



May 27, 2020

REPORT TO OUR SHAREHOLDERS

To Our Shareholders,

We are pleased to provide you with the Condensed Consolidated Interim Financial Statements and Management's Discussion of Financial Results of White Owl Energy Services Inc. ("White Owl" or "the Corporation" or the "Company") for the three months ended March 31, 2020.

FIRST QUARTER 2020 HIGHLIGHTS

The first quarter 2020 highlights may be summarised as follows:

- North Dakota operating income increased 252% to \$1,839,000 for the three months ended March 31, 2020 from \$523,000 in Q1 2019 due to a 14% increase in fluid volumes disposed, a 62% increase in recovered oil volume sales and a six fold increase in Class 1 water disposal volumes.
- For the three months ended March 31, 2020, EBITDA increased 148% to \$964,000 from \$389,000 in Q1 2019. The increase in EBITDA is mainly due to the volume increases as mentioned above.
- During the current quarter, the Corporation's New Town, Tioga and Epping SWD Facilities in North Dakota continued to operate at close to full capacity, while the Watford SWD Facility maintained disposal rates at approximately 75% of capacity since completion of reconstruction in October 2019. Water disposal volumes at the Ross SWD Facility increased 142% compared to Q1 2019.
- North Dakota fluid volumes disposed and average price per barrel for fluid disposal increased 60% and 4%, respectively, in Q1 2020 compared to Q1 2019, resulting in fluid disposal revenues increasing 68% to \$3,642,000 from \$2,173,000 over the same periods.
- North Dakota recovered oil volumes sold increased 104%, more than offsetting a 20% decrease in the realized oil netback price resulting in North Dakota oil revenues increasing 63% to \$789,000 in Q1 2020 from \$485,000 in the prior year quarter.
- The realized netback oil price, which is based on the West Texas Intermediate benchmark price ("WTI"), for the Corporation's recovered oil volume sales decreased significantly in March 2020 due to global oil supply concerns compounded by decreasing global oil demand amid the COVID-19 health pandemic. In March 2020, WTI averaged US \$30.45 per barrel, down from US \$50.54 per barrel in February and compared to US \$57.53 per barrel in January.
- In Q1 2020 the Corporation's Alexander Class 1 Facility disposed of 51,210 barrels compared to 7,654 barrels in Q1 2019 when the facility was in start-up mode. The increase in volumes was a result of growth in the customer base. Despite lower disposal fees in Q1 2020 due to competitive factors, operating income grew to \$20,000 compared to an operating loss of \$200,000 in Q1 2019.
- In Alberta, the Clairmont Facility incurred an operating loss of \$308,000 compared to an operating loss of \$137,000 in Q1 2019. The increased operating loss in the current quarter is due to the loss of the third-party water disposal business in December 2019, as previously reported. In April 2020, the Company has shut down the Clairmont Facility until commodity prices recover to more sustainable levels.
- On January 17, 2020, White Owl Ltd. entered into a release agreement with the Clairmont vendor for a final repayment of \$300,000 to fully repay the remaining \$1,400,000 outstanding on the Vendor Note.



ECONOMIC ENVIRONMENT

Commodity Prices and Disposal Volumes

Growing oversupply concerns in part caused by failed negotiations between the OPEC+ cartel and Russia and then compounded by significantly reduced global demand as a result of the COVID-19 health pandemic have led to dramatically lower oil prices late in Q1 2020. In March 2020, the benchmark West Texas Intermediate oil price ("WTI") averaged US \$30.45 per barrel, down from US \$50.54 per barrel in February and compared to US \$57.53 per barrel in January.

In early April 2020, the benchmark WTI entered unprecedented, negative territory and has only modestly recovered to average US \$16.70 per barrel for the month. As a result, oil and gas producers across North America have significantly curtailed activity during this uncertain time. Many corporations' capital expenditure budgets have been reduced and existing production has been choked back or shut-in, particularly by producers whose hedging programs are expiring. As of mid-May 2020, approximately one third of North Dakota's daily oil production has been shut-in which has reduced White Owl's daily water disposal volumes from an average of 47,976 barrels per day ("bpd") in Q1 2020 to approximately 30,000 bpd in May 2020.

Financial Impact on White Owl

General

The current, unprecedented economic climate may have significant adverse effects on the Corporation including, but not limited to:

- Materially lower disposal volumes, revenues, operating income and cash flows;
- One-time restructuring charges. In April 2020, White Owl shut down the Clairmont Facility in Alberta until commodity prices recover to more sustainable levels, resulting in related costs totalling \$148,000 to be recorded in Q2 2020, including severance expenses. There may be further restructuring charges as the Corporation adapts should the economic downturn continue or worsen for a prolonged period of time;
- Further impairment charges to White Owl's property, plant and equipment may be required, in addition to the amounts recorded in Q1 2020;
- Accounts receivable default.

Cost-Cutting Measures

White Owl has taken steps to reduce both field operating and office administrative costs in North Dakota and Alberta to alleviate the financial impact of lower volumes and revenues. Importantly, our cost cutting exercises are a continual process and we will be endeavouring to identify and add more savings as we proceed through this downturn. The following is a summary of the cost-cutting measures undertaken to date:

- Salary reductions of 10% for all employees;
- Reductions in field and office staffing personnel;
- Increased accounts receivable monitoring;
- Continual requests of all suppliers to reduce the cost of materials, parts and services for the Corporation's operating facilities;
- Cancellation of all non-essential business travel;
- Office lease cost reductions;
- Reductions in other office expenses including stationery, photocopy usage costs, IT services and other supplies;

- Reductions in field staffing accommodation, coveralls, cleaning supplies, and
- Reductions received in hourly rates charged by certain professional service providers.

The cost savings to date total approximately \$105,500 per month.

Liquidity Management

To maximize the Corporation's liquidity in this economic downturn, the Corporation has considered the following factors and undertaken the following:

- Cash Position:

White Owl entered this economic downturn in a solid cash position. As at March 31, 2020, White Owl's cash balance is \$1,365,000, after deduction of amounts drawn on the operating line of credit.

- Maintenance Capital:

In 2020 for the duration of this downturn, White Owl will reduce its maintenance capital program to necessary, safety-related projects only.

- Growth Capital:

Growth projects have been trimmed back to preserve cash with timing for these projects deferred to late 2020 and 2021 assuming economic conditions improve.

- Bank Debt:

For a limited period of time, effective April 30, 2020, the Corporation's lender is accepting interest only, reducing the monthly principal and interest blended payment of US \$186,650 to interest of US \$33,000 per month.

- Operating and General and Administrative Cost Savings:

Please refer to Cost-Cutting Measures above.

- Government Subsidy Programs:

White Owl has applied under three government assistance programs including wage subsidization. In Canada, the Corporation has applied under the Canadian Emergency Wage Subsidy and the Canadian Emergency Business Account programs and has received \$105,347 to date. In North Dakota, the Corporation has applied for a loan under the federal Payroll Protection Program and has received US \$356,810 which if used for salaries becomes a grant.

FINANCIAL AND OPERATIONAL HIGHLIGHTS FOR Q1 2020

For the three months ended March 31, 2020, the following table of Financial and Operational Highlights relating to North Dakota operations for the prior period does not recognise volumes, revenues and expenses for the Watford SWD Facility from the date of the fire on January 17, 2019 to March 31, 2019. However, the business interruption insurance recovery amounts which replace lost income are recognised as a separate line item below operating income and included in EBITDA and earnings for Q1 2019.

	Three months ended		
(\$000's, unless otherwise noted)	2020	March 31, 2019	%
North Dakota operations			
Disposal volumes (Bbls)	4,365,803	2,721,150	60%
Recovered oil sales volumes (Bbls)	16,361	8,019	104%
Disposal revenue (\$ per Bbl)	\$0.83	\$0.80	4%
Oil sales revenue (\$ per Bbl)	\$48.22	\$60.48	-20%
Operating costs and royalties (\$ per Bbl)	\$0.62	\$0.84	-26%
North Dakota disposal and services revenue			
Disposal revenue	\$3,642	\$2,173	68%
Oil sales revenue	789	485	63%
Other revenue	102	121	-16%
Total revenue – North Dakota	4,533	2,779	63%
Operating costs	(2,694)	(2,256)	19%
Operating income – North Dakota⁽¹⁾	\$1,839	\$523	252%
Alberta operations⁽²⁾			
Volumes (Bbls)			
Disposal and third-party processing	78,888	407,033	-81%
Oil and gas	-	3,909	-
Revenue			
Disposal and third-party processing	\$115	\$526	-78%
Oil and gas sales	-	98	-100%
Total revenue - Alberta	115	624	-82%
Operating costs	(423)	(761)	-44%
Operating loss - Alberta⁽¹⁾	(\$308)	(\$137)	125%
Combined operations			
Oilfield disposal and processing revenue	\$4,546	\$3,184	43%
Oil and gas sales	-	98	-100%
Other revenue	102	121	-16%
Total revenue	4,648	3,403	37%
Operating costs	(3,117)	(3,017)	3%
Operating income⁽¹⁾	1,531	386	297%
General and administrative expenses (“G&A”)	(567)	(559)	1%
Insurance recovery – business interruption	-	562	-100%
EBITDA ⁽¹⁾	\$964	\$389	148%
Other income and expenses			
Depreciation and depletion	(493)	(454)	9%
Amortization	(17)	-	-100%
Impairment	(12,360)	(4,745)	160%
Finance costs	(223)	(388)	-43%
Share-based payments	(2)	(16)	-88%
Foreign exchange (losses) gains	(572)	(5)	11340%
Gain on settlement of promissory note	1,100	-	100%
Loss on disposal of property, plant and equipment - net	-	(4)	-100%
Loss on abandonment	-	(16)	-100%
Insurance recovery – property damage	-	1,443	-100%
Income Tax Expense	(2)	-	-100%
Deferred income tax recovery	105	-	100%
Net loss	(\$11,500)	(\$3,796)	203%

¹⁾ North Dakota operations do not recognise volumes, revenues, and expenses for the Watford SWD from the date of the fire on January 17, 2019 to March 31, 2019.

²⁾ Refer to “Non-GAAP Measures” for additional information.



For the three months ended March 31, 2020, EBITDA increased 148% to \$964,000 from \$389,000 in Q1 2019 as the North Dakota facilities recorded increased fluid disposal (up 14%) and recovered oil sales volumes (up 62%). The improved performance from North Dakota operations in Q1 2020 compared to Q1 2019 more than offset increased operating losses at the Clairmont Facility over the same periods.

Combined total revenue (North Dakota and Alberta) for the three months ended March 31, 2020 increased by 37% to \$4,648,000 from \$3,403,000 in Q1 2019 which does not include Q1 2019 Watford SWD Facility business interruption insurance recoveries of \$562,000 which are recorded as a separate line item below operating income. Even with the Watford SWD Facility business interruption recovery included in Q1 2019's revenue, the combined total revenue for the current quarter is still higher by 17%. Combined operating costs increased by 3% for the three months ended March 31, 2020 compared to Q1 2019 mainly due to the additional 15% working interest in the Tioga SWD Facility which was purchased effective January 1, 2020.

North Dakota

Volumes:

For the three months ended March 31, 2020, fluid disposal volumes (trucked, pipeline, flowback water and Class 1 water) increased 60% to 47,976 barrels per day ("bpd") from 30,235 bpd in Q1 2019. These volumes include 562 barrels per day in Q1 2020 and 85 barrels per day in Q1 2019 for the newly constructed Alexander Class 1 Facility which began meaningful disposal operations in the second half of 2019. In the prior year quarter, fluid disposal volumes exclude Watford SWD Facility volumes from January 17, 2019 when the facility was destroyed by fire; however, the Corporation has fully recovered the lost income under its insurance program.

For the three months ended March 31, 2020, North Dakota oil sales volumes doubled to 16,361 barrels from 8,019 barrels in Q1 2019, with the Ross and Watford SWD Facilities accounting for 70% of recovered oil sales volumes in Q1 2020 compared 38% in Q1 2019. The New Town SWD Facility contributed 22% of recovered oil volumes in Q1 2020 versus 49% in the prior year quarter.

Operating Income:

For the three months ended March 31, 2020, North Dakota operating income more than tripled to \$1,839,000 from \$523,000 in Q1 2019 mainly due to the higher fluid disposal volumes and the significantly higher recovered oil volume sales.

Revenue and Pricing:

For the three months ended March 31, 2020, North Dakota total revenue increased 63% to \$4,533,000 from \$2,779,000 in Q1 2019, as revenues from the Ross SWD Facility increased 141% to \$1,001,000 from \$415,000 in Q1 2019 with this facility's fluid disposal volumes up 142% and recovered oil sales up 353%. In Q1 2020, the Watford SWD recorded revenues of \$1,013,000 compared to \$175,000 in Q1 2019 when operations were shut down on January 17, 2019 due to the previously mentioned fire and for which White Owl received compensation. In addition, the recently constructed Alexander Class 1 Water Facility contributed revenue of \$309,000 compared to \$20,000 in Q1 2019 when this facility was being commissioned. The 104% increase in recovered oil volume sales in Q1 2020 to 16,361 barrels from 8,019 barrels in Q1 2019 more than offset a 20% decrease in the realized oil netback price to result in a 63% increase in recovered oil revenues to \$789,000 from \$485,000 in Q1 2019. Importantly, benchmark West Texas oil price ("WTI") has shown a dramatic downward trend to average US \$30.45 in March 2020, down from US \$50.54 in February 2020.

Revenues from fluid disposal services increased 68% to \$3,642,000 in Q1 2020 from \$2,173,000 in Q1 2019, while the average revenue per barrel disposed increased 4% to \$0.83 per barrel from \$0.80 per barrel in Q1 2019. The increase in the average price per barrel is mainly due to the inclusion in Q1 2020 of significantly higher Alexander Class 1 water volumes which attract considerably higher disposal fees.



Other revenue decreased to \$102,000 for the three months ended March 31, 2020 compared to \$121,000 in Q1 2019 due to administrative fees received related to the construction of the Epping SWD Facility recorded in the prior year quarter.

Operating Costs:

For the three months ended March 31, 2020 operating costs increased by 19% to \$2,694,000 from \$2,256,000 in Q1 2019 mainly due to the 60% increase in fluid volumes disposed in the current quarter compare to the prior year quarter. Operating costs for Q1 2019 include unusual expenses of \$382,000 for insurance deductibles of \$133,000 related to the Watford SWD Facility fire and the Clairmont Facility pipeline leak (see “Alberta” below), \$193,000 for clean-out of the tanks at the Ross SWD Facility (a one in approximately three-year event), and \$56,000 for commissioning of the newly constructed Alexander and Epping facilities.

Please see “Revenue and operating income by facility” on page 6 of this Management Discussion of Financial Results for details of volumes and operating income by facility.

Alberta

In Alberta, the Corporation’s Clairmont Facility generates revenues from emulsion processing, oil blending and water disposal (collectively, “disposal and third-party processing”).

The Corporation’s associated oil and gas wells that are pipeline connected to the Clairmont Facility were permanently shut-in in February 2019 following a pipeline leak which has now been repaired and the contaminated soil fully remediated. As a result, the Corporation’s Alberta oil and gas sales revenue decreased to nil for the three months ended March 31, 2020 compared to \$98,000 in Q1 2019.

Following the shut-in of the oilfield in February 2019, three water injection wells that were part of the Enhanced Oil Recovery scheme were re-permitted as water disposal wells allowing the Corporation to successfully increase third-party water disposal activities in addition to disposing of water from third-party emulsion processing customers. However, the disposal wells can no longer accept water as downhole pressures have exceeded allowable limits and the wells were shut-in in December 2019. Since then, White Owl has shut-in the Clairmont Facility until commodity prices recover to more sustainable levels, as activity in the adjacent area has severely declined (please see “ECONOMIC ENVIRONMENT” on Page 2). Management will continue to assess its options with respect to the Clairmont Facility.

For the three months ended March 31, 2020, total revenue from Clairmont operations including disposal and third-party processing plus oil and gas decreased 82% to \$115,000 from \$624,000 in Q1 2019. Total operating costs decreased by 44% to \$423,000 from \$761,000 in Q1 2019.

As a result, the Alberta operating loss totaled \$308,000 for Q1 2020 compared to an operating loss of \$137,000 in Q1 2019. The increased operating loss is mainly due to the shutting-in of the water disposal wells in December 2019. To reactivate the third-party water disposal business will require the recompletion of another disposal well into a different formation (“Belloy well”). With the shutting down of the facility in April 2020, the recompletion of a water disposal well will be considered when commodity prices again return to sustainable levels.

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OPERATING LOCATIONS (dollar amounts in USD except Clairmont):

New Town

New Town Facility (amounts in USD except volumes)		Q1 2020	Q1 2019	Change
Production Water - Trucked	b/d	15,049	15,269	-1%
Flowback	b/d	1,202	900	34%
Total Fluids Disposed	b/d	16,251	16,169	1%
Oil Sales	b/qtr, yr	3,563	4,917	-28%
Revenue:				
Production Water - Trucked		\$761,218	\$761,097	0%
Price for Production Water/bbl		0.56	0.55	0%
Flowback		137,926	107,630	28%
Price for Flowback/bbl		1.26	1.33	-5%
Recovered Oil		130,759	220,637	-41%
Price for Oil/bbl		36.70	44.87	-18%
Total Revenue		1,029,903	1,089,364	-5%
Total Revenue/bbl.		\$0.70	\$0.75	-7%
Operating Expenses		605,921	605,142	0%
Operating Income		\$423,982	\$484,222	-12%

Volumes:

For the three months ended March 31, 2020, the New Town SWD Facility operated at near full capacity with total fluids disposed (production water and flowback) increasing 1% to 16,251 bpd in Q1 2020 over Q1 2019. While production water volumes remained relatively flat at 15,049 bpd compared to 15,269 bpd in Q1 2019, flowback volumes increased 34% to 1,202 bpd compared to 900 bpd in Q1 2019. In Q1 2020 recovered oil volumes decreased 28% to 3,563 barrels compared to 4,917 barrels in Q1 2019.

Operating Income:

For the three months ended March 31, 2020, the New Town SWD Facility generated operating income of \$423,982, a 12% decrease from \$484,222 in Q1 2019, mainly due to lower recovered oil revenues stemming from a 18% decrease in the realized netback oil price and the aforementioned lower oil volume sales.

Revenues and Pricing:

For the three months ended March 31, 2020, total New Town revenues decreased 5% to \$1,029,903 due to lower recovered oil revenues stemming from a 20% decrease in the realized netback oil price and the 28% decrease in oil volume sales. Production water revenues remained flat at \$761,218 in Q1 2020 compared to Q1 2019 as volumes decreased 1% in combination with a 1% price increase, while flowback revenues increased 28% to \$130,759 as volumes increased 34% and pricing decreased 5% over the same periods.

Operating Costs:

Operating costs remained unchanged at \$605,921 in Q1 2020 compared to Q1 2019 as total fluids disposed increased by 1% overall.

Watford City

Watford Facility (amounts in USD except volumes)				
		Q1 2020	Q1 2019	Change
Production Water - Trucked	b/d	9,236	5,985	54%
Production Water - Piped	b/d	1,309	681	92%
Flowback	b/d	244	17	1334%
Total Fluids Disposed	b/d	10,789	6,683	61%
Oil Sales	b/qtr	4,458	210	2023%
Revenue:				
Production Water - Trucked		\$504,263	\$111,312	353%
Price for Prodn. Water-Trucked/bbl		0.60	0.60	0%
Production Water - Piped		57,180	10,128	465%
Price for Prodn. Water Piped/bbl		0.48	0.48	0%
Flowback		36,130	856	4121%
Price for Flowback/bbl		1.63	1.62	0%
Recovered Oil		156,247	8,078	1834%
Price for Oil/bbl		35.05	38.47	-9%
Insurance recovery-business interruption		0	420,035	-100%
Other Income		0	1,230	-100%
Total Revenue		753,820	551,639	37%
Total Revenue/bbl.		0.77	0.92	-16%
Operating Expenses		433,307	129,568	234%
Operating Income		\$320,513	\$422,071	-24%

Since returning to full operation in October 2019, the Watford SWD Facility has operated at 75% capacity in Q1 2020 with total fluids disposed averaging 10,789 bpd.

In the above table, the comparative numbers for Q1 2019 show the insurance recovery for business interruption as a separate line item under revenue. Since the insurance recovery was calculated using higher fluid disposal volumes (based on 2018 actual volumes), Watford SWD Facility operating income has decreased to \$320,513 for Q1 2020 from \$422,071 in Q1, 2019.

Under the Company's insurance program, all reconstruction costs and the loss of income over the nine-month reconstruction period from January to October 2019 were fully reimbursed with the final payment received by White Owl in February 2020.

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Ross

Ross Facility (amounts in USD except volumes)				
		<u>Q1 2020</u>	<u>Q1 2019</u>	<u>Change</u>
Production Water - Trucked	b/d	10,694	3,595	197%
Flowback	b/d	49	837	-94%
Total Fluids Disposed	b/d	10,743	4,432	142%
Oil Sales	b/qtr, yr	6,974	1,538	353%
Revenue:				
Production Water - Trucked		\$486,577	\$161,785	201%
Price for Production Water/bbl		0.50	0.50	0%
Flowback		5,749	75,338	-92%
Price for Flowback/bbl		1.29	1.00	29%
Recovered Oil		255,005	74,554	242%
Price for Oil/bbl		36.57	48.47	-25%
Total Revenue		747,331	311,677	140%
Total Revenue/bbl.		0.76	0.78	-2%
Operating Expenses		424,496	401,113	6%
Operating Income (Loss)		\$322,835	(\$89,436)	461%

Volumes:

Total fluids disposed (production water and flowback) increased 142% to 10,743 bpd in Q1 2020 compared to 4,432 bpd in Q1 2019 mainly due to the ramp-up of drilling and completion activity by three area producers over the last half of 2019. Production water volumes tripled to 10,694 bpd for the three months ended March 31, 2020 compared to 3,595 bpd in the prior year quarter, while flowback volumes decreased 94% to 49 bpd from 837 bpd in Q1 2019. Importantly, although the oil content is lower in production water than in flowback, oil volumes recovered rose dramatically with an almost four-fold increase in Q1 2020 to 6,974 barrels from 1,538 barrels in Q1 2019.

Operating Income:

For the three months ended March 31, 2020, operating income for the Ross SWD Facility increased significantly to \$322,835 from an operating loss of \$89,436 in Q1 2019 due to the 197% increase in production water volumes disposed and the 353% increase in recovered oil volume sales. In addition, unusual expenses of \$145,000 were incurred for tank clean outs in Q1 2019 resulting in the operating loss for that quarter.

Revenues and Pricing:

For the three months ended March 31, 2020, total revenues for the Ross SWD Facility increased 140% to \$747,331 from \$311,677 in Q1 2019 due to higher production water and oil volumes as well as stronger pricing. Production water revenues tripled in Q1 2020 to \$486,577 compared to \$161,785 in Q1 2019 as volumes increased 197% while pricing remained unchanged, while flowback revenues decreased 92% approximately matching a 94% decrease in volumes. Recovered oil revenues increased 242% to \$255,005 in Q1 2020 compared to \$74,554 in Q1 2019 as the 353% increase in oil volume sales more than offset a 25% decrease in the realized netback oil price.

Operating Costs:

For the three months ended March 31, 2020, operating costs increased 6% to \$424,496 from \$401,113 in Q1 2019 due to higher disposal volumes. In addition, tank clean-out costs of \$193,000 were incurred in the prior year quarter, Q1 2019.

Tioga SWD JV

Tioga (Volumes 100%, dollar amounts at 47% 2020 (32% 2019) in USD)				
		Q1 2020	Q1 2019	Change
Production Water-Trucked	b/d	7,213	8,630	-16%
Production Water-Piped	b/d	8,028	6,202	29%
Flowback	b/d	30	195	-84%
Total Fluids Disposed	b/d	15,271	15,027	2%
Oil Sales	b/qtr	2,240	2,528	-11%
Revenue:				
Production Water - Trucked		\$181,181	\$149,118	22%
Price for Prodn. Water-Trucked/bbl		0.59	0.60	-2%
Production Water - Piped		178,541	94,340	89%
Price for Prodn. Water Piped/bbl		0.52	0.53	-2%
Flowback		2,044	8,966	-77%
Price for Flowback/bbl		1.57	1.60	-2%
Recovered Oil		39,605	36,084	10%
Price for Oil/bbl		37.62	44.61	-16%
			0	
Total Revenue		\$401,371	288,508	39%
Total Revenue/bbl.		0.61	0.67	-8%
Operating Expenses		217,626	153,635	42%
Operating Income		\$183,746	\$134,873	36%

For the three months ended March 31, 2020, White Owl has a 47% working interest in the Tioga SWD Joint Venture ("Tioga JV") as a result of the purchase, effective January 1, 2020, of a 15% interest in the Tioga JV; this acquisition was funded from proceeds of the private placement of common shares completed in November 2019. The discussion below is based on total volumes for the facility while the financial information represents White Owl's 47% interest in the Tioga JV. The comparative financial numbers for Q1 2019 represent a 32% interest in the Tioga JV.

Volumes:

The Tioga SWD Facility has been operating at near its capacity of 16,000 barrels per day with total fluids disposed up 2% to 15,271 bpd (gross) in Q1 2020 compared to 15,027 bpd (gross) in Q1 2019.

Production water received by pipeline has increased 29% to 8,028 bpd for the three months ended March 31, 2020, displacing trucked production water and flowback water, as the producer who owns the pipeline has been sending more water to the facility. In Q1 2020, pipeline production water accounted for 53% of total fluid volumes disposed compared to 41% in Q1 2019. As a result of the proportionate increase in pipeline water volumes, trucked water and flowback volumes decreased 16% and 84%, respectively. Flowback volumes are generally never significant at the Tioga SWD Facility because capacity is usually filled with trucked and pipeline water as a result of commitments to customers.

Since the oil content in pipeline production water is lower than in trucked-in production water and flowback, recovered oil volumes sold have decreased by 11% to 2,240 barrels (gross) for the three months ended March 31, 2020 compared to Q1 2019.



Operating Income:

Operating income for White Owl's net interest in the Tioga SWD Facility increased 36% to \$183,745 in Q1 2020 from \$134,873 in Q1 2019, mainly due to the additional 15% working interest acquired January 1, 2020, which accounted for \$58,556 of operating income in the current quarter.

Revenues and Pricing:

For the three months ended March 31, 2020, total Tioga revenues (net to White Owl) increased 39% to \$401,371 from \$288,508 in Q1 2019, mainly due to the additional 15% working interest acquired January 1, 2020, which accounted for \$128,097 of revenue in the current quarter. Pricing for trucked, pipeline, and flowback water in Q1 2020 remained unchanged compared to Q1 2019, but the realized netback oil price decreased 16% in the current quarter compared to the prior year quarter as weak commodity prices set in in the latter part of Q1 2020.

Operating Costs:

Operating costs for the three months ended March 31, 2020 increased 42% to \$217,626, mainly due to the additional 15% working interest acquired January 1, 2020, which accounted for \$69,455 of operating costs in the current quarter.

Epping SWD JV

Epping (Volumes 100%, Dollar amounts at 32.5% Working Interest in USD)				
		<u>Q1 2020</u>	<u>Q1 2019</u>	<u>Change</u>
Production Water-Trucked	b/d	860	4,461	-81%
Production Water-Piped	b/d	6,687	3,015	122%
Flowback	b/d	0	28	-100%
Total Fluids Disposed	b/d	7,547	7,504	1%
Oil Sales	b/qtr, yr	962	1,676	-43%
Revenue:				
Production Water-Trucked		\$15,267	\$78,296	-81%
Price for Production Water/bbl		0.60	0.60	0%
Production Water-Piped		113,571	57,331	98%
Price for Production Water/bbl		0.57	0.65	-12%
Flowback		0	1,416	-100%
Price for Flowback/bbl		0.00	1.75	-100%
Recovered Oil		11,417	24,906	-54%
Price for Oil/bbl		36.52	45.72	-20%
Other Income		650	0	100%
Total Revenue		140,905	161,949	-13%
Total Revenue/bbl.		0.63	0.74	-14%
Operating Expenses		105,054	148,760	-29%
Operating Income		\$35,851	\$13,189	172%

White Owl has a 32.5% working interest in the Epping SWD Joint Venture ("Epping JV"). The discussion below is based on total volumes for the facility while the financial information represents White Owl's 32.5% interest in the Epping JV.



The main area producer is very active and is requesting the addition of a second well at the Epping location which is expected to improve the financial performance of this investment. The timing for the drilling of the second well is uncertain at this time due to the current low commodity price environment that has led to significantly reduced producer activity across the Bakken in North Dakota.

Volumes:

The Epping SWD Facility has been operating at near its capacity of approximately 8,000 bpd (gross) with total fluids disposed of 7,547 bpd (gross) in Q1 2020 compared to 7,504 bpd (gross) in Q1 2019. This is a pipeline-connected facility with pipeline water volumes accounting for 89% of total fluid volumes in Q1 2020 compared to 40% in Q1 2019. Based on the pipeline owner's forecast, we expect pipeline water as a proportion of total fluids to approximate Q1 2020 levels for the balance of the year. With the proportionate increase in pipeline volumes which have a lower oil content than trucked or flowback water, recovered oil volumes decreased to 962 barrels (gross) in Q1 2020 from 1,676 barrels (gross) in Q1 2019.

Operating Income:

Operating income for White Owl's net interest in the Epping SWD Facility totaled \$38,851 in Q1 2020 compared to \$13,189 in Q1 2019. Until the second disposal well is constructed, the Epping SWD Facility will be a marginal contributor to the Corporation's operating income.

Revenues and Pricing:

For the three months ended March 31, 2020, Epping revenues (net to White Owl) totaled \$140,905 compared to \$161,949 in Q1 2019. Recovered oil revenues decreased 54% due to a 43% decrease in oil volumes combined with a 20% drop in the realized netback oil price.

Operating Costs:

Operating costs for Q1 2020 totaled \$105,054, a decrease of 29% from \$148,760 in Q1 2019. The decrease is due to anticipated commissioning costs incurred during the start-up phase in Q1 2019.

Alexander Class 1 Facility

Alexander Facility (Amounts in USD except volumes)				
		<u>Q1 2020</u>	<u>Q1 2019</u>	<u>Change</u>
Production Water-Trucked	b/d	563	85	562%
Total Fluids Disposed	b/d	563	85	562%
Class 1 Water	b/qtr, yr	51,210	7,654	569%
Revenue:				
Class 1 Water		\$229,376	\$15,332	1396%
Price for Class 1 Water		4.48	2.00	124%
Total Revenue		229,376	15,332	1396%
Total Revenue/bbl.		4.48	2.00	124%
Operating Expenses		216,216	176,302	23%
Operating Income (Loss)		\$ 13,160	(\$160,970)	108%

White Owl's Class 1 water disposal business became established over the latter part of 2019 and has a different customer base with a broader market than Class 2 disposal. The Class 1 facility accepts non-hazardous industrial fluids (versus Class 2 disposal which is for non-hazardous oilfield fluids only) including pipeline test water,



refinery wastewater, landfill leachate, oil terminal runoff, vacuum truck rinsate, gas plant cooling tower cleaning waste, waste compressor fluids, pipeline pit waste water and pesticide rinsate.

Volumes:

In Q1 2020, barrels disposed totaled 51,210 compared to 7,654 barrels in Q1 2019 when the facility was still in the commissioning stage. The current quarter's operating results at Alexander were impacted by a constriction in the disposal well's tubing, which reduced the ability to dispose of volumes for about 10 days in January. This necessitated a well workover which was completed in April 2020 and which resulted in the recording of additional operating costs of \$75,600 in Q1 2020 for a portion of the overall well workover cost.

Operating Income:

In Q1 2020, White Owl recorded operating income of \$13,160 compared to an operating loss of \$160,970 in Q1 2019 when White Owl was developing this new business as well as incurring commissioning costs.

Revenues and Pricing:

In Q1 2020, Alexander revenues totaled \$229,376 compared to \$15,332 in Q1 2019 due to the almost seven-fold increase in Class 1 water disposal volumes and higher pricing. Pricing averaged \$4.48 per barrel in Q1 2020 compared to \$2.00 per barrel in Q1 2019 when White Owl offered discount pricing to establish a customer base.

Operating Costs:

Operating costs for the three months ended March 31, 2020, totaled \$216,216 compared to \$176,302 in Q1 2019. As mentioned previously, well workover costs of \$75,600 were recorded in Q1 2020. The total cost of the well workover was \$186,000 with the remaining \$110,400 to be recorded in operating costs in Q2 2020.

Canada - Clairmont Processing and Disposal Plant

For the three months ended March 31, 2020, the Clairmont waste disposal and third-party processing facility ("Clairmont Midstream") generated revenue of \$115,000 compared to \$526,000 in Q1 2019, as disposal and third-party processing volumes decreased 81% because the water disposal wells were shut-in in December 2019. As a result, in Q1 2020, Clairmont Midstream incurred an operating loss of \$213,000 compared to operating income \$122,000 in Q1 2019.

As previously reported, a rise in downhole pressures which exceeded allowable limits, necessitated the shutting-in of the water disposal wells in Q4 2019. To provide a long-term water disposal solution at Clairmont, the Company intends to recomplete an existing disposal well into the deeper Belloy formation to regain and increase local area third-party water disposal business. However, this project has now been deferred at least to 2021 due to the onset of a dramatically lower commodity price environment in the latter part of Q1 2020 (please see "Economic Environment" under "COMPANY OVERVIEW" on Page 2). In the meantime, the Clairmont Facility has been shut down as a cost control measure pending the return of more sustainable operating conditions.

Also, as previously reported, the associated oilfield was permanently shut-in in February 2019 due to the risk of future gathering line leaks and, therefore, there are no longer any producing oil wells at Clairmont. As a result, oil and gas production revenues were nil in Q1 2020 compared to \$98,000 in Q1 2019.

Operating costs for oil and gas operations have also decreased since the oilfield was shut in. In Q1 2020, oil and gas operations incurred an operating loss of \$95,000 compared to an operating loss of \$259,000 in Q1 2019.

In Q1 2020, total Clairmont operations (disposal and third-party processing plus oil and gas production) incurred an operating loss of \$308,000 compared to an operating loss of \$137,000 in Q1 2019.



OPERATIONAL UPDATE

Since the beginning of March 2020, oil prices have declined dramatically, due to world oil over-supply fears which has been compounded by the prospect of a growing world economic slowdown as a result of the global COVID-19 virus. As a result, in Q2 2020, we have seen a material softening of our customer's business with reductions in 2020 capital programs, drilling and completion activity, and the shutting-in of existing production.

In terms of improvements planned for White Owl's operating locations, many of these projects are now on hold for obvious reasons. Although there are several projects that would have increased plant capacity, this increased capacity is not now needed and these developments will only proceed once market conditions improve and as resources become available. However, at Tioga, we increased our ownership from a 32% interest to a 47% interest in the plant through the exercise of our right to purchase a 15% interest from the White Owl Tioga LLC for US\$750,000. This purchase was effective January 1, 2020 and was funded by the November 2019 private placement proceeds.

At Epping, our pipeline connected customer continues to push for more disposal capacity. Due to current market conditions, White Owl and its partner, the White Owl Epping LLC are reviewing this demand for a second well. We are pursuing this project with caution. Current thoughts are that we could lower the risk for the current owners, by bringing in a third party industry partner to contribute up to fifty (50%) percent of the project cost. This approach would result in a reduced ownership for White Owl and possibly a change in operatorship of the project. The first disposal well operates at a maximum capacity of approximately 8,000 barrels of water per day and at this level is marginally profitable.

At Ross the plant capacity was increased to 17,000 barrels of water per day through the addition of a rental pump during the summer of 2019. This extra capacity is not now needed and we would like to replace this rental pump with a lower cost option of a permanent pump and filter installation. Project economics will dictate the schedule for this project.

The New Town plant continues to be a high maintenance operation due to plant and pump configuration. The tank farm is poorly configured and needs to be re-engineered while the pump skids leak and need to be replaced with more reliable horizontal pumps. Similarly to Ross, project economics will dictate the schedule for this upgrade.

The Watford City plant started operating in September of 2019 after a complete rebuild following the January 2019 fire which totally destroyed the plant. The current operating environment has had a significant negative impact on volumes at this plant with daily volumes down 75% in May.

The Alexander Class 1 facility services the industrial market as opposed to the Class 2 plants which service the upstream oil and gas industry. This facility has the potential to perform well during 2020. Regulatory and downhole wellbore constraints however are currently limiting plant capacity. An application for increased wellbore pressure has been submitted to the regulator and a downhole formation cleanup is being planned.

At Clairmont in Alberta, the Corporation shut down the water disposal and processing facility in April 2020. Because of current market conditions, management is reconsidering its options for this business.

CORPORATE MATTERS

White Owl's term debt position continued to improve with the outstanding balance being reduced by 5% to US \$7,693,608 at March 31, 2020 from US\$8,117,653 at December 31, 2019 and from US\$10,797,694 at December 31, 2018.

On January 17, 2020, White Owl Ltd. entered into a release agreement with the Clairmont vendor for a final repayment of \$300,000 to fully repay the remaining \$1,400,000 outstanding on the Vendor Note. As a result, the Corporation's other debt comprising promissory notes, mortgage payable and lease liabilities, has been reduced by 66% to \$701,000 at March 31, 2020 from \$2,058,000 at December 31, 2019.



OUTLOOK

As discussed above, the affect of the onset of weak commodity prices late in Q1 2020 on our markets is being compounded by the world economic slowdown due to the global COVID-19 virus. As a result, the impact on the industry has been dramatic with oil and gas producers across North America significantly curtailing activity as capital expenditure budgets are being reduced to conserve cash in what has become a very uncertain operating environment. As of mid May, approximately one third of North Dakota's daily oil production has been shut-in which has reduced White Owl's daily water disposal volumes from an average of 47,976 bpd in Q1 2020 to approximately 30,000 bpd.

In this unprecedented and uncertain environment we have proactively taken steps to keep our people safe, reduce costs, and protect liquidity. These are tumultuous, uncertain times and we are continually monitoring our business and cost structure and taking appropriate steps as are deemed necessary. We have reduced both field operating and office administrative costs in North Dakota and Alberta to offset the financial impact of lower volumes and revenues. Actions taken include salary reductions for all employees, reductions in field and office staffing personnel, reductions in office rent and supplies, and cancellation of all non-essential business travel. We have also negotiated reductions in hourly rates charged by certain professional service providers. Complimenting these austerity measures, we have successfully applied for government programs both in Canada and the US and these funds are a welcome addition.

We are unable to provide our traditional type guidance on financial performance over the next 6 months due to the volatile market conditions that we presently find ourselves in. Our business in the Bakken is located in the core of shale activity. But even being strategically located is no guarantee of ongoing business when the smaller producers are trying to survive while our larger financially stronger customers are demanding cuts in service rates. Our Class 1 business, while impacted by the downturn, is less exposed to commodity prices and is anticipated to maintain current business volumes.

If you have any questions, please do not hesitate to contact me directly at 403-457-5456 extension #101 or pinnello@whiteowl-services.com. We sincerely thank you for your support and confidence in the management and board of White Owl.

Sincerely,

On behalf of the Board of Directors,

Owen Pinnell, P.Eng.

President and CEO

Cautionary Statements:

This letter contains certain forward-looking statements and forward-looking information (collectively referred to herein as "forward looking statements") within the meaning of applicable securities laws. All statements other than statements of present or historical fact are forward looking statements. Forward looking information is often, but not always, identified by the use of words such as "could", "should", "can", "anticipate", "expect", "believe", "will", "may", "projected", "sustain", "continues", "strategy", "potential", "projects", "grow", "take advantage", "estimate", "well positioned" or similar words suggesting future outcomes. In particular, this letter contains forward looking statements relating to future opportunities, business strategies and competitive advantages. The forward-looking statements regarding White Owl Energy Services Inc. ("White Owl" or the "Corporation") are based on certain key expectations and assumptions of White Owl concerning anticipated financial performance, business prospects, strategies, the sufficiency of budgeted capital expenditures in carrying out planned activities, the availability and cost of labour and services and the ability to obtain financing on acceptable terms, all of which are subject to change based on market conditions and potential timing delays. Although management of White Owl considers these assumptions to be reasonable based on information currently available to them, they may prove to be incorrect.



By their very nature, forward looking statements involve inherent risks and uncertainties (both general and specific) and risks that forward-looking statements will not be achieved. Undue reliance should not be placed on forward looking statements, as a number of important factors could cause the actual results to differ materially from the beliefs, plans, objectives, expectations and anticipations, estimates and intentions expressed in the forward looking statements, including among other things: inability to meet current and future obligations; inability to implement White Owl's business strategy effectively for a number of reasons, including general economic and market factors, including business competition, changes in government regulations; access to capital markets; interest and currency exchange rates; commodity prices; technological developments; general political and social uncertainties; lack of insurance; delay or failure to receive board or regulatory approvals; changes in legislation; timing and availability of external financing on acceptable terms; and lack of qualified, skilled labour or loss of key individuals. Readers are cautioned that the foregoing list is not exhaustive.

The forward-looking statements contained herein are expressly qualified in their entirety by this cautionary statement. The forward-looking statements included in this letter are made as of the date of this letter and White Owl does not undertake and is not obligated to publicly update such forward looking statements to reflect new information, subsequent events or otherwise unless so required by applicable securities laws.

The information contained in this letter does not purport to be all-inclusive or to contain all information that a prospective investor may require. Prospective investors are encouraged to conduct their own analysis and reviews of White Owl and of the information contained in this letter. Without limitation, prospective investors should consider the advice of their financial, legal, accounting, tax and other advisors and such other factors they consider appropriate in investigating and analyzing White Owl.

Any financial outlook or future-oriented financial information, as defined by applicable securities legislation, has been approved by management of White Owl as of the date hereof. Such financial outlook or future-oriented financial information is provided for the purpose of providing information about management's current expectations and goals relating to the future of White Owl. Readers are cautioned that reliance on such information may not be appropriate for other purposes.

White Owl uses terms within this letter, including, among others, "EBITDA", which terms do not have a standardized prescribed meaning under generally accepted accounting principles ("GAAP") and these measurements are unlikely to be comparable with the calculation of similar measurements of other entities. Prospective investors are cautioned, however, that these measures should not be construed as alternatives to measures determined in accordance with GAAP.

This letter does not constitute an offer to sell securities of the Corporation or a solicitation of offers to purchase securities of the Corporation. Such an offer or solicitation will only be conducted in accordance with applicable securities laws and pursuant to an enforceable agreement of purchase and sale.