company's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Company's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Company's financial statements.

IFRS 9 "Financial Instruments: Classification and Measurement" is a new financial instruments standard effective for annual period beginning on or after January 1, 2018 that replaces IAS 39 and IFRIC 9 for classification and measurement of financial assets and financial liabilities. The Company is currently assessing the impact of this standard.

IFRS 15, "Revenue from Contracts with Customers" was issued in 2014 and replaces the two main recognition standards IAS 18, "Revenue", and IAS 11, "Construction Contracts". The new standard provides a five step model framework as a core principle upon which an entity recognizes revenue and becomes effective January 1, 2018. The Company is currently assessing the impact of this standard.

IFRS 16, "Leases" was issued and IAS 17 "Leases" was amended. IFRS 16 specifies how to recognize, measure, present and disclose leases effective for annual period beginning on or after January 1, 2019. The standard provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12 months or less or the underlying asset has a low value. Lessor accounting however remains largely unchanged from IAS 17 and the distinction between operating and finance leases is retained. IAS 17, as revised, now prescribes the accounting policies and disclosures applicable to leases, both for lessees and lessors. The Company is currently assessing the impact of this standard.

5. CASH

As at December 31, 2017, cash of \$66,118 (2016 - \$278,357) consist of cash on hand and cash deposits at the Company's bank.

6. INVENTORY

The Company has inventory as follows:

		2017		2016
Metakaolin	\$	788,950	\$	1,388,318
Kaolinized mineral resource		333,828		333,828
Spare parts		297,360		297,360
Fuels, coal and miscellaneous		14,101		18,210
	\$	1,434,239	\$	2,037,716

Operating expenses includes \$599,367 (2016 - \$364,140) related to the cost of inventory from sales.

7. RECLAMATION BOND

In 2012, a \$50,000 letter of credit and corresponding \$50,000 deposit was replaced by a \$1 million letter of credit to the Saskatchewan Ministry of Environment as the first installment towards a reclamation bond for the plant and mine site. The letter of credit was issued by Petrogas Energy Corp.

8. PROPERTY, PLANT AND EQUIPMENT

Cost	Land and buildings	Plant and equipment	Assets under capital lease	Leasehold improvements, computer equipment, office furniture	Vehicles	Total
Balance December 31, 2015	\$ 28,946,657	\$ 34,011,343	\$ 457,956	\$ 52,692	\$ 40,644	\$ 63,509,292
Additions	-	-	-	4,129	-	4,129
Disposals	-	(25,671)	-	-	-	(25,671)
Balance December 31, 2016	\$ 28,946,657	\$ 33,985,672	\$ 457,956	\$ 56,821	\$ 40,644	\$ 63,487,750
Additions		20,610		1,413		22,023
Disposals	-	-	-	-	-	-
Balance December 31, 2017	\$ 28,946,657	\$ 34,006,282	\$ 457,956	\$ 58,234	\$ 40,644	\$ 63,509,773
Depreciation and impairment losses						
Balance December 31, 2015	\$ 22,982,997	\$ 31,880,357	\$ 457,956	\$ 31,068	\$ 40,644	\$ 55,393,022
Depreciation	1,095,400	491,612	-	7,726	-	1,594,738
Impairment	-	-	-	-	-	-
Balance December 31, 2016	\$ 24,078,397	\$ 32,371,969	\$ 457,956	\$ 38,794	\$ 40,644	\$ 56,987,760
Depreciation	876,320	316,619	-	8,987	-	1,201,926
Impairment	-	-	-	-	-	-
Balance December 31, 2017	\$ 24,954,717	\$ 32,688,588	\$ 457,956	\$ 47,781	\$ 40,644	\$ 58,189,686
Carrying Amounts						
At December 31, 2017	\$ 4,211,020	\$ 1,352,770	\$ -	\$ 10,453	\$ -	\$ 5,320,087
At December 31, 2016	\$ 4,868,260	\$ 1,613,703	\$ -	\$ 18,027	\$ -	\$ 6,499,990

8. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Included in land and buildings is land with a cost of \$486,657 (2016 - \$486,657). Additions to plant and equipment relate to non-cash adjustments to a change in the ARO liability estimate described in note 10.

No indicators of impairment were noted during the year.

9. NOTES PAYABLE

The Company has the following notes payable:

	December 31, 2017		December 31, 2016
Kasten Resources ("Kasten") (a), (c)	\$ 2,007,818	\$	2,007,818
Petrogas Energy Corp. ("Petrogas") (b), (c)	38,715,805	\$	38,715,805
	\$ 40,723,623	\$	40,723,623

- (a) Kasten provided operational and Proposal funding of \$1,139,561 during receivership. The outstanding balance as at December 31, 2017 includes accrued interest of \$868,257 (2016 - \$868,257).
- (b) Petrogas provided operational and Proposal funding during receivership of \$15,984,062 and operational funding of \$7,515,938 (2016 - \$7,515,938) after receivership to recommence operations. The outstanding balance as at December 31, 2017 includes accrued interest of \$15,215,805 (2016 - \$15,215,805).
- (c) The notes payable to Kasten and Petrogas (the "lenders") include a fully advanced term loan in the amount of \$24,639,561 (2016 - \$24,639,561) which is due on demand and had a maturity date of January 16, 2014 unless demanded prior to that date. The loan was not repaid on January 16, 2014. The Company has not made the required principal and interest payments to creditors and is in default of its loan agreement. The lenders have agreed to extend the maturity date of the loan to December 31, 2018. The lenders have increased advances made available on a demand operating loan, originally set at up to \$5,000,000. Both debt facilities bear an interest rate of 10% per annum compounded semi-annually at the end of February and August of each year. Principal reductions of 1/20th of the outstanding balance are required annually on April 4th, the anniversary date of the loan agreement. The lenders hold a general security agreement and other collateral registered as a first charge against all assets of the Company. There is no assurance that the creditors will not demand repayment of the loan before the maturity date. The lenders have waived interest payments for 2017 and 2018.

10. ASSET RETIREMENT OBLIGATION

The Company's asset retirement obligation results from ownership of a processing facility and mine property in southern Saskatchewan. The Company has completed construction of the plant and preparation of the mine and commissioned the facility. A third-party assessment of costs to decommission the plant and clean the plant site amounts to \$1,000,000, to be incurred by 2033. Internal assessments of costs to decommission the plant were conducted and revaluations of ARO due to inflation factors and discount rate changes as required by IFRS resulted in revisions of \$20,610 (2016 –(\$25,670) due to inflation factors and a decrease in the risk-free interest rate to 2.20% (2016 – 2.34%). The amounts are subject to measurement uncertainty with respect to estimated costs, the actual timing of reclamation, the inflation rate and the discount rates used.

	December 31, 2017	December 31, 2016
Balance beginning of year	\$ 895,311	902,969
Change in liability estimate	20,610	(25,670)
Accretion	20,644	18,012
Balance end of year	\$ 936,565	895,311

11. SHARE CAPITAL

Authorized

Unlimited number of Class A common shares without par value and voting
Unlimited number of Class B common shares without par value and non-voting
Unlimited number of preferred shares

Common Shares Issued

	Number of shares	Amount
Class A Common shares December 31, 2011	18,026,300	\$ 77,902,637
Issued pursuant to Court Order	16,000,000	-
Class A Common Shares, December 31, 2016 and December 31, 2017	34,026,300	\$ 77,902,637

	Number of shares	Amount
Class B Non-voting Common shares December 31, 2012	-	\$ -
Issued pursuant to Court Order	326,499,700	-
Class B Non-voting Common Shares, December 31, 2016 and December 31, 2017	326,499,700	\$ -

Pursuant to an order of the Court of Queen's Bench of Alberta dated August 12, 2011, Kasten and Petrogas were issued 16,000,000 Class A Common Shares and 326,499,700 Class B Non-voting Common Shares. Due to the financial position of the Company and the facts described in Note 1, no additional cash consideration has been ascribed to these shares.

As a result, the pre-receivership holders of the 18,026,300 Class A Common Shares will continue to hold 52.98% of the issued Class A Common Shares (being 5.5% of the total number of all issued shares).

11. SHARE CAPITAL *(continued)*

Shareholder Loans

To assist employees in exercising the options granted, the Company made shareholder loans to certain employees for the sole purpose of exercising their stock options. Each of these shareholder loans was interest free, secured by a promissory note and associated shares received upon exercise and for a period not to exceed four years or until the associated shares are sold, if earlier. Promissory notes were signed by all employees receiving these shareholder loans. The loans were due December 31, 2010 and repayment was not received. A total of \$659,600 was provided as loans to employees in 2006 to exercise 659,600 stock options. To date \$96,825 of the loans have been repaid and \$372,775 has been deemed uncollectible resulting in shareholder loans outstanding in the amount of \$nil (2016 - \$372,775) and is included in general and administrative expenses at December 31, 2017.

12. CAPITAL MANAGEMENT

As part of the management of capital, the Company prepares annual operating and capital budgets and may from time to time issue new equity or debt in order to finance its capital expenditures. The Company has not declared or paid any dividends on its outstanding shares and any decision to pay dividends in the future would be based upon the financial condition of the Company. The Company may elect to alter its capital structure through the issuance of new shares, issuance of new debt, refinancing of existing debt or by acquiring or disposing of assets.

The capital structure, as disclosed on the Statements of Financial Position, consists of cash, notes payable, and shareholders' deficiency.

		December 31, 2017		December 31, 2016
Cash	\$	66,118	\$	278,357
Notes payable		40,723,623		40,723,623
Shareholders' deficiency	\$	(32,085,989)	\$	(31,953,515)

Since August 2011, all operational funding has been provided by Petrogas as disclosed in Note 9 through notes payable.

With respect to the notes payable, the Company has not made required principal and interest payments to creditors and is in default of its loan agreement. The lenders have extended the maturity date of the loan to December 31, 2018. There is no assurance that the creditors will not demand repayment of the loan on the maturity date. The lenders have waived interest for 2017 and 2018.

13. FINANCE CHARGES

Financing charges are comprised of:

	2017	2016
Debt service	\$ 1,362	\$ 1,190
Interest on notes payable	-	3,842,095
Accretion from asset retirement obligations	20,644	18,013
	\$ 22,006	\$ 3,861,298

14. PER SHARE

Net loss per share is calculated using the weighted average number of shares outstanding. The weighted average number of shares outstanding for the period ended December 31, 2017 is 360,526,000 (2016 - 360,526,000).

15. TAXES

The tax recovery differs from the amount that would be computed by applying the expected tax rates to the loss before taxes. The reasons for the difference are as follows:

	2017	2016
Statutory tax rate	27.00%	27.00%
Income (Loss) before taxes	\$ (408,696)	(5,507,706)
Expected tax recovery	(110,348)	(1,487,081)
Change in deferred tax asset not recognised	110,348	1,487,081
Tax recovery	\$ -	-

The components of the unrecognized deductible temporary differences are as follows:

	2017	2016
Non-capital losses	\$ 96,848,000	96,949,000
Property, plant and equipment	13,344,000	12,167,000
Asset retirement obligation	937,000	895,000
Other	49,000	49,000
	\$ 111,178,000	110,060,000

The Company has non-capital losses of approximately \$96,572,000 (2016 - \$96,949,000) that are available to offset future taxable income. The non-capital losses will expire as follows:

2027	2,792,000
2028	6,480,500
2029	9,055,000
2030	12,633,500
2031	1,171,000
2032	18,586,000
2033	14,785,000
2034	12,211,000
2035	10,658,000
2036	8,475,000
2037	

15. TAXES (continued)

The Company has undepreciated capital cost and resource tax pools of \$13,700,000 (2016 - \$13,700,000) which are available for deduction against future taxable income. The realization of tax benefits related to these future potential tax deductions is uncertain and cannot be viewed as probable. Accordingly, no deferred tax asset has been recognized.

16. SUPPLEMENTAL CASH FLOW DISCLOSURE

	2017		2016	
Accounts receivable	\$	(9,628,483)	\$	(543,723)
Taxes recoverable		352,090		(788,938)
Inventory		603,477		356,667
Prepaid expenses and deposits		86		8,222
Accounts payable and accrued liabilities		7,648,130		1,034,188
Attributable to operating activities	\$	(1,024,700)	\$	66,416

17. RELATED PARTY TRANSACTIONS

Included in accounts payable and accruals is \$4,207,298 (2016 – \$nil) payable to Petrogas Energy Corp. and its related companies. Included in accounts receivable is \$nil (2016 - \$137,184) due from Petrogas Energy Corp and \$11,162,189 (2016 - \$877,327) due from Petrogas Inc.

The notes payable in note 9 are held by Petrogas Energy Corp. Interest payments have been waived for 2017 and 2018.

The Company has charged Petrogas Energy Corp \$50,000 per month for services rendered by Midstream Energy Partners division.

The remuneration of directors and executive officers during the period is as follows:

	2017		2016	
Salaries and other short term benefits:	\$	43,200	\$	54,100

18. OPERATING SEGMENTS

For management purposes, the Company is organized into divisions based on their products and services provided. Management monitors the operating results of each division separately for the purpose of making decisions about resource allocation and performance assessment.

The Company has two reportable operating segments as follows:

1. Mining, processing and marketing kaolin and metakaolin
2. Midstream Energy Partners – managing and marketing hydrocarbons

18. OPERATING SEGMENTS *(continued)*

December 2017	Metakaolin	Hydrocarbons	Total
Revenue	\$ 508,653	\$ 2,641,817	\$ 3,150,470
Operating costs	(1,319,485)	(299,556)	(1,619,041)
Depreciation	(1,201,926)	-	(1,201,926)
General and administrative	(531,809)	(61,086)	(592,895)
Finance charges	(22,006)	-	(22,006)
Other income (expense)	797	(124,095)	(123,298)
Income (loss) before taxes	<u>\$ (2,565,776)</u>	<u>\$ 2,157,080</u>	<u>\$ (408,696)</u>
Current assets	<u>\$ 1,522,021</u>	<u>\$ 11,665,154</u>	<u>\$ 13,187,175</u>
Total assets	<u>\$ 6,842,108</u>	<u>\$ 11,665,154</u>	<u>\$ 18,507,262</u>
Current liabilities	<u>\$ 45,177,314</u>	<u>\$ 4,755,594</u>	<u>\$ 49,932,908</u>
Total liabilities	<u>\$ 46,033,879</u>	<u>\$ 4,835,594</u>	<u>\$ 50,869,473</u>
December 2016	Metakaolin	Hydrocarbons	Total
Revenue	\$ 414,906	\$ 1,244,668	\$ 1,659,574
Operating costs	(1,018,980)	(198,800)	(1,217,780)
Depreciation	(1,594,738)	-	(1,594,738)
General and administrative	(482,316)	(17,379)	(499,695)
Finance charges	(3,861,298)	-	(3,861,298)
Other income	2,692	3,539	6,231
Income (loss) before taxes	<u>\$ (6,539,734)</u>	<u>\$ 1,032,028</u>	<u>\$ (5,507,706)</u>
Current assets	<u>\$ 2,532,215</u>	<u>\$ 2,194,369</u>	<u>\$ 4,726,584</u>
Total assets	<u>\$ 9,032,205</u>	<u>\$ 2,194,369</u>	<u>\$ 11,226,574</u>
Current liabilities	<u>\$ 40,850,387</u>	<u>\$ 1,434,391</u>	<u>\$ 42,284,778</u>
Total liabilities	<u>\$ 41,745,698</u>	<u>\$ 1,434,391</u>	<u>\$ 43,180,089</u>

19. FINANCIAL INSTRUMENTS

The Company thoroughly examines the various financial instrument risks to which it is exposed and assesses the impact and likelihood of those risks. These risks may include credit risk, liquidity risk, currency risk, and interest rate risk. Where material, these risks are reviewed and monitored by the Board of Directors.

Fair Values

The Company's financial instruments consist of cash, accounts receivable, accounts payable and accrued liabilities, and notes payable. The fair value of cash, accounts receivable, accounts payable and accrued liabilities, and notes payable approximate their carrying values due to the immediate or short-term maturity of these financial instruments.

The financial assets classified as fair value through profit or loss are measured within level 1 of the fair value hierarchy as described below:

Level 1 – Unadjusted quotes prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 – Inputs to the valuation methodology included quoted prices for identical assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

Level 3 –Inputs to the valuation methodology are not based on observable market data.

The following table outlines the Company's financial assets and liabilities carrying values and estimated fair values, including the level of measurement of fair values within the fair value hierarchy described below.

	December 2017		December 2016	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
Financial Assets				
Fair value through profit or loss:				
Cash	\$ 66,118	\$ 66,118	\$ 278,357	\$ 278,357
Loans and receivables				
Accounts receivable	11,227,428	11,227,428	1,598,945	1,598,945
Taxes recoverable	436,848	436,848	788,938	788,938
Financial Liabilities				
Other financial liabilities				
Accounts payable and accrued liabilities	9,209,285	9,209,285	1,561,155	1,561,155
Notes payable	40,723,623	40,723,623	40,723,623	40,723,623

19. FINANCIAL INSTRUMENTS *(continued)*

Risk Management

The Company's risk management program focuses on minimizing the potential adverse effects on the Company's financial performance. The Company manages risks and risk exposure through a combination of a system of internal and disclosure controls, as well as insurance and sound business practices.

Risk management is primarily the responsibility of the Company's corporate finance function. Any significant risks are monitored and when appropriate, actions will be taken according to the Company's policies established related to that purpose. In addition, as required, the risks are reviewed with the Company's Board of Directors.

Interest Rate Risk

The Company defines interest rate risk as the financial risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in the market interest rates. The Company currently maintains cash balances and notes payable. The Company's current policy is to invest any excess cash not required for operations in guaranteed investment certificates with short-term maturities. The Company's sensitivity to interest rate risk on its guaranteed investment certificates is immaterial as the funds available for investment are minimal due to the funds being needed to fund ongoing operations. Any change in interest rates would not result in any material change in expected interest income.

The Company's notes payable bearing interest at a fixed rate of 10% per annum. A change in interest rates would increase the risk that interest payments would be made on a timely basis and negatively affect cash flow. The interest rates on the Company's notes payable are fixed for the term. Therefore, the Company is not exposed to significant cash flow interest rate risk.

Credit Risk

Credit risk is defined as the financial risk associated with non-performance of contractual obligations by counterparties. Credit risk arises from cash held with the Company's bank along with credit exposure to customers and other outstanding accounts receivable. The maximum exposure to credit risk is equal to the carrying value of the financial assets.

The Company's objective for managing the counterparty credit risk is to prevent losses on its financial assets. The Company is not yet in full commercial production, but upon full commercial production will assess the credit quality of its counterparties, taking into consideration their financial position, past payment histories and other factors. Management will regularly monitor counterparty credit limits and perform credit reviews. The Company's current sensitivity to credit risk is managed by dealing with reputable customers. Prior to significant commercial sales, relatively minimal supplies are required, with the Company's counterparty credit risk limited to government agencies and select companies that do not present any material concerns.

The Company's financial assets consist of accounts receivable of \$11,227,428 and taxes recoverable of \$436,848. The Company has written off accounts receivable in the amount of \$372,775 due from former directors and officers of the Company as explained in Note 11. None of the trade accounts receivable is over 90 days past due. There is a receivable due from Petrogas Inc. in the amount of \$11,162,189 for commodity sales made by Midstream Energy Partners, a division of Whitemud Resources Inc. The allowance for doubtful accounts as at December 31, 2017 is \$nil (2016 - \$nil). Approximately 100% (2016 - 100%) of the Company's sales are with four customers.

The allowance for doubtful accounts is charged to the statements of net loss and comprehensive loss. Shortfalls in collections are applied against this provision. Estimates for allowance for doubtful accounts are determined by a customer-by customer evaluation of collectability at each statement of financial position reporting date, taking into account the amounts that are past due and any available relevant information on the customers' liquidity and going concern problems.

19. FINANCIAL INSTRUMENTS *(continued)*

Foreign Currency Exchange Risk

The Company currently operates in Canada and deals periodically with suppliers and customers in the United States. The functional currency of the Company and reporting currency is the Canadian dollar. Current dealings with suppliers in the United States are very minimal in comparison to dealings with Canadian suppliers. The Company has not entered into any derivative agreements to mitigate this risk.

As at December 31, 2017, the Company had \$8,897,719 (2016 – nil) in US\$ receivables and \$2,646,082 (2016 – \$1,076,179) in US\$ payables. A 1% change in the exchange rate at December 31, 2017 of the US dollar is estimated to have approximately a \$138,122 effect on the net loss and comprehensive loss for the year.

Liquidity Risk

The Company defines liquidity risk as the financial risk that the Company will encounter difficulties meeting its obligations associated with financial liabilities. The Company's objective for managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. At December 31, 2017, the Company had a working capital deficiency of \$36,745,733 (2016 – \$37,558,194). The Company's trade payables and accrued liabilities are \$9,209,285 (2016 – \$1,561,155), of which, \$nil (2016 - \$1,050) was 90 days overdue.

The Company has demand notes payable in the amount of \$40,723,623 as described in Note 9. The Company has not made the required principal and interest payments under the loan agreement. The lenders have agreed to extend the maturity date of the loan to December 31, 2018. According to the loan agreement, the unpaid interest is an event of default and the amount is to be added to the principal amount of the loan. There is no assurance that the creditors will not demand repayment of the loan on the maturity date. The lenders have agreed to waive interest for 2017 and 2018. The Company requires the ongoing support of its creditors. All of the Company's operations in 2016 and 2017 have been funded by Petrogas. As at December 31, 2017, Petrogas has advanced \$7,515,938 for operational and capital funding.

The timing of the cash outflows relating to financial liabilities are outlined in the table below:

	Less than 1 year	Thereafter	Total
Accounts payable and accrued liabilities	\$ 9,209,285	\$ -	\$ 9,209,285
Notes payable	\$ 40,723,623	\$ -	\$ 40,723,623

20. Contingencies

No amounts have been recorded in the financial statements which relate to a current claim against the Company for wrongful dismissal. The Company maintains that the action is without merit and currently the outcome is not presently determinable.

Whitemud Resources Inc.
Financial Statements
For the years ended December 31, 2016 and 2015

Independent Auditors' Report

To the Shareholders of Whitemud Resources Inc.

We have audited the accompanying financial statements of Whitemud Resources Inc. (the "Company") which comprise the statements of financial position as at December 31, 2016 and December 31, 2015, the statements of net loss and comprehensive loss, changes in shareholders' deficiency and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risks assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2016 and December 31, 2015, and its financial performance and its cash flows for the years then ended, in accordance with International Financial Reporting Standards.

Emphasis of Matter – Going Concern

Without qualifying our opinion, we draw attention to Note 1 in the financial statements which describes matters and conditions that indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern.

Calgary, Alberta
March 14, 2017

MNP LLP
Chartered Professional Accountants

WHITEMUD RESOURCES INC.**Statements of Financial Position**

As at December 31

(Expressed in Canadian Dollars)

	2016	2015
Assets		
Current Assets		
Cash and cash equivalents <i>[note 5]</i>	\$ 278,357	\$ 268,930
Accounts receivable <i>[notes 17 and 19]</i>	1,598,945	1,055,222
Taxes recoverable	788,938	-
Inventory <i>[note 6]</i>	2,037,716	2,394,383
Prepaid expenses and deposits	22,628	30,850
Total Current Assets	4,726,584	3,749,385
Property, plant and equipment <i>[note 8]</i>	6,499,990	8,116,270
Total Assets	\$ 11,226,574	\$ 11,865,655
Liabilities and Shareholders' Deficiency		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 1,561,155	\$ 526,967
Notes payable <i>[note 9]</i>	40,723,623	36,881,528
Total Current Liabilities	42,284,778	37,408,495
Asset retirement obligation <i>[note 10]</i>	895,311	902,969
Total Liabilities	43,180,089	38,311,464
Shareholders' Deficiency		
Share capital <i>[note 11]</i>	77,902,637	77,902,637
Contributed surplus	5,353,381	5,353,381
Deficit	(115,209,533)	(109,701,827)
Total Shareholders' Deficiency	(31,953,515)	(26,445,809)
Total Liabilities and Shareholders' Deficit	\$ 11,226,574	\$ 11,865,655

Going concern *[note 1]*Subsequent event *[note 20]*

On behalf of the Board of Directors:

"signed" Stan Owerko
Director

"signed" Al Kroontje
Director

WHITEMUD RESOURCES INC.
Statements of Net Loss and Comprehensive Loss
For the years ended December 31
(Expressed in Canadian Dollars)

	2016	2015
Revenue	\$ 6,796,569	825,855
Expenses		
Operating	6,354,775	1,620,387
General and administration	499,695	382,860
Finance charges <i>[note 13]</i>	3,861,298	3,396,843
Impairment <i>[note 8]</i>	-	3,500,000
Depreciation <i>[note 8]</i>	1,594,738	447,734
	12,310,506	9,347,824
Loss before interest and other income	(5,513,937)	(8,521,969)
Interest and other income	6,231	5,199
Net loss and comprehensive loss	(5,507,706)	(8,516,770)
Net loss per share, basic and diluted <i>[note 14]</i>	\$ (0.015)	(0.024)

WHITEMUD RESOURCES INC.
Statement of Changes in Shareholders' Deficiency
For the years ended December 31,
(Expressed in Canadian Dollars)

	Share Capital	Contributed Surplus	Deficit	Total
Balance December 31, 2014	\$ 77,902,637	\$ 5,353,381	\$ (101,185,057)	\$ (17,929,039)
Net loss and comprehensive loss	-	-	(8,516,770)	(8,516,770)
Balance December 31, 2015	\$ 77,902,637	\$ 5,353,381	\$ (109,701,827)	\$ (26,445,809)
Net loss and comprehensive loss	-	-	(5,507,706)	(5,507,706)
Balance December 31, 2016	\$ 77,902,637	\$ 5,353,381	\$ (115,209,533)	\$ (31,953,515)

WHITEMUD RESOURCES INC.**Statements of Cash Flows**

For the years ended December 31

(Expressed in Canadian Dollars)

	2016	2015
Cash provided by (used) in:		
OPERATING ACTIVITIES:		
Net loss and comprehensive loss	\$ (5,507,706)	(8,516,770)
Items not involving cash:		
Depreciation	1,594,738	447,734
Impairment	-	3,500,000
Accrued interest on notes payable <i>[note 9]</i>	3,842,095	3,377,032
Accretion of asset retirement obligations <i>[note 10]</i>	18,013	19,189
Change in non-cash working capital <i>[note 16]</i>	66,416	407,363
Cash flows provided by (used in) operating activities	13,556	(765,452)
INVESTING ACTIVITIES:		
Purchase of property, plant and equipment <i>[note 8]</i>	(4,129)	(3,128)
Cash flows used in investing activities	(4,129)	(3,128)
FINANCING ACTIVITIES:		
Increase in notes payable <i>[note 9]</i>	-	850,000
Cash flows from financing activities	-	850,000
Increase in cash and cash equivalents	9,427	81,420
Cash and cash equivalents, beginning of year	268,930	187,510
Cash and cash equivalents, end of year	\$ 278,357	268,930

1. NATURE OF THE ORGANIZATION AND FUTURE OPERATIONS

Whitemud Resources Inc. (the "Company") was originally incorporated as the General Partner of Whitemud Resources Limited Partnership (the "Partnership") on April 28, 2005 under the laws of the Province of Alberta, Canada. The Company was restructured through an amalgamation between the Company and the Partnership under the laws of the Province of Alberta on July 27, 2006. The Company is headquartered in Calgary, Alberta, Canada. The registered address of the Company is 3900 Bow Valley Square 2, Calgary, Alberta T2P 2V7.

The Company was formed to engage in the business of developing a process to mine and process kaolin into a high-reactivity metakaolin that imparts beneficial properties to concrete mixtures containing up to 20% replacement of Portland cement. Since inception, the efforts of the Company have been devoted to the development of a process of producing kaolin and metakaolin, developing market demand, and planning and constructing the production facilities to manufacture the product. The Company has launched industrial production from its facility. However the Company has not earned sufficient revenues and the future is dependent on customer acceptance of the product, further development of markets, and its ability to obtain additional financing. With the formation of a new division, Midstream Energy Partners, the Company will also market hydrocarbon products. To date, the Company has been funded primarily from proceeds of an initial public offering, private placements of special warrants, the issuance of convertible debentures and notes payable.

Going Concern

These financial statements were prepared by management in accordance with International Financial Reporting Standards applicable to a going concern entity which assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. The uncertainty in the use of the going concern assumption is impacted by the following factors.

As at December 31, 2016, the Company had a working capital deficiency of \$37,558,194 (December 31, 2015 – \$33,659,110). During the year ended December 31, 2016, the Company had a net loss of \$5,507,706 (2015 - \$8,516,770) and operating cash flows of \$13,556 (2015 – (\$765,452)) with a resulting accumulated deficit at December 31, 2016 of \$115,209,533 (2015 - \$109,701,827). In order for the Company to continue operations for the longer term, including generating sufficient cash flows and ultimately attaining profitable operations, additional financing will be required.

The matters and conditions noted above indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Based on the Company's current projections, including budgeted loss and negative cash flows for fiscal 2017, future operations are dependent on the Company's ability to identify financing options, to generate improved market acceptance for the Company's product and the ongoing support of its creditors. Management is currently reviewing its options for additional financing. The Company has not made required interest payments to creditors and is in default under the loan agreement. The creditors have not demanded repayment of the loan to date. There is no assurance that the creditors will not demand repayments of the loans before the maturity date. There may be significant challenges in obtaining long term financing in order to meet its obligations.

In the fourth quarter of 2015, the Company formed Midstream Energy Partners, a new division, with the intention of diversifying the Company's revenue streams through the marketing of hydrocarbon commodities in addition to kaolin and metakaolin. This division was formed to generate new revenue streams to assist the Company in paying down its debts and stabilize its operations.

1. NATURE OF THE ORGANIZATION AND FUTURE OPERATIONS *(continued)*

The ability of the Company to continue as a going concern and realize the carrying value of its assets and discharge its liabilities when due, is dependent on the successful completion of the actions taken or planned by management. There is no certainty that these and other strategies will be sufficient to permit the Company to continue beyond the foreseeable future as such strategies are contingent upon new equity or debt funds from shareholders, investors and lenders, as well as improved market acceptance and revenues for the Company's product.

The financial statements do not reflect any adjustments relating to the recoverability and classification of recorded assets or liabilities that may be necessary should the Company be unable to continue as a going concern. If the going concern assumption was not appropriate for these financial statements, then adjustments would be necessary in the carrying value of assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used. Those adjustments would be material.

2. BASIS OF PREPARATION

These financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committees ("IFRIC") effective as at January 1, 2016.

These financial statements were authorized for issuance by the Board of Directors of the Company on March 14, 2017.

These financial statements have been prepared on a historical cost basis except for financial instruments classified as financial assets at fair value through profit or loss ("FVTPL") that have been measured at fair value. In addition, these financial statements have been prepared using the accrual basis of accounting, except cash flow information.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the Company's significant accounting policies as outlined below:

a) Foreign currencies

The presentation and functional currency of the Company is the Canadian dollar, which is the currency of the primary economic environment on which the Company operates. Transactions in currencies other than the Canadian dollar are recorded at the rates of exchange prevailing on the dates of transactions. At the end of each reporting period, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at that date. Any gains or losses are recorded in the statement of net loss and comprehensive loss.

b) Financial Instruments

The Company does not have any derivative instruments.

Non-derivative financial assets

The Company has the following non-derivative financial assets: financial assets at fair value through profit or loss and loans and receivables.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial assets at fair value through profit or loss ("FVTPL")

A financial asset is classified at FVTPL if they are held for trading or are designated as such upon initial recognition. Financial assets are designated as FVTPL if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy. Attributable transaction costs are recognized in profit or loss when incurred. Financial assets at FVTPL are measured at fair value, and changes therein are recognized in profit or loss. Cash is included in FVTPL.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest rate method, less any impairment losses. Accounts receivable are classified as loans and receivables.

Other financial liabilities

The Company has other financial liabilities including accounts payable and accrued liabilities and notes payable.

Such financial liabilities are recognized initially at fair value net of any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

c) Use of estimates and judgments

The preparation of financial statements in accordance with IFRS requires management to make critical estimates and judgments that affects the reported amounts of assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. In the process of applying the Company's accounting policies management takes into consideration existing circumstances and estimates at the date of these financial statements, which affects the reported amounts of income and expenses during the reporting periods. Given the uncertainty inherent in determining these factors, actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Significant areas requiring the use of management estimates relate to, but are not limited to:

(i) Impairment tests

The Company assesses, at the end of each reporting period, whether there is an indication that an asset may be impaired. If any indication of impairment exists, the Company determines the recoverable amount of the asset group. The impairment for long-lived assets is based on assumptions regarding future business volumes, sales prices, costs, cash flows, changes in customer or industry dynamics, new technologies, environmental considerations, economic declines, discount rates and other relevant assumptions.

(ii) Share based compensation plans

The Company accounts for share-based compensation plans in accordance with IFRS 2 Share-based Payment which requires companies to recognize the cost of such awards of equity instruments based on the fair value of those awards. The Company estimates the fair value of

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

stock option awards on the date of grant utilizing a Black-Scholes option valuation model. Certain key assumptions include the stock price volatility, forfeiture rates, and expected term.

(iii) Asset retirement obligations

The Company applies a number of assumptions in estimating provisions that are recorded for asset retirement obligations and environmental remediation at the mine site. These factors include estimated future costs, discount rates, anticipated life of the plant and inflation.

(iv) Inventories

The Company values inventories at the lower of cost and net realizable value through inventory allowances. Inventory allowances require estimates and assumptions about forecasted selling prices and the demand for kaolin and metakaolin.

(v) Property, plant and equipment

Depreciation and amortization are calculated using the unit of production method based upon the reserve life of the kaolin deposits and the declining balance method based upon the useful life of non-mine assets. The estimated useful life and residual value are management's best estimates and are based upon historical experience and market conditions.

(vi) Trade and other receivables

Impairment of trade and other receivables which include receivables from shareholders are constantly monitored. Impairments are based upon historical values, observed customer solvency, external credit ratings, aging of the receivable and industry risks.

(vii) Taxes

Uncertainties exist with respect to the interpretation of the amount and timing of future taxable income. Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable earnings will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable earnings together with future tax planning strategies.

d) Cash

Cash is classified as FVTPL and include balances with Canadian chartered banks.

e) Inventory

Inventories of finished goods, raw materials and operating and maintenance supplies are valued at the lower of cost and net realizable value, with cost determined on a weighted average cost basis. The cost of finished goods includes direct materials and direct labor.

f) Property, plant and equipment

Property, plant and equipment are recorded at historical cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. This includes the purchase price, any other costs directly attributable to bringing the assets to a working condition for intended use, the costs of dismantling and removing the items and restoring the site on which they are located and borrowing costs on qualifying assets.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Where an item of property, plant and equipment comprises significant parts with useful lives that are significantly different from that of the asset as a whole, the parts are accounted for as separate items of property, plant and equipment and depreciated accordingly.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from derecognizing an asset determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in the Statement of Net Loss and Comprehensive Loss.

Expenditures incurred that renew or refurbish plant and equipment to extend its useful life or increase its productive capacity are capitalized when it is determined that a future benefit will flow to the Company as a result of the renewal.

The Company depreciates the costs of its property, plant and equipment over their estimated useful lives using the following rates and methods:

Processing plant, mine preparation and mine expansion	35% declining balance
Buildings	20% declining balance
Plant equipment	30% declining balance
Computer equipment	30% declining balance
Vehicles	3 year straight line
Furniture and equipment	20% declining balance
Leasehold improvements	Over term of lease
Assets under capital lease	Over term of lease

The Company commenced the depreciation of its processing plant in October 2008.

Change in accounting estimate

The Company changed the rate of depreciation on the processing plant and buildings during the year ended December 31, 2016 to more properly reflect the systematic amortization of the assets over their economic useful life. Under IFRS, this change is considered a change in accounting estimate and accounted for prospectively by amortizing the cumulative changes over the remaining useful life of the related assets. The change in useful life resulting and additional \$1,307,758 of amortization being recognized in the current year.

g) Stripping costs

Deferred stripping costs represent the cost incurred to remove overburden and other waste materials to access ore. Stripping costs incurred prior to the production phase of the mine are capitalized and included as part of the carrying value of the mineral property to the extent of future economic benefit. During the production phase, stripping costs, which provide probable future economic benefits, improved access to an identifiable ore body and which can be measured reliably are capitalized to inventory. Capitalized stripping costs are amortized using a unit of production basis over the proven and probable reserve to which they relate. If it is determined that there are no future economic benefits, the stripping costs are expensed as incurred.

h) Mineral properties

The Company expenses mineral exploration costs in the year they are incurred unless deferral criteria are met and it is probable that they will be recovered from future operations. Upon determining that the mineral property can be economically developed through proven and probable reserves, the costs of future exploration and development to further delineate the reserves on such property are capitalized. Determination of proven and probable reserves is based upon results of technical reports indicating whether the property is economically viable.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Expenditures that meet the criteria for capitalization are amortized on a unit of production basis from the point of commencing commercial production. Such costs include all acquisition, geological, testing, product development, exploration and direct general and administration charges associated with the exploration and development of the property.

i) Impairment of non-financial assets

The Company assesses at each reporting date, whether there is an indication that an asset or a cash generating unit ("CGU") may be impaired. A CGU is the smallest identifiable group of assets that generates cash flows largely independent of the cash inflows from other assets or groups of assets. If any indication of impairment exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of the those from other assets or groups of assets, in which case the asset is tested as part of a larger CGU. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and an impairment loss is charged to the Statement of Net Loss and Comprehensive Loss.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflect current market assessments of the time value of money and the risks specific to the asset.

These assessments require the use of estimates and assumptions such as long-term selling prices and volumes, discount rates, future capital requirements, exploration potential and operating performance.

Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. The best evidence of fair value is the value obtained from an active market or binding sale agreement. Where neither exists, fair value is based on the best information available to reflect the amount the Company could receive for the CGU in an arm's length transaction. This is often estimated using discounted cash flow techniques.

Impairment losses are reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. Impairment losses are reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been previously recognized.

j) Impairment of financial assets

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. The criteria used to determine if objective evidence of an impairment loss include: significant financial difficulty of the obligor; delinquencies in interest or principal payments; and the probability that the borrower will enter bankruptcy or other financial reorganization. If such evidence exists, the Company recognizes an impairment loss, as follows:

(i) Financial assets carried at amortized cost:

The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

k) Asset retirement obligations

The Company's operations give rise to decommissioning, restoration and rehabilitation activities. Environmental costs arise when environmental disturbances are caused by the exploration, development or ongoing production of a mineral property interest. The net present value of future restoration cost estimates arising from the decommissioning, restoration and rehabilitation are capitalized to related assets with a corresponding increase in the restoration provision in the period incurred. Discounting using risk free rates that reflect the time value of money are used to calculate the net present value. The capitalized restoration costs are charged against income and loss over the economic life of the related asset, through depreciation on a unit of production method. The restoration provision is accreted to net present value each reporting period with the unwinding of the restoration provision being charged to finance expense in the Statement of Net Loss and Comprehensive Loss. Actual costs incurred to settle the site restoration obligation are charged against the provision. Any difference between the actual costs incurred and the provision is recognized as a gain or loss in the Statement of Net Loss and Comprehensive Loss in the period in which the settlement occurs. The Company's estimates of restoration costs could change as result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to related assets with a corresponding entry to the restoration provision.

l) Taxes

Taxes on the profit or loss for the periods presented comprise current and deferred tax. Tax is recognized in profit or loss except to the extent that relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax legislation enacted or substantively enacted at year end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amount used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities using the tax rates enacted or substantively enacted at the financial position reporting date applicable to the period of expected realization or settlement. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

m) Revenue recognition

Revenue from the sale of kaolin and metakaolin is recorded when the title passes to the customer, amounts are fixed or can be determined and the Company's ability to collect is probable.

Revenue from the sale of hydrocarbons is recorded when the product is delivered to the Company's customers, provided the Company has not retained any significant risks of ownership or future obligations with respect to the product.

n) Royalties

Royalty payments for kaolin quarried and processed under the Quarrying Regulations are recorded to operating expenses as incurred.

o) Leases

A lease that transfers substantially all of the benefits of ownership is classified as a finance lease. At the inception of the lease, an asset and a payment obligation are recorded at an amount equal to the lesser of the present value of the minimum lease payments and the property's fair market value. Assets under finance lease are depreciated on a straight-line basis over the term of the lease. All other leases are accounted for as operating leases under which lease costs are expensed on as incurred.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

p) Loss per common share amounts

Basic loss per common share amounts is calculated using the weighted average number of shares outstanding during the year. Diluted loss per common share amounts are calculated based on the treasury-stock method, which assumes that any proceeds obtained on the exercise of in-the-money options would be used to purchase shares at the average market price. The weighted average number of basic shares outstanding is then adjusted by the net change.

q) Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses. All operating segments' results are reviewed by the Company's management in order to make decisions regarding the allocation of resources to the segment. Segment results include items directly attributable to a segment as those that can be allocated on a reasonable basis.

4. RECENT AND FUTURE ACCOUNTING PRONOUNCEMENTS

Future accounting pronouncements issued but not yet applied

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing IFRS standards have been published but are not yet effective, and have not been adopted early by the Company. Management anticipates that all of the pronouncements will be adopted in the Company's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Company's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Company's financial statements.

IFRS 9 "Financial Instruments: Classification and Measurement" is a new financial instruments standard effective for annual period beginning on or after January 1, 2018 that replaces IAS 39 and IFRIC 9 for classification and measurement of financial assets and financial liabilities. The Company is currently assessing the impact of this standard.

IFRS 15, "Revenue from Contracts with Customers" was issued in 2014 and replaces the two main recognition standards IAS 18, "Revenue", and IAS 11, "Construction Contracts". The new standard provides a five step model framework as a core principle upon which an entity recognizes revenue and becomes effective January 1, 2018. The Company is currently assessing the impact of this standard.

IFRS 16, "Leases" was issued and IAS 17 "Leases" was amended. IFRS 16 specifies how to recognize, measure, present and disclose leases effective for annual period beginning on or after January 1, 2019. The standard provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12 months or less or the underlying asset has a low value. Lessor accounting however remains largely unchanged from IAS 17 and the distinction between operating and finance leases is retained. IAS 17, as revised, now prescribes the accounting policies and disclosures applicable to leases, both for lessees and lessors. The Company is currently assessing the impact of this standard.

5. CASH

As at December 31, 2016, cash of \$278,357 (2015 - \$268,930) consist of cash on hand and cash deposits at the Company's bank.

6. INVENTORY

The Company has inventory as follows:

	2016		2015	
Metakaolin	\$	1,388,318	\$	1,742,353
Kaolinized mineral resource		333,828		333,828
Spare parts		297,360		297,360
Fuels, coal and miscellaneous		18,210		20,842
	\$	2,037,716	\$	2,394,383

Operating expenses includes \$364,140 (2015 - \$352,459) related to the cost of inventory from sales.

7. RECLAMATION BOND

In 2012, a \$50,000 letter of credit and corresponding \$50,000 deposit was replaced by a \$1 million letter of credit to the Saskatchewan Ministry of Environment as the first installment towards a reclamation bond for the plant and mine site. The letter of credit was issued by Petrogas Energy Corp.

8. PROPERTY, PLANT AND EQUIPMENT

Cost	Land and buildings	Plant and equipment	Assets under capital lease	Leasehold improvements, computer equipment, office furniture	Vehicles	Total
Balance December 31, 2014	\$ 28,946,657	\$ 33,983,933	\$ 457,956	\$ 49,564	\$ 40,644	\$ 63,478,754
Additions	-	27,410	-	3,128	-	30,538
Disposals	-	-	-	-	-	-
Balance December 31, 2015	\$ 28,946,657	\$ 34,011,343	\$ 457,956	\$ 52,692	\$ 40,644	\$ 63,509,292
Additions	-	-	-	4,129	-	4,129
Disposals	-	(25,671)	-	-	-	(25,671)
Balance December 31, 2016	\$ 28,946,657	\$ 33,985,672	\$ 457,956	\$ 56,821	\$ 40,644	\$ 63,487,750
Depreciation and impairment losses						
Balance December 31, 2014	\$ 20,931,572	\$ 29,993,315	\$ 457,956	\$ 21,801	\$ 40,644	\$ 51,445,288
Depreciation	301,125	137,342	-	9,267	-	447,734
Impairment	1,750,300	1,749,700	-	-	-	3,500,000
Balance December 31, 2015	\$ 22,982,997	\$ 31,880,357	\$ 457,956	\$ 31,068	\$ 40,644	\$ 55,393,022
Depreciation	1,095,400	491,612	-	7,726	-	1,594,738
Impairment	-	-	-	-	-	-
Balance December 31, 2016	\$ 24,078,397	\$ 32,371,969	\$ 457,956	\$ 38,794	\$ 40,644	\$ 56,987,760
Carrying Amounts						
At December 31, 2016	\$ 4,868,260	\$ 1,613,703	\$ -	\$ 18,027	\$ -	\$ 6,499,990
At December 31, 2015	\$ 5,963,660	\$ 2,130,986	\$ -	\$ 21,624	\$ -	\$ 8,116,270

8. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Included in land and buildings is land with a cost of \$486,657 (2015 - \$486,657). Additions to plant and equipment relate to non cash adjustments to a change in the ARO liability estimate described in note 10.

As a result of the going concern circumstances noted in note 1 and the economic uncertainties surrounding the oil and gas industry, an impairment of \$nil (2015 - \$3,500,000) was recorded at December 31, 2016. The Company determined the recoverable amounts for its CGU using the value in use method based on internally generated cash flow projections. In determining fair value, the Company considered current production costs, long term view of the uses for its products, and recent sales volumes. The calculation of the recoverable amount is sensitive to the assumptions regarding production volumes, discount rates, operating costs and competitive substitutes in the marketplace. In computing the recoverable amount, future cash flows were adjusted for risks and discounted using a discount rate of 14%. This discount rate is considered appropriate for the weighted average cost of capital for this market participant. The recoverable amount is highly sensitive to the discount rate and forecasted prices for products. Holding all other variables constant, a 1% increase in the discount rate applied would increase the impairment by approximately \$725,000 and a 5% decrease in the forecasted sales price applied would increase the impairment by approximately \$1,275,000.

9. NOTES PAYABLE

The Company has the following notes payable:

	December 31, 2016	December 31, 2015
Kasten Resources ("Kasten") (a), (c)	\$ 2,007,818	\$ 1,818,080
Petrogas Energy Corp. ("Petrogas") (b), (c)	38,715,805	\$ 35,063,448
	\$ 40,723,623	\$ 36,881,528

- (a) Kasten provided operational and Proposal funding of \$1,139,561 during receivership. The outstanding balance as at December 31, 2016 includes accrued interest of \$868,257 (2015 - \$678,519).
- (b) Petrogas provided operational and Proposal funding during receivership of \$15,984,062 and operational funding of \$7,515,938 (2015 - \$7,515,938) after receivership to recommence operations. The outstanding balance as at December 31, 2016 includes accrued interest of \$15,215,805 (2015 - \$11,563,448).
- (c) The notes payable to Kasten and Petrogas (the "lenders") include a fully advanced term loan in the amount of \$24,639,561 (2015 - \$24,639,561) which is due on demand and had a maturity date of January 16, 2014 unless demanded prior to that date. The loan was not repaid on January 16, 2014. The Company has not made the required principal and interest payments to creditors and is in default of its loan agreement. The lenders have agreed to extend the maturity date of the loan to December 31, 2017. The lenders have increased advances made available on a demand operating loan, originally set at up to \$5,000,000. Both debt facilities bear an interest rate of 10% per annum compounded semi-annually at the end of February and August of each year. Principal reductions of 1/20th of the outstanding balance are required annually on April 4th, the anniversary date of the loan agreement. The lenders hold a general security agreement and other collateral registered as a first charge against all assets of the Company. There is no assurance that the creditors will not demand repayment of the loan before the maturity date.

10. ASSET RETIREMENT OBLIGATION

The Company's asset retirement obligation results from ownership of a processing facility and mine property in southern Saskatchewan. The Company has completed construction of the plant and preparation of the mine and commissioned the facility. A third-party assessment of costs to decommission the plant and clean the plant site amounts to \$1,000,000, to be incurred by 2033. Internal assessments of costs to decommission the plant were conducted and revaluations of ARO due to inflation factors and discount rate changes as required by IFRS resulted in revisions of \$(25,670) (2015 - \$27,410) due to inflation factors and a decrease in the risk-free interest rate to 2.05% (2015 – 2.16%). The amounts are subject to measurement uncertainty with respect to estimated costs, the actual timing of reclamation, the inflation rate and the discount rates used.

	December 31, 2016	December 31, 2015
Balance beginning of year	\$ 902,969	856,370
Change in liability estimate	(25,670)	27,410
Accretion	18,012	19,189
Balance end of year	\$ 895,311	902,969

11. SHAREHOLDERS' EQUITY

Authorized

Unlimited number of Class A common shares without par value and voting
 Unlimited number of Class B common shares without par value and non-voting
 Unlimited number of preferred shares

Common Shares Issued

	Number of shares	Amount
Class A Common shares December 31, 2011	18,026,300	\$ 77,902,637
Issued pursuant to Court Order	16,000,000	-
Class A Common Shares, December 31, 2015 and December 31, 2016	34,026,300	\$ 77,902,637

	Number of shares	Amount
Class B Non-voting Common shares December 31, 2012	-	\$ -
Issued pursuant to Court Order	326,499,700	-
Class B Non-voting Common Shares, December 31, 2015 and December 31, 2016	326,499,700	\$ -

Pursuant to an order of the Court of Queen's Bench of Alberta dated August 12, 2011, Kasten and Petrogas were issued 16,000,000 Class A Common Shares and 326,499,700 Class B Non-voting Common Shares. Due to the financial position of the Company and the facts described in Note 1, no additional cash consideration has been ascribed to these shares.

As a result, the pre-receivership holders of the 18,026,300 Class A Common Shares will continue to hold 52.98% of the issued Class A Common Shares (being 5.5% of the total number of all issued shares).

11. SHAREHOLDERS' EQUITY (continued)

On April 3, 2013, a cease trade order was revoked by the Alberta Securities Commission and on June 27, 2013 an application to have the Company reinstated for trading on the NEX was approved by the TSXV.

Shareholder Loans

To assist employees in exercising the options granted, the Company made shareholder loans to certain employees for the sole purpose of exercising their stock options. Each of these shareholder loans was interest free, secured by a promissory note and associated shares received upon exercise and for a period not to exceed four years or until the associated shares are sold, if earlier. Promissory notes were signed by all employees receiving these shareholder loans. The loans were due December 31, 2010 and repayment was not received. A total of \$659,600 was provided as loans to employees in 2006 to exercise 659,600 stock options. To date \$96,825 of the loans have been repaid and \$190,000 has been deemed uncollectible resulting in shareholder loans outstanding in the amount of \$372,775 (2015 - \$562,775) and is included in accounts receivable at December 31, 2016. The Company has commenced action to collect the unpaid amounts.

The amounts outstanding from those previously employed in this regard are as follows:

	December 31, 2016		December 31, 2015	
Chief Executive Officer, President and Chief Financial Officer	\$	370,950	\$	430,950
Other management and employees		1,825		131,825
	\$	372,775	\$	562,775

None of the above individuals were employed by the Company in 2016 or 2015.

12. CAPITAL MANAGEMENT

As part of the management of capital, the Company prepares annual operating and capital budgets and may from time to time issue new equity or debt in order to finance its capital expenditures. The Company has not declared or paid any dividends on its outstanding shares and any decision to pay dividends in the future would be based upon the financial condition of the Company. The Company may elect to alter its capital structure through the issuance of new shares, issuance of new debt, refinancing of existing debt or by acquiring or disposing of assets.

The capital structure, as disclosed on the Statements of Financial Position, consists of cash, notes payable, and shareholders' deficiency.

	December 31, 2016		December 31, 2015	
Cash	\$	278,357	\$	268,930
Notes payable		40,723,623		36,881,528
Shareholders' deficiency	\$	(31,953,515)	\$	(26,445,809)

Since August 2011, all operational funding has been provided by Petrogas as disclosed in Note 9 through notes payable.

With respect to the notes payable, the Company has not made required principal and interest payments to creditors and is in default of its loan agreement. The lenders have extended the maturity date of the loan to February 28, 2017. There is no assurance that the creditors will not demand repayment of the loan on the maturity date.

13. FINANCE CHARGES

Financing charges are comprised of:

	2016	2015
Debt service	\$ 1,190	\$ 622
Interest on notes payable	3,842,095	3,377,032
Accretion from asset retirement obligations	18,013	19,189
	\$ 3,861,298	\$ 3,396,843

14. PER SHARE

Net loss per share is calculated using the weighted average number of shares outstanding. The weighted average number of shares outstanding for the year ended December 31, 2016 is 360,526,000 (2015 - 360,526,000).

15. TAXES

The tax recovery differs from the amount that would be computed by applying the expected tax rates to the loss before taxes. The reasons for the difference are as follows:

	2016	2015
Statutory tax rate	27.00%	27.00%
Income (Loss) before taxes	\$ (5,507,706)	\$ (8,516,770)
Expected tax recovery	(1,487,081)	(2,299,528)
Change in deferred tax asset not recognised	1,487,081	2,299,528
Tax recovery	\$ -	\$ -

The components of the unrecognized deductible temporary differences are as follows:

	2016	2015
Non-capital losses	\$ 96,949,000	\$ 89,000,000
Property, plant and equipment	12,167,000	15,122,000
Asset retirement obligation	895,000	903,000
Other	49,000	53,000
	\$ 110,060,000	\$ 105,078,000

The Company has non-capital losses of approximately \$96,949,000 (2015 - \$89,000,000) that are available to offset future taxable income. The non-capital losses will expire as follows:

2025	\$ 244,000
2026	350,000
2027	3,009,000
2028	6,480,500
2029	9,055,000
2030	12,633,500
2031	1,171,000
2032	18,586,000
2033	14,770,000
2034	12,000,000
2035	10,650,000
2036	8,000,000

15. TAXES (continued)

The Company has undepreciated capital cost and resource tax pools of \$13,000,000 (2015 - \$18,000,000) which are available for deduction against future taxable income. The realization of tax benefits related to these future potential tax deductions is uncertain and cannot be viewed as probable. Accordingly, no deferred tax asset has been recognized.

16. SUPPLEMENTAL CASH FLOW DISCLOSURE

	2016	2015
Accounts receivable	\$ (543,723)	\$ (346,013)
Taxes recoverable	(788,938)	-
Inventory	356,667	352,385
Prepaid expenses and deposits	8,222	(1,351)
Accounts payable and accrued liabilities	1,034,188	402,342
Attributable to operating activities	\$ 66,416	\$ 407,363

17. RELATED PARTY TRANSACTIONS

Included in accounts payable and accruals is \$nil (2015 – \$485) payable to Petrogas Energy Corp. Included in accounts receivable is \$137,184 (2015 - \$419,687) due from Petrogas Energy Corp and \$877,327 (2015 - \$nil) due from Petrogas Inc.

Certain notes payable in note 9 are held by Petrogas Energy Corp.

The Company has charged Petrogas Energy Corp \$50,000 per month for services rendered by Midstream Energy Partners division.

To assist former employees in exercising stock options, the Company had established shareholder loans to employees for the sole purpose of exercising their stock options as described in note 11.

The remuneration of directors and executive officers during the year is as follows:

	2016	2015
Salaries and other short term benefits:	\$ 54,100	\$ 73,700

18. OPERATING SEGMENTS

For management purposes, the Company is organized into divisions based on their products and services provided. Management monitors the operating results of each division separately for the purpose of making decisions about resource allocation and performance assessment.

The Company has two reportable operating segments as follows:

1. Mining, processing and marketing kaolin and metakaolin
2. Midstream Energy Partners – managing and marketing hydrocarbons

18. OPERATING SEGMENTS *(continued)*

	Metakaolin	Hydrocarbons	Total
Revenue	\$ 414,906	\$ 6,381,663	\$ 6,796,569
Operating costs	(1,018,980)	(5,335,795)	(6,354,775)
Depletion and amortization	(1,594,738)	-	(1,594,738)
General and administrative	(482,316)	(17,379)	(499,695)
Finance charges	(3,861,298)	-	(3,861,298)
Other income	2,692	3,539	6,231
Income (loss) before taxes	<u>\$ (6,539,734)</u>	<u>\$ 1,032,028</u>	<u>\$ (5,507,706)</u>
Current assets	<u>\$ 2,532,215</u>	<u>\$ 2,194,369</u>	<u>\$ 4,726,584</u>
Total assets	<u>\$ 9,032,205</u>	<u>\$ 2,194,369</u>	<u>\$ 11,226,574</u>
Current liabilities	<u>\$ 40,850,387</u>	<u>\$ 1,434,391</u>	<u>\$ 42,284,778</u>
Total liabilities	<u>\$ 41,745,698</u>	<u>\$ 1,434,391</u>	<u>\$ 43,180,089</u>

19. FINANCIAL INSTRUMENTS

The Company thoroughly examines the various financial instrument risks to which it is exposed and assesses the impact and likelihood of those risks. These risks may include credit risk, liquidity risk, currency risk, and interest rate risk. Where material, these risks are reviewed and monitored by the Board of Directors.

Fair Values

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, taxes recoverable, accounts payable and accrued liabilities, and notes payable. The fair value of cash and cash equivalents, accounts receivable, taxes recoverable, accounts payable and accrued liabilities, and notes payable approximate their carrying values due to the immediate or short term maturity of these financial instruments. The financial assets classified as fair value through profit or loss are measured within level 1 of the fair value hierarchy as described below:

Level 1 – Unadjusted quotes prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 – Inputs to the valuation methodology included quoted prices for identical assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

Level 3 – Inputs to the valuation methodology are not based on observable market data.

The following table outlines the Company's financial assets and liabilities carrying values and estimated fair values, including the level of measurement of fair values within the fair value hierarchy described below.

19. FINANCIAL INSTRUMENTS *(continued)*

	December 2016		December 2015	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
Financial Assets				
Fair value through profit or loss:				
Cash	\$ 278,357	\$ 278,357	\$ 268,930	\$ 268,930
Loans and receivables				
Accounts receivable	1,598,945	1,598,945	1,055,222	1,055,222
Taxes recoverable	788,938	788,938	-	-
Financial Liabilities				
Other financial liabilities				
Accounts payable and accrued liabilities	1,561,155	1,561,155	526,967	526,967
Notes payable	40,723,623	40,723,623	36,881,528	36,881,528

Risk Management

The Company's risk management program focuses on minimizing the potential adverse effects on the Company's financial performance. The Company manages risks and risk exposure through a combination of a system of internal and disclosure controls, as well as insurance and sound business practices.

Risk management is primarily the responsibility of the Company's corporate finance function. Any significant risks are monitored and when appropriate, actions will be taken according to the Company's policies established related to that purpose. In addition, as required, the risks are reviewed with the Company's Board of Directors.

Interest Rate Risk

The Company defines interest rate risk as the financial risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in the market interest rates. The Company currently maintains cash balances and notes payable. The Company's current policy is to invest any excess cash not required for operations in guaranteed investment certificates with short-term maturities. The Company's sensitivity to interest rate risk on its guaranteed investment certificates is immaterial as the funds available for investment are minimal due to the funds being needed to fund ongoing operations. Any change in interest rates would not result in any material change in expected interest income.

The Company's notes payable bear interest at a fixed rate of 10% per annum. The interest rates on the Company's notes payable are fixed for the term. Therefore, the Company is not exposed to significant cash flow interest rate risk.

Credit Risk

Credit risk is defined as the financial risk associated with non-performance of contractual obligations by counterparties. Credit risk arises from cash held with the Company's bank along with credit exposure to customers and other outstanding accounts receivable. The maximum exposure to credit risk is equal to the carrying value of these financial assets.

The Company's objective for managing the counterparty credit risk is to prevent losses on its financial assets. The Company is not yet in full commercial production, but upon full commercial production will assess the credit quality of its counterparties, taking into consideration their financial position, past payment histories and other factors. Management will regularly monitor counterparty credit limits and perform credit reviews. The Company's current sensitivity to credit risk is managed by dealing with reputable customers. Prior to significant commercial sales, relatively minimal supplies are required, with the Company's counterparty credit risk limited to government agencies and select companies that do not present any material concerns.

19. FINANCIAL INSTRUMENTS (continued)

The Company's financial assets consist of accounts receivable of \$1,598,945 and taxes recoverable of \$788,938. Accounts receivable includes \$372,775 due from former directors and officers of the Company as explained in Note 11. None of the trade accounts receivable is over 90 days past due. There is a receivable due from Petrogas Inc. in the amount of \$877,327 for commodity sales made by Midstream Energy Partners, a division of Whitemud Resources Inc. The allowance for doubtful accounts as at December 31, 2016 is \$nil (2015 - \$nil). Approximately 100% (2015 – 98%) of the Company's sales are with four customers.

The allowance for doubtful accounts is charged to the statements of net loss and comprehensive loss. Shortfalls in collections are applied against this provision. Estimates for allowance for doubtful accounts are determined by a customer-by customer evaluation of collectability at each statement of financial position reporting date, taking into account the amounts that are past due and any available relevant information on the customers' liquidity and going concern problems.

Foreign Currency Exchange Risk

The Company currently operates in Canada and deals periodically with suppliers and customers in the United States. The functional currency of the Company and reporting currency is the Canadian dollar. Current dealings with suppliers in the United States are very minimal in comparison to dealings with Canadian suppliers. The Company has not entered into any derivative agreements to mitigate this risk.

As at December 31, 2016, the Company had \$nil (2015 – nil) in US\$ receivables and \$1,076,179 (2015 – \$297,076) in US\$ payables. A 1% change in the exchange rate at December 31, 2016 of the US dollar is estimated to have approximately a \$14,300 effect on the net loss and comprehensive loss for the year.

Liquidity Risk

The Company defines liquidity risk as the financial risk that the Company will encounter difficulties meeting its obligations associated with financial liabilities. The Company's objective for managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. At December 31, 2016, the Company had a working capital deficiency of \$37,558,194 (2015 – \$33,659,110). The Company's trade payables and accrued liabilities are \$1,561,155 (2015 – 526,310), of which, \$1,050 (2015 - \$4,150) was 90 days overdue.

The Company has demand notes payable in the amount of \$40,723,623 as described in Note 9. The Company has not made the required principal and interest payments under the loan agreement. The lenders have agreed to extend the maturity date of the loan to December 31, 2017. According to the loan agreement, the unpaid interest is an event of default and the amount is to be added to the principal amount of the loan. There is no assurance that the creditors will not demand repayment of the loan on the maturity date. The Company requires the ongoing support of its creditors. All of the Company's operations in 2016 have been funded by Petrogas. As at December 31, 2016, Petrogas has advanced \$7,515,938 for operational and capital funding.

The timing of the cash outflows relating to financial liabilities are outlined in the table below:

	Less than 1 year	Thereafter	Total
Accounts payable and accrued liabilities	\$ 1,561,155	\$ -	\$ 1,561,155
Notes payable	\$ 40,723,623	\$ -	\$ 40,723,623

20. SUBSEQUENT EVENT

In January 2017, Petrogas and Kasten agreed to waive interest on the notes payable, as disclosed in Note 9, for the fiscal year ending December 31, 2017.

Whitemud Resources Inc.
Condensed Interim Financial Statements
For the three and six months ended June 30, 2019 and 2018
(Unaudited)

WHITEMUD RESOURCES INC.
Condensed Interim Statements of Financial Position
(Unaudited)

	June 30, 2019	December 31, 2018
Assets		
Current assets		
Cash and cash equivalents	\$ 169,846	\$ 52,266
Accounts receivable	6,950,689	7,948,190
Taxes recoverable	-	21,030
Inventory [note 4]	796,325	870,702
Prepaid expenses and deposits	56,884	22,896
	7,973,744	8,915,084
Property, plant and equipment [note 6]	1,436,639	1,455,496
Total assets	\$ 9,410,383	\$ 10,370,580
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 1,513,681	\$ 3,633,434
Notes payable [note 7]	24,639,561	24,639,561
	26,153,242	28,272,995
Asset retirement obligation [note 8]	1,034,502	964,225
	27,187,744	29,237,220
Shareholders' Deficiency		
Share capital [note 9]	77,902,637	77,902,637
Contributed surplus	5,353,381	5,353,381
Deficit	(101,033,379)	(102,122,658)
	(17,777,361)	(18,866,640)
Total Liabilities and Shareholders' Deficiency	\$ 9,410,383	\$ 10,370,580

Going Concern [note 1]

On behalf of the Board of Directors:

 Director

 Director

WHITEMUD RESOURCES INC.**Condensed Interim Statements of Net Income (Loss) and Comprehensive Income (Loss)****For the three and six months ended June 30**

(Unaudited)

	Three months ended		Six months ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Revenue	\$ 1,136,588	628,608	\$ 2,090,386	1,468,951
Expenses				
Operating	196,665	164,698	405,378	479,596
General and administration	217,775	187,630	385,217	224,979
Finance charges <i>[note 11]</i>	5,003	5,635	10,459	11,143
Depreciation <i>[note 6]</i>	39,676	228,287	79,352	456,574
	459,119	586,250	880,406	1,172,292
Income before interest and other income	677,469	42,358	1,209,980	296,659
Interest and other income (expense)	(82,539)	409,947	(120,701)	179,426
Net income and comprehensive income	\$ 594,930	452,305	\$ 1,089,279	476,085
Earnings per share, basic and diluted <i>[note 12]</i>	\$ 0.002	0.001	\$ 0.003	0.001

WHITEMUD RESOURCES INC.**Condensed Interim Statements of Changes in Shareholders' Equity (Deficiency)****For the three and six months ended June 30, 2019 and 2019**

(Unaudited)

	Share Capital	Contributed Surplus	Deficit	Total
Balance December 31, 2018	\$ 77,902,637	\$ 5,353,381	\$ (102,122,658)	\$ (18,866,640)
Net income and comprehensive income	-	-	1,089,279	1,089,279
Balance June 30, 2019	\$ 77,902,637	\$ 5,353,381	\$ (101,033,379)	\$ (17,777,361)

	Share Capital	Contributed Surplus	Deficit	Total
Balance December 31, 2017	\$ 77,902,637	\$ 5,353,381	\$ (115,618,229)	\$ (32,362,211)
Net loss and comprehensive income	-	-	476,085	476,085
Balance June 30, 2018	\$ 77,902,637	\$ 5,353,381	\$ (115,142,144)	\$ (31,886,126)

WHITEMUD RESOURCES INC.
Condensed Interim Statements of Cash Flows
For the Six Months Ended June 30
(Unaudited - Prepared by Management)

	Three months ended		Six months ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Cash provided by (used) in:				
OPERATING ACTIVITIES:				
Net income and comprehensive income	\$ 594,930	\$ 452,306	\$1,089,279	\$ 476,085
Items not involving cash:				
Depreciation [note 6]	39,676	228,287	79,352	456,574
Accretion of asset retirement obligations [note 8]	4,328	5,318	9,784	10,513
	638,934	685,911	1,178,415	943,172
Change in non-cash working capital	(665,814)	(869,318)	(1,060,835)	(939,057)
	(26,880)	(183,407)	117,580	4,115
Increase (decrease) in cash and cash equivalents	(26,880)	(183,407)	117,580	4,115
Cash and cash equivalents, beginning of period	196,726	253,640	52,266	66,118
Cash and cash equivalents, end of period	169,846	70,233	169,846	70,233

1. NATURE OF THE ORGANIZATION AND FUTURE OPERATIONS

Whitemud Resources Inc. (the "Company") was originally incorporated as the General Partner of Whitemud Resources Limited Partnership (the "Partnership") on April 28, 2005 under the laws of the Province of Alberta, Canada. The Company was restructured through an amalgamation between the Company and the Partnership under the laws of the Province of Alberta on July 27, 2006. The Company is headquartered in Calgary, Alberta, Canada. The registered address of the Company is 3900 Bow Valley Square 2, Calgary, Alberta T2P 2V7.

The condensed interim financial statements of the Company were authorized for issuance by the Board of Directors on August 29, 2019.

Going Concern

These condensed interim financial statements were prepared by management in accordance with International Financial Reporting Standards applicable to a going concern entity which assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. The uncertainty in the use of the going concern assumption is impacted by the following factors.

As at June 30, 2019, the Company had a working capital deficiency of \$18,179,498 (December 31, 2018 – \$19,357,911). During the six month period ended June 30, 2019, the Company had a net income and comprehensive income of \$1,089,279 (2018 – \$476,085) and operating cash flows of \$117,581 (2018 – \$4,115) with a resulting accumulated deficit at June 30, 2019 of \$101,033,379 (2018 - \$102,122,658). In order for the Company to continue operations for the longer term, including generating sufficient cash flows and ultimately attaining profitable operations, additional financing will be required. As a result of the economic uncertainties surrounding the oil and gas industry, an impairment of (2019 - \$nil) \$3,010,705 was recorded in the year ended December 31, 2018.

The matters and conditions noted above indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Based on the Company's current projections, including budgeted loss and negative cash flows for fiscal 2019, future operations are dependent on the Company's ability to identify financing options, to generate improved market acceptance for the Company's product and the ongoing support of its creditors. Management is currently reviewing its options for additional financing. The creditors have not demanded repayment of the loan to date and have given assurance that they will not demand repayment of the loans before the maturity date. There may be significant challenges in obtaining long term financing in order to meet its obligations.

The ability of the Company to continue as a going concern and realize the carrying value of its assets and discharge its liabilities when due, is dependent on the successful completion of the actions taken or planned by management. There is no certainty that these and other strategies will be sufficient to permit the Company to continue beyond the foreseeable future as such strategies are contingent upon new equity or debt funds from shareholders, investors and lenders, as well as improved market acceptance and revenues for the Company's product.

1. NATURE OF THE ORGANIZATION AND FUTURE OPERATIONS *(continued)*

The financial statements do not reflect any adjustments relating to the recoverability and classification of recorded assets or liabilities that may be necessary should the Company be unable to continue as a going concern. If the going concern assumption was not appropriate for these financial statements, then adjustments would be necessary in the carrying value of assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used. Those adjustments would be material.

2. BASIS OF PREPARATION

The significant accounting policies of the Company are the same as those applied in the Company's annual audited financial statements for the years ended December 31, 2018 and 2017, except as described in note 3. These policies have been consistently applied to each of the reporting periods presented, unless otherwise indicated.

The unaudited condensed interim financial statements ("Statements") of the Company are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These Statements are unaudited and have been prepared in accordance with IAS 34 "Interim Financial Reporting".

These Statements do not include all of the information required for annual audited financial statements and should be read in conjunction with annual audited financial statements for the years ended December 31, 2018 and 2017.

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted for the current year.

The Company adopted new IFRSs and interpretations as of January 1, 2019, as noted below:

3. NEW STANDARDS EFFECTIVE JANUARY 1, 2019

IFRS 16, "Leases"

As required, the Company adopted IFRS 16 as of January 1, 2019. On January 13, 2016, the IASB published a new standard, IFRS 16, "Leases". The new standard brings most leases for lessees onto the balance sheet under a single model, eliminating the distinction between operating and finance leases. Under the standard, a lessee recognizes a right-of-use ("ROU") asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciates accordingly. The liability accrues interest.

The Company has elected to use the modified retrospective approach in its adoption of IFRS 16. The modified Retrospective method does not require restatement of prior period financial information as it may recognize the cumulative effect as an adjustment to opening retained earnings and applies the standard prospectively. Accordingly, comparative information in the Company's condensed balance sheets, condensed statement of operations, condensed statements of comprehensive income, condensed statements of changes in equity and condensed cash flow statements are not restated.

On adoption of IFRS 16, the Company will recognize lease liabilities at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate as of January 1, 2019. The adoption of the standard will have no impact on retained earnings, as at the time of adoption the Company held no leases under the scope of IFRS 16.

WHITEMUD RESOURCES INC.
Notes to the Condensed Interim Financial Statements
For the three and six months ended June 30, 2019 and 2018
(All amounts are in Canadian Dollars except number of shares)

4. INVENTORY

The Company has inventory as follows:

	2019	2018
Metakaolin	\$ 482,796	\$ 558,558
Kaolinized mineral resource	-	-
Spare parts	297,360	297,360
Fuels, coal and miscellaneous	16,169	14,784
	\$ 796,325	\$ 870,702

Operating expenses includes \$75,762 (2018 - \$109,604) related to the cost of inventory from sales.

5. RECLAMATION BOND

In 2012, a \$50,000 letter of credit and corresponding \$50,000 deposit was replaced by a \$1 million letter of credit to the Saskatchewan Ministry of Environment as the first installment towards a reclamation bond for the plant and mine site. The letter of credit was issued by Petrogas Energy Corp.

6. PROPERTY, PLANT AND EQUIPMENT

Cost	Land and buildings	Plant and equipment	Assets under capital lease	Leasehold improvements, computer equipment, office furniture	Vehicles	Total
Balance December 31, 2017	\$ 28,946,657	\$ 34,006,282	\$ 457,956	\$ 58,234	\$ 40,644	\$ 63,509,773
Additions	-	6,240	-	-	-	6,240
Balance December 31, 2018	\$ 28,946,657	\$ 34,012,522	\$ 457,956	\$ 58,234	\$ 40,644	\$ 63,516,013
Additions	-	60,495	-	-	-	60,495
Balance June 30, 2019	\$ 28,946,657	\$ 34,073,017	\$ 457,956	\$ 58,234	\$ 40,644	\$ 63,576,508
Depreciation and impairment losses						
Balance December 31, 2017	\$ 24,954,717	\$ 32,688,588	\$ 457,956	\$ 47,781	\$ 40,644	\$ 58,189,686
Depreciation	701,056	156,008	-	3,062	-	860,126
Impairment	2,010,705	1,000,000	-	-	-	3,010,705
Balance December 31, 2018	\$ 27,666,478	\$ 33,844,596	\$ 457,956	\$ 50,843	\$ 40,644	\$ 62,060,517
Depreciation	79,352	-	-	-	-	79,352
Balance June 30, 2019	\$ 27,745,830	\$ 33,844,596	\$ 457,956	\$ 50,843	\$ 40,644	\$ 62,139,869
Carrying Amounts						
At June 30, 2019	\$ 1,200,827	\$ 228,421	\$ -	\$ 7,391	\$ -	1,436,639
At December 31, 2018	\$ 1,280,179	\$ 167,926	\$ -	\$ 7,391	\$ -	1,455,496

WHITEMUD RESOURCES INC.
Notes to the Condensed Interim Financial Statements
For the three and six months ended June 30, 2019 and 2018
(All amounts are in Canadian Dollars except number of shares)

6. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Included in land and buildings is land with a cost of \$486,657 (2018 - \$486,657). Additions to plant and equipment relate to non-cash adjustments to a change in the asset retirement obligation ("ARO") liability estimate described in note 8.

7. NOTES PAYABLE

The Company has the following notes payable:

	June 30, 2019	December 31, 2018
Kasten Resources ("Kasten") (a)	\$ 1,139,561	\$ 1,139,561
Petrogas Energy Corp. ("Petrogas") (b)	23,500,000	\$ 23,500,000
	\$ 24,639,561	\$ 24,639,561

(a) Kasten provided funding of \$1,139,561 during receivership. Accrued interest of \$nil (2018 - \$868,257) has been forgiven under an agreement with Kasten.

(b) Petrogas provided funding during receivership of \$15,984,062 and operational funding of \$7,515,938 (2018 - \$7,515,938) after receivership to recommence operations totaling \$23,500,000. Accrued interest of \$nil (2018 - \$15,215,805) has been forgiven under an agreement with Petrogas.

8. ASSET RETIREMENT OBLIGATION

The Company's asset retirement obligation results from ownership of a processing facility and mine property in southern Saskatchewan. The Company has completed construction of the plant and preparation of the mine and commissioned the facility. Internal assessments of costs to decommission the plant were conducted and revaluations of ARO due to inflation factors and discount rate changes as required by IFRS resulted in a change in estimate of \$60,493 (2018 - \$6,240) due to inflation factors and a decrease in the risk-free interest rate to 1.73% (2018 - 2.15%). The amounts are subject to measurement uncertainty with respect to estimated costs, the actual timing of reclamation, the inflation rate and the discount rates used.

	June 30, 2019	December 31, 2018
Balance beginning of period	\$ 964,225	936,565
Change in estimate	60,493	6,240
Accretion	9,784	21,420
Balance end of period	\$ 1,034,502	964,225

WHITEMUD RESOURCES INC.
Notes to the Condensed Interim Financial Statements
For the three and six months ended June 30, 2019 and 2018
(All amounts are in Canadian Dollars except number of shares)

9. SHAREHOLDERS' EQUITY

Authorized

Unlimited number of Class A common shares without par value and voting
Unlimited number of Class B common shares without par value and non-voting
Unlimited number of preferred shares

Common Shares Issued

	Number of shares	Amount
Class A Common Shares, December 31, 2018 and June 30, 2019	34,026,300	\$ 77,902,637

	Number of shares	Amount
Class B Non-voting Common Shares, December 31, 2018 and June 30, 2019	326,499,700	\$ -

10. CAPITAL MANAGEMENT

As part of the management of capital, the Company prepares annual operating and capital budgets and may from time to time issue new equity or debt in order to finance its capital expenditures. The Company has not declared or paid any dividends on its outstanding shares and any decision to pay dividends in the future would be based upon the financial condition of the Company. The Company may elect to alter its capital structure through the issuance of new shares, issuance of new debt, refinancing of existing debt or by acquiring or disposing of assets.

The capital structure, as disclosed on the condensed interim statement of financial position, consists of notes payable and shareholders' deficiency.

	June 30, 2019	December 31, 2018
Notes payable	24,639,561	24,639,561
Shareholders' deficiency	\$ (17,777,361)	\$ (18,866,640)

Since August 2011, all operational funding has been provided by Petrogas as disclosed in Note 7 through notes payable.

In 2018, the lenders agreed to a forgiveness of interest in the amount of \$16,084,062, to make the notes payable non-interest bearing and to extend the maturity date of the loan to December 31, 2019. The creditors have agreed that they will not demand repayment of the loan before the maturity date.

WHITEMUD RESOURCES INC.
Notes to the Condensed Interim Financial Statements
For the three and six months ended June 30, 2019 and 2018
(All amounts are in Canadian Dollars except number of shares)

11. FINANCE CHARGES

Financing charges are comprised of:

	2019	2018
Debt service	\$ 675	\$ 313
Accretion of asset retirement obligation <i>[note 8]</i>	9,784	5,195
	\$ 10,459	\$ 5,508

12. EARNINGS PER SHARE

Earnings per share is calculated using the weighted average number of shares outstanding. The weighted average number of shares outstanding for the period ended June 30, 2019 is 360,526,000 (2018 - 360,526,000).

13. RELATED PARTY TRANSACTIONS

Included in accounts payable and accrued liabilities is \$nil (2018 – \$nil) payable to Petrogas, a company related by common management, and \$191,703 (2018 - \$123,569) payable to Express Tankers Inc., a company related to the Company through its relationship with Petrogas. Included in accounts receivable is \$4,395,889 (2018 - \$4,682,935) due from Petrogas and \$1,651,640 (2018 - \$1,721,684) due from Petrogas Inc.

The Company has charged Petrogas \$50,000 per month for three months for services rendered. Petrogas has charged the Company \$6,500 per month for accounting, office and administrative services.

The remuneration of directors and executive officers during the period is as follows:

	2019	2018
Salaries and other short term benefits:	\$ 26,300	\$ 7,300

WHITEMUD RESOURCES INC.
Notes to the Condensed Interim Financial Statements
For the three and six months ended June 30, 2019 and 2018
(All amounts are in Canadian Dollars except number of shares)

14. OPERATING SEGMENTS

For management purposes, the Company is organized into divisions based on their products and services provided. Management monitors the operating results of each division separately for the purpose of making decisions about resource allocation and performance assessment.

The Company has two reportable operating segments as follows:

1. Metakaolin - mining, processing and marketing kaolin and metakaolin
2. Commodities - managing and marketing commodities

Six months ended June 30, 2019	Metakaolin	Commodities	Total
Revenue	\$ 82,349	\$ 2,008,037	\$ 2,090,386
Operating costs	(405,378)	-	(405,378)
Depreciation	(79,352)	-	(79,352)
General and administrative	(114,850)	(270,367)	(385,217)
Finance charges	(10,459)	-	(10,459)
Other income (expense)	7,220	(127,921)	(120,701)
Net income (loss) and comprehensive income (loss)	\$ (520,470)	\$ 1,609,749	\$ 1,089,279
Current assets	\$ 1,065,309	\$ 6,908,435	\$ 7,973,744
Total assets	\$ 2,501,948	\$ 6,908,435	\$ 9,410,383
Current liabilities	\$ 24,737,292	\$ 1,415,950	\$ 26,153,242
Total liabilities	\$ 25,771,794	\$ 1,415,950	\$ 27,187,744

Six months ended June 30, 2018	Metakaolin	Commodities	Total
Revenue	\$ 116,437	\$ 1,352,514	\$ 1,468,951
Operating costs	(479,596)	-	(479,596)
Depreciation	(456,574)	-	(456,574)
General and administrative	(71,630)	(153,348)	(224,978)
Finance charges	(11,143)	-	(11,143)
Other income	1,371	178,055	179,426
Net income (loss) and comprehensive income (loss)	\$ (901,135)	\$ 1,377,221	\$ 476,086
Current assets	\$ 1,472,784	\$ 10,090,827	\$ 11,563,611
Total assets	\$ 6,341,712	\$ 10,090,827	\$ 16,432,539
Current liabilities	\$ 40,861,169	\$ 6,505,003	\$ 47,366,172
Total liabilities	\$ 41,813,662	\$ 6,505,003	\$ 48,318,665

15. FINANCIAL INSTRUMENTS

The Company thoroughly examines the various financial instrument risks to which it is exposed and assesses the impact and likelihood of those risks. These risks may include credit risk, liquidity risk, currency risk, and interest rate risk. Where material, these risks are reviewed and monitored by the Board of Directors.

15. FINANCIAL INSTRUMENTS *(continued)*

Fair Values

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and notes payable. The fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and notes payable approximate their carrying values due to the immediate or short-term maturity of these financial instruments.

Risk Management

The Company's risk management program focuses on minimizing the potential adverse effects on the Company's financial performance. The Company manages risks and risk exposure through a combination of a system of internal and disclosure controls, as well as insurance and sound business practices.

Risk management is primarily the responsibility of the Company's corporate finance function. Any significant risks are monitored and when appropriate, actions will be taken according to the Company's policies established related to that purpose. In addition, as required, the risks are reviewed with the Company's Board of Directors.

Interest Rate Risk

The Company defines interest rate risk as the financial risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in the market interest rates. The Company currently maintains cash balances and notes payable. The Company's current policy is to invest any excess cash not required for operations in guaranteed investment certificates with short-term maturities. The Company's sensitivity to interest rate risk on its guaranteed investment certificates is immaterial as the funds available for investment are minimal due to the funds being needed to fund ongoing operations. Any change in interest rates would not result in any material change in expected interest income.

Credit Risk

Credit risk is defined as the financial risk associated with non-performance of contractual obligations by counterparties. Credit risk arises from cash held with the Company's bank along with credit exposure to customers and other outstanding accounts receivable. The maximum exposure to credit risk is equal to the carrying value of the financial assets.

The Company's objective for managing the counterparty credit risk is to prevent losses on its financial assets. The Company is not yet in full commercial production, but upon full commercial production will assess the credit quality of its counterparties, taking into consideration their financial position, past payment histories and other factors. Management will regularly monitor counterparty credit limits and perform credit reviews. The Company's current sensitivity to credit risk is managed by dealing with reputable customers. Prior to significant commercial sales, relatively minimal supplies are required, with the Company's counterparty credit risk limited to government agencies and select companies that do not present any material concerns.

The Company's financial assets consist of cash and cash equivalents of \$169,846 and accounts receivable of \$6,950,689. An amount of \$17,715 of the accounts receivable is over 90 days past due. There is a receivable due from Petrogas Inc. in the amount of \$1,651,640, and from Petrogas in the amount of \$4,395,889 for commodity sales made by the Company. The expected credit losses as at June 30, 2019 is \$nil (2018 - \$nil). Approximately 100% (2018 - 100%) of the Company's sales are with four customers.

15. FINANCIAL INSTRUMENTS *(continued)*

Foreign Currency Exchange Risk

The Company currently operates in Canada and deals periodically with suppliers and customers in the United States. The functional currency of the Company and reporting currency is the Canadian dollar. Current dealings with suppliers in the United States are very minimal in comparison to dealings with Canadian suppliers. The Company has not entered into any derivative agreements to mitigate this risk.

As at June 30, 2019, the Company had \$1,262,046 (2018 – \$1,328,464) in US\$ receivables and \$863,164 (2018 – \$2,436,545) in US\$ payables. A 1% change in the exchange rate at June 30, 2019 of the US dollar is estimated to have approximately a \$4,000 effect on the net income and comprehensive income for the period.

Liquidity Risk

The Company defines liquidity risk as the financial risk that the Company will encounter difficulties meeting its obligations associated with financial liabilities. The Company's objective for managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. The matters and conditions noted in Note 1 indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

At June 30, 2019, the Company had a working capital deficiency of \$18,179,498 (2018 – \$19,357,911). The Company's accounts payable and accrued liabilities are \$1,513,681 (2018 – \$3,633,434), of which, \$11,930 (2018 - \$8,724) was 90 days overdue.

The Company has notes payable in the amount of \$24,639,561 as described in Note 7. The Company has not made the required principal and interest payments under the loan agreement. The lenders have agreed to forgive interest in the amount of \$16,084,062, make the notes payable non-interest bearing and extend the maturity date of the loan to December 31, 2019.

Schedule B
To the Filing Statement dated September 30, 2019 of Whitemud Resources Inc.

MD&A for the years ended December 31, 2018, 2017 and 2016.
MD&A for the six-months ended June 30, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS - ANNUAL HIGHLIGHTS YEAR ENDED DECEMBER 31, 2018

The following Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of Whitemud Resources Inc. ("Whitemud" or the "Company") has been prepared by management of Whitemud and should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2018 (the "Financial Statements"). The Company has prepared this MD&A in accordance with the provisions of Section 2.2.1 of Form 51-102F1 - Management's Discussion and Analysis.

The Financial Statements and accompanying Notes of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") and require management to make estimates and assumptions that affect amounts reported and disclosed in the Financial Statements and related Notes.

The Board of Directors, on recommendation of the Audit Committee, approved the contents of this MD&A on March 14, 2019. Disclosure contained in this document is current to this date, unless otherwise stated. Some of the statements made herein contain "forward-looking information". Please see "*Cautionary Notes Regarding Forward-Looking Statements*". Additional information on Whitemud is available on the Company's profile through the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.

GENERAL BUSINESS DESCRIPTION

The Company is developing kaolin resources in the Wood Mountain area of southern Saskatchewan for the production and marketing of metakaolin. Metakaolin is a high performance supplementary cementing material used as a performance enhancing additive to concrete. Metakaolin can replace up to 20% of the cement used to make concrete while enhancing performance and reducing cost.

Midstream Energy Partners, a new division of Whitemud, was formed with the intention of diversifying the Company's revenue streams through the marketing of liquefied petroleum gas ("LPG") commodities in addition to its kaolin and metakaolin products. Commodity marketing contracts are subject to a bidding process with contracts usually entered into for terms of one year.

COMPANY OUTLOOK AND GOING CONCERN

The Financial Statements were prepared by management in accordance with IFRS applicable to a going concern entity, which assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. The uncertainty in the use of the going concern assumption is impacted by the factors described below. The Financial Statements do not reflect any adjustments relating to the recoverability and classification of recorded assets or liabilities that may be necessary should the Company be unable to continue as a going concern.

As at December 31, 2018, the Company had a working capital deficiency of \$19,357,911 (2017 – \$36,745,733). For the period then ended, the Company had net income of \$13,495,571 (2017 – loss of \$408,696) and operating cash flow of negative \$13,852 (2017 – negative \$210,826) with a resulting accumulated deficit of \$102,122,658 (2017 – \$115,618,229). Operating cash flow for the quarter ended December 31, 2018 was \$33,241 compared to a negative cash flow of \$318,068 for the quarter ended December 31, 2017. See “*Results of Operations*”. The Company also recorded a \$3,010,705 impairment against its metakaolin buildings and equipment assets in the quarters ended September 30, 2018 and December 31, 2018, which is explained further below. In order for the Company to continue operations for the longer term, including generating sufficient cash flows and ultimately attaining profitable operations, additional financing would need to be secured.

Additionally, the Company requires the continuing support of its creditors, Kasten Resources Inc. (“**Kasten**”) and Petrogas Energy Corp. (“**Petrogas**” and together with Kasten the “**Creditors**”). (See “*Financing - Current Loan Facilities*” for further information on the loans provided by the Creditors). To that end, the Creditors have agreed to forgive all of the interest accrued on the promissory notes payable, agreed to make such notes non-interest bearing and to extend the maturity date of the loan to December 31, 2019. Management is currently reviewing its options to obtain additional financing.

To achieve profitability from future metakaolin operations management believes that the Company must improve operational efficiency and enhance the production process of its products to consistently produce high quality metakaolin and generate improved market acceptance for the Company’s product to improve sales revenues and promote the ongoing support of the Creditors. This will require significant capital expenditures. Customer demand to date has not supported making these enhancing capital expenditures at this time.

Management believes that the Company has sufficient inventory to meet demand for the Company’s metakaolin during the 2019 fiscal year. The Company continues to provide metakaolin to customers by truck and rail from its storage facility and management does not believe that any change to the distribution procedures of the product is necessary.

Management anticipates that metakaolin revenue generation in 2019 will continue to be challenging for customers in the oilfield services industry, a significant market for the Company’s product, which will negatively affect the Company’s metakaolin revenue for the 2019 fiscal year. Metakaolin sales in 2018 were \$267,196 less than the year ended December 31, 2017.

As a result of the going concern circumstances described above and in Notes 1 and 8 of the Financial Statements, an impairment of \$3,010,705 was recorded against metakaolin buildings and equipment assets in the year ended December 31, 2018. The Company estimated internally generated future cash flows discounted to their present value using a risk adjusted interest rate of 14.20%. The cash flows did not support the carrying amount of the assets. In determining fair value, the Company considered current costs, the long term view of the uses for its products and recent sales volumes. The Company estimated the net recoverable amounts of the assets to be approximately \$1.46 million for the land, buildings and equipment pertaining to metakaolin assets.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to a revised estimate of its recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized.

The LPG marketing business performed by the Midstream Energy Partners division is dependent upon commodity price, access to and cost of transportation, risks associated with product supply, risks of customer demand, weather related demand conditions and the ability of customers to pay for LPG's delivered to them. There is no assurance that contracts may be obtained, extended or re-negotiated under commercially acceptable terms. See "*Risks and Uncertainties*".

In summary and without limiting the foregoing, the ability of the Company to continue as a going concern and realize the carrying value of its assets and discharge its liabilities when due, is dependent on the Company's ability to generate improved market acceptance for the Company's metakaolin product, increase sales including LPG marketing by the Midstream Energy Partners division, secure financing, receive the ongoing support of the Creditors and enhance its operations. There is no certainty that these or any other strategies that may be identified by management will be sufficient to permit the Company to continue beyond the immediate future as such strategies are contingent upon the conduct and behavior of parties over which the Company has no control, namely new equity or debt funds from shareholders, investors and lenders, improved industry conditions and market acceptance for the Company's products. For additional risks and uncertainties relating to the Company, see "*Risks and Uncertainties*".

RESULTS OF OPERATIONS

For the year ended December 31, 2018, the Company had net income of \$13,495,571 (\$0.04 per share) compared to a net loss of \$408,696 (\$0.00 per share) for the year ended December 31, 2017. The major factors resulting in the net income for 2018 were the forgiveness of all interest accrued on the promissory notes payable in the amount of \$16,084,062, the net income from Midstream Energy Partners division of \$2,567,162, which offset a loss before forgiveness of debt from the metakaolin division of \$2,144,948 and an impairment write down of \$3,010,705. Net income for the quarter ended December 31, 2018 was \$15,224,651 compared to a net loss of \$715,116 for the same quarter of 2017. The increased income was mainly due to the forgiveness of interest on debt described above, and an impairment charge of \$2,500,000 taken in the quarter ended September 30, 2018. The Creditors have agreed not to charge interest and to extend the promissory notes to December 31, 2019. Note 16 of the Financial Statements provides a breakdown of operations by division, as further discussed below.

Metakaolin Division

Revenue

Revenue from the sale of metakaolin decreased 52.5% to \$241,457 for the year ended December 31, 2018 compared to \$508,653 for the same period in 2017. Sales for the quarter ended December 31, 2018 were \$67,844 compared to \$80,899 for the same quarter in 2017. This was a result of a sharp decrease in revenue from sales to customers in the oilfield services industry. The net income for the year ended December 31, 2018 was \$11,439,117 compared to a net loss of \$2,565,776 for

the year ended December 31, 2017. Net income for the quarter ended December 31, 2018 was \$14,768,330 compared to a loss of \$1,027,018 for the same quarter in 2017. This increase in income was due to the forgiveness of interest on debt, income from the Midstream Energy Partners division and impairment charge discussed above.

At December 31, 2018, there were 2,900 tonnes (2017 – 4,080 tonnes) of finished metakaolin in bulk inventory available for sale.

Operating Expenses

Operating expenses for the year ended December 31, 2018 were \$1,280,924 (2017 - \$1,319,485). Operating expenses for the quarter ended December 31, 2018 were \$584,460 compared to \$392,934 for the quarter ended December 31, 2017. The increase related to an inventory write down of raw unprocessed kaolin ore in the amount of \$333,828. General and administration expenses for the year ended December 31, 2018 were \$224,649 (2017 - \$531,809) and \$107,514 for the quarter ended December 31, 2018 compared to \$408,704 for the same period of 2017. In 2017, the Company wrote off an uncollectible amount of \$372,775 due from former directors and officers which increased the general and administrative expenses in 2017.

Other Expenses

Finance charges for the year ended December 31, 2018 were \$22,592 (2017 - \$22,006). The lenders have forgiven all interest accrued on the promissory notes payable, make such notes non-interest bearing, and extended the maturity date of the loan to December 31, 2019. The Creditors waived interest payments for the years ended December 31, 2017 and 2018.

Depreciation expense for the year ended December 31, 2018 was \$860,126 (2017 - \$1,201,926). Depreciation for the quarter ended December 31, 2018 was \$175,264 compared to \$300,482 for the same period of 2017.

Impairment

As a result of the going concern circumstances explained in Note 1 of the Financial Statements, the economic uncertainties surrounding the oil and gas industry and the inability of the Company to exploit additional uses for its products, an impairment in the facility and equipment assets was recorded in the quarter ended September 30, 2018 in the amount of \$2,500,000. A further impairment was recorded in the quarter ended December 31, 2018 in the amount of \$510,705.

Midstream Energy Partners Division

For the year ended December 31, 2018 Midstream Energy Partners division had net revenue in the amount of \$2,769,858 (2017 - \$2,641,817). The division contributed net income of \$2,567,162 to the Company in 2018 compared to \$2,157,080 in 2017. The 2018 net revenue was enhanced by an unrealized foreign currency gain of \$141,583 on translation from US dollar denominated current assets and liabilities at December 31, 2018. Net revenue for the quarter ended December 31, 2018 was \$696,645 compared to net revenue of \$724,996 for the same period in 2017. Net income for the quarter was \$456,321 compared to \$311,902 for the quarter ended December 31, 2017. The Company has renegotiated annual contracts with unrelated counterparties, whereby the

Company has agreed to purchase up to 10,000 m3 of LPGs per month at market prices. Midstream has also entered into a contract to sell up to 1,800 m3 of LPGs commencing in October 2018 to an unrelated party. The Company intends to continue with its marketing and distribution initiatives in an attempt to generate income and stabilize the Company financially.

Selected Annual and Quarterly Financial Information

Annual Financial Information

For the years ended Dec 31	2018	2017	2016
Sales Volume – Metakaolin (tonnes)	1,167	2,523	2,017
Gross Revenue	\$ 3,011,315	\$ 3,150,470	\$ 1,659,574
Gross Revenue – Metakaolin ⁽¹⁾	\$ 241,457	\$ 508,653	\$ 421,822
Net Revenue – Midstream Energy Partners	\$ 2,769,858	\$ 2,641,817	\$ 1,244,668
Profit (Loss) from Continuing Operations	\$13,352,099	\$ (285,398)	\$(5,513,937)
Net Profit (Loss)	\$13,495,571	\$ (408,696)	\$(5,507,706)
Total Assets	\$10,370,580	\$18,507,262	\$11,226,574
Total Long-Term Financial Liabilities	\$ 964,225	\$ 936,565	\$ 895,311

Results per share

Profit (Loss) from Continuing Operations			
Basic	(\$0.04)	(\$0.00)	(\$0.015)
Diluted	(\$0.04)	(\$0.00)	(\$0.015)
Net Profit (Loss)			
Basic	(\$0.04)	(\$0.00)	(\$0.015)
Diluted	(\$0.04)	(\$0.00)	(\$0.015)
Dividends	-	-	-

Notes:

- Gross Revenue in 2016 included sales of gravel in the amount of \$6,916.

There have been no exploration expenditures, research and development expenses or other material costs that warrant further explanation in the Financial Statements or this MD&A.

Quarterly Results

For the years ended Dec 31	2018				2017			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Gross Revenue - Metakaolin	\$ 67,844	\$ 57,176	\$ 49,810	\$ 66,627	\$ 80,899	\$134,007	\$ 89,926	\$ 203,821
Net Revenue	\$ 696,645	\$ 720,699	\$ 578,798	\$773,716	\$ 946,222	\$606,558	\$726,350	\$ 362,687
- Midstream Energy Partners								
Profit (Loss) from Continuing Operations	\$ (718,095)	\$(2,310,527)	\$ 42,358	\$254,301	\$(419,255)	\$125,956	\$177,219	\$(169,319)
Net Profit (Loss)	\$15,224,648	\$(2,205,162)	\$(10,027)	\$486,112	\$(714,816)	\$289,310	\$214,031	\$(197,221)

LIQUIDITY

At December 31, 2018, the Company had a working capital deficiency of \$19,357,911 (2017 – \$36,745,753). The Financial Statements have been prepared on a going concern basis in accordance with International Financial Reporting Standards, which assumes Whitemud will realize its assets and discharge its liabilities and commitments in the normal course of business. The application of the going concern concept is dependent upon the ability of the Company to generate revenue to support ongoing activities, process efficiencies and achieve profitable operations. The Creditors have agreed to forgive all accrued interest on the promissory notes payable, make such notes non-interest bearing, and have agreed to extend the loan to December

31, 2019 and interest was waived for 2017 and has been waived for 2018 by each of the Creditors. Operations have been funded through loan facilities provided by the Creditors as described below under “*Capital Resources - Current Loan Facilities*”. The Company does not have the ability to fund development or operating costs from operations and requires the ongoing support of the Creditors.

CAPITAL RESOURCES

Current Loan Facilities

In connection with a forbearance agreement entered into between the Company and its principal lender in October 2010, Deloitte & Touche (the “**Receiver**”) was appointed Receiver and Manager of the Company. In July 2011, the Receiver filed a proposal to the creditors of the Company, which was approved by the various classes of creditors (the “**Proposal**”). In August, 2011, the Proposal was ratified by the Court of Queen’s Bench of Alberta in a court order (the “**Court Order**”) and a new Board of Directors was appointed which in turn appointed new management of the Company. Following the Proposal, the Company entered into an agreement with parties previously related to directors and officers of Whitemud to establish two borrowing facilities as follows:

The Company has the following promissory notes payable:

	December 31, 2018	December 31, 2017
Kasten Energy Inc. ^{(a), (c)}	\$1,139,561	\$2,007,818
Petrogas Energy Corp. ^{(b), (c)}	\$23,500,000	\$38,715,805
	\$24,639,561	\$40,723,623

Notes:

- (a) Kasten provided operational and Proposal funding of \$1,139,561 during receivership. The outstanding balance of \$2,007,818 as at December 31, 2018 includes accrued interest of \$868,257 (2017- \$868,257) which has been forgiven under an agreement with the Company.
- (b) Petrogas Energy Corp. provided operational and proposal funding during receivership of \$15,984,062 and operational funding of \$7,515,938 (2017-\$7,515,938) after receivership to recommence operations. The outstanding balance of \$38,715,805 as at December 31, 2018 includes accrued interest of \$15,215,805 (2017 - \$15,215,805) which has been forgiven under an agreement with the Company.
- (c) The terms of the promissory notes payable to the Creditors include a fully advanced term loan in the amount of \$24,639,561 which is due on demand and now has a maturity date of December 31, 2019. Both debt facilities bear no interest. The Creditors hold a general security agreement and other collateral registered as a first charge against all assets of the Company. The Creditors have waived interest charges for the 2017 and 2018 fiscal years.

Capital Expenditures

There were no capital expenditures (2017 - \$1,413) for the period ended December 31, 2018.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements at the time of this management discussion and analysis.

FINANCIAL AND OTHER INSTRUMENTS

The Company's cash and cash equivalents and restricted cash are measured at fair value through profit or loss. The Company does not have a hedge or other risk control strategy in place.

OUTSTANDING COMMON SHARES

The Company is authorized to issue an unlimited number of Class A voting and an unlimited number of Class B non-voting common shares. The Company has issued 34,026,300 Class A common shares and 326,499,700 Class B non-voting common shares as at December 31, 2018.

Under the Court Order, the sponsors of the Proposal were issued 16,000,000 Class A voting common shares in July 2012. On June 28, 2013 pursuant to the Court Order, the Company issued 326,499,700 Class B non-voting common shares to Kasten and Petrogas. Due to the financial position of the Company and the facts described in Note 1 of the Financial Statements, no value has been attributed to such shares. As a result, shareholders other than Kasten and Petrogas continue to hold 52.98% of the issued Class A common shares (being 5.5% of all the issued shares of the Company after the issuance of Class B non-voting common shares). 34,026,300 Class A common shares were issued and outstanding as at December 31, 2018.

TRANSACTIONS BETWEEN RELATED PARTIES

As disclosed in Note 15 of the Financial Statements, the Company had significant transactions with the related parties Petrogas and Petrogas Inc. (the "**Petrogas entities**"). In 2018, the Company generated income of \$48,602,553 (2017 - \$38,026,177) from Petrogas entities by marketing propane volumes through the Midstream Energy Partners division. The sale of propane to Petrogas entities incurs brokerage margins commensurate with market rates. The cost of goods sold was \$45,832,695 (2017- \$35,384,359). The Company intends to continue with its marketing and distribution initiatives in an attempt to generate income and stabilize the Company financially.

The Creditors of Company's outstanding demand notes in the amount of \$24,639,561, as described in Note 9 to the Financial Statements, are related parties. The Company requires the ongoing support of its creditors and the related party Creditors have agreed to (i) forgive interest in the amount of \$16,084,062, (ii) make the notes non-interest bearing and (iii) extend the maturity date of the loan to December 31, 2019. All of the Company's operations since 2012 have been funded by Petrogas entities which advanced \$7,515,938 for operational and capital funding as at December 31, 2018.

Note 15 shows transactions with Petrogas entities and Express Tankers Inc. which are related parties. Midstream Energy Partners division sold commodities to Petrogas entities during the year. Transportation costs incurred for trucking were paid to Express Tankers Inc.

The Midstream Energy Partners division has charged Petrogas \$50,000 per month consulting services in connection with the Company's LPG business segment. The Company also has an arrangement with Petrogas pursuant to which Petrogas provide the Company with head office administrative services.

RECENT AND FUTURE ACCOUNTING PRONOUNCEMENTS

The Financial Statements, including comparatives, are presented in accordance with IFRS as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committees.

The following are standards or amendments to existing standards as well as future accounting pronouncements that are relevant to the Company's Financial Statements:

- IFRS 9 - Financial Instruments
- IFRS 15 - Revenue from Contracts with Customers
- IFRS 16 - Leases

The Company has adopted IFRS 9 and IFRS 15 but has not early-adopted IFRS 16. The adoption of these standards had no impact on the amounts recorded in the Financial Statements.

CRITICAL ACCOUNTING ESTIMATES

Whitemud prepares its Financial Statements in accordance with International Financial Reporting Standards, as issued by the IASB. In doing so, management is required to make various estimates and judgments in determining the reported amounts of assets and liabilities, revenues and expenses for each year presented and in the disclosure of commitments and contingencies. Management bases its estimates and judgments on its own experience, guidelines established by the Canadian Institute of Mining, Metallurgy and Petroleum and various other factors believed to be reasonable under the circumstances. In reference to the Company's significant accounting policies, as described in Note 3 to the Financial Statements, management believes the following critical accounting policies reflect its more significant estimates and judgments used in the preparation of the Financial Statements.

Inventories are valued at the lower of weighted average production cost and net realizable value, while consumable supplies and spares are valued at the lower of weighted-average cost and replacement cost. Determination of realizable value or replacement costs requires estimates to be made for costs to complete and sell inventory. Management periodically makes estimates regarding whether an allowance is necessary for slow moving or obsolete consumable supplies and spares inventories.

In 2016, the Company changed the rate of depreciation to better reflect the useful lives of the processing plant and equipment. Under IFRS, this change is considered a change in accounting estimate and accounted for prospectively by amortizing the cumulative changes over the remaining useful life of the related assets. Mobile equipment and other administrative-type assets are depreciated according to the declining balance or straight-line method, based on an estimate of their useful lives.

Significant decommissioning and reclamation activities are often not undertaken until substantial completion of the useful lives of productive assets. Regulatory requirements and alternatives with respect to these activities are subject to change over time. A significant change to either the estimated costs or recoverable reserves would result in a material change in the amount charged to earnings.

If it is determined that carrying values of property, plant and equipment cannot be recovered, then the asset is written down its recoverable amount. Any excess of book value over recoverable amount is charged to income in the period in which the impairment is determined. As indicated above and in Note 7 of the Financial Statements, a \$3,010,705 impairment in respect of the metakaolin processing facility and equipment assets has been made. Recoverability and fair value assessments are dependent upon assumptions and judgments regarding future prices, costs of production, sustaining capital requirements and economically recoverable reserves and resources. A material change in assumptions may significantly impact the potential impairment of these assets.

The Company uses the liability method of accounting for deferred income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. Deferred income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities, calculated using the currently enacted or substantively enacted tax rates anticipated to apply in the period that the temporary differences are expected to reverse. Deferred income tax inflows and outflows are subject to estimation in terms of both timing and amount of future taxable earnings. Should these estimates change the carrying value of income tax assets or liabilities may change.

Grants under Whitemud's stock-based compensation plans are accounted for in accordance with the fair-value-based method of accounting. For stock-based compensation plans that will settle through the issuance of equity such as stock options, the fair value of stock options is estimated using the Black-Scholes option pricing model. These valuation models require the input of certain assumptions including expected share price volatility.

RISKS AND UNCERTAINTIES

The continued operation, development and exploitation of the Company's kaolin resources and operation of its processing plant involve a high degree of financial risk. The risk factors which should be taken into account in assessing the Company's activities include, but are not limited to, those set out below and described under "*Cautionary Note Regarding Forward Looking Statements*". These risks are not presented in any order of priority. Any one or more of these risks could have a material effect on the operations and financial condition of the Company and should be taken into account in assessing the Company's activities.

The Company may not be able to continue as a going concern.

The Financial Statements have been prepared on a going concern basis in accordance with IFRS, which assume Whitemud will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. The application of the going concern concept is dependent upon the ability of the Company to raise additional capital to support ongoing activities,

receive continued support of its creditors, and achieve profitable operations. To date, the Company's main source of cash resources has been through the issuance of equity and debt. This dependence on the private and public market to fund cash flow needs of the Company has resulted in management including a "Nature of the Organization and Future Operations" note as in Note 1 to the Financial Statements.

The Company is subject to risks of commodity marketing and distribution.

Commodity marketing contracts are subject to a bidding process with contracts usually entered into for terms of one year. The LPG marketing business conducted by the Midstream Energy Partners division is dependent upon commodity price, access to and cost of transportation, risks associated with product supply, risks of customer demand, weather related demand conditions and the ability of customers to pay for LPG's delivered to them. There is no assurance that contracts may be obtained, extended or re-negotiated under commercially acceptable terms.

The Company's revenue does not cover its expenses.

To date, the Company has not earned significant revenues and is developing markets for metakaolin. Whitemud does not have formal sales contracts and the Company has not exhibited consistent quality of product on a commercial scale including the fact that the process has not been proven at the large production levels projected. The Company's funds from operations are insufficient to fund current operations, meet obligations and provide the required working capital. As a result, additional capital investment is required.

The Company depends on the support of the Creditors to continue operations.

The Creditors have extended the maturity date of the loan to December 31, 2018 and there is no assurance that demand for payment will not be made at that date. Should financing not be readily available, market acceptance not achieved or support from the Creditors not obtained, the Company will face a severe lack of liquidity that could lead to a further cessation of operations.

The Company facilities are subject to operating risks.

Construction of the Company's processing facility and mine is complete, however, the Company has not processed metakaolin since 2012. Risks include, without limitation, equipment failures, labour disputes, work stoppages and equipment delivery delays, all of which may have an adverse effect on the Company's ongoing operations and financial condition. Additionally, the Company must enhance the efficiency of its operations.

The Company operates in a competitive market and is not a market leader.

The cement products industry is competitive and prospective customers in the markets that the Company is targeting are frequently using lower priced inferior products in many instances to produce concrete. As a result the Company may not secure the sufficient metakaolin sales volumes to improve its financial condition.

The continuing economic downturn in the oil and gas industry hurts the Company.

The oil and gas industry is a key industry that the Company targets for the sale of its kaolin and metakaolin products. The continued low oil and gas prices and development activity amongst oil and gas producers has negatively impacted the Company's ability to expand its customer base and market position. Without an improvement in the level of development activity in the oil and gas industry, the Company may not achieve its sales objectives or improve its financial condition.

Mining and production of metakaolin is subject to numerous risks.

Mining involves a high degree of risk and the Company has a limited history of metakaolin operations. The Company currently depends on a single property with a kaolin resource. The Company's operations are subject to environmental risks and the actual costs of reclamation for the property are subject to regulatory body guidelines. Changes in government regulations could impact Whitemud's future financial performance.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements made herein contain "forward-looking information" which may include, but is not limited to, statements with respect to the future financial or operating performance of the Company, government approvals, the costs and timing of the development of the project and the Company's liquidity and capital resources. Without limiting the generality of the foregoing, the Company has made materially forward-looking statements: (i) under the heading "General Business Description" with regard to the replacement of up to 20% of the cement used and ability to negotiate commercially acceptable commodity marketing contracts; (ii) "Liquidity and Capital Resources", regarding the sufficiency of working capital; and the necessity for additional financing; (iii) under the heading "Company Outlook and Going Concern" with regard to the improvement of operational efficiency and enhanced production process; and (iv) under the heading "Company Outlook and Going Concern", the assumption that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business, the uncertainty about the appropriateness of the going concern assumptions, the anticipated requirement for additional financing, generate improved market acceptance for the Company's product. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", "believes", or variations (including negative variations) of such words and phrases, or state that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Material risk factors that could cause results to differ materially from any future results include the following risk factors: "Whitemud has no material operating revenue, history of Metakaolin or Kaolin project development or operations," is applicable to the forward-looking statements identified in (i) through (iv) above; "The Metakaolin market Whitemud is targeting is underdeveloped," is applicable to the forward-looking statements identified in (i) and (iv) above; "Whitemud may not achieve sales volumes and sales prices for products," is applicable to the forward-looking statements identified in (i) through (iv) above; "Whitemud does not have formal

sales contracts,” is applicable to the forward-looking statements identified in (i) through (iv) above; “the Company has not exhibited consistent quality of product on a commercial scale” is applicable to the forward looking statements identified in (i) through (iv) above; “the process has not been proven at the large production levels projected,” is applicable to the forward-looking statements identified in (i) and (iv) above; “Mining/quarrying operations are subject to a high degree of risk,” is applicable to forward-looking statements made in (i) through (iv) above; “Government regulation may adversely affect Whitemud,” is applicable to forward-looking statements made in (iv) above; and “Whitemud’s distribution and sales of its products face uncertainty,” is applicable to forward-looking statements made in (i) and (iii) above. “No assurance that new business ventures will develop on a profitable and sustained basis or that the Company will have the necessary contractual commitments, resources, and working capital to continue with the new business ventures” is applicable to forward-looking statements made in (iii). The forgoing list of risk factors is not exhaustive. Additional information on risk factors is included under the heading “Risks and Uncertainties” in this MD&A, as well as general business, economic, competitive, political and social uncertainties; the actual results of exploration activities; actual results of reclamation activities; conclusions of economic evaluations; changes in project parameters as plans continue to be refined; future prices of metakaolin and kaolin; possible variations of kaolinized ore deposit composition and qualities; failure of plant, equipment or processes to operate as anticipated; accidents, labour disputes and other risks of the mining industry; delays in obtaining government approvals or in obtaining sufficient debt or equity financing if required, or in the potential expansion of the plant. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in the forward-looking statements, there may be other factors that cause actions, events or results to differ from those anticipated, estimated or intended. In making its forward-looking statements, the Company used, among others, the following material factors or assumptions to develop forward-looking information enumerated above: the target market for Whitemud will accept Whitemud’s metakaolin for its stated purpose, use of metakaolin remains economic, government regulations governing Whitemud’s title to mineral properties, its permits and plant operations will not change, the economic conditions will improve to an extent where the current suppressed concrete industry will improve to levels experienced prior to the economic downturn and that the various independent reviews conducted on the Company’s products and resources are accurate. Forward-looking statements contained herein are made as of the date hereof subject to the requirements of applicable securities legislation and except as otherwise required by law, the Company assumes no obligation to update any forward-looking statements, whether as a result of new information, future events or results or otherwise. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, the reader is cautioned not to place undue reliance on forward-looking statements.

OTHER INFORMATION

Additional information related to the Company is available for viewing on SEDAR at www.sedar.com and at the Company’s website at www.whitemudresources.com.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("**MD&A**") of the financial condition and results of operations of Whitemud Resources Inc. ("**Whitemud**" or the "**Company**") has been prepared by management of Whitemud and should be read in conjunction with the Company's audited consolidated financial statements for the fiscal year ended December 31, 2017 (the "**Annual Financial Statements**").

The Annual Financial Statements and accompanying notes of the Company have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") and require management to make estimates and assumptions that affect amounts reported and disclosed in the Annual Financial Statements and related notes.

The Board of Directors, on recommendation of the Audit Committee, approved the contents of this MD&A on April 17, 2018. Disclosure contained in this document is current to this date, unless otherwise stated. Some of the statements made herein contain "forward-looking information". Please see "*Cautionary Notes Regarding Forward-Looking Statements*". Additional information on Whitemud is available on the Company's profile through the System for Electronic Document Analysis and Retrieval ("**SEDAR**") at www.sedar.com.

GENERAL BUSINESS DESCRIPTION

The Company is developing kaolin resources in the Wood Mountain area of southern Saskatchewan for the production and marketing of metakaolin. Metakaolin is a high performance supplementary cementing material used as a performance enhancing additive to concrete. Metakaolin can replace up to 20% of the cement used to make concrete while enhancing performance and reducing cost. Additionally, during the fourth quarter of 2015, Midstream Energy Partners, a new division of Whitemud was formed with the intention of diversifying the Company's revenue streams through the marketing of hydrocarbon commodities in addition to its kaolin and metakaolin products.

COMPANY OUTLOOK AND GOING CONCERN

The Annual Financial Statements were prepared by management in accordance with IFRS applicable to a going concern entity, which assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. The uncertainty in the use of the going concern assumption is impacted by the factors described below. The Annual Financial Statements do not reflect any adjustments relating to the recoverability and classification of recorded assets or liabilities that may be necessary should the Company be unable to continue as a going concern.

As at December 31, 2017, the Company had a working capital deficiency of \$36,745,733 (2016 – \$37,558,194). For the period then ended, the Company incurred a net loss of \$408,696 (2016 – \$5,507,706) and operating negative cash flow of \$210,826 (2016 – \$13,556) with a resulting accumulated deficit of \$115,618,229 (2016 – \$115,209,533). In order for the Company to continue operations for the longer term, including generating sufficient cash flows and ultimately attaining profitable operations, additional financing must be obtained. Additionally, the Company requires the continuing support of its creditors, Kasten Resources Inc. ("**Kasten**") and Petrogas Energy Corp. ("**Petrogas**" and together with Kasten the "**Creditors**"), which have advanced the Company an aggregate of \$24,639,561 (2016 – \$24,639,561). (See "*Financing - Current Loan Facilities*" for further information on the loans provided by the Creditors). There is no assurance that the Creditors will not demand repayment of their loans or continue to provide relief from the repayment requirements thereof. Should the Creditors demand payment of their loans the Company is not expected to be able to satisfy such demand. Management is currently reviewing its options to obtain additional financing.

To achieve profitability from future operations management believes that the Company must improve operational efficiency and enhance the production process of its products to consistently produce high quality metakaolin and generate improved market acceptance for the Company's product to improve sales revenues and promote the ongoing support of the Creditors.

Management anticipates that the Company has sufficient inventory to meet demand for the Company's metakaolin during the 2018 fiscal year. The Company continues to provide metakaolin to customers by truck and rail from its storage facility and management does not believe that any change to the distribution procedures of the product are necessary.

Management anticipates that revenue generation in 2018 will continue to be challenging for customers in the oilfield industry, a significant market for the Company's product, which will negatively affect the Company's revenue for the 2018 fiscal year. During the first quarter of 2018 the Company acquired one new customer. Sales to concrete and cement companies increased in 2017.

In summary and without limiting the foregoing, the ability of the Company to continue as a going concern and realize the carrying value of its assets and discharge its liabilities when due, is dependent on the Company's ability to generate improved market acceptance for the Company's product, increase sales, secure financing, receive the ongoing support of the Creditors and enhance its operations. There is no certainty that these or any other strategies that may be identified by management will be sufficient to permit the Company to continue beyond the immediate future as such strategies are contingent upon the conduct and behavior of parties over which the Company has no control, namely new equity or debt funds from shareholders, investors and lenders, improved industry conditions and market acceptance for the Company's products. For additional risks and uncertainties relating to the Company see "*Risks and Uncertainties*".

RESULTS OF OPERATIONS

For the period ended December 31, 2017, the Company had a net loss of \$408,696 (\$0.00 per share) compared to a net loss of \$5,507,706 (\$0.015 per share) for the comparable period in 2016. The improved results were a result of the Creditors waiver of interest during the 2017 fiscal year and the performance of the Midstream Energy Partners division. The Creditors have agreed to waive interest for the 2018 fiscal year. Note 18 of the audited financial statements provides a breakdown of operations by division.

Metakaolin Division

Revenue

Revenue from the sale of metakaolin increased 22.5% to \$508,653, for the year ended December 31, 2017 from \$414,906 in 2016. The increase in revenue resulted from sales to two new customers and increased sales to customers in the concrete industry.

Revenue from the sale of metakaolin during the quarter ended December 31, 2017 decreased 46% to \$80,610 from \$149,386 in the same quarter ended December 31, 2016 and 39% lower than the quarter ended September 30, 2017. The decrease in quarterly revenue resulted from lower sales to customers in the oilfield services industry.

At December 31, 2017, there were 4,080 tonnes (2016 - 7,665 tonnes) of finished metakaolin in bulk inventory available for sale.

Operating Expenses

Operating expenses for the year ended December 31, 2017 were \$1,319,485 (2016 - \$1,018,980). General and administration expenses for the year ended December 31, 2017 was \$531,809 (2016 - \$482,316). The increase was due to a provision of \$372,775 (2016 - \$190,000) for the deemed uncollectibility of amounts due from shareholders for shareholder loans outstanding owing to the Company. Additionally, professional fees were significantly lower in 2017.

Other Expenses

Finance charges for the period ended December 31, 2017 were \$22,006 (2016 - \$3,861,298). The Company was unable to make the required principal and interest payments to its creditors. The lenders have extended the maturity date of the loan to December 31, 2018. The creditors have not demanded repayment as at the

date of this MD&A. During 2017 the Creditors waived interest payments for the years ended December 31, 2017 and 2018.

Finance charges for the fourth quarter were \$5,797 a decrease of \$1,014,906 from the same period in 2016 as result of the Creditors waiver of interest during the 2017 fiscal year.

Depreciation expense for the period ended December 31, 2017 was \$1,201,926 (2016 - \$1,594,738) and for the fourth quarter was \$300,482 (2016 - \$398,684).

Midstream Energy Partners Division

For the period ended December 31, 2017 Midstream Energy Partners division had net revenue in the amount of \$2,641,817 (2016 - \$1,244,668). General and administrative costs were \$61,086 (2016 - \$17,379). The division contributed net income of \$2,433,302 to the Company in 2017 compared to \$1,032,028 in 2016. For the fourth quarter the division had net revenue of \$946,222 (2016 - \$176,779) and general and administrative costs of \$38,902 (2016 - \$4,073). The division began operations in late 2015 and regularly enters into contracts with subsidiaries of Petrogas Energy Corp.

Selected Consolidated Annual and Quarterly Financial Information

Annual Financial Information

For the years ended Dec 31	<u>2017</u>	<u>2016</u>	<u>2015</u>
Sales Volume – Metakaolin (tonnes)	2,523	2,017	2,010
Gross Revenue	\$3,150,470	\$1,659,574	\$413,141
Gross Revenue – Metakaolin ⁽¹⁾	\$ 508,653	\$ 414,906	\$ 402,825
Net Revenue – Midstream Energy Partners	\$ 2,641,817	\$ 1,244,668	\$ 3,447 ⁽²⁾
Loss from Continuing Operations	(\$285,398)	(\$5,513,937)	(\$8,521,969)
Net Loss	(\$408,696)	(\$5,507,706)	(\$8,516,770)
Total Assets	\$18,507,262	\$11,226,574	\$11,865,655
Total Long-Term Financial Liabilities	\$936,565	\$895,311	\$902,969

Results per share

Loss from Continuing Operations			
Basic	(\$0.00)	(\$0.015)	(\$0.024)
Diluted	(\$0.00)	(\$0.015)	(\$0.024)
Net Loss			
Basic	(\$0.00)	(\$0.015)	(\$0.024)
Diluted	(\$0.00)	(\$0.015)	(\$0.024)
Dividends	-	-	-

Notes:

- (1) Gross Revenue in 2016 included sales of gravel in the amount of \$6,916.
- (2) Operations commenced in the fourth quarter of 2015.

Quarterly Results

For the years ended Dec 31	<u>2017</u>				<u>2016</u>			
	<u>Q4</u>	<u>Q3</u>	<u>Q2</u>	<u>Q1</u>	<u>Q4</u>	<u>Q3</u>	<u>Q2</u>	<u>Q1</u>
Gross Revenue - Metakaolin	80,899	134,007	89,926	203,821	149,386	130,394	42,184	92,942
Net Revenue	946,222	606,558	726,350	362,687	176,779	345,052	415,808	108,229
- Midstream Energy Partners								
Loss before interest and foreign exchange	(\$418,954)	\$125,655	\$177,220	(\$169,319)	(\$1,562,933)	(\$1,254,214)	(\$1,248,942)	(\$1,447,848)
Net Loss	(714,816)	289,310	214,031	(197,221)	(1,549,256)	(1,262,551)	(1,249,601)	(1,446,298)

There have been no exploration expenditures, research and development expenses or other material costs that would need to be disclosed that have not been reflected in the audited financial statements or this document.

LIQUIDITY

At December 31, 2017, the Company had a working capital deficiency of \$36,745,753 (2016 – \$37,558,194). The Annual Financial Statements have been prepared on a going concern basis in accordance with International Financial Reporting Standards, which assumes Whitemud will realize its assets and discharge its liabilities and commitments in the normal course of business. The application of the going concern concept is dependent upon the ability of the Company to raise additional capital to support ongoing activities and achieve profitable operations. The Company has not made principal and interest payments and is in default under the loan agreement with the Creditors. Interest was waived for 2017 and will be waived for 2018. The lenders have not demanded repayment of the loan and have extended the maturity date to December 31, 2018. Operations have been funded through loan facilities provided by the Creditors as described below under “*Capital Resources - Current Loan Facilities*”. The Company does not have the ability to fund development or operating costs from operations and requires the ongoing support of the Creditors.

CAPITAL RESOURCES

Current Loan Facilities

In connection with a forbearance agreement entered into between the Company and its principal lender in October 2010, Deloitte and Touche (the “**Receiver**”) was appointed Receiver and Manager of the Company. In July 2011, the Receiver filed a proposal to the creditors of the Company, which was approved by the various classes of creditors (the “**Proposal**”). In August, 2011, the Proposal was ratified by the Court of Queen’s Bench of Alberta in a court order (the “**Court Order**”) and a new Board of Directors was appointed which in turn appointed new management of the Company. Following the Proposal, the Company entered into an agreement with parties previously related to directors and officers of Whitemud to establish two borrowing facilities as follows:

The Company has the following notes payable:

	December 31, 2017	December 31, 2016
Kasten Energy Inc. ^{(a), (c)}	\$2,007,818	\$2,007,818
Petrogas Energy Corp. ^{(b), (c)}	\$38,715,805	\$38,715,805
	\$40,723,623	\$40,723,623

Notes:

- Kasten provided operational and Proposal funding of \$1,139,561 during receivership. The outstanding balance as at December 31, 2017 includes accrued interest of \$868,257 (2016- \$868,257).
- Petrogas provided operational and proposal funding during receivership of \$15,984,062 and operational funding of \$7,515,938 (2016-\$7,515,938) after receivership to recommence operations. The outstanding balance as at December 31, 2017 includes accrued interest of \$15,215,805 (2016 - \$15,215,805).
- The notes payable to the Creditors include a fully advanced term loan in the amount of \$24,639,561 (2016 - \$24,639,561) which is due on demand and had a maturity date of January 16, 2014. Both debt facilities bear an interest rate of 10% per annum compounded semi-annually at the end of February and August of each year. Principal reductions of 1/20th of the outstanding balance are required annually on April 4th, the anniversary date of the loan agreement. The Creditors hold a general security agreement and other collateral registered as a first charge against all assets of the Company. The Company has not made required principal and interest payments to the Creditors and it is in default under the loan agreement. The Creditors have extended the maturity date of the loan to December 31, 2018 and have waived interest charges for the 2017 and 2018 fiscal years. The Creditors have not demanded repayment of the loan as of the date of this MD&A which step remains at the discretion of the Creditors.

Capital Expenditures

There were capital expenditures of \$1,413 (2016 - \$4,129) for the year ended December 31, 2017.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements at the time of this management discussion and analysis.

FINANCIAL AND OTHER INSTRUMENTS

The Company's cash and cash equivalents and restricted cash are measured at fair value through profit or loss. The Company does not have a hedge or other risk control strategy in place.

OUTSTANDING COMMON SHARES

The Company is authorized to issue an unlimited number of Class A voting and an unlimited number of Class B non-voting common shares.

Under the Court Order, the sponsors of the Proposal were issued 16,000,000 Class A voting common shares in July 2012. On June 28, 2013, pursuant to the Court Order, the Company issued 326,499,700 Class B non-voting common shares to Kasten and Petrogas. Due to the financial position of the Company and the facts described in Note 1 of the Annual Financial Statements, no value has been attributed to such shares. As a result, shareholders other than Kasten and Petrogas continue to hold 52.98% of the issued Class A common shares (being 5.5% of all the issued shares of the Company after the issuance of Class B non-voting common shares). 34,026,300 Class A common shares were issued and outstanding as at December 31, 2017.

TRANSACTIONS BETWEEN RELATED PARTIES

To assist directors, officers and employees in exercising stock options granted, in 2006 the Company made loans to certain directors and officers. These loans were interest free, secured by a promissory note, and were due for a period not to exceed four years. In 2012 the Company took action to collect the loans from former directors and officers. The results of legal actions prompted the Company to record a full provision for an uncollectible amount of \$372,775 (2016 -\$190,000) in its Statement of Net Loss and Comprehensive Loss for the year ended December 31, 2017. The provision of \$372,775 is included in general and administrative expenses in the Annual Financial Statements.

Other than as described above under Capital Resources and as disclosed in Note 17 of the audited financial statements, the Company had no transactions between related parties.

RECENT AND FUTURE ACCOUNTING PRONOUNCEMENTS

The Annual Financial Statements, including comparatives, are presented in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committees ("IFRIC").

The following are standards or amendments to existing standards as well as future accounting pronouncements that are relevant to the Company's financial statements:

- IFRS 9 - Financial Instruments
- IFRS 15 - Revenue from Contracts with Customers
- IFRS 16 - Leases

The Company is currently assessing the impact of future standards and amendments. The adoption of recent standards had no impact on the amounts recorded in the Company's financial statements.

CRITICAL ACCOUNTING ESTIMATES

Whitemud prepares its financial statements in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board ("IASB"). In doing so, management is required to make various estimates and judgments in determining the reported amounts of assets and liabilities, revenues and expenses for each year presented and in the disclosure of commitments and contingencies. Management bases its estimates and judgments on its own experience, guidelines established by the Canadian Institute of Mining, Metallurgy and Petroleum and various other factors believed to be reasonable under the circumstances. In reference to the Company's significant accounting policies as described in note 3 to the Annual Financial Statements, management believes the following critical accounting policies

reflect its more significant estimates and judgments used in the preparation of the Annual Financial Statements.

Inventories are valued at the lower of weighted average production cost and net realizable value, while consumable supplies and spares are valued at the lower of weighted-average cost and replacement cost. Determination of realizable value or replacement costs requires estimates to be made for costs to complete and sell inventory. Management periodically makes estimates regarding whether an allowance is necessary for slow moving or obsolete consumable supplies and spares inventories.

In 2016, the Company changed the rate of depreciation to better reflect the useful lives of the processing plant and equipment. Under IFRS, this change is considered a change in accounting estimate and accounted for prospectively by amortizing the cumulative changes over the remaining useful life of the related assets. Mobile equipment and other administrative-type assets are depreciated according to the declining balance or straight-line method, based on an estimate of their useful lives.

Significant decommissioning and reclamation activities are often not undertaken until substantial completion of the useful lives of productive assets. Regulatory requirements and alternatives with respect to these activities are subject to change over time. A significant change to either the estimated costs or recoverable reserves would result in a material change in the amount charged to earnings.

If it is determined that carrying values of property, plant and equipment cannot be recovered, then the asset is written down its recoverable amount. Any excess of book value over recoverable amount is charged to income in the period in which the impairment is determined. Recoverability and fair value assessments are dependent upon assumptions and judgments regarding future prices, costs of production, sustaining capital requirements and economically recoverable reserves and resources. A material change in assumptions may significantly impact the potential impairment of these assets.

The Company uses the liability method of accounting for deferred income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. Deferred income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities, calculated using the currently enacted or substantively enacted tax rates anticipated to apply in the period that the temporary differences are expected to reverse. Deferred income tax inflows and outflows are subject to estimation in terms of both timing and amount of future taxable earnings. Should these estimates change the carrying value of income tax assets or liabilities may change.

Grants under Whitemud's stock-based compensation plans are accounted for in accordance with the fair-value-based method of accounting. For stock-based compensation plans that will settle through the issuance of equity such as stock options, the fair value of stock options is estimated using the Black-Scholes option pricing model. These valuation models require the input of certain assumptions including expected share price volatility.

RISKS AND UNCERTAINTIES

The continued operation, development and exploitation of the Company's kaolin resources and operation of its processing plant involve a high degree of financial risk. The risk factors which should be taken into account in assessing the Company's activities include, but are not limited to, those set out below and described under "*Cautionary Note Regarding Forward Looking Statements*". These risks are not presented in any order of priority. Any one or more of these risks could have a material effect on the operations and financial condition of the Company and should be taken into account in assessing the Company's activities.

The Company may not be able to continue as a going concern.

The Annual Financial Statements have been prepared on a going concern basis in accordance with IFRS, which assume Whitemud will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. The application of the going concern concept is dependent upon the ability of the Company to raise additional capital to support ongoing activities, receive continued support of its creditors, and achieve profitable operations. To date, the Company's main source of cash resources has been through the issuance of equity and debt. This dependence on the private and public market to fund

cash flow needs of the Company has resulted in management including a “Nature of the Organization and Future Operations” note in the Annual Financial Statements.

The Company’s revenue does not cover its expenses.

To date, the Company has not earned significant revenues and is developing markets for metakaolin. Whitemud does not have formal sales contracts and the Company has not exhibited consistent quality of product on a commercial scale including the fact that the process has not been proven at the large production levels projected. The Company’s funds from operations are insufficient to fund current operations, meet obligations and provide the required working capital. As a result, additional capital investment is required.

The Company depends on the support of the Creditors to continue operations.

The Creditors have extended the maturity date of the loan to December 31, 2017 and there is no assurance that demand for payment will not be made at that date. Should financing not be readily available, market acceptance not achieved or support from the Creditors not obtained, the Company will face a severe lack of liquidity that could lead to a further cessation of operations.

The Company facilities are subject to operating risks.

Construction of the Company’s processing facility and mine is complete and the Company has completed commissioning and testing of the plant. Risks include, without limitation, equipment failures, labour disputes, work stoppages and equipment delivery delays, all of which may have an adverse effect on the Company’s ongoing operations and financial condition. Additionally, the Company must enhance the efficiency of its operations and achieve consistent quality product which it has not been able to do.

The Company operates in a competitive market and is not a market leader.

The cement products industry is competitive and prospective customers in the markets that the Company is targeting are frequently using lower priced inferior products in many instances to produce concrete. As a result the Company may not secure the sufficient metakaolin sales volumes to improve its financial condition.

The continuing economic downturn in the oil and gas industry hurts the Company.

The oil and gas industry is a key industry that the Company targets for the sale of its kaolin and metakaolin products. The continuing depression in oil and gas prices and development activity amongst oil and gas producers has negatively impacted the Company’s ability to develop its customer base and market position. Without an improvement in the level of development activity in the oil and gas industry the Company may not achieve its sales objectives or improve its financial condition.

Mining and production of metakaolin is subject to numerous risks.

Mining involves a high degree of risk and the Company has a limited history of metakaolin operations. The Company currently depends on a single property with a kaolin resource. The Company’s operations are subject to environmental risks and the actual costs of reclamation for the property are subject to regulatory body guidelines. Changes in government regulations could impact Whitemud’s future financial performance.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements made herein contain “forward-looking information” which may include, but is not limited to, statements with respect to the future financial or operating performance of the Company, government approvals, the costs and timing of the development and commissioning of the project and the Company’s liquidity and capital resources. Without limiting the generality of the foregoing, the Company has made materially forward-looking statements: (i) under the heading “General Business Description” with regard to the replacement of up to 20% of the cement used; (ii) “Liquidity and Capital Resources”, regarding the sufficiency of working capital; and the necessity for additional financing; (iii) under the

heading “Company Outlook and Going Concern” with regard to the improvement of operational efficiency and enhanced production process; and (iv) under the heading “Company Outlook and Going Concern”, the assumption that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business, the uncertainty about the appropriateness of the going concern assumptions, the anticipated requirement for additional financing, generate improved market acceptance for the Company’s product. Often, but not always, forward-looking statements can be identified by the use of words such as “plans”, “expects”, “is expected”, “budget”, “scheduled”, “estimates”, “forecasts”, “intends”, “anticipates”, “believes”, or variations (including negative variations) of such words and phrases, or state that certain actions, events or results “may”, “could”, “would”, “might” or “will” be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Material risk factors that could cause results to differ materially from any future results include the following risk factors: “Whitemud has no material operating revenue, history of Metakaolin or Kaolin project development or operations,” is applicable to the forward-looking statements identified in (i) through (iv) above; “The Metakaolin market Whitemud is targeting is underdeveloped,” is applicable to the forward-looking statements identified in (i) and (iv) above; “Whitemud may not achieve sales volumes and sales prices for products,” is applicable to the forward-looking statements identified in (i) through (iv) above; “Whitemud does not have formal sales contracts,” is applicable to the forward-looking statements identified in (i) through (iv) above; “the Company has not exhibited consistent quality of product on a commercial scale” is applicable to the forward looking statements identified in (i) through (iv) above; “the process has not been proven at the large production levels projected,” is applicable to the forward-looking statements identified in (i) and (iv) above; “Mining/quarrying operations are subject to a high degree of risk,” is applicable to forward-looking statements made in (i) through (iv) above; “Government regulation may adversely affect Whitemud,” is applicable to forward-looking statements made in (iv) above; and “Whitemud’s distribution and sales of its products face uncertainty,” is applicable to forward-looking statements made in (i) and (iii) above. “No assurance that new business ventures will develop on a profitable and sustained basis or that the Company will have the necessary contractual commitments, resources, and working capital to continue with the new business ventures” is applicable to forward-looking statements made in (iii). The forgoing list of risk factors is not exhaustive. Additional information on risk factors is included under the heading “Risks and Uncertainties” in this MD&A, as well as general business, economic, competitive, political and social uncertainties; the actual results of exploration activities; actual results of reclamation activities; conclusions of economic evaluations; changes in project parameters as plans continue to be refined; future prices of metakaolin and kaolin; possible variations of kaolinized ore deposit composition and qualities; failure of plant, equipment or processes to operate as anticipated; accidents, labour disputes and other risks of the mining industry; delays in obtaining government approvals or in obtaining sufficient debt or equity financing if required, or in the completion of development or construction activities, including the potential expansion of the plant. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in the forward-looking statements, there may be other factors that cause actions, events or results to differ from those anticipated, estimated or intended. In making its forward-looking statements, the Company used, among others, the following material factors or assumptions to develop forward-looking information enumerated above: the target market for Whitemud will accept Whitemud’s metakaolin for its stated purpose, use of metakaolin remains economic, government regulations governing Whitemud’s title to mineral properties, its permits and plant operations will not change, the economic conditions will improve to an extent where the current suppressed concrete industry will improve to levels experienced prior to the economic downturn and that the various independent reviews conducted on the Company’s products and resources are accurate. Forward-looking statements contained herein are made as of the date hereof subject to the requirements of applicable securities legislation and except as otherwise required by law, the Company assumes no obligation to update any forward-looking statements, whether as a result of new information, future events or results or otherwise. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, the reader is cautioned not to place undue reliance on forward-looking statements. OTHER INFORMATION

Additional information related to the Company is available for viewing on SEDAR at www.sedar.com and at the Company’s website at www.whitemudresources.com.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of the financial condition and operations of Whitemud Resources Inc. ("Whitemud" or the "Company") has been prepared by management as of March 14, 2017 and should be read in conjunction with the Company's financial statements for the year ended December 31, 2016, which have been prepared in accordance with International Financial Reporting Standards. Some of the statements made herein contain "forward-looking information". Please see "Cautionary Notes Regarding Forward-Looking Statements".

HISTORY AND OVERVIEW

The Company is developing kaolin resources in the Wood Mountain area of southern Saskatchewan for the production of metakaolin. Metakaolin is a high performance supplementary cementing material ("SCM") used as a performance enhancing additive to concrete. Metakaolin can replace up to 20% of the cement used to make concrete while enhancing performance and reducing cost.

In December 2010, the TSX Venture Exchange (the "TSXV") issued a bulletin suspending the listing of the Company's shares and reclassifying the Company's listing from a Tier 1 company to a Tier 2 company. On February 25, 2011, the TSXV issued a further bulletin transferring the Company's listing to NEX effective February 28, 2011, where its listing would remain suspended until April 3, 2013 when the Alberta Securities Commission revoked the Cease Trade Order. On June 27, 2013 an application to have the Company reinstated for trading on the NEX was approved by the TSXV.

Company Outlook and Going Concern

The financial statements for the year ended December 31, 2016 were prepared by management in accordance with International Financial Reporting Standards applicable to a going concern entity, which assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. The uncertainty in the use of the going concern assumption is impacted by the following factors.

As at December 31, 2016, the Company had a working capital deficiency of \$37,558,194 (2015 – \$33,359,110). For the period then ended, the Company incurred a net loss of \$5,507,706 (2015- \$8,516,770) and operating cash flow of \$13,556 (2015 – negative \$765,452) with a resulting accumulated deficit of \$115,209,533 (2015 - \$109,701,827). In order for the Company to continue operations for the longer term, including generating sufficient cash flows and ultimately attaining profitable operations, additional financing will be required. The Company requires the continuing support of its creditors. There is no assurance that the creditors will not demand repayment of the loan on the maturity date. Management is currently reviewing its options for additional financing beyond the non-revolving operating facility.

Based on the Company's current projections future operations are also dependent on the Company's ability to streamline and enhance the production process to consistently produce high quality metakaolin, to generate improved market acceptance for the Company's product and the ongoing support of its creditors.

Critical work to determine the integrity of the processing facilities through replacement and upgrading of equipment, analyzing the chemistry of the Company's ore body, and marketing kaolin and metakaolin is ongoing. Produced metakaolin continues to be tested by potential end users.

There is sufficient inventory to meet its demand requirements for metakaolin for the upcoming year. The Company continues to provide metakaolin to customers by truck and rail from its storage facility. The Company anticipates that revenue generation in 2017 will be challenging for customers in the oilfield industry and will negatively affect its own revenue forecasts for the next year. The Company has acquired two new customers.

During the fourth quarter of 2015, Midstream Energy Partners, a division of Whitemud, was formed with the intention of diversifying the Company's revenue streams through the marketing of hydrocarbon commodities in addition to its kaolin and metakaolin products. Whitemud is seeking to generate new revenue streams through this division to assist the Company in paying down its debts and stabilizing its operations. Refer to Note 18 of the financial statements for data on operating segments.

The ability of the Company to continue as a going concern and realize the carrying value of its assets and discharge its liabilities when due, is dependent on the Company's ability to generate improved market acceptance for the Company's product, to secure financing, and receive the ongoing support of its creditors. There is no certainty that these and other strategies will be sufficient to permit the Company to continue beyond the foreseeable future as such strategies are contingent upon new equity or debt funds from shareholders, investors and lenders, as well as improved market acceptance for the Company's kaolin and metakaolin.

These financial statements do not reflect any adjustments relating to the recoverability and classification of recorded assets or liabilities that may be necessary should the Company be unable to continue as a going concern. In order for the Company to continue operations for the longer term, to generate sufficient cash flows and ultimately attain profitable operations, additional financing will be required. The Company's continuation as a going concern is dependent upon management's plans coming to fruition (see "Risks and Uncertainties") and such plans are contingent upon new equity, debt or alternate financing from investors, as well as increased market acceptance of the Company's product.

RESULTS OF OPERATIONS

For the period ended December 31, 2016, the Company had a net loss of \$5,507,706 (\$0.015 per share) compared to a loss of \$8,516,770 (\$0.024 per share) for the comparable period ended December 31, 2015.

Metakaolin division

Metakaolin sales increased 3% to \$414,906 in the year ended December 31, 2016 from \$402,742 in 2015. The sales for the quarter ended December 31, 2016 were 38% higher than the quarter ended December 31, 2015. Operating expenses for the year ended December 31, 2016 were \$1,018,980 (2015 - \$1,620,387). Some cost reductions were realized for property taxes, insurance and office expenses.

General and administration expenses for the year ended December 31, 2016 were \$482,316 (2015 - \$382,860). The increase was due to a provision of \$190,000 for the deemed uncollectibility of amounts due from shareholders for shareholder loans outstanding owing to the Company. Finance charges for the period ended December 31, 2016 were \$3,861,298 (2015 - \$3,396,843). The Company was unable to make the required principal and interest payments to its creditors. The lenders have extended the maturity date of the loan to December 31, 2017. The creditors have not demanded repayment as at the date of this Management Discussion and Analysis.

As a result of economic uncertainties surrounding the oil and gas industry, the Company recorded an impairment for the year ended December 31, 2016 in the amount of \$nil (2015- \$3,500,000).

Depreciation expense for the period ended December 31, 2016 was \$1,594,738 (2015 - \$447,734). The Company changed the rate of depreciation after reviewing estimates of the useful life of the buildings and processing equipment.

At December 31, 2016, there were 7,665 tonnes (2015 - 9,682 tonnes) of finished metakaolin in bulk inventory available for sale.

Midstream Energy Partners division

For the period ended December 31, 2016 Midstream Energy Partners division had sales revenue in the amount of \$6,381,663 and cost of sales of \$5,335,795. General and administrative costs were \$17,379. The division contributed net income of \$1,032,028 to the Company in 2016 compared to \$3,447 in 2015. The division began operations in late 2015.

Selected annual data

	2016	2015	2014	2013
Sales volume –metakaolin (tonnes)	2,017	2,010	2,639	2,423
Revenue – metakaolin (1)	\$ 421,822	\$ 402,825	\$ 525,729	\$ 492,913
Revenue – hydrocarbons	\$ 6,381,663	\$ 423,030	-	-
Financing charges	\$ 3,861,298	\$ 3,396,843	\$ 2,983,753	\$ 2,641,633
Impairment	-	\$ 3,500,000	\$ 4,500,000	-
Net loss	\$ 5,507,706	\$ 8,516,770	\$ 9,242,405	\$ 3,755,000

(1) Revenue in 2016 included sales of gravel in the amount of \$6,916.

Selected quarterly data (in \$) – See Note 18 of interim financial statements for segment reporting

	December 2016	September 2016	June 2016	March 2016	December 2015	September 2015	June 2015	March 2015
Metakaolin revenue	149,386	130,394	42,184	92,942	108,155	128,486	48,268	117,916
Midstream Energy Partners gross margin	176,779	345,052	415,808	108,229	10,315	-	-	-
Net loss	(1,549,256)	(1,262,551)	(1,249,601)	(1,446,298)	(4,784,442)	(1,205,026)	(1,239,996)	(1,287,306)

FINANCING

Current Loan Facilities

Following a Proposal by its Receiver and ratified by the Court of Queen’s Bench of Alberta, the Company entered into an agreement with parties previously related to directors and officers of Whitemud to establish two borrowing facilities as follows:

The Company has the following notes payable:

	December 31, 2016	December 31, 2015
Kasten Energy (“Kasten”) (a), (c)	\$ 2,007,818	\$ 1,818,080
Petrogas Energy (“Petrogas”) (b), (c)	38,715,805	35,063,448
	\$ 40,723,623	\$ 36,881,528

(a) Kasten provided operational and Proposal funding of \$1,139,561 during receivership. The outstanding balance as at December 31, 2016 includes accrued interest of \$868,257 (December 31, 2015- \$678,519).

(b) Petrogas provided operational and proposal funding during receivership of \$15,984,062 and operational funding of \$7,515,938 (2015-\$7,515,938) after receivership to recommence operations. The outstanding balance as at December 31, 2016 includes accrued interest of \$15,215,805 (December 31, 2015 - \$11,563,448).

- (c) The notes payable to Kasten and Petrogas (the “lenders”) include a fully advanced term loan in the amount of \$24,639,561 (2015 - \$24,639,561) which is due on demand and had a maturity date of January 16, 2014. Both debt facilities bear an interest rate of 10% per annum compounded semi-annually at the end of February and August of each year. Principal reductions of 1/20th of the outstanding balance are required annually on April 4th, the anniversary date of the loan agreement. The lenders hold a general security agreement and other collateral registered as a first charge against all assets of the Company. The Company has not made required principal and interest payments to its creditors and it is in default under the loan agreement. The lenders have extended the maturity date of the loan to December 31, 2017 and have waived interest charges for the fiscal year 2017. The lenders have not demanded repayment of the loan as of the date of the financial statements.

Capital expenditures and impairments

There were capital expenditures of \$4,129 (2015 - \$3,128) for the year ended December 31, 2016. In 2015, the Company recorded an impairment of \$3,500,000.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2016, the Company had a working capital deficiency of \$37,558,194 (December 2015 – \$33,659,110). The financial statements have been prepared on a going concern basis in accordance with International Financial Reporting Standards, which assumes Whitemud will realize its assets and discharge its liabilities and commitments in the normal course of business. The application of the going concern concept is dependent upon the ability of the Company to raise additional capital to support ongoing activities and achieve profitable operations. The Company has not made principal and interest payments and is in default under the loan agreement. The lenders have not demanded repayment of the loan and have extended the maturity date to December 31, 2017. The Company requires the ongoing support of its creditors. Operations have been funded through loan facilities provided by its creditors as described in note 9 of the financial statements.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements at the time of this management discussion and analysis.

FINANCIAL AND OTHER INSTRUMENTS

The Company’s cash and cash equivalents and restricted cash are measured at fair value through profit or loss. All of the Company’s other financial instruments are measured at amortized cost using the effective interest rate method. The Company does not have a hedge or other risk control strategy in place.

OUTSTANDING COMMON SHARES

The Company is authorized to issue an unlimited number of Class A voting and an unlimited number of Class B non-voting common shares.

Under a Court Order (the “Court Order”), the sponsors of the Proposal were issued 16,000,000 Class A voting common shares in July 2012. On June 28, 2013 pursuant to the Court Order, the Company issued 326,499,700 Class B non-voting common shares to Kasten and Petrogas. Due to the financial position of the Company and the facts described in Note 1 of the financial statements, no value has been attributed to the shares. As a result, shareholders other than Kasten and Petrogas will continue to hold 52.98% of the issued Class A common shares (being 5.5% of all the issued shares of the Company after the issuance of Class B non-voting common shares). 34,026,300 Class A common shares were issued and outstanding as at December 31, 2016 and December 31, 2015.

Loans to former directors and officers

To assist directors, officers and employees in exercising stock options granted, the Company made loans to certain directors and officers. These loans were interest free, secured by a promissory note, and were due for a period not to exceed four years. The Company has taken action to collect the loans from former directors and officers. The Company has recorded a provision for an uncollectible amount of \$190,000 in its Statement of Net Loss and Comprehensive Loss for the year ended December 31, 2016. The remaining amount of \$372,775 is included in accounts receivable as at December 31, 2016. The Company has commenced legal action to collect the unpaid amounts.

RECENT AND FUTURE ACCOUNTING PRONOUNCEMENTS

The financial statements for the period ended December 31, 2016, including comparatives, are the Company's financial statements presented in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committees ("IFRIC").

The following are standards or amendments to existing standards as well as future accounting pronouncements that are relevant to the Company's financial statements:

- IFRS 9 – Financial Instruments
- IFRS 15 – Revenue from Contracts with Customers
- IFRS 16 - Leases

The Company is currently assessing the impact of future standards and amendments. The adoption of recent standards had no impact on the amounts recorded in the Company's financial statements.

CRITICAL ACCOUNTING ESTIMATES

Whitemud prepares its financial statements in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board ("IASB"). In doing so, management is required to make various estimates and judgments in determining the reported amounts of assets and liabilities, revenues and expenses for each year presented and in the disclosure of commitments and contingencies. Management bases its estimates and judgments on its own experience, guidelines established by the Canadian Institute of Mining, Metallurgy and Petroleum and various other factors believed to be reasonable under the circumstances. In reference to the Company's significant accounting policies as described in note 3 to the December 31, 2016 financial statements, management believes the following critical accounting policies reflect its more significant estimates and judgments used in the preparation of the financial statements.

Inventories are valued at the lower of weighted average production cost and net realizable value, while consumable supplies and spares are valued at the lower of weighted-average cost and replacement cost. Determination of realizable value or replacement costs requires estimates to be made for costs to complete and sell inventory. Management periodically makes estimates regarding whether an allowance is necessary for slow moving or obsolete consumable supplies and spares inventories.

In 2016, the Company changed the rate of depreciation to better reflect the useful lives of the processing plant and equipment. Under IFRS, this change is considered a change in accounting estimate and accounted for prospectively by amortizing the cumulative changes over the remaining useful life of the related assets. Mobile equipment and other administrative-type assets are depreciated according to the declining balance or straight-line method, based on an estimate of their useful lives.

Significant decommissioning and reclamation activities are often not undertaken until substantial completion of the useful lives of productive assets. Regulatory requirements and alternatives with respect to

these activities are subject to change over time. A significant change to either the estimated costs or recoverable reserves would result in a material change in the amount charged to earnings.

If it is determined that carrying values of property, plant and equipment cannot be recovered, then the asset is written down its recoverable amount. Any excess of book value over recoverable amount is charged to income in the period in which the impairment is determined. Recoverability and fair value assessments are dependent upon assumptions and judgments regarding future prices, costs of production, sustaining capital requirements and economically recoverable reserves and resources. A material change in assumptions may significantly impact the potential impairment of these assets.

The Company uses the liability method of accounting for deferred income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. Deferred income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities, calculated using the currently enacted or substantively enacted tax rates anticipated to apply in the period that the temporary differences are expected to reverse. Deferred income tax inflows and outflows are subject to estimation in terms of both timing and amount of future taxable earnings. Should these estimates change the carrying value of income tax assets or liabilities may change.

Grants under Whitemud's stock-based compensation plans are accounted for in accordance with the fair-value-based method of accounting. For stock-based compensation plans that will settle through the issuance of equity such as stock options, the fair value of stock options is estimated using the Black-Scholes option pricing model. These valuation models require the input of certain assumptions including expected share price volatility.

RISKS AND UNCERTAINTIES

The continued operation, development and exploitation of the Company's kaolin resources and operation of its processing plant involve a high degree of financial risk. The risk factors which should be taken into account in assessing the Company's activities include, but are not limited to, those set out in the paragraphs below. These risks are not intended to be presented in any assumed order of priority. Any one or more of these risks could have a material effect on the Company and should be taken into account in assessing the Company's activities.

To date, the Company has not earned significant revenues and is developing markets for metakaolin. Whitemud does not have formal sales contracts and the Company has not exhibited consistent quality of product on a commercial scale including the fact that the process has not been proven at the large production levels projected. The Company's funds from operations are insufficient to fund current operations, meet obligations and provide the required working capital. As a result, additional capital investment is required. Lenders have extended the maturity date of the loan to December 31, 2017 and there is no assurance that demand for payment will not be made at that date. Should financing not be readily available, market acceptance not achieved or support from creditors not obtained, the Company will face a severe lack of liquidity that could lead to a further cessation of operations.

Construction of the Company's processing facility and mine is complete and the Company has completed commissioning and testing of the plant. Risks include, without limitation, equipment failures, labour disputes, work stoppages and equipment delivery delays, all of which may have an adverse effect on the Company's ongoing operations and financial condition.

The cement products industry is competitive and the particular market that the Company is targeting is currently using lower priced inferior products in many instances to produce concrete. As a result the Company may not secure the metakaolin sales volumes and prices anticipated for the Gollier Creek plant in the near term.

Mining involves a high degree of risk and the Company has a limited history of metakaolin operations. The Company currently depends on a single property with a kaolin resource. The Company's operations are subject to environmental risks and the actual costs of reclamation for the property are subject to regulatory body guidelines. Changes in government regulations could impact Whitemud's future financial performance.

The financial statements have been prepared on a going concern basis in accordance with IFRS, which assume Whitemud will be able to realize its assets and discharge its liabilities and commitments in the

normal course of business. The application of the going concern concept is dependent upon the ability of the Company to raise additional capital to support ongoing activities, receive continued support of its creditors, and achieve profitable operations. To date, the Company's main source of cash resources has been through the issuance of equity and debt. This dependence on the private and public market to fund cash flow needs of the Company has resulted in management including a "Nature of the Organization and Future Operations" note in its financial statements.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements made herein contain "forward-looking information" which may include, but is not limited to, statements with respect to the future financial or operating performance of the Company, government approvals, the costs and timing of the development and commissioning of the project and the Company's liquidity and capital resources. Without limiting the generality of the foregoing, the Company has made materially forward-looking statements: (i) under the heading "History" with regard to the replacement of up to 20% of the cement used; (ii) "Liquidity and Capital Resources", regarding the sufficiency of working capital; and the necessity for additional financing; and (iii) under the heading "Company Outlook and Going Concern", the assumption that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business, the uncertainty about the appropriateness of the going concern assumptions, the anticipated requirement for additional financing, generate improved market acceptance for the Company's product. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", "believes", or variations (including negative variations) of such words and phrases, or state that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Material risk factors that could cause results to differ materially from any future results include the following risk factors: "Whitemud has no operating revenue, history of Metakaolin or Kaolin project development or operations," is applicable to the forward-looking statements identified in (i) through (iii) above; "The Metakaolin market Whitemud is targeting is underdeveloped," is applicable to the forward-looking statements identified in (i) and (iii) above; "Whitemud may not achieve sales volumes and sales prices for products," is applicable to the forward-looking statements identified in (i) through (iii) above; "Whitemud does not have formal sales contracts," is applicable to the forward-looking statements identified in (i) through (iii) above; "the Company has not exhibited consistent quality of product on a commercial scale" is applicable to the forward looking statements identified in (i) through (iii) above; "the process has not been proven at the large production levels projected," is applicable to the forward-looking statements identified in (i) and (iii) above; "Mining/quarrying operations are subject to a high degree of risk," is applicable to forward-looking statements made in (i) through (iii) above; "Government regulation may adversely affect Whitemud," is applicable to forward-looking statements made in (iii) above; and "Whitemud's distribution and sales of its products face uncertainty," is applicable to forward-looking statements made in (i) and (iii) above. "No assurance that new business ventures will develop on a profitable and sustained basis or that the Company will have the necessary contractual commitments, resources, and working capital to continue with the new business ventures" is applicable to forward-looking statements made in (iii). The forgoing list of risk factors is not exhaustive. Additional information on risk factors is included under the heading "Risks and Uncertainties" in this Management's Discussion and Analysis, as well as general business, economic, competitive, political and social uncertainties; the actual results of exploration activities; actual results of reclamation activities; conclusions of economic evaluations; changes in project parameters as plans continue to be refined; future prices of metakaolin and kaolin; possible variations of kaolinized ore deposit composition and qualities; failure of plant, equipment or processes to operate as anticipated; accidents, labour disputes and other risks of the mining industry; delays in obtaining government approvals or in obtaining sufficient debt or equity financing if required, or in the completion of development or construction activities, including the potential expansion of the plant. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in the forward-looking statements, there may be other factors that cause actions, events or results to differ from those anticipated, estimated or intended. In making its forward-looking statements, the Company used, among others, the following material factors or assumptions to develop forward-looking information enumerated above: the target market for Whitemud will accept Whitemud's metakaolin for its stated purpose, use of metakaolin remains economic, government regulations governing Whitemud's title to mineral properties, its permits and plant operations will not change, the economic conditions will improve to an extent where the current suppressed concrete industry will improve to levels experienced prior to the economic downturn and that the various

independent reviews conducted on the Company's products and resources are accurate. Forward-looking statements contained herein are made as of the date hereof subject to the requirements of applicable securities legislation and except as otherwise required by law, the Company assumes no obligation to update any forward-looking statements, whether as a result of new information, future events or results or otherwise. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, the reader is cautioned not to place undue reliance on forward-looking statements.

OTHER INFORMATION

Additional information related to the Company is available for viewing on SEDAR at www.sedar.com and at the Company's website at www.whitemudresources.com.

INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS - QUARTERLY HIGHLIGHTS SIX MONTHS ENDED JUNE 30, 2019

The following Interim Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of Whitemud Resources Inc. ("Whitemud" or the "Company") has been prepared by management of Whitemud and should be read in conjunction with the Company's unaudited condensed interim financial statements for the six months ended June 30, 2019 (the "Financial Statements"). The Company has prepared this MD&A in accordance with the provisions of Section 2.2.1 of Form 51-102F1 - *Management's Discussion and Analysis*.

The Financial Statements and accompanying notes of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") and require management to make estimates and assumptions that affect amounts reported and disclosed in the Financial Statements and related notes.

The Board of Directors, on recommendation of the Audit Committee, approved the contents of this MD&A on August 29, 2019. Disclosure contained in this document is current to this date, unless otherwise stated. Some of the statements made herein contain "forward-looking information". Please see "*Cautionary Notes Regarding Forward-Looking Statements*". Additional information on Whitemud is available on the Company's profile through the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com.

GENERAL BUSINESS DESCRIPTION

The Company is developing kaolin resources in the Wood Mountain area of southern Saskatchewan for the production and marketing of metakaolin. Metakaolin is a high performance supplementary cementing material used as a performance enhancing additive to concrete. Metakaolin can replace up to 20% of the cement used to make concrete while enhancing performance and reducing cost.

Midstream Energy Partners division of Whitemud was formed with the intention of diversifying the Company's revenue streams through the marketing of liquefied petroleum gas ("LPG") commodities in addition to its kaolin and metakaolin products. Commodity marketing contracts are subject to a bidding process with contracts usually entered into for terms of one year.

COMPANY OUTLOOK AND GOING CONCERN

The Financial Statements were prepared by management in accordance with IFRS applicable to a going concern entity, which assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. The uncertainty in the use of the going concern assumption is impacted by the factors described below. The Financial Statements do not reflect any adjustments relating to the recoverability and classification of recorded assets or liabilities that may be necessary should the Company be unable to continue as a going concern.

As at June 30, 2019, the Company had a working capital deficiency of \$18,179,498 (2018 – \$19,357,911). For the period then ended, the Company had net income of \$1,089,279 (2018 – \$476,085) and operating cash flow of \$117,581 (2018 – \$4,115) with a resulting accumulated deficit of \$101,033,379 (2018 – \$102,122,658). In order for the Company to continue operations for the longer term, including generating sufficient cash flows and ultimately attaining profitable operations, additional financing must be obtained. Additionally, the Company requires the continuing support of its creditors, Kasten Resources Inc. ("Kasten") and Petrogas Energy Corp. ("Petrogas" and together with Kasten the "Creditors"), which have advanced the Company an aggregate of \$24,639,561 (2018 – \$24,639,561). (See "*Financing - Current Loan Facilities*" for further information on the loans provided by the Creditors). There is no assurance that the Creditors will not demand repayment of their loans or continue to provide relief from the repayment requirements thereof. Should the Creditors demand payment of their loans the Company is not expected to be able to satisfy such demand. Management is currently reviewing its options to obtain additional financing.

To achieve profitability from future metakaolin operations management believes that the Company must improve operational efficiency and enhance the production process of its products to consistently produce high quality metakaolin and generate improved market acceptance for the Company's product to improve sales revenues and promote the ongoing support of the Creditors. This will require significant capital expenditures. Customer demand to date has not supported making these enhancing capital expenditures at this time.

Management anticipates that the Company has sufficient inventory to meet demand for the Company's metakaolin during the remaining 2019 fiscal year. The Company continues to provide metakaolin to customers by truck and rail from its storage facility and management does not believe that any change to the distribution procedures of the product is necessary.

Management anticipates that metakaolin revenue generation in 2019 will continue to be challenging for customers in the oilfield services industry, a significant market for the Company's product, which will negatively affect the Company's metakaolin revenue for the 2019 fiscal year. Metakaolin sales were 29.3% less than the period ended June 30, 2018.

As a result of the going concern circumstances described above and in notes 1 and 8 of the interim financial statements, an impairment of \$3,010,705 was recorded against metakaolin buildings and equipment assets in 2018. The Company estimated internally generated future cash flows discounted to their present value using a risk adjusted interest rate of 14.20%. In determining fair value, the Company considered current costs, the long term view of the uses for its products and recent sales volumes. The Company estimated the recoverable amounts of the assets to be approximately \$1.5 million for the land, buildings and equipment pertaining to metakaolin assets.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to a revised estimate of its recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized.

The LPG marketing business is dependent upon commodity price, access to and cost of transportation, risks associated with product supply, risks of customer demand, weather related demand conditions and the ability of customers to pay for LPG's delivered to them. There is no assurance that contracts may be obtained, extended or re-negotiated under commercially acceptable terms. See "*Risks and Uncertainties*".

In summary and without limiting the foregoing, the ability of the Company to continue as a going concern and realize the carrying value of its assets and discharge its liabilities when due, is dependent on the Company's ability to generate improved market acceptance for the Company's product, increase sales, secure financing, receive the ongoing support of the Creditors and enhance its operations. There is no certainty that these or any other strategies that may be identified by management will be sufficient to permit the Company to continue beyond the immediate future as such strategies are contingent upon the conduct and behavior of parties over which the Company has no control, namely new equity or debt funds from shareholders, investors and lenders, improved industry conditions and market acceptance for the Company's products. For additional risks and uncertainties relating to the Company see "*Risks and Uncertainties*".

RESULTS OF OPERATIONS

For the six months ended June 30, 2019, the Company had net income of \$1,089,279 (\$0.003 per share) compared to a net income of \$476,085 (\$0.001 per share) for the comparable period in 2018. The major factors resulting in the increase in net income for 2019 were an increase in net income from Midstream Energy Partners division of \$655,523, an increase in foreign exchange expense of \$300,127, an increase in total general and administrative costs of \$160,238, and a reduction in depreciation expense of \$377,222. Note 14 of the audited financial statements provides a breakdown of operations by division.

Metakaolin Division

Revenue

Revenue from the sale of metakaolin decreased 29.3% to \$82,349 for the period ended June 30, 2019 compared to \$116,437 for the same period in 2018. Second quarter sales were \$35,639 compared to \$49,810 for the second quarter of 2018. This was a result of a decrease in revenue from sales to customers in the oilfield services industry. At June 30, 2019, there were 2,509 tonnes (2018 – 2,900 tonnes) of finished metakaolin in bulk inventory available for sale. Net loss decreased by \$380,666 compared to the six months ended June 30, 2018. This was mainly due to depreciation expense reductions of \$377,222.

Operating Expenses

Operating expenses for the six months period ended June 30, 2019 were \$405,378 (2018 - \$479,596). General and administration expenses for the period ended June 30, 2019 were \$385,217 (2018 - \$224,979). Professional fees were \$45,200 higher in 2019. Fees were \$24,534 in the second quarter.

Other Expenses

Finance charges for the six months period ended June 30, 2019 were \$10,459 (2018 - \$11,143). The lenders have forgiven all interest accrued on notes payable, make the notes non-interest bearing, and extended the maturity date of the loan to December 31, 2019. During 2018 the Creditors waived interest payments for the years ended December 31, 2017 and 2018.

Depreciation expense for the six months period ended June 30, 2019 was \$79,352 (2018 - \$456,574). Because of the impairment of \$3,010,705 incurred in 2018, there were less assets to depreciate and therefore depreciation expense was reduced.

Impairment

As a result of the going concern circumstances noted in note 1 of the financial statements, the economic uncertainties surrounding the oil and gas industry and the inability of the Company to increase the uses for its products, an impairment was recorded in 2018 in the amount of \$3,010,705.

Midstream Energy Partners Division

For the six months ended June 30, 2019 Midstream Energy Partners division had net income in the amount of \$1,609,749 (2018 - \$1,377,221). The 2019 net revenue was reduced by an unrealized foreign currency loss of \$127,921 on translation from US dollar denominated current assets and liabilities versus a gain of \$178,055 at June 30, 2018. Net income for the three months ended June 30, 2019 was \$831,594 compared to \$807,733 for the three months ended June 30, 2018. In the second quarter of 2019 there was a foreign exchange loss of \$127,921 versus a gain of \$178,055 in the second quarter of 2018. General and administrative expenses increased by \$117,019 over 2018 due to more administrative and professional fees incurred by the division. The Company's butane margins increased significantly contributing to a net \$790,229 increase in net butane revenue compared to the six months ended June 30, 2018. There were no propane sales in the second quarter of 2019 and the net revenue generated from propane business decreased by \$134,705 over the six months ended June 30, 2018. The Company intends to continue with its marketing and distribution initiatives in an attempt to generate income and stabilize the Company financially.

There have been no exploration expenditures, research and development expenses or other material costs that would need to be disclosed that have not been reflected in the audited financial statements or this document.

LIQUIDITY

At June 30, 2019, the Company had a working capital deficiency of \$18,179,498 (2018 –\$19,357,911). The Financial Statements have been prepared on a going concern basis in accordance with International Financial Reporting Standards, which assumes Whitemud will realize its assets and discharge its liabilities and commitments in the normal course of business. The application of the going concern concept is

dependent upon the ability of the Company to raise additional capital to support ongoing activities, process efficiencies and achieve profitable operations. The Creditors have agreed to forgive all accrued interest on the notes payable, make the notes non-interest bearing, and have agreed to extend the notes to December 31, 2019. Interest was waived for 2017 and 2018. Operations have been funded through loan facilities provided by the Creditors as described below under “*Capital Resources - Current Loan Facilities*”. The Company does not have the ability to fund development or operating costs from operations and requires the ongoing support of the Creditors.

CAPITAL RESOURCES

Current Loan Facilities

In connection with a forbearance agreement entered into between the Company and its principal lender in October 2010, Deloitte and Touche (the “**Receiver**”) was appointed Receiver and Manager of the Company. In July 2011, the Receiver filed a proposal to the creditors of the Company, which was approved by the various classes of creditors (the “**Proposal**”). In August, 2011, the Proposal was ratified by the Court of Queen’s Bench of Alberta in a court order (the “**Court Order**”) and a new Board of Directors was appointed which in turn appointed new management of the Company. Following the Proposal, the Company entered into an agreement with parties previously related to directors and officers of Whitemud to establish two borrowing facilities as follows:

The Company has the following notes payable:

	June 30, 2019	December 31, 2018
Kasten Energy Inc. ^(a)	\$1,139,561	\$1,139,561
Petrogas Energy Corp. ^(b)	\$23,500,000	\$23,500,000
	\$24,639,561	\$24,639,561

Notes:

- (a) Kasten provided operational and Proposal funding of \$1,139,561 during receivership. The outstanding balance of \$1,139,561 as at June 30, 2019 includes accrued interest of \$nil (2018- \$nil) which has been forgiven under an agreement with the Company.
- (b) Petrogas Energy Corp. provided operational and proposal funding during receivership of \$15,984,062 and operational funding of \$7,515,938 (2018-\$7,515,938) after receivership to recommence operations. The outstanding balance of \$23,500,000 as at June 30, 2019 includes accrued interest of \$nil (2018 - \$nil) which has been forgiven under an agreement with the Company.

Capital Expenditures

There were no capital expenditures (2018 - \$nil) for the period ended June 30, 2019.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements at the time of this management discussion and analysis.

FINANCIAL AND OTHER INSTRUMENTS

The Company’s cash and cash equivalents and restricted cash are measured at fair value through profit or loss. The Company does not have a hedge or other risk control strategy in place.

OUTSTANDING COMMON SHARES

The Company is authorized to issue an unlimited number of Class A voting and an unlimited number of Class B non-voting common shares. The Company has issued 34,026,300 Class A common shares and 326,499,700 Class B non-voting common shares as at June 30, 2019.

TRANSACTIONS BETWEEN RELATED PARTIES

As disclosed in Note 13 of the financial statements, the Company had significant transactions with Petrogas Energy Corp and Petrogas Inc, related parties. In the first six months of 2019, the Company generated LPG sales of \$12,982,469 (2018 - \$23,415,119) to Petrogas entities. The cost of goods purchased was \$4,742,636 (2018- \$22,362,605) from Petrogas entities. The Company intends to continue with its marketing and distribution initiatives in an attempt to generate income and stabilize the Company financially.

RECENT AND FUTURE ACCOUNTING PRONOUNCEMENTS

The Financial Statements, including comparatives, are presented in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committees (“IFRIC”).

The following are standards or amendments to existing standards as well as future accounting pronouncements that are relevant to the Company’s financial statements:

- IFRS 16 - Leases

The Company has adopted these standards. The adoption of these standards had no impact on the amounts recorded in the Company’s financial statements.

CRITICAL ACCOUNTING ESTIMATES

Whitemud prepares its financial statements in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board (“IASB”). In doing so, management is required to make various estimates and judgments in determining the reported amounts of assets and liabilities, revenues and expenses for each year presented and in the disclosure of commitments and contingencies. Management bases its estimates and judgments on its own experience, guidelines established by the Canadian Institute of Mining, Metallurgy and Petroleum and various other factors believed to be reasonable under the circumstances. In reference to the Company’s significant accounting policies as described in note 3 to the Financial Statements, management believes the following critical accounting policies reflect its more significant estimates and judgments used in the preparation of the Financial Statements.

Inventories are valued at the lower of weighted average production cost and net realizable value, while consumable supplies and spares are valued at the lower of weighted-average cost and replacement cost. Determination of realizable value or replacement costs requires estimates to be made for costs to complete and sell inventory. Management periodically makes estimates regarding whether an allowance is necessary for slow moving or obsolete consumable supplies and spares inventories.

In 2016, the Company changed the rate of depreciation to better reflect the useful lives of the processing plant and equipment. Under IFRS, this change is considered a change in accounting estimate and accounted for prospectively by amortizing the cumulative changes over the remaining useful life of the related assets. Mobile equipment and other administrative-type assets are depreciated according to the declining balance or straight-line method, based on an estimate of their useful lives.

Significant decommissioning and reclamation activities are often not undertaken until substantial completion of the useful lives of productive assets. Regulatory requirements and alternatives with respect to these activities are subject to change over time. A significant change to either the estimated costs or recoverable reserves would result in a material change in the amount charged to earnings.

If it is determined that carrying values of property, plant and equipment cannot be recovered, then the asset is written down its recoverable amount. Any excess of book value over recoverable amount is charged to income in the period in which the impairment is determined. Recoverability and fair value assessments are dependent upon assumptions and judgments regarding future prices, costs of production, sustaining capital requirements and economically recoverable reserves and resources. A material change in assumptions may significantly impact the potential impairment of these assets.

The Company uses the liability method of accounting for deferred income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. Deferred income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities, calculated using the currently enacted or substantively enacted tax rates anticipated to apply in the period that the temporary differences are expected to reverse. Deferred income tax inflows and outflows are subject to estimation in terms of both timing and amount of future taxable earnings. Should these estimates change the carrying value of income tax assets or liabilities may change.

Grants under Whitemud's stock-based compensation plans are accounted for in accordance with the fair-value-based method of accounting. For stock-based compensation plans that will settle through the issuance of equity such as stock options, the fair value of stock options is estimated using the Black-Scholes option pricing model. These valuation models require the input of certain assumptions including expected share price volatility.

RISKS AND UNCERTAINTIES

The continued operation, development and exploitation of the Company's kaolin resources and operation of its processing plant involve a high degree of financial risk. The risk factors which should be taken into account in assessing the Company's activities include, but are not limited to, those set out below and described under "*Cautionary Note Regarding Forward Looking Statements*". These risks are not presented in any order of priority. Any one or more of these risks could have a material effect on the operations and financial condition of the Company and should be taken into account in assessing the Company's activities.

The Company may not be able to continue as a going concern.

The Financial Statements have been prepared on a going concern basis in accordance with IFRS, which assume Whitemud will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. The application of the going concern concept is dependent upon the ability of the Company to raise additional capital to support ongoing activities, receive continued support of its creditors, and achieve profitable operations. To date, the Company's main source of cash resources has been through the issuance of equity and debt. This dependence on the private and public market to fund cash flow needs of the Company has resulted in management including a "Nature of the Organization and Future Operations" note in the Financial Statements.

The Company is subject to risks of commodity marketing and distribution

Commodity marketing contracts are subject to a bidding process with contracts usually entered into for terms of one year. The LPG marketing business is dependent upon commodity price, access to and cost of transportation, risks associated with product supply, risks of customer demand, weather related demand conditions and the ability of customers to pay for LPG's delivered to them. There is no assurance that contracts may be obtained, extended or re-negotiated under commercially acceptable terms.

The Company's revenue does not cover its expenses.

To date, the Company has not earned significant revenues and is developing markets for metakaolin. Whitemud does not have formal sales contracts and the Company has not exhibited consistent quality of product on a commercial scale including the fact that the process has not been proven at the large production levels projected. The Company's funds from operations are insufficient to fund current operations, meet obligations and provide the required working capital. As a result, additional capital investment is required.

The Company depends on the support of the Creditors to continue operations.

The Creditors have extended the maturity date of the loan to December 31, 2018 and there is no assurance that demand for payment will not be made at that date. Should financing not be readily available, market acceptance not achieved or support from the Creditors not obtained, the Company will face a severe lack of liquidity that could lead to a further cessation of operations.

The Company facilities are subject to operating risks.

Construction of the Company's processing facility and mine is complete and the Company has completed commissioning and testing of the plant. Risks include, without limitation, equipment failures, labour disputes, work stoppages and equipment delivery delays, all of which may have an adverse effect on the Company's ongoing operations and financial condition. Additionally, the Company must enhance the efficiency of its operations and achieve consistent quality product which it has not been able to do.

The Company operates in a competitive market and is not a market leader.

The cement products industry is competitive and prospective customers in the markets that the Company is targeting are frequently using lower priced inferior products in many instances to produce concrete. As a result the Company may not secure the sufficient metakaolin sales volumes to improve its financial condition.

The continuing economic downturn in the oil and gas industry hurts the Company.

The oil and gas industry is a key industry that the Company targets for the sale of its kaolin and metakaolin products. The continuing depression in oil and gas prices and development activity amongst oil and gas producers has negatively impacted the Company's ability to develop its customer base and market position. Without an improvement in the level of development activity in the oil and gas industry the Company may not achieve its sales objectives or improve its financial condition.

Mining and production of metakaolin is subject to numerous risks.

Mining involves a high degree of risk and the Company has a limited history of metakaolin operations. The Company currently depends on a single property with a kaolin resource. The Company's operations are subject to environmental risks and the actual costs of reclamation for the property are subject to regulatory body guidelines. Changes in government regulations could impact Whitemud's future financial performance.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements made herein contain "forward-looking information" which may include, but is not limited to, statements with respect to the future financial or operating performance of the Company, government approvals, the costs and timing of the development and commissioning of the project and the Company's liquidity and capital resources. Without limiting the generality of the foregoing, the Company has made materially forward-looking statements: (i) under the heading "General Business Description" with regard to the replacement of up to 20% of the cement used and ability to negotiate commercially acceptable commodity marketing contracts; (ii) "Liquidity and Capital Resources", regarding the sufficiency of working capital; and the necessity for additional financing; (iii) under the heading "Company Outlook and Going Concern" with regard to the improvement of operational efficiency and enhanced production process; and (iv) under the heading "Company Outlook and Going Concern", the assumption that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business, the uncertainty about the appropriateness of the going concern assumptions, the anticipated requirement for additional financing, generate improved market acceptance for the Company's product. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", "believes", or variations (including negative variations) of such words and phrases, or state that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Material risk factors that could cause results to differ materially from any future results include the following risk factors: "Whitemud has no material operating revenue, history of Metakaolin or Kaolin project development or operations," is applicable to the forward-looking statements identified in (i) through (iv) above; "The Metakaolin market Whitemud is targeting is underdeveloped," is applicable to the forward-looking statements identified in (i)

and (iv) above; “Whitemud may not achieve sales volumes and sales prices for products,” is applicable to the forward-looking statements identified in (i) through (iv) above; “Whitemud does not have formal sales contracts,” is applicable to the forward-looking statements identified in (i) through (iv) above; “the Company has not exhibited consistent quality of product on a commercial scale” is applicable to the forward looking statements identified in (i) through (iv) above; “the process has not been proven at the large production levels projected,” is applicable to the forward-looking statements identified in (i) and (iv) above; “Mining/quarrying operations are subject to a high degree of risk,” is applicable to forward-looking statements made in (i) through (iv) above; “Government regulation may adversely affect Whitemud,” is applicable to forward-looking statements made in (iv) above; and “Whitemud’s distribution and sales of its products face uncertainty,” is applicable to forward-looking statements made in (i) and (iii) above. “No assurance that new business ventures will develop on a profitable and sustained basis or that the Company will have the necessary contractual commitments, resources, and working capital to continue with the new business ventures” is applicable to forward-looking statements made in (iii). The forgoing list of risk factors is not exhaustive. Additional information on risk factors is included under the heading “Risks and Uncertainties” in this MD&A, as well as general business, economic, competitive, political and social uncertainties; the actual results of exploration activities; actual results of reclamation activities; conclusions of economic evaluations; changes in project parameters as plans continue to be refined; future prices of metakaolin and kaolin; possible variations of kaolinized ore deposit composition and qualities; failure of plant, equipment or processes to operate as anticipated; accidents, labour disputes and other risks of the mining industry; delays in obtaining government approvals or in obtaining sufficient debt or equity financing if required, or in the completion of development or construction activities, including the potential expansion of the plant. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in the forward-looking statements, there may be other factors that cause actions, events or results to differ from those anticipated, estimated or intended. In making its forward-looking statements, the Company used, among others, the following material factors or assumptions to develop forward-looking information enumerated above: the target market for Whitemud will accept Whitemud’s metakaolin for its stated purpose, use of metakaolin remains economic, government regulations governing Whitemud’s title to mineral properties, its permits and plant operations will not change, the economic conditions will improve to an extent where the current suppressed concrete industry will improve to levels experienced prior to the economic downturn and that the various independent reviews conducted on the Company’s products and resources are accurate. Forward-looking statements contained herein are made as of the date hereof subject to the requirements of applicable securities legislation and except as otherwise required by law, the Company assumes no obligation to update any forward-looking statements, whether as a result of new information, future events or results or otherwise. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, the reader is cautioned not to place undue reliance on forward-looking statements.

OTHER INFORMATION

Additional information related to the Company is available for viewing on SEDAR at www.sedar.com and at the Company’s website at www.whitemudresources.com.