

Whitemud Resources Inc.
Condensed Interim Financial Statements
For the three and nine months ended September 30, 2021 and 2020
(Unaudited)

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

	Sept 30, 2021	December 31, 2020
Assets		
Current assets		
Cash and cash equivalents	\$ 2,514,331	\$ 3,647,440
Accounts receivable	49,364	2,613,412
Inventory <i>[note 4]</i>	535,785	604,906
Prepaid expenses and deposits	81,817	60,163
	3,181,297	6,925,921
Property, plant and equipment <i>[note 6]</i>	486,257	499,617
Total assets	\$ 3,667,554	\$ 7,425,538
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 89,937	\$ 3,585,677
Taxes payable	-	57,729
Notes payable <i>[note 7]</i>	1,139,561	1,139,561
	1,229,498	4,782,967
Asset retirement obligation <i>[note 8]</i>	1,142,689	1,130,404
	2,372,187	5,913,371
Shareholders' Deficiency		
Share capital <i>[note 9]</i>	77,902,637	77,902,637
Contributed surplus	5,353,381	5,353,381
Deficit	(81,960,651)	(81,743,851)
	1,295,367	1,512,167
Total Liabilities and Shareholders' Deficiency	\$ 3,667,554	\$ 7,425,538

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 nine months ended September 30**

(Unaudited)

	Three Months Ended		Nine Months Ended	
	Sept. 30, 2021	Sept. 30, 2020	Sept. 30, 2021	Sept. 30, 2020
Revenue	\$ 55,065	604,491	\$ 512,764	2,317,085
Expenses				
Operating	201,564	163,625	592,306	531,708
General and administration	50,573	117,279	122,005	318,156
Finance charges <i>[note 11]</i>	4,095	4,011	12,285	11,347
Impairment <i>[note 6]</i>	-	400,000	-	400,000
Depreciation <i>[note 6]</i>	-	13,750	13,362	37,865
	256,232	698,665	739,958	1,299,076
Income before interest and other income	(201,167)	(94,174)	(227,194)	1,018,009
Interest and other income (expense)	1,468	(37,209)	10,394	20,456
Net income and comprehensive income (loss)	\$ (199,699)	(131,383)	\$ (216,800)	1,038,555
Earnings per share, basic and diluted <i>[note 12]</i>	\$ (0.0006)	0.000	\$ (0.0006)	0.003

WHITEMUD RESOURCES INC.**Condensed Interim Statements of Changes in Shareholders' Equity (Deficiency)****For the nine months ended September 30, 2021 and 2020**

(Unaudited)

	Share Capital	Contributed Surplus	Deficit	Total
Balance January 1, 2021	\$ 77,902,637	\$ 5,353,381	\$ (81,743,851)	\$ 1,512,167
Net income and comprehensive income	-	-	(216,800)	(216,800)
Balance Sept. 30, 2021	\$ 77,902,637	\$ 5,353,381	\$ (81,960,651)	\$ 1,295,367

	Share Capital	Contributed Surplus	Deficit	Total
Balance January 1, 2020	\$ 77,902,637	\$ 5,353,381	\$ (100,045,180)	\$ (16,789,162)
Net loss and comprehensive income	-	-	1,038,555	1,038,555
Balance Sept. 30, 2020	\$ 77,902,637	\$ 5,353,381	\$ (99,006,625)	\$ (15,750,607)

WHITEMUD RESOURCES INC.
Condensed Interim Statements of Cash Flows
For the three and nine Months Ended September 30
(Unaudited - Prepared by Management)

	Three months ended		Nine months ended	
	Sept. 30, 2021	Sept. 30, 2020	Sept. 30, 2021	Sept. 30, 2020
Cash provided by (used) in:				
OPERATING ACTIVITIES:				
Net income and comprehensive income	\$ (199,699)	\$ (131,383)	\$ (216,800)	\$ 1,038,555
Items not involving cash:				
Depreciation <i>[note 6]</i>	-	13,750	13,362	37,865
Accretion of asset retirement obligations <i>[note 8]</i>	4,090	4,011	12,285	10,320
Impairment	-	400,000	-	400,000
	(195,609)	286,378	(191,153)	1,486,740
Change in non-cash working capital	(81,018)	(749,787)	(941,956)	(828,782)
	(276,627)	(463,409)	(1,133,109)	657,958
INVESTING ACTIVITIES:				
Purchase and sale of property, plant and equipment	-	(11,278)	-	(11,278)
FINANCING ACTIVITIES:				
Decrease in note payable <i>[note 7]</i>	-	(500,000)	-	(1,500,000)
Cash flows from financing activities	-	(500,000)	-	(1,500,000)
Increase (decrease) in cash and cash equivalents	(276,627)	(974,687)	(1,133,109)	(853,320)
Cash and cash equivalents, beginning of period	\$2,790,958	1,034,190	\$3,647,440	912,823
Cash and cash equivalents, end of period	\$ 2,514,331	\$ 59,503	\$2,514,331	\$ 59,503

1. NATURE OF THE ORGANIZATION AND FUTURE OPERATIONS

Whitemud Resources Inc. (the “Company” or “Whitemud”) 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 3800 Bow Valley Square 2, Calgary, Alberta T2P 2V7. Whitemud is a publicly traded company whose shares are listed on the TSX Venture Exchange under the symbol WMK.

The Company was formed to engage in the business of developing a process to mine and process kaolin into a high reactivity cementitious 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 commenced 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 in 2015, Midstream Energy Partners, the Company also markets hydrocarbon products.

The Company and Petrogas Energy Corp. terminated both the LPG Supply Management Agreement whereby Midstream Energy Partners, a division of Whitemud, negotiated the supply of LPGs for and on behalf of Petrogas, and the Transition Services Agreement whereby Petrogas provided Whitemud with head office administration services. The Company’s LPG sales contracts remained in place and ended in accordance with their terms on March 31, 2021.

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.

Based on the Company’s current projections, including budgeted loss and negative cash flows, future operations are dependent on the Company’s ability to generate improved market acceptance and materially higher revenues for the Company’s core product and the ability to secure new profitable LPG purchase and sales agreements. 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 improved market acceptance and revenues for the Company’s product.

The condensed interim 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 condensed interim 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, 2020.

These financial statements were authorized for issuance by the Board of Directors of the Company on November 19, 2021.

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 condensed interim 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

Classification

The Company classifies its financial assets and financial liabilities in the following measurement categories: (i) those to be measured subsequently at fair value through profit or loss (“FVTPL”); (ii) those to be measured subsequently at fair value through other comprehensive income (“FVOCI”); and (iii) those to be measured at amortized cost. The classification of financial assets depends on the business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and

interest (“SPPI”). Financial liabilities are classified as those to be measured at amortized cost unless they are designated as those to be measured subsequently at FVTPL (irrevocable election at the time of recognition). For assets and liabilities measured at fair value, gains and losses are either recorded in profit or loss or other comprehensive income. The Company reclassifies financial assets when and only when its business model for managing those assets changes. Financial liabilities are not reclassified.

Financial assets at fair value through comprehensive income

Equity instruments that are not held-for-trading can be irrevocably designated to have their change in fair value recognized through comprehensive income instead of through profit or loss. This election can be made on individual instruments and is not required to be made for the entire class of instruments. Attributable transaction costs are included in the carrying value of the instruments. Financial assets at fair value through other comprehensive income are initially measured at fair value and changes therein are recognized in other comprehensive income.

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. Fair value less cost to dispose is determined as the amount that would be obtained from the sale of an asset group in an arm’s length transaction between knowledgeable and willing parties. 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) *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.

(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) 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 (2020 - \$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.

(vi) Going concern

The assessment of the Corporation's ability to execute its strategy by funding future working capital requirements involves judgment. The Board of Directors monitors future cash requirements to assess the Corporation's ability to meet these future funding requirements. Further information regarding going concern is outlined in Note 1.

c). Cash

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

d). Revenue recognition

IFRS 15 introduced a single model for recognizing revenue from contracts with customers. This standard applies to all contracts with customers, with only some exceptions, including certain contracts accounted for under other IFRSs. The standard requires revenue to be recognized in a manner that depicts the transfer of promised goods or services to a customer and at an amount that reflects the consideration expected to be received in exchange for transferring those goods or services. This is achieved by applying the following five steps: i) identify the contract with a customer; ii) identify the performance obligations in the contract; iii) determine the transaction price; iv) allocate the transaction price to the performance obligations in the contract; and v) recognize revenue when (or as) the entity satisfies a performance obligation.

The Company recognizes revenue when the product is shipped, and ownership has transferred to the customer and the price charged to customers is fixed and determinable and collectability is reasonably assured.

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.

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 Income and Comprehensive Income.

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 and equipment 30% declining balance

Computer equipment 30% declining balance

Furniture and equipment 20% declining balance

g). 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 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 Income and Comprehensive Income.

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.

h). 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 of 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.

i). 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 Income and Comprehensive Income. 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 Income and Comprehensive Income 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.

j). 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 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.

k). Royalties

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

l). Income per common share

Basic income per common share amount is calculated using the weighted average number of shares outstanding during the year. Diluted 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.

m). 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.

n). New accounting pronouncements

At January 1, 2020, the Company adopted the following standards/amendments: Amendments to IFRS 3, Business Combinations ("IFRS 3") to assist in determining whether a transaction should be accounted for as a business combination or an asset acquisition. It amends the definition of a business to include an input and a substantive process that together significantly contribute to the ability to create goods and services provided to customers, generating investment and other income, and it excludes returns in the form of lower costs and other economic benefits. This amendment did not have a material impact on the Company's financial statements.

4. INVENTORY

The Company has inventory as follows:

	2021		2020
Metakaolin	\$ 255,762	\$	324,883
Spare parts	271,199		271,199
Fuels, coal and miscellaneous	8,824		8,824
	\$ 535,785	\$	604,906

Operating expenses includes \$69,081 (2020 - \$51,062) related to the cost of inventory from metakaolin 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. for the benefit and at the request of Whitemud. In 2020 the letter of credit was replaced by a letter of credit issued by SAM Holdings Ltd.

WHITEMUD RESOURCES INC.

Notes to the Condensed Interim Financial Statements

For the three and nine months ended September 30, 2021 and 2020

(All amounts are in Canadian Dollars except number of shares)

6. PROPERTY, PLANT AND EQUIPMENT

Cost	Land and buildings	Plant and equipment	Computer equipment, office furniture	Total
Balance December 31, 2018	\$ 28,946,657	\$ 34,012,522	\$ 58,234	\$ 63,017,413
Additions	-	69,683	-	69,683
Balance December 31, 2019	\$ 28,946,657	\$ 34,082,205	\$ 58,234	\$ 63,087,096
Additions	-	11,276	-	11,276
Balance December 31, 2020	\$ 28,946,657	\$ 34,093,481	\$ 58,234	\$ 63,098,372
Additions	-	-	-	-
Balance September 30, 2021	\$ 28,946,657	\$ 34,093,481	\$ 58,234	\$ 63,098,372
Depreciation & Amortization				
Balance December 31, 2018	\$ 27,666,478	\$ 33,844,596	\$ 50,843	\$ 61,561,917
Depreciation	158,704	1,711	3,164	163,579
Impairment	400,000	100,000	-	500,000
Balance December 31, 2019	\$ 28,225,182	\$ 33,946,307	\$ 54,007	\$ 62,225,496
Depreciation	13,291	26,623	951	37,865
Impairment	221,927	113,467	-	335,394
Balance December 31, 2020	\$ 28,460,400	\$ 34,083,397	\$ 54,958	\$62,598,755
Depreciation	-	10,084	3,276	\$13,360
Balance September 30, 2021	\$ 28,460,400	\$ 34,093,481	\$ 58,234	\$62,612,115
Carrying Amounts				
At September 30, 2021	\$ 486,257	\$ -	\$ -	\$486,257
At December 31, 2020	\$ 486,257	\$ 10,084	\$ 3,276	499,617

Included in land and buildings is land with a cost of \$486,257 (2020 - \$486,257)

As a result of the going concern circumstances noted in note 1 of the financial statements, the economic uncertainties and state of the economy during COVID – 19 in 2020 and the inability of the Company to increase the uses for its products, an impairment was recorded in 2020 in the amount of \$335,394 (2019: \$500,000). The Company determined the recoverable amounts for this asset group using the value in use approach which included the presumption of significant uncertainties of future cash flows. Accordingly, assets were impaired with exception of land which is stated at cost.

7. NOTES PAYABLE

The Company has the following notes payable:

	June 30, 2021	December 31, 2020
Kasten Resources ("Kasten") (a)	\$ 1,139,561	\$ 1,139,561
Petrogas Energy Corp. ("Petrogas")	-	-
	\$ 1,139,561	\$ 1,139,561

(a) Kasten has provided a loan in the amount of \$1,139,561 during receivership. The loan is interest-free and due on demand.

WHITEMUD RESOURCES INC.**Notes to the Condensed Interim Financial Statements**

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(All amounts are in Canadian Dollars except number of shares)

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. 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 \$64,606 (2019 – \$69,682) due to inflation factors and a decrease in the risk-free interest rate to 0.67% (2019 – 1.67%). 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.

	Sept. 30, 2021	December 31, 2020
Balance beginning of year	\$ 1,130,404	1,052,147
Change in estimate	-	64,606
Accretion	12,285	13,651
Balance end of year	\$ 1,142,689	1,130,404

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, 2020 and September 30, 2021	34,026,300	\$ 77,902,637

	Number of shares	Amount
Class B non-voting Common Shares, December 31, 2020 and September 30, 2021	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

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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.

	September 30, 2021	December 31, 2020
Cash	\$ 2,514,331	\$ 3,647,440
Notes payable	\$ 1,139,561	\$ 1,139,561
Shareholders' equity	\$ 1,295,367	\$ 1,512,167

11. FINANCE CHARGES

Financing charges are comprised of:

	2021	2020
Debt service	\$ -	\$ -
Accretion of asset retirement obligation	12,285	10,320
	\$ 12,285	\$ 10,320

12. NET INCOME PER SHARE

Net income (loss) 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, 2021 is 360,526,000 (2020 - 360,526,000). There are no dilutive instruments.

13. TAXES

The Company has non-capital losses of approximately \$61,408,345 (2020 - \$61,408,345) that are available to offset future taxable income. Non-capital losses will expire as follows:

2032	\$ 13,485,345
2033	\$ 14,785,000
2034	\$ 12,211,000
2035	\$ 10,658,000
2036	\$ 8,475,000
2040	\$ 1,794,000

The Company has undepreciated capital cost and resource tax pools of \$10,309,000 (2020: \$10,309,000) 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.

14. RELATED PARTY TRANSACTIONS

On December 15, 2020, the Company entered into a set-off agreement with Petrogas Energy Corp. ("Petrogas") whereby the parties agreed to set-off all amounts owing to Whitemud by

WHITEMUD RESOURCES INC.**Notes to the Condensed Interim Financial Statements**

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(All amounts are in Canadian Dollars except number of shares)

Petrogas. Petrogas agreed to forgive the remaining outstanding amount under the loan, approximately \$21.5 million, such that all amounts owing between the parties have been fully satisfied and paid.

It was a condition of the set-off and loan forgiveness that Whitemud enter into a non-competition agreement in favour of Petrogas whereby it agreed not to participate in any business or other activity competitive with Petrogas and its affiliates in Canada or the United States until September 30, 2022, provided that such restrictions will not affect Whitemud's ability, through Midstream Energy Partners (the commodity marketing division), to maintain its ongoing operations and preserve its existing business.

The notes payable held by Petrogas Energy Corp. were forgiven under a set-off and loan forgiveness agreement dated December 15, 2020. Subsequent December 15, 2020, Petrogas and its related entities are no longer considered to be related parties. Petrogas sold its shares to a company controlled by Stan Owerko, Whitemud's Chief Executive Officer.

A related party to Whitemud provides marketing, accounting and administrative services for a monthly fee of \$4,750.00.

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

		2021		2020
Salaries and other short-term benefits	\$	8,000	\$	12,500

15. 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

September 2021	Metakaolin	Commodities	Total
Revenue	\$98,273	\$414,491	\$512,764
Operating costs	(592,306)	-	(592,306)
Amortization and impairment	(13,362)	-	(13,362)
General and administrative	(107,755)	(14,250)	(122,005)
Finance charges	(12,285)	-	(12,285)
Other income	10,394	-	10,394
Income (loss) before taxes	\$(617,041)	\$400,241	\$(216,800)
Current assets	\$3,181,297	-	\$3,181,297
Total assets	\$3,667,554	-	\$3,667,554
Current liabilities	\$1,229,498	-	\$1,229,498
Total liabilities	\$2,372,187	-	\$2,372,187

WHITEMUD RESOURCES INC.**Notes to the Condensed Interim Financial Statements**

For the three and nine months ended September 30, 2021 and 2020

(All amounts are in Canadian Dollars except number of shares)

OPERATING SEGMENTS (continued from previous page)

September 2020	Metakaolin	Commodities	Total
Revenue	\$ 68,020	\$ 2,249,065	\$ 2,317,085
Operating costs	(531,708)	-	(531,708)
Amortization and impairment	(437,865)	-	(437,865)
General and administrative	(85,155)	(233,001)	(318,156)
Finance charges	(11,347)	-	(11,347)
Other income	15,274	5,272	20,546
Income (loss) before taxes	\$ (982,781)	\$ 2,021,336	\$ 1,038,555
Current assets	\$ 706,128	\$ 7,934,275	\$ 8,640,403
Total assets	\$ 1,224,936	\$ 7,934,275	\$ 9,159,211
Current liabilities	\$ 22,830,315	\$ 933,241	\$ 23,763,556
Total liabilities	\$ 23,976,577	\$ 933,241	\$ 24,909,818

16. 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 Company's financial assets carried at fair value are considered Level 1.

16. FINANCIAL INSTRUMENTS *(continued from previous page)***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 interest bearing accounts with major banks or in guaranteed investment certificates with short-term maturities. The Company's sensitivity to interest rate risk on its deposits 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 select companies that do not present any material concerns.

The allowance for doubtful accounts as at September 30, 2021 is \$nil (2020 - \$nil).

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.

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.

The Company has demand notes payable in the amount of \$1,139,561 as described in Note 7.

17. COVID – 19 PANDEMIC

Financial markets continue to be negatively impacted by the effects of the COVID-19 pandemic which has resulted in economic uncertainty. The Company is not able to predict or forecast the extent and duration of the economic uncertainty, and consequently it is difficult to reliably measure the potential impact of this uncertainty on future financial results.