

Whitemud Resources Inc.
Financial Statements
For the years ended December 31, 2020 and 2019

Independent Auditor's 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, 2020 and December 31, 2019, and the statements of net income and comprehensive income, changes in shareholders' equity (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, 2020 and December 31, 2019, 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 indicates that as at December 31, 2020, the Company had an accumulated deficit and requires additional financing to attain profitable operations. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, 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 Management's Discussion and Analysis.

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. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. 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 Leanne Bjalek.

Calgary, Alberta

April 30, 2021


Chartered Professional Accountants

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

As at December 31,

(Expressed in Canadian Dollars)

	2020	2019
Assets		
Current Assets		
Cash	\$ 3,647,440	\$ 912,823
Accounts receivable [notes 17]	2,613,412	6,911,667
Inventory [note 4]	604,906	676,242
Prepaid expenses and deposits	60,163	14,074
Total Current Assets	6,925,921	8,514,806
Property, plant and equipment [note 6]	499,617	861,600
Total Assets	\$ 7,425,538	\$ 9,376,406
Liabilities and Shareholders' Deficiency		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 3,585,677	\$ 964,475
Taxes payable	57,729	9,385
Notes payable [note 7]	1,139,561	24,139,561
Total Current Liabilities	4,782,967	25,113,421
Asset retirement obligation [note 8]	1,130,404	1,052,147
Total Liabilities	5,913,371	26,165,568
Shareholders' Equity (Deficiency)		
Share capital [note 9]	77,902,637	77,902,637
Contributed surplus	5,353,381	5,353,381
Deficit	(81,743,851)	(100,045,180)
Total Shareholders' Equity (Deficiency)	1,512,167	(16,789,162)
Total Liabilities and Shareholders' Deficit	\$ 7,425,538	\$ 9,376,406

Going concern [note 1]

On behalf of the Board of Directors:

Director_____
Director

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

	2020	2019
Revenue	\$ 2,863,967	\$ 4,446,543
Expenses		
Operating	787,790	872,293
General and administration	486,776	695,544
Finance charges <i>[note 11]</i>	15,093	19,540
Impairment <i>[note 6]</i>	335,394	500,000
Depreciation <i>[note 6]</i>	37,865	163,579
	1,662,918	2,250,956
Income before interest and other income	1,201,049	2,195,587
Gain on forgiven debt <i>[note 14]</i>	17,122,901	-
Interest and other income (expense)	(22,621)	(118,109)
Net income and comprehensive income	18,301,329	2,077,478
Net income per share, basic and diluted <i>[note 12]</i>	\$ 0.05	\$ 0.01

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

	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	-		-		2,077,478		2,077,478
Balance December 31, 2019	\$ 77,902,637	\$	5,353,381	\$	(100,045,180)	\$	(16,789,162)
Net income and comprehensive income	-		-		18,301,329		18,301,329
Balance December 31, 2020	\$ 77,902,637	\$	5,353,381	\$	(81,743,851)	\$	1,512,167

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

	2020	2019
Cash provided by (used) in:		
OPERATING ACTIVITIES:		
Net income and comprehensive income	\$ 18,301,329	\$ 2,077,478
Items not involving cash:		
Depreciation	37,865	163,579
Impairment	335,394	500,000
Change in assets retirement obligation	64,606	
Gain on forgiven debt <i>[note 14]</i>	(17,122,901)	-
Accretion of asset retirement obligations <i>[note 8]</i>	13,651	18,240
Change in non-cash working capital <i>[note 16]</i>	2,615,951	(1,398,740)
Cash flows provided by operating activities	4,245,895	1,360,557
INVESTING ACTIVITIES:		
Additions to property, plant and equipment	(11,278)	-
Cash flows used in investing activities	(11,278)	-
FINANCING ACTIVITIES:		
Repayment of notes payable <i>[note 7]</i>	(1,500,000)	(500,000)
Cash flows used in financing activities	(1,500,000)	(500,000)
Increase (decrease) increase in cash	2,734,617	860,557
Cash, beginning of year	912,823	52,266
Cash, end of year	\$ 3,647,440	\$ 912,823

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 3900 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 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 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 in 2015, Midstream Energy Partners, the Company also markets hydrocarbon products.

Pursuant to a Share Purchase Agreement dated December 15, 2020, SAM Holdings Ltd. acquired 14,976,000 Class A Voting Common shares and 309,245,703 Class B Non-Voting Common shares in the capital of Whitemud Resources Inc from Petrogas Energy Corp. The aggregate consideration paid was \$149,760 in cash and the release of a \$1 million letter of credit in favour of the Government of Saskatchewan, as represented by the Minister of Environment, with respect to the Company’s metakaolin processing facility. SAM Holdings Ltd. is owned and controlled by Stan Owerko. Mr. Owerko is the Chief Executive Officer of Whitemud Resources Inc.

In addition, the Company and Petrogas 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 will remain in place and end 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.

As at December 31, 2020, the Company had working capital of \$2,142,954 and a deficit of \$81,743,851, however, during the year ended December 31, 2020, the Company had net income and comprehensive income of \$18,301,329 and operating cash inflows \$4,245,895. 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 \$335,394 (2019 - \$500,000) was recorded in the year ended December 31, 2020.

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, 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 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 from previous page)*

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.

Since March 18, 2020, the outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to business globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company in future periods.

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 April 30, 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 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued from previous page)*

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.

Measurement

All financial instruments are required to be measured at fair value on initial recognition, plus, in the case of a financial asset or financial liability not at FVTPL, transaction costs that are directly attributable to the acquisition or issuance of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in profit or loss. Financial assets and financial liabilities with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of the subsequent accounting periods. All other financial assets including equity investments are measured at their fair values at the end of subsequent accounting periods, with any changes taken through profit and loss or other comprehensive income (irrevocable election at the time of recognition). For financial liabilities measured subsequently at FVTPL, changes in fair value due to credit risk are recorded in other comprehensive income.

Expected credit losses

The Company performs impairment testing annually for accounts receivable in accordance with IFRS 9. The ECL model requires considerable judgment, including consideration of how changes in economic factors affect ECLs, which are determined on a probability-weighted basis. IFRS 9 outlines a three-stage approach to recognizing ECLs which is intended to reflect the increase in credit risks of a financial instrument based on 1) 12-month expected credit losses or 2) lifetime expected credit losses. The Company measures provision for ECLs at an amount equal to lifetime ECLs.

The Company applies the simplified approach to determine ECLs on trade receivables by using a provision matrix based on historical credit loss experiences. The historical results were used to calculate the run rates of default which were then applied over the expected life of the trade receivables, adjusted for forward looking estimates.

Financial instrument de-recognition

Financial assets are de-recognized when the contractual rights to the cash flows from the financial asset expire or when the contractual rights to those assets are transferred. Financial liabilities are de-recognized when the obligation is discharged, cancelled or expired.

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:

3. SIGNIFICANT ACCOUNTING POLICIES *(continued from previous page)*

(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 (2018 - \$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.

d) Cash

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

e) 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued from previous page)*

f) 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.

g) 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

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 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued from previous page)*

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.

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 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued from previous page)*

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.

l) Royalties

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

m) 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.

n) 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.

o) 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:

	2020	2019
Metakaolin	\$ 324,883	\$ 390,075
Spare parts	271,199	271,199
Fuels, coal and miscellaneous	8,824	14,968
	\$ 604,906	\$ 676,242

Operating expenses includes \$65,192 (2019 - \$168,483) 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. under the Share Purchase Agreement with Petrogas.

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
Depreciation and impairment losses				
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	23,623	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
Carrying Amounts				
At December 31, 2020	\$ 486,257	\$ 10,084	\$ 3,276	\$ 499,617
At December 31, 2019	\$ 721,475	\$ 135,898	\$ 4,227	\$ 861,600

Included in land and buildings is land with a cost of \$486,257 (2019 - \$486,257).

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 \$335,394 (2019 - \$500,000) was recorded for the Metakaolin segment in the year ended December 31, 2020. 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:

	December 31, 2020	December 31, 2019
Kasten Resources ("Kasten") (a)	\$ 1,139,561	\$ 1,139,561
Petrogas Energy Corp. ("Petrogas") (b)	-	23,500,000
	\$ 1,139,561	\$ 24,639,561

(a) Kasten provided funding of \$1,139,561 during receivership.

(b) Petrogas provided funding totaling \$23,500,000, which included funding of \$15,984,062 during receivership and operational funding of \$7,515,938 (2018 - \$7,515,938) after receivership to recommence operations. The debt was forgiven under the terms of a set-off and loan forgiveness agreement dated December 15, 2020 (Note 14).

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 Petrogas, comprised of accounts receivable of approximately \$3.8 million, against the amounts owing by Whitemud to Petrogas and its affiliates pursuant to accounts payable and under its outstanding loan agreement, with an aggregate outstanding balance of approximately \$23.7 million. Petrogas further 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.

The remaining note payable is interest-free with no fixed terms of repayment and due on demand.

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 amounted to \$1,000,000, to be incurred by 2033. Internal assessments of costs to decommission the plant were conducted and revaluations of asset retirement obligation 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.

		December 31, 2020	December 31, 2018
Balance beginning of year	\$	1,052,147	964,225
Change in estimate		64,606	69,682
Accretion		13,651	18,240
Balance end of year	\$	1,130,404	1,052,147

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, 2019 and December 31, 2020	34,026,300	\$ 77,902,637

	Number of shares	Amount
Class B non-voting Common Shares, December 31, 2018 and December 31, 2020	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 Statements of Financial Position, consists of cash, notes payable, and shareholders' deficiency.

		December 31, 2020		December 31, 2019
Cash	\$	3,647,440	\$	912,823
Notes payable	\$	1,139,561	\$	24,139,561
Shareholders' equity (deficiency)	\$	1,512,167	\$	(16,789,162)

10. CAPITAL MANAGEMENT (continued from previous page)

Pursuant to a set-off and loan forgiveness agreement dated December 15, 2020 Petrogas Energy Corp has forgiven the remaining amount owing to it under the outstanding loan agreement. All amounts owing between the parties have been fully satisfied and paid.

11. FINANCE CHARGES

Financing charges are comprised of:

		2020		2019
Debt service	\$	1,442	\$	1,300
Accretion of asset retirement obligation		13,651		18,240
	\$	15,093	\$	19,540

12. NET INCOME PER SHARE

Net income 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, 2020 is 360,526,000 (2019 - 360,526,000). There are no dilutive instruments.

13. TAXES

On June 28, 2019, legislation was enacted to decrease the Alberta corporate income tax rate from 12% to 8% with a 1% reduction effective July 1, 2019 and further 1% reductions on each of January 1, 2020, 2021 and 2022. Subsequently, on October 20, 2020 legislation was enacted to decrease the Alberta corporate income tax rate from 10% to 8% effective July 1, 2020. 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:

		2020		2019
Statutory tax rate		24.00%		27.00%
Income before taxes	\$	18,301,329	\$	2,077,478
Expected tax recovery		4,392,319		550,532
Change in deferred tax asset not recognised		(4,392,319)		(550,532)
Tax recovery	\$	-	\$	-

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

		2020		2019
Non-capital losses	\$	61,408,345	\$	76,737,000
Property, plant and equipment		14,764,183		17,815,000
Asset retirement obligation		1,130,404		1,052,147
	\$	77,302,932	\$	95,604,147

The Company has non-capital losses of approximately \$61,408,345 (2019 - \$76,737,000) that are available to offset future taxable income. The 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

13. TAXES (continued from previous page)

The Company has undepreciated capital cost and resource tax pools of \$10,309,000 (2019 - \$18,677,000) 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 Petrogas, comprised of accounts receivable of approximately \$3.8 million, against the amounts owing by Whitemud to Petrogas and its affiliates pursuant to accounts payable and under its outstanding loan agreement, with an aggregate outstanding balance of approximately \$23.7 million. 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. In addition, the Company agreed to repay \$2.3 million to Petrogas which was recorded in accrued liabilities as at December 31, 2020.

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.

Included in accounts payable and accruals is \$nil (2019 – \$nil) payable to Petrogas Energy Corp. and \$nil (2019 - \$301,599) payable to Express Tankers Inc., a company related to Petrogas Energy Corp. Included in accounts receivable is \$nil (2019 - \$3,348,612) due from Petrogas Energy Corp. and \$nil (2019 - \$1,639,146) due from Petrogas Inc. These amounts were collected and paid out pursuant to a set-off and loan forgiveness agreement with Petrogas Energy Corp. on December 15, 2020.

The notes payable held by Petrogas Energy Corp. (Note 7) were forgiven under a set-off and loan forgiveness agreement dated December 15, 2020.

The Company has charged Petrogas Energy Corp. \$50,000 per month (2019 - \$50,000) for services rendered by Midstream Energy Partners division. Pursuant to an agreement dated December 15, 2020, these services were terminated.

An amount of \$78,000 (2019 - \$78,000) was paid to Petrogas Energy Corp. for office and administrative services provided to the Company. Pursuant to an agreement dated December 15, 2020, these services were terminated. Subsequent December 15, 2020, Petrogas and its related entities are no longer considered to be related parties.

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

		2020		2019
Salaries and other short-term benefits	\$	32,000	\$	42,000

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

15. OPERATING SEGMENTS (continued from previous page)

December 2020	Metakaolin	Commodities	Total
Revenue	\$ 90,696	\$ 2,773,271	\$ 2,863,967
Operating costs	(787,790)	-	(787,790)
Depreciation	(37,865)	-	(37,865)
Impairment	(335,394)	-	(335,394)
General and administrative	(193,962)	(292,814)	(486,776)
Finance charges	(15,093)	-	(15,093)
Gain on settlement of debt	17,122,901	-	17,122,901
Other income	16,090	(38,711)	(22,621)
Income before taxes	<u>\$ 15,859,583</u>	<u>\$ 2,441,746</u>	<u>\$ 18,301,329</u>
Current assets	<u>\$ 677,477</u>	<u>\$ 6,248,444</u>	<u>\$ 6,925,921</u>
Total assets	<u>\$ 1,177,094</u>	<u>\$ 6,248,444</u>	<u>\$ 7,425,538</u>
Current liabilities	<u>\$ 1,217,012</u>	<u>\$ 3,565,915</u>	<u>\$ 4,782,927</u>
Total liabilities	<u>\$ 2,347,456</u>	<u>\$ 3,565,915</u>	<u>\$ 5,913,371</u>

December 2019	Metakaolin	Commodities	Total
Revenue	\$ 181,008	\$ 4,265,535	\$ 4,446,543
Operating costs	(872,293)	-	(872,293)
Depreciation	(163,579)	-	(163,579)
Impairment	(500,000)	-	(500,000)
General and administrative	(282,309)	(413,235)	(695,544)
Finance charges	(19,540)	-	(19,540)
Other income	12,315	(130,424)	(118,109)
Income (loss) before taxes	<u>\$ (1,644,398)</u>	<u>\$ 3,721,876</u>	<u>\$ 2,077,478</u>
Current assets	<u>\$ 731,709</u>	<u>\$ 7,783,097</u>	<u>\$ 8,514,806</u>
Total assets	<u>\$ 1,593,309</u>	<u>\$ 7,783,097</u>	<u>\$ 9,376,406</u>
Current liabilities	<u>\$ 24,531,039</u>	<u>\$ 582,382</u>	<u>\$ 25,113,421</u>
Total liabilities	<u>\$ 25,583,186</u>	<u>\$ 582,382</u>	<u>\$ 26,165,568</u>

16. CHANGE IN NON-CASH WORKING CAPITAL

	2020	2019
	\$	\$
Accounts receivable	<u>2,298,151</u>	<u>1,066,938</u>
Inventory	<u>71,336</u>	<u>194,460</u>
Prepaid expenses and deposits	<u>(46,088)</u>	<u>8,822</u>
Accounts payable and accrued liabilities	<u>292,552</u>	<u>(2,668,960)</u>
Total	<u>2,615,951</u>	<u>(1,398,740)</u>

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

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 regularly monitors 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.

17. FINANCIAL INSTRUMENTS *(continued from previous page)*

The Company's financial assets consist of accounts receivable of \$2,613,412. None of the trade accounts receivable is over 90 days past due. The allowance for expected credit losses as at December 31, 2020 is \$nil (2019 - \$nil). Approximately 96% (2019 – 96%) of the Company's sales are with three (2019 – three) customers.

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, 2020, the Company had \$284 (2019 – \$1,262,045) in US\$ receivables and \$nil (2019 – \$388,353) in US\$ payables. A 1% change in the exchange rate at December 31, 2020 of the US dollar is estimated to have no effect on the net income and comprehensive income 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, 2020, the Company had working capital of \$2,142,954 (2019 – \$16,598,615 deficiency). The Company's trade payables and accrued liabilities are \$3,585,677 (2019 – \$973,860), of which \$17,149 (2019 - \$nil) was 90 days overdue.

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