



MANAGEMENT'S DISCUSSION OF FINANCIAL RESULTS

For the three and six months ended June 30, 2020

Management's Discussion of Financial Results ("MDFR") is provided to assist readers in the assessment of the results of operations, liquidity and capital resources of White Owl Energy Services Inc. ("White Owl" or the "Company" or the "Corporation") as at and for the three and six months ended June 30, 2020. White Owl is a private company and is not required to prepare and file Management's Discussion and Analysis ("MD&A") in accordance with regulatory requirements in Canada or the United States ("US"). **This MDFR does not constitute an MD&A for the purposes of Canadian or US securities laws and may not include all the information that might otherwise be required or expected thereunder.**

This MDFR is based on information available to August 26, 2020 and should be read in conjunction with White Owl's condensed consolidated interim financial statements as at and for the three and six months ended June 30, 2020, and the audited consolidated financial statements for the years ended December 31, 2019 and 2018. The financial statements and comparative information have been prepared in accordance with International Financial Reporting Standards ("IFRS").

All amounts are stated in Canadian dollars unless otherwise noted.

CORPORATE OVERVIEW

White Owl is an oilfield service company that owns and operates midstream facilities in North Dakota and Alberta. In North Dakota, the Company is involved in the collection, processing and disposal of third-party oilfield fluids. In Alberta, White Owl operates a pipeline-connected terminalling, treating, blending and water disposal facility which was shut-in during April 2020 and will remain so until commodity prices recover. The Company, through its network of midstream facilities, is providing services to some of the largest independent oil and gas operators on the continent.

Strong customer relationships combined with identified expansion and greenfield projects provide White Owl opportunities to continue growing its midstream business in North Dakota and Alberta, as supported by the broader commodity price environment.

WHITE OWL ENERGY SERVICES INC.

MANAGEMENT DISCUSSION OF FINANCIAL RESULTS – Q2 2020

Operational Philosophy

Within its markets, the Company differentiates itself by:

- Operating with the highest levels of responsible environmental, health and safety stewardship, including heightened precautions undertaken during the COVID-19 health pandemic to protect staff, stakeholders and local communities from transmission;
- Providing a high level of customer service including a focus on expedited truck unload times;
- The operation, design and construction of facilities that provide efficient and safe separation of fluids; and
- Acquiring and integrating strategically located saltwater disposal (“SWD”) plants into its network.

Key Business Components

Water disposal

In North Dakota, the Company operates five disposal facilities which accept operators’ produced water and flowback to be disposed of through Company-operated Class 2 SWD facilities. In addition, the Corporation owns and operates a Class 1 facility that accepts non-hazardous industrial fluids such as pipeline test water, refinery wastewater, collected rainwater, and landfill leachate. Additional revenue is generated through the sale of crude oil recovered from the water disposal process. White Owl’s Class 2 SWD facilities in North Dakota are located at New Town, Watford City, Ross, Tioga and Epping, the latter of which commenced operations in September 2018. The Class 1 facility is located at Alexander, North Dakota and commenced operations in November 2018.

Effective, January 1, 2020, White Owl acquired an additional 15% working interest in the Tioga SWD facility, bringing the Corporation’s total working interest in the Tioga Joint Venture to 47%; this acquisition was funded from proceeds of the private placement of common shares completed in November 2019. Further expansion opportunities include second wells or the addition of injection capacity at Epping, Tioga, New Town and Watford City. Expansion investments have been deferred due to the onset of dramatically lower commodity prices beginning in the latter part of Q1 2020 (please see “ECONOMIC ENVIRONMENT” on Page 4).

Processing services

White Owl owns and operates a pipeline-connected oil processing and disposal facility at Clairmont (the “Clairmont Facility”), in the heart of the Montney shale play development in the Grande Prairie area of northwest Alberta. Late in Q1 2020, market conditions in the Grande Prairie area have weakened considerably leading to the shutting-in of the Clairmont Facility in April 2020 until operating conditions improve.

WHITE OWL ENERGY SERVICES INC.

MANAGEMENT DISCUSSION OF FINANCIAL RESULTS – Q2 2020

SECOND QUARTER AND YEAR TO DATE 2020 HIGHLIGHTS

The highlights for the three and six months ended June 30, 2020 are summarized as follows:

- For the six months ended June 30, 2020, consolidated EBITDA declined 23% to \$734,000 from \$957,000 in the six months ended June 30, 2019. Q2 2020 was significantly impacted by the global economic slowdown linked to COVID-19, as the Company's consolidated EBITDA decreased to negative \$230,000 from positive \$568,000 in Q2 2019 (please see "ECONOMIC ENVIRONMENT" on page 4).
- In Q2 2020, the Corporation's Tioga and Epping SWD facilities continued to operate at close to full capacity, while total fluids disposed by the Ross SWD facility increased 16% and 68% in the three and six months ended June 30, 2020, respectively, relative to the 2019 comparable periods. However, capacity utilization at the Watford City SWD facility decreased to 40% in Q2 2020 from 75% in Q1 2020 due to major customers shutting in production in response to the economic downturn. Similarly, total fluids disposed by the New Town SWD facility decreased 39% and 19% in the three and six months ended June 30, 2020, respectively, relative to the comparable 2019 periods.
- The West Texas Intermediate benchmark oil price ("WTI") recovered during the second quarter after entering negative territory in April 2020, but still remains below historic averages. In June 2020, WTI averaged US \$38.31 per barrel, up from US \$28.61 per barrel in May and US \$16.70 in April. To date in Q3 2020, WTI has largely remained within the US \$35.00 to \$40.00 range.
- The recent upward trend in WTI allowed White Owl to maximize recovered oil revenues by storing May's recovered oil volumes and deferring their sale until June 2020. This resulted in increased EBITDA of approximately \$81,000 in Q2 2020 as the realized net oil price (WTI less the Bakken differential, trucking costs and taxes) averaged US \$32.89 per barrel in June, up significantly from May's average of US \$12.42 per barrel and April's average of US \$8.77 per barrel.
- General and administrative expenses decreased 44% in Q2 2020 compared to Q2 2019 and decreased 23% in the six months ended June 30, 2020 compared to the comparable 2019 period. (Please see Cost-Cutting Measures under ECONOMIC ENVIRONMENT on page 5).
- The economic slowdown has resulted in reduced disposal prices for trucked-in water at certain of the Corporation's SWD facilities in Q2 2020 versus Q2 2019. Pre COVID-19, the range of pricing for trucked-in water was US \$0.50 to US \$0.60 per barrel, which has now decreased to a range of US \$0.40 to US \$0.50 per barrel. Similarly, the disposal price for flowback has decreased 16% in Q2 2020 over Q2 2019, while pricing for pipeline production water is contract-based and has not changed.

WHITE OWL ENERGY SERVICES INC.

MANAGEMENT DISCUSSION OF FINANCIAL RESULTS – Q2 2020

- For the three and six months ended June 30, 2020, operating results at the Alexander Class 1 facility have been impacted by lower landfill disposal of drill cuttings. This is due to reduced drilling and completion activity and drier weather, all of which resulted in lower leachate and other non-hazardous waste for disposal. To capture additional volumes at this facility, White Owl has initiated a marketing campaign and applied to the regulator for a well pressure increase, which would give White Owl the ability to inject more fluids. The regulator granted the well pressure increase on August 7, 2020.
- In Alberta, White Owl is presently working with an interested party to recommission the Clairmont processing and disposal facility which was temporarily shut-in during April 2020 due to low commodity prices. The potential joint venture party has indicated that the Clairmont facility is centrally located to their sphere of operations in the Grande Prairie area. The joint-venture proposal includes capital to fund recommissioning costs, the funding of a butane blending business and the expansion of the third-party water disposal business.
- To deal with the financial impact of the COVID-19 health pandemic, White Owl has successfully applied for three government assistance programs including the wage subsidization programs in Canada and the US. In Canada, the Corporation has applied under the Canadian Emergency Wage Subsidy and the Canadian Emergency Business Account programs and has received \$133,419 to June 30, 2020. In North Dakota, the Corporation has received a loan of US \$356,810 under the US federal Payroll Protection Program, which if used for salaries becomes a grant.

ECONOMIC ENVIRONMENT

Commodity Prices, Water Disposal and Recovered Oil Volumes

At the end of Q1 2020, governments around the world began implementing significant measures to combat the spread of the COVID-19 health pandemic, which continued throughout Q2 2020. These measures included limiting both air and ground travel with temporary border closures and travel bans, and the shutting down of businesses, leisure activities and schools. As a result, global jet fuel demand and global road fuel consumption, both major components of the daily worldwide demand for crude, declined dramatically leading to lower commodity prices. In Q2 2020, the benchmark WTI averaged US \$27.88 per barrel, down from US \$46.08 per barrel in Q1 2020. There has been some recovery of pricing during Q2 2020 with WTI averaging US \$38.31 per barrel in June compared to US \$16.70 per barrel in April when the benchmark price entered unprecedented, negative territory.

In response to these unprecedented negative market conditions, oil and gas producers throughout North America have significantly reduced activity. Capital expenditure budgets have been scaled-back or cancelled entirely and production has been curtailed or shut-in. This is evidenced by the drilling rig count in North Dakota

WHITE OWL ENERGY SERVICES INC.

MANAGEMENT DISCUSSION OF FINANCIAL RESULTS – Q2 2020

which at the beginning of January 2020 was 60 and is down to 12 at the end of Q2 2020. During Q2 2020, North Dakota's daily oil production decreased by a third, 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 32,131 bpd in Q2 2020 and compared to 29,529 bpd in Q2 2019. In addition, recovered oil volumes totaled 10,158 barrels in Q2 2020, down 38% from 16,361 barrels in Q1 2020 and down 13% from 11,722 barrels in Q1 2019.

Financial Impact on White Owl

General

These unprecedented economic circumstances have had or may have adverse effects on the Corporation's operating and financial position, including:

- Materially lower disposal volumes and pricing which have resulted in lower revenues, operating income and cash flows;
- One-time restructuring charges. In response to the market conditions, during Q2 2020 White Owl shut down the Clairmont facility in Alberta until commodity prices recover to more sustainable levels, resulting in related costs totaling \$113,023 recorded in Q2 2020, including severance expenses.
- Impairment charges of \$12,360,000 (of which \$9,041,000 was against goodwill and \$3,319,000 was against property, plant and equipment) that were recorded in Q1 2020. Should the pandemic continue for any considerable length of time, further impairment charges to White Owl's property, plant and equipment may be required; and
- Possible accounts receivable default in the future. Accounts receivable as at June 30, 2020 are in good standing.

Cost-Cutting Measures

Management has taken steps to reduce both field operating and office administrative costs in North Dakota and Alberta to lessen the financial impact of lower volumes and revenues. The Company's priority continues to remain in ensuring the health and safety of employees, contractors, service providers, and local communities. Accordingly, at the end of Q1 2020 and into Q2 2020, White Owl implemented measures to adhere to public health official guidance surrounding COVID-19, while maintaining business continuity. Importantly, cost-cutting exercises are a continual process and management will endeavour to identify further savings during the balance of the year. Following is a summary of the cost-cutting measures undertaken to date:

- Salary reductions of 10% for all employees;
- Reductions in staffing of field and office personnel;

WHITE OWL ENERGY SERVICES INC.

MANAGEMENT DISCUSSION OF FINANCIAL RESULTS – Q2 2020

- Increased accounts receivable monitoring;
- Reduced costs of materials, parts and services for the Corporation's operating facilities;
- Cancellation of all non-essential business travel;
- Office lease cost reductions;
- Reduced office expenses including stationery, photocopy usage costs, IT services and other supplies;
- Reduced field staffing accommodation, coveralls, cleaning supplies; and
- Reduced hourly rates charged by certain professional service providers.

Liquidity Management

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

- Cash Position:

White Owl entered the current economic downturn with a solid cash position. As at June 30, 2020, White Owl's cash balance is \$2,548,000, after deduction of amounts drawn on the operating line of credit, which compares to a cash balance of \$1,365,000 as at March 31, 2020 and \$1,809,000 as at December 31, 2019.

- Maintenance Capital:

For the duration of 2020 given this downturn, White Owl has reduced its maintenance capital program by approximately one-third to necessary, health, safety and environment 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-only of approximately US \$33,000 per month.

- Operating and General and Administrative Cost Savings:

Please refer to Cost-Cutting Measures above.

WHITE OWL ENERGY SERVICES INC.

MANAGEMENT DISCUSSION OF FINANCIAL RESULTS – Q2 2020

- Government Subsidy Programs:

White Owl has successfully applied for 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 \$133,419 to June 30, 2020. Of this amount, \$93,419 has been credited to general and administrative expenses in Q2 2020 and \$40,000 is included in the current portion of loans payable in the Condensed Consolidated Statement of Financial Position. In North Dakota, the Corporation has received a loan of US \$356,810 under the US federal Payroll Protection Program, which if used for salaries, becomes a grant. This amount is also included in the current portion of loans payable as at June 30, 2020.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

For the three and six months ended June 30, 2020, the following table of Financial and Operational Highlights relating to North Dakota operations for the prior year periods does not recognise volumes, revenues and expenses for the Watford SWD facility from the date of the fire on January 17, 2019 to June 30, 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 the three and six months ended June 30, 2019.

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WHITE OWL ENERGY SERVICES INC.

MANAGEMENT DISCUSSION OF FINANCIAL RESULTS – Q2 2020

(\$000's, unless otherwise noted)	Three months ended June 30,			Six months ended June 30,		
	2020	2019	%	2020	2019	%
North Dakota operations						
Disposal volumes (Bbls)	2,923,940	2,687,145	9%	7,289,743	5,408,294	35%
Recovered oil sales volumes (Bbls)	10,158	11,722	-13%	26,809	19,740	36%
Disposal revenue (\$ per Bbl)	\$0.75	\$0.81	-7%	\$0.80	\$0.80	0%
Recovered oil sales revenue (\$ per Bbl)	\$31.49	\$66.80	-53%	\$41.36	\$64.23	-36%
Operating costs and royalties (\$ per Bbl)	\$0.76	\$0.95	-20%	\$0.67	\$0.89	-25%
North Dakota disposal and services revenue						
Disposal revenue	\$2,182	\$2,164	1%	\$5,825	\$4,337	34%
Recovered oil sales revenue	320	783	-59%	1,109	1,268	-13%
Other revenue	98	144	-32%	199	265	-25%
Total revenue – North Dakota	2,600	3,091	-16%	7,133	5,870	22%
Operating costs	(2,223)	(2,530)	-12%	(4,917)	(4,786)	3%
Operating income – North Dakota⁽¹⁾	\$377	\$561	-33%	\$2,216	\$1,084	104%
Alberta operations⁽²⁾						
Volumes (Bbls)						
Disposal and third-party processing	2,326	248,530	-99%	81,214	657,634	-88%
Oil and gas	-	18	-100%	-	1,856	-100%
Revenue						
Disposal and third-party processing	6	383	-98%	121	909	-87%
Oil and gas sales	1	1	-	1	99	-99%
Total revenue - Alberta	7	384	-98%	122	1,008	-88%
Operating costs	(263)	(510)	-49%	(686)	(1,271)	-46%
Operating loss - Alberta⁽¹⁾	(\$256)	(\$126)	103%	(\$564)	(\$263)	114%
Combined operations						
Oilfield disposal and processing revenue	\$2,508	\$3,330	-25%	\$7,055	\$6,514	8%
Oil and gas sales	1	1	-	1	99	-99%
Other revenue	98	144	-32%	199	265	-25%
Total revenue	2,607	3,475	-25%	7,255	6,878	5%
Operating costs	(2,486)	(3,040)	-18%	(5,603)	(6,057)	-7%
Operating income⁽¹⁾	121	435	-72%	1,652	821	101%
General and administrative expenses ("G&A")	(351)	(630)	-44%	(918)	(1,189)	-23%
Insurance recovery – business interruption	-	763	-100%	-	1,325	-100%
EBITDA ⁽¹⁾	(\$230)	\$568	-140%	\$734	\$957	-23%
Other income and expenses						
Depreciation and depletion	(433)	(427)	1%	(926)	(881)	5%
Amortization	(16)	-	100%	(33)	-	100%
Impairment	-	-	-	(12,360)	(4,745)	160%
Finance costs	(176)	(285)	-38%	(399)	(674)	-41%
Share-based payments	(1)	(16)	-94%	(3)	(32)	-91%
Foreign exchange (losses) gains	294	115	156%	(278)	111	350%
Gain on settlement of promissory notes	-	-	-	1,100	-	100%
Loss on disposal of property, plant and equipment - net	6	-	100%	6	(4)	-250%
Loss on abandonment	-	(57)	-100%	-	(73)	-100%
Insurance recovery – property damage	-	1,256	-100%	-	2,699	-100%
Income tax expense	(1)	-	100%	(3)	-	100%
Deferred income tax recovery	-	-	-	105	-	100%
Net Income (loss)	(\$557)	\$1,154	-148%	(\$12,057)	(\$2,642)	366%

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 June 30, 2019.

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

WHITE OWL ENERGY SERVICES INC.

MANAGEMENT DISCUSSION OF FINANCIAL RESULTS – Q2 2020

For the three months ended June 30, 2020, EBITDA was negative \$230,000, down 140% from EBITDA of \$568,000 in Q2 2019. The decrease in EBITDA is mainly due to lower recovered oil revenues in the current quarter, which declined to \$320,000 from \$783,000 in Q2 2019 as the realized net oil price decreased 53% to \$31.49 per barrel. In addition, the Q2 2019 EBITDA includes business interruption insurance recovery of \$763,000 to compensate White Owl for the lost revenues relating to the January 17, 2019 Watford SWD facility fire.

Combined total revenue (North Dakota and Alberta) for the three months ended June 30, 2020 decreased 25% to \$2,607,000 from \$3,475,000 in Q2 2019 which does not include Q2 2019 Watford SWD facility business interruption insurance recoveries of \$763,000 which are recorded as a separate line item below operating income. The decrease in combined total revenues in Q2 2020 is mainly due to a 13% decrease in recovered oil volumes combined with a 59% decrease in the realized net oil price brought about by the previously discussed economic downturn. Combined operating costs decreased 18% for the three months ended June 30, 2020 to \$2,486,000 compared to \$3,040,000 in Q2 2019 mainly due to cost-cutting initiatives undertaken by White Owl in Q1 2020, and the inclusion of insurance deductibles in Q2 2019 relating to the Watford SWD facility fire.

For the six months ended June 30, 2020, EBITDA decreased 23% to \$734,000 from \$957,000 in the six months ended June 30, 2019 as North Dakota operating income (revenues less operating costs) decreased from \$2,409,000 to \$2,216,000 mainly due to lower recovered oil revenues brought about by the lower oil price. (Note that the operating income of \$2,409,000 for the six months ended June 30, 2019 comprises business interruption insurance recovery of \$1,325,000 relating to the Watford SWD facility plus operating income from the remaining facilities of \$1,084,000).

North Dakota

Volumes:

For the three months ended June 30, 2020, fluid disposal volumes (trucked, pipeline, flowback water and Class 1 water) increased 9% to 32,131 bpd from 29,529 bpd in Q2 2019. These volumes include 292 bpd in Q2 2020 and 92 bpd in Q2 2019 for the newly recommissioned 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 City 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 June 30, 2020, North Dakota oil sales volumes decreased 13% to 10,158 barrels from 11,722 barrels in Q2 2019, with the Ross and New Town SWD facilities accounting for 78% of total recovered oil sales volumes in Q2 2020 compared to 89% in Q2 2019. The Watford City SWD facility

WHITE OWL ENERGY SERVICES INC.

MANAGEMENT DISCUSSION OF FINANCIAL RESULTS – Q2 2020

contributed 12% of recovered oil volumes in Q2 2020 while in 2019 this facility was undergoing reconstruction.

For the six months ended June 30, 2020, fluid disposal volumes (trucked, pipeline, flowback water and Class 1 water) increased 35% to 40,053 bpd from 29,880 bpd in the 2019 comparable six-month period mainly due to the absence of Watford City SWD volumes in 2019 when this facility was undergoing reconstruction. The volumes for the six months ended June 30, 2020 and June 30, 2019 include 427 bpd and 89 bpd, respectively, for the Alexander Class 1 facility.

For the six months ended June 30, 2020, North Dakota oil sales volumes increased 36% to 26,809 barrels from 19,740 barrels in Q2 2019. The increase is mostly due to strong recovered oil volumes in the first three months of 2020 (16,361 barrels in Q1 2020 versus 8,019 barrels in Q1 2019).

Revenue and Pricing:

For the three months ended June 30, 2020, North Dakota total revenue decreased 16% to \$2,600,000 from \$3,091,000 in Q2 2019, as revenues from the Ross SWD facility remained relatively flat while revenues from the New Town and Epping SWD facilities decreased due to the economic slow-down. Total revenues for the Alexander Class 1 facility increased 181% to \$152,000 in Q2 2020 from \$54,000 in Q2 2019 when the business was in start-up mode. In Q2 2020, the Watford City SWD facility recorded revenues of \$371,000 compared to nil in Q2 2019. Watford City SWD operations were shut down on January 17, 2019 due to the previously mentioned fire and for which White Owl was fully insured. At the Tioga SWD facility, total revenues net to White Owl increased 30% to \$473,000 from \$363,000 in Q2 2019 as a result of White Owl acquiring an additional 15% working interest effective January 1, 2020. At the 100% working interest level, the total revenues for this facility decreased 11% due to the economic slowdown.

As the realized net oil price declined to average US \$12.42 per barrel in May, 2020, White Owl stored recovered oil with the intention of selling it at a higher price at a later date. This strategy allowed White Owl to maximize its revenues in the quarter and resulted in June 2020's recovered oil volume sales totaling 5,844 barrels (including the volumes stored in May) which were sold at an average realized net oil price of US \$32.89 per barrel. Overall, recovered oil revenues for North Dakota decreased 59% to \$320,000 in Q2 2020 from \$783,000 in Q2 2019 as a 13% decrease in volumes combined with a 53% decline in the realized net oil price to \$31.49 per barrel in Q2 2020 from \$66.80 per barrel in the prior year comparable quarter.

The economic slowdown has resulted in pricing pressure for trucked-in water at most of the Corporation's SWD facilities in Q2 2020 versus Q2 2019. Pre COVID-19, the range of pricing for trucked-in water was US \$0.50 to US \$0.60 per barrel, but now is in the range of US \$0.40 to US \$0.50 per barrel. Specifically, price decreases have been implemented at Watford City SWD (down 24%), New Town SWD (down 11%) and Tioga SWD (down 13%). Trucked-in water disposal prices remained flat at the Ross and Epping SWD facilities.

WHITE OWL ENERGY SERVICES INC.

MANAGEMENT DISCUSSION OF FINANCIAL RESULTS – Q2 2020

Similarly, at the Watford City, New Town and Tioga SWD facilities, flowback pricing decreased 7%, 27% and 21%, respectively, in Q2 2020 compared to Q2 2019. At the Ross SWD, flowback pricing increased 26% due to price increases implemented in July 2019. Epping SWD flowback volumes are minimal as the disposal capacity is filled with production water.

Revenues from fluid disposal services in Q2 2020 were \$2,182,000 compared to \$2,164,000 in Q2 2019. Note that the Watford City SWD facility generated no revenue in Q2 2019 due to its total destruction by fire. As noted above, the facility was fully insured.

Other revenue decreased to \$98,000 for the three months ended June 30, 2020 compared to \$144,000 in Q2 2019 mainly due to administrative fees received related to the construction of the Epping SWD facility recorded in the prior year quarter.

For the six months ended June 30, 2020, total revenue increased 22% to \$7,133,000 from \$5,870,000 in the 2019 comparable six-month period, mainly due to the absence of Watford City SWD revenues in 2019 as a result of the previously mentioned fire. Revenues from North Dakota fluid disposal services increased 34% to \$5,825,000 for the six months ended June 30, 2020 from \$4,337,000, more than offsetting the 13% decrease in recovered oil revenues to \$1,109,000 from \$1,268,000 over the same periods. Other revenue decreased to \$199,000 for the six months ended June 30, 2020 compared to \$265,000 in the 2019 comparable six-month period mainly due to administrative fees received related to the construction of the Epping SWD facility as mentioned above.

Please see “Revenue and operating income (loss) by facility” on page 13 of this Management Discussion of Financial Results for details of volumes and operating income by facility.

Operating Costs:

For the three and six months ended June 30, 2020, North Dakota operating costs decreased 12% to \$2,223,000 and increased 3% to \$4,917,000, respectively, from \$2,530,000 and \$4,786,000 in the 2019 comparable periods, respectively. Although disposal volumes increased 35% for the six months ended June 30, 2020, compared to the same period in 2019 (due mainly to the absence of Watford City SWD facility volumes, revenues and operating costs in 2019, as previously discussed), North Dakota operating costs increased only 3% mainly due to cost-cutting measures implemented in 2020 in response to the economic downturn.

Operating Income:

For the six months ended June 30, 2020, operating income (including business interruption insurance recovery of \$1,325,000 for 2019) decreased 8% to \$2,216,000 from \$2,409,000. For the three months ended June 30, 2020, North Dakota operating income was impacted by the slowdown in oilfield drilling and completion activity. Combined with production curtailments by producers, this resulted in Q2 2020 operating income

WHITE OWL ENERGY SERVICES INC.

MANAGEMENT DISCUSSION OF FINANCIAL RESULTS – Q2 2020

decreasing 72% to \$377,000 from \$1,324,000 in Q2 2019. The Q2 2019 operating income comprises business interruption insurance recovery of \$763,000 plus operating income from the remaining facilities of \$561,000).

Alberta

White Owl is presently working with an interested party to recommission the Clairmont processing and disposal facility. The potential joint venture partner has indicated that the Clairmont facility is centrally located to their sphere of operations in the Grande Prairie area. The party is proposing to invest capital to fund recommissioning costs, the start-up of a butane blending business and to expand the third-party water disposal business.

The associated oil and gas wells were permanently shut-in during February 2019 following a pipeline leak which has now been repaired and the contaminated soil fully remediated. In December 2019, White Owl shut-in the Clairmont disposal well due to over-pressuring of the formation and in April 2020 the plant itself was shut-in until commodity prices recover to more sustainable levels (please see “ECONOMIC ENVIRONMENT” on Page 4). As a result, for the three and six months ended June 30, 2020, Clairmont incurred operating losses of \$256,000 and \$564,000, respectively compared to operating losses of \$126,000 and \$263,000 in the 2019 comparable periods, respectively.

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WHITE OWL ENERGY SERVICES INC.

MANAGEMENT DISCUSSION OF FINANCIAL RESULTS – Q2 2020

Revenue and operating income (loss) by facility

(\$000's)	Three months ended June 30,			Six months ended June 30,		
	2020	2019		2020	2019	
Oilfield waste disposal and oil sales						
New Town	703	1,667	-58%	2,084	3,115	-33%
Watford City ⁽¹⁾	371	-	100%	1,384	175	691%
Ross	654	643	2%	1,655	1,058	56%
Alexander	152	54	181%	461	75	515%
Tioga JV	473	363	30%	1,012	747	35%
Epping	149	220	-32%	338	435	-22%
Clairmont	6	383	-98%	121	909	-87%
	2,508	3,330	-25%	7,055	6,514	8%
Oil and gas revenue	1	1	-	1	99	-99%
Other income	98	144	-32%	199	265	-25%
Total revenue	2,607	3,475	-25%	7,255	6,878	5%
Operating income (loss)						
New Town	67	789	-92%	633	1,433	-56%
Watford City	30	(526)	106%	459	(549)	184%
Ross	188	268	-30%	617	150	311%
Alexander	(213)	(167)	28%	(194)	(381)	-49%
Tioga JV ⁽²⁾	183	159	15%	430	338	27%
Epping	24	(106)	123%	71	(172)	141%
Clairmont-Midstream	(212)	46	-561%	(424)	168	-352%
	67	463	-86%	1,592	987	61%
Oil and gas operating loss	(44)	(172)	-74%	(139)	(431)	-68%
Other revenue	98	144	-32%	199	265	-25%
Combined operating income	121	435	-72%	1,652	821	101%

¹⁾ For the three and six months ended June 30, 2019, the Company received business interruption recovery proceeds of \$763,000 and \$1,325,000, respectively, which amounts are included in EBITDA as a separate line item below operating income.

²⁾ Effective January 1, 2020, the Company acquired an additional 15% interest in the White Owl Tioga Joint Venture bringing its total working interest to 47% compared to 32% in the 2019 comparable periods.

New Town SWD Facility

Volumes:

For the three and six months ended June 30, 2020, the New Town SWD facility was impacted by the economic downturn with total fluids disposed (production water and flowback) decreasing 39% to 10,039 bpd and 13,145 bpd, respectively, from 16,416 bpd and 16,292 bpd, respectively, in the comparable 2019 periods. The significantly reduced drilling and completion activity by area producers resulted in flowback volumes decreasing 69% which led to Q2 2020 recovered oil volumes declining 70% to 2,166 barrels from 7,183 barrels in Q2 2019. Similarly, the reduced activity resulted in recovered oil volumes declining 53% to 5,729 barrels for the six months ended June 30, 2020, from 12,100 barrels in the prior year comparable period.

Revenues and Pricing:

For the three and six months ended June 30, 2020, total New Town SWD facility revenues decreased 58% and 33%, respectively, to \$703,000 and \$2,084,000, respectively, from \$1,667,000 and \$3,115,000, respectively,

WHITE OWL ENERGY SERVICES INC.

MANAGEMENT DISCUSSION OF FINANCIAL RESULTS – Q2 2020

in the comparable 2019 periods. The lower revenues were due to lower fluid disposal and recovered oil volumes combined with lower pricing (down 11% for trucked-in water, 27% for flowback and 59% for the realized net oil price in Q2 2020 versus Q2 2019). Similarly, for the six months ended June 30, 2020, trucked water, flowback and recovered oil prices declined 4%, 10% and 36%, respectively, compared to the comparable period last year.

Operating Costs:

Operating costs decreased 28% to \$636,000 in Q2 2020 from \$878,000 in Q2 2019, while for the six months ended June 30, 2020, operating costs decreased 14% to \$1,451,000 from \$1,682,000 in the comparable 2019 period. The lower volumes and cost-cutting measures implemented in Q2 2020 led to decreased operating costs for the periods under review. The percentage decrease in operating costs is less than the percentage decrease in volumes due to the fixed component of operating costs.

Operating Income:

For the three and six months ended June 30, 2020, the New Town SWD facility generated operating income of \$67,000 and \$633,000, respectively, a decrease of 92% and 56%, respectively, from \$789,000 and \$1,433,000, respectively, in the 2019 comparable periods, mainly due to the lower disposal volumes and significantly lower recovered oil volumes combined with decreased pricing.

Watford City SWD Facility

Volumes:

In Q2 2020, the Watford SWD facility has operated at approximately 40% of capacity with total fluids disposed of 5,895 bpd, while for the six months ended June 30, 2020, the facility operated at about 60% of capacity with total fluids disposed of 8,342 bpd. In 2019, following the fire, the facility was undergoing reconstruction during which the Corporation received compensation under its property and business interruption insurance program.

The lower capacity utilization in 2020 is mainly due to the two main customers shutting in oil production in response to the oil price collapse.

Revenues and Pricing:

For the three and six months ended June 30, 2020, Watford SWD facility revenues totaled \$371,000 and \$1,384,000, respectively. Due to pricing pressure, the disposal pricing for trucked production water was reduced in Q2 2020 to US \$0.40 per barrel from US \$0.60 per barrel and flowback disposal pricing was reduced to US \$1.25 per barrel from US \$1.60 per barrel, in order to remain competitive. In addition, revenues were impacted by lower realized net oil prices due to the economic downturn.

WHITE OWL ENERGY SERVICES INC.

MANAGEMENT DISCUSSION OF FINANCIAL RESULTS – Q2 2020

Operating Costs:

For the three and six months ended June 30, 2020, Watford SWD facility operating costs totaled \$341,000 and \$925,000, respectively. At this facility, the cost-cutting measures included a reduction in the required number of operators because of the reduced volume levels as well as wage rollbacks and the reduction of other operating costs.

Operating Income:

For the three and six months ended June 30, 2020, operating income totaled \$30,000 and \$459,000, respectively. For the three and six months ended June 30, 2019, the Watford SWD facility recorded operating income of \$237,000 and \$776,000, respectively, which amounts include business interruption insurance recovery amounts of \$763,000 and \$1,325,000, respectively.

Ross SWD Facility

Volumes:

For the three and six months ended June 30, 2020, total fluids disposed (production water and flowback) increased 16% to 7,205 bpd and 68% to 8,974 bpd, respectively, compared to 6,227 bpd and 5,335 bpd, respectively, in the comparable 2019 periods. Importantly, water disposal volumes increased 32% and 98%, respectively, in the three and six months ended June 30, 2020 compared to the 2019 comparable periods. Recovered oil volumes increased 81% and 169% in the three and six months ended June 30, 2020 compared to the 2019 comparable periods, even though the significantly reduced drilling and completion activity by area producers resulted in flowback volumes decreasing 81% in Q2 2020 and 87% in the six months ended June 30, 2020. For this facility, 2019 was a story of two halves with disposal volumes during the second half of the year more than doubling first half levels to average 14,000 bpd. The Ross SWD facility has a history of uneven water disposal volumes throughout the year because of its location at the fringe of the Bakken oil play.

Revenues and Pricing:

For the six months ended June 30, 2020, total revenues increased 56% to \$1,655,000 from \$1,058,000 in the comparable 2019 period, while for the three months ended June 30, 2020, total Ross SWD facility revenues remained relatively unchanged at \$654,000 compared to \$643,000 in Q2 2019. Although area oil and gas activity has declined, there has been little pricing pressure at this facility in the period under review. Pricing for production water remained flat in Q2 2020 compared to Q2 2019 resulting in a 32% and 99% increase in water disposal revenues for the three and six months ended June 30, 2020 compared to the 2019 comparable periods due to the higher water disposal volumes, as discussed above. Flowback pricing increased 26% and 27% in the three and six months ended June 30, 2020 compared to the 2019 comparable periods due to price increases implemented in July 2019. However, flowback revenues decreased 76% and 84%, respectively,

WHITE OWL ENERGY SERVICES INC.

MANAGEMENT DISCUSSION OF FINANCIAL RESULTS – Q2 2020

because of the significant decline in flowback volumes due to lower well completion activity. For the six months ended June 30, 2020, recovered oil revenues increased 68% compared to the 2019 comparable period as the 169% increase in recovered oil volumes was partially offset by a 38% decrease in the realised net oil price. In Q2 2020, recovered oil revenues decreased 15% compared to Q2 2019 as the higher volumes were more than offset by significantly lower oil prices.

Operating Costs:

For the three months ended June 30, 2020, operating costs increased 24% to \$466,000 from \$375,000 in Q2 2019 mainly due to higher disposal volumes. For the six months ended June 30, 2020, operating costs increased 14% to \$1,038,000 from \$908,000 in the prior year comparable period as the 68% increase in fluid disposal volumes was partially offset by cost-cutting measures implemented in the second quarter of 2020, while 2019 operating costs included \$193,000 for tank clean-out expenditures.

Operating Income:

For the six months ended June 30, 2020, operating income increased four-fold to \$617,000 from \$150,000 in the 2019 comparable period mainly due to revenues increasing 56% (volumes of water disposal up 68%), while operating costs increased by only 14% due to cost-cutting measures in the second quarter of 2020 and due to 2019 operating costs including the aforementioned tank clean-out costs. For the three months ended June 30, 2020, operating income for the Ross SWD facility decreased 30% to \$188,000 from \$268,000 in Q2 2019 mainly due to the economic downturn.

Tioga SWD JV

For the three and six months ended June 30, 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 Q2 2019 represent a 32% interest in the Tioga JV.

Volumes:

The Tioga SWD facility has been operating at about 90% of its capacity of 16,000 barrels per day in the three and six months ended June 30, 2020, compared to about 96% of capacity in the 2019 comparable periods. Total fluids disposed decreased 9% and 4%, respectively in the three and six months ended June 30, 2020 compared to the 2019 comparable periods. 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.

WHITE OWL ENERGY SERVICES INC.

MANAGEMENT DISCUSSION OF FINANCIAL RESULTS – Q2 2020

In Q2 2020, production water received by truck increased to 53% of total fluid volumes from 37% in Q2 2019 while production water received by pipeline decreased to 46% of total fluid volumes disposed in Q2 2020 compared to 62% in Q2 2019. Since the oil content in trucked-in production water is higher than in pipeline water, recovered oil volume sales increased 67% to 2,035 barrels in Q2 2020 compared to 1,215 barrels in Q2 2019.

For the six months ended June 30, 2020, production water received by truck increased marginally to 50% of total fluid volumes from 47% in the comparable 2019 period while production water received by pipeline decreased slightly to 50% of total fluid volumes disposed compared to 52% in the six months ended June 30, 2019. Recovered oil volumes increased 14% to 4,275 barrels in the six months ended June 30, 2020 from 3,743 barrels in the comparable 2019 period.

Revenues and Pricing:

For the three months ended June 30, 2020, Tioga SWD facility total revenues (net to White Owl) increased 30% to \$473,000 from \$363,000 in Q2 2019, mainly due to the additional 15% working interest acquired January 1, 2020, which accounted for \$151,000 of revenue in the current quarter. At the 100% working interest level the total revenues for this facility decreased 11% due to the economic slowdown. There was a 13% price decrease for trucked-in water disposal in Q2 2020 compared to Q2 2019, as a result of market conditions, while pricing for pipeline water remained flat as pipeline water pricing is contract based. In Q2 2020, recovered oil revenues increased 37% mainly due to the additional working interest acquired.

For the six months ended June 30, 2020, Tioga SWD facility total revenues increased 35% to \$1,012,000 from \$747,000 in the 2019 comparable period, due again to the additional 15% working interest acquired, which accounted for \$323,000 of revenue in the current six-month period. There was an 8% price decrease in the trucked-in water disposal price for the six months ended June 30, 2020 relative to the comparable 2019 period, while the realized net oil price decreased 29% over the same period due to market conditions.

Operating Costs:

For the three months ended June 30, 2020, the additional working interest acquired led to operating costs increasing to \$290,000 from \$204,000 in Q2 2019, while for the six months ended June 30, 2020 operating costs increased to \$582,000 from \$409,000 in the 2019 comparable period. Ignoring the pro-rata share of operating costs related to the additional working interest, operating costs decreased 3% in the three and six months ended June 30, 2020 compared to the 2019 comparable periods, approximately tracking the decrease in total fluids disposed in the periods under review.

WHITE OWL ENERGY SERVICES INC.

MANAGEMENT DISCUSSION OF FINANCIAL RESULTS – Q2 2020

Operating Income:

For the three months ended June 30, 2020, operating income increased 15% to \$183,000 from \$159,000 in Q2 2019 with the additional working interest acquired representing \$58,000. For the six months ended June 30, 2020, operating income increased 27% to \$430,000 from \$338,000 in the 2019 comparable period with the additional working interest acquired accounting for \$137,000.

Alexander Class 1 Facility

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 Q2 2020, volumes disposed totaled 26,574 compared to 8,387 barrels in Q2 2019 when a customer base was being established. For the six months ended June 30, 2020, volumes disposed totaled 77,784 barrels compared to 16,126 barrels in the prior year's comparable period. Operating results for the three and six months ended June 30, 2020 have been impacted by lower landfill disposal of drill cuttings due to reduced drilling and completion activity and drier weather, all of which resulted in lower leachate and other non-hazardous waste for disposal. To capture additional volumes, White Owl has initiated a marketing campaign and applied to the regulator for a well pressure increase, which will give White Owl the ability to inject more fluids. The regulator granted the well pressure increase on August 7, 2020.

Revenues and Pricing:

In Q2 2020, Alexander revenues increased 181% to \$152,000 compared to \$54,000 in Q2 2019, while pricing decreased 15% mainly due to customer mix. For the six months ended June 30, 2020, revenues increased six-fold to \$461,000 from \$75,000 in the comparable 2019 period as volumes disposed increased almost five-fold and pricing increased 25%. In the first quarter of 2019, White Owl offered discount pricing to establish a customer base.

Operating Costs:

Operating costs for the three months ended June 30, 2020 increased to \$365,000 compared to \$221,000 in Q2 2019 due to well workover costs totaling \$189,000 in the current quarter. As previously reported, a constriction in the well's tubing was identified in Q1 2020 which necessitated the workover. Operating costs for the six months ended June 30, 2020 increased to \$655,000 compared to \$456,000 in the 2019 comparable period due to the recording of well worker costs totaling \$281,000 in the current six-month period.

WHITE OWL ENERGY SERVICES INC.

MANAGEMENT DISCUSSION OF FINANCIAL RESULTS – Q2 2020

Operating Income:

In the three months ended June 30, 2020, White Owl recorded an operating loss of \$213,000 compared to an operating loss of \$167,000 in Q2 2019. The Q2 2020 loss was mainly due to well workover costs while the Q2 2019 loss reflects the start-up nature of the business. For the six months ended June 30, 2020, White Owl recorded an operating loss of \$194,000, an improvement from the operating loss of \$381,000 in the six months ended June 30, 2019.

Epping SWD Facility

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 7,300 bpd (gross) with total fluids disposed of 6,348 bpd (gross) in Q2 2020 compared to 5,563 bpd (gross) in Q2 2019. This is a pipeline-connected facility with pipeline water volumes accounting for 85% of total fluid volumes in Q2 2020 compared to 17% in Q2 2019. With the higher proportionate increase in pipeline volumes, which have a lower oil content than trucked or flowback water, recovered oil volumes decreased to 893 barrels (gross) in Q2 2020 from 2,912 barrels (gross) in Q2 2019.

For the six months ended June 30, 2020, total fluids disposed increased 6% to 6,948 bpd (gross) from 6,533 bpd in the 2019 comparable period, with pipeline water volumes accounting for 87% of total fluid volumes in the current six month period compared to 30% in the prior year period. Again, the proportionate increase in pipeline volumes led to recovered oil volumes decreasing 60% to 1,855 barrels in the current six-month period compared to 4,588 barrels in the prior year period.

Revenues and Pricing:

For the three months ended June 30, 2020, Epping revenues (net to White Owl) decreased 32% to \$149,000 from \$220,000 in Q2 2019 due to lower priced pipeline water volumes replacing trucked-in volumes, as discussed above. Recovered oil revenues decreased 83% due to a 69% decrease in oil volumes combined with a 46% drop in the realized net oil price.

WHITE OWL ENERGY SERVICES INC.

MANAGEMENT DISCUSSION OF FINANCIAL RESULTS – Q2 2020

For the six months ended June 30, 2020, Epping revenues (net to White Owl) decreased 22% to \$338,000 from \$435,000 in the 2019 comparable period, again, due to lower priced pipeline water volumes replacing trucked-in volumes, as discussed above. Recovered oil revenues for the six months ended June 30, 2020 decreased 73% due to a 60% decrease in oil volumes combined with a 34% drop in the realized netback oil price.

Operating Costs:

Operating costs for Q2 2020 decreased 62% to \$125,000 from \$326,000 in Q2 2019. The decrease is due to cost savings measures implemented in 2020 and well workover costs incurred during Q2 2019.

Operating costs for the six months ended June 30, 2020 decreased 56% to \$267,000 from \$607,000 in the 2019 comparable period, again, due to cost savings measures implemented in 2020 and well workover costs of \$131,000 incurred in the 2019 comparable six-month period.

Operating Income:

Operating income for White Owl's net interest in the Epping SWD facility totaled \$24,000 in Q2 2020 compared to an operating loss of \$106,000 in Q2 2019 which was due to the well workover. For the six months ended June 30, 2020, operating income for White Owl's net interest totaled \$71,000 compared to an operating loss of \$172,000 for the 2019 comparable six-month period. The 2019 operating loss was due to commissioning costs as well as the aforementioned well workover expenditures.

Canada - Clairmont Processing and Disposal Plant

As discussed above, White Owl is presently working with an interested party to recommission the Clairmont processing and disposal facility. The party has indicated that the location of the Clairmont processing and disposal facility is central to their operations in the Grande Prairie area. The proposal includes capital to fund recommissioning costs, the funding of a butane blending business and the expansion of the third-party water disposal business. Discussions are ongoing in Q3 2020.

In Q2 2020, total Clairmont operations (midstream plus oil and gas production) incurred an operating loss of \$256,000 compared to an operating loss of \$126,000 in Q2 2019. For the six months ended June 30, 2020, the operating loss totaled \$564,000 compared to an operating loss of \$263,000 in the 2019 comparable six-month period. The increased operating loss in the current six-month period is mainly due to costs incurred to shut down the facility in April 2020 and the shutting in of the third-party water disposal business in Q4 2019 which had previously been profitable.

For the six months ended June 30, 2020, the Clairmont processing and disposal facility ("Clairmont Midstream") generated revenue of \$121,000 compared to \$909,000 in the comparable 2019 period, as the facility was shut-in during April 2020 until area activity and commodity prices recover. As a result, in Q2 2020, Clairmont Midstream incurred an operating loss of \$212,000 compared to operating income \$46,000 in Q2

WHITE OWL ENERGY SERVICES INC.

MANAGEMENT DISCUSSION OF FINANCIAL RESULTS – Q2 2020

2019. The Q2 2020 operating loss includes \$113,000 of costs related to shutting down the facility in April 2020. For the six months ended June 30, 2019, Clairmont Midstream incurred an operating loss of \$424,000 compared to operating income of \$168,000 in the six months ended June 30, 2019 with the current six-month period including facility shutdown costs of \$116,000.

As previously reported, the associated oilfield was permanently shut-in in February 2019 but ongoing fixed costs including landowner lease payments and property taxes resulted in an oil and gas production operating loss of \$44,000 in Q2 2020 compared to an operating loss of \$172,000 in Q2 2019. For the six months ended June 30, 2020, Clairmont oil and gas production incurred an operating loss of \$139,000 compared to \$431,000 for the six months ended June 30, 2019.

Other Revenue

Other revenue includes operational, administration and capital fees charged by White Owl for services provided by White Owl to the Tioga and Epping LLCs and Joint Ventures. For the three months ended June 30, 2020, other revenue decreased to \$98,000 from \$144,000 in Q2 2019. For the six months ended June 30, 2020, other revenue decreased to \$199,000 from \$265,000 in the 2019 comparable period due to Epping SWD facility capital overhead fees earned in the prior year period when construction of this facility was completed.

G&A Expenses

	Three months ended June 30,		Six months ended June 30,	
(\$000's)	2020	2019	2020	2019
Salaries and management	143	267	\$407	\$545
Professional fees	118	230	285	393
Travel and related expenses	9	38	37	68
General office expenses	66	87	159	168
Third party consulting fees	18	12	36	24
Lease liability recoveries	(3)	(4)	(6)	(9)
	351	630	\$918	\$1,189

In Q2 2020, cost-cutting measures implemented resulted in G&A expenses decreasing 44% to 351,000, or 13% of total revenue, from \$630,000, or 18% of total revenue in Q2 2019 (or 15% of total revenue if business interruption insurance recovery is included in Q2 2019 total revenue). Salaries and management expenses decreased 46% due to staff reductions and salary rollbacks. For the three and six months ended June 30, 2020, \$93,419 was credited to salaries and management expenses in respect of amounts received under the Canadian Emergency Wage Subsidy program. Professional fees for the three months ended June 30, 2020 decreased 49% compared to Q2 2019 due mainly to lower financial advisory and legal costs.

WHITE OWL ENERGY SERVICES INC.

MANAGEMENT DISCUSSION OF FINANCIAL RESULTS – Q2 2020

For the six months ended June 30, 2020, G&A expenses decreased 23% to \$918,000 from \$1,189,000 in the comparable 2019 six-month period as the previously mentioned cost-cutting measures took effect in the second quarter.

Depreciation and Depletion

Depreciation and depletion for the three months ended June 30, 2020 remained unchanged at \$433,000 compared to \$427,000 in Q2 2019, while for the six months ended June 30, 2020, depreciation and depletion increased 5% to \$926,000 from \$881,000 in the same six-month period in 2019. The increase in 2020 is primarily due to increased depreciation for the Watford SWD facility which returned to full operation in Q4 2019 and which was undergoing reconstruction for most of 2019.

Impairment

At June 30, 2020, White Owl evaluated its property, plant and equipment for indicators or any potential impairment or related reversal. As a result of this assessment, no indicators were identified and no impairment or related reversal was recorded on White Owl's property, plant and equipment assets for the three months ended June 30, 2020.

At March 31, 2020, White Owl evaluated its property, plant and equipment for indicators of any potential impairment or related reversal. As a result of lower than forecasted results at the Clairmont cash generating unit ("CGU") due to the shutting down of this facility in 2020, and due to lower than forecasted results at the Watford City CGU and New Town CGU, all due to the current challenging economic climate brought about by factors including the COVID-19 health pandemic and associated commodity price volatility, the Company completed an impairment test on the assets. The recoverable amounts of these assets were assessed at \$27,987,000. As a result of the impairment test performed, the Company recognized an impairment expense of \$12,359,945. This expense comprised \$3,318,703 against property, plant and equipment and \$9,041,242 against goodwill. The impairment expense of \$3,318,703 against property plant and equipment relates to the Clairmont facility (\$3,048,990) with the balance of \$269,713 relating to the impairment of equipment stored at Saddle Hills, Alberta. The impairment expense of \$9,041,242 against goodwill relates to the Watford SWD facility (\$2,549,289) and the New Town SWD facility (\$6,491,953).

At December 31, 2019, White Owl evaluated its property, plant and equipment for indicators or any potential impairment or related reversal. In the year ended December 31, 2019, as a result of lower than forecasted results attributable to the shutting-in of the water disposal wells and the oilfield during the year, the Company completed an impairment test on the assets acquired as part of the Clairmont facility acquisition in 2017. As a result of the impairment test performed, the Company recognized an impairment expense of \$2,403,000 against the midstream property, plant and equipment, which was recorded in Q4 2019. Should economic conditions

WHITE OWL ENERGY SERVICES INC.

MANAGEMENT DISCUSSION OF FINANCIAL RESULTS – Q2 2020

improve, the Company may be able to reinstate amounts previously written off against property, plant and equipment, but goodwill cannot be reinstated.

Insurance Proceeds

In the prior quarter, Q1 2020, the Company received a final payment of \$1,748,428 (US\$1,322,964) in insurance proceeds for recovery of property damage and business interruption related to the Watford City SWD facility which was destroyed by fire in January 2019 and returned to full operation in October 2019. This amount was included in accounts receivable as at December 31, 2019. Through its insurance program, White Owl has been able to fully recover reconstruction costs and lost income related to the Watford City SWD fire. Insurance recovery for property damage totaled \$4,823,000 and the insurance recovery for business interruption totaled \$2,274,000.

Finance costs

	Three months ended June 30,		Six months ended June 30,	
(\$000's)	2020	2019	2020	2019
Interest on term loan	\$146	\$237	\$325	\$570
Interest on promissory notes and mortgage payable	8	8	16	16
Interest on lease liabilities	6	5	10	10
Loan commitment fee	-	-	-	-
Accretion of promissory notes	-	-	-	-
Accretion of decommissioning obligations	14	31	38	64
Interest (income) expenses bank charges and other	2	4	10	14
	\$176	\$285	\$399	\$674

The decrease in interest on term loan in Q2 2020 compared to Q2 2019 is mainly due to lower interest rates and principal outstanding. In Q2 2020, the Company's average term loan interest rate was 5.50% compared to an average of 7.75% in Q2 2019 and compared to 6.7% for the 2019 year. For the six months ended June 30, 2020, the Company's average term loan interest rate was 6.08% compared to an average of 7.75% in the 2019 comparable six-month period. In addition, the interest component of the monthly blended principal and interest payment to the lender decreases over time while the principal portion increases. On April 30, 2020, the Company's senior lender accepted interest-only payments, which may continue for an undefined period, subject to the agreement of the senior lender.

Foreign Exchange Losses, Gains

For the three months ended June 30, 2020, the Company recorded foreign exchange gains of \$294,000, compared to foreign exchange gains of \$115,000 in Q2 2019. For the six months ended June 30, 2020, the Company recorded foreign exchange losses of \$278,000 compared to foreign exchange gains of \$111,000 in the prior year comparable six-month period. The gains and losses reflect the impact of changes in exchange rates on US dollar cash balances and short-term intercompany loans. The average exchange rate for the three

WHITE OWL ENERGY SERVICES INC.

MANAGEMENT DISCUSSION OF FINANCIAL RESULTS – Q2 2020

months ended June 30, 2020 was 1.39 compared to 1.34 for Q2 2019. For the six months ended June 30, 2020, the average exchange rate was 1.36 compared to 1.33 for the prior year comparable six-month period.

Share-based payments

During Q2 2020 the Company recorded share-based payments of \$1,000 compared to \$16,000 in Q2 2019, while for the six months ended June 30, 2020, the Company recorded share-based payments of \$3,000 compared to \$32,000 in the prior year comparable six-month period. Share-based payments relate to the amortization of costs of stock options issued to management, employees and directors of the Company.

SUMMARY OF QUARTERLY RESULTS

(\$000's)	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018
Revenue	\$2,607	\$4,648	\$5,289	\$4,776	\$3,475	\$3,403	\$3,925	\$4,516
EBITDA ⁽¹⁾	(230)	964	1,729	2,048	568	389	526	1,485
Net Income (loss)	(557)	(11,500)	(531)	2,531	1,154	(3,796)	(660)	82

⁽¹⁾ Refer to “Non-GAAP Measures” for additional information.

The negative EBITDA and net loss in Q2 2020 is mainly due to the lower disposal and recovered oil volumes, decreased disposal prices and net realized oil pricing as a result of market conditions as discussed under “ECONOMIC ENVIRONMENT” on Page 4 above. The net loss in Q1 2020 is mainly due to the recording of impairment charges totaling \$12,360,000 relating to the Clairmont, Watford City SWD and New Town SWD facilities as discussed under “Impairment” above. The Q4 2019 EBITDA and Q3 2019 EBITDA are due to strong operating results recorded in each quarter. The Q4 2019 net loss is mainly due to the recording of an impairment charge of \$2,403,000 relating to the Clairmont facility. The Q3 2019 net income is due to the record operating results achieved in the quarter as well as the recording of \$588,000 in business interruption and property damage insurance proceeds. The Q2 2019 net income is mainly due to the recognition of \$2,018,500 in insurance proceeds for property damage and business interruption. The net loss in Q1 2019 is mainly impacted by the recognition of \$4,745,348 of impairment expense related to the Watford City SWD facility fire which was partially offset by the \$2,005,000 (US\$1,500,000) of insurance proceeds for property damage and business interruption. The net loss in Q4 2018 reflects operating losses at the Epping and Alexander facilities due to start-up expenses and an operating loss incurred by Clairmont oil and gas operations.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity risk is the risk that the Company will not be able to meet financial obligations as they become due. The Company manages its liquidity risk through cash and debt management combined with equity financing when available. Management’s assessment of the Company’s liquidity reflects estimates, assumptions and judgments relating to current market conditions. The Company funds its operations, acquisitions and capital program through a combination of cash provided by operations, equity, bank debt and promissory notes. The Company’s objective in the management of its capital resources is to secure adequate sources of capital to fund

WHITE OWL ENERGY SERVICES INC.

MANAGEMENT DISCUSSION OF FINANCIAL RESULTS – Q2 2020

capital investments, while ensuring that sufficient operating cash flow is available to sustain and grow the operating business.

At June 30, 2020, the Company had negative working capital of \$8,107,000 (December 31, 2019 - \$8,475,000), an accumulated deficit of \$28,600,000 (December 31, 2019 - \$16,543,000) and net loss for the six months ended June 30, 2020 of \$12,057,000 (2019 - \$2,642,000 net loss). However, the current challenging economic climate brought about by factors including COVID-19 and commodity price volatility may lead to adverse changes in cash flows, working capital levels and/or debt balances, which may also have an effect on the Company's consolidated operating results and consolidated financial position (please see "ECONOMIC ENVIRONMENT" on Page 4). These factors indicate the existence of material uncertainties which may cast significant doubt about the Company's ability to continue as a going concern. On April 30, 2020, the Company's senior lender accepted interest only payments, which may continue for an undefined period, subject to the agreement of the senior lender. The Company is in compliance with all terms of the amended and restated credit agreement as at June 30, 2020. 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 achieving future profitable operations. There is no certainty that the Company will achieve profitable operations in the future due to factors such as commodity prices, industry activity levels in the regions in which the Company operates, competition, successfully raising capital for acquisition and development opportunities and successful implementation of management's plans.

The condensed consolidated financial statements do not include any adjustments to the amounts and classifications of assets and liabilities, and reported revenues and expenses, that might be necessary should the Company be unable to continue as a going concern, and therefore, be required to realize its assets and discharge its liabilities other than in the normal course of business and at carrying amounts different from those reflected in the accompanying consolidated financial statements. Any such adjustments could be material.

Investing Activities

Capital Expenditures and Acquisition of Joint Venture Interest

	Three months ended June 30,		Six months ended June 30,	
(\$000's)	2020	2019	2020	2019
Capital expenditures	116	1,630	278	1,954
Acquisition of 15% joint interest in Tioga Joint Venture	-	-	1,000	-
	116	1,630	1,278	1,954

Capital expenditures during the three and six months ended June 30, 2020 include amounts for tank heaters, static dissipators and truck-offload improvements in respect of the Corporation's North Dakota facilities.

WHITE OWL ENERGY SERVICES INC.

MANAGEMENT DISCUSSION OF FINANCIAL RESULTS – Q2 2020

Acquisition of 15% Interest in Tioga Joint Venture

In 2016, White Owl Tioga LLC, a 40% owner of the Tioga SWD facility, issued debentures (“Debentures”) that contained an optional redemption provision, whereby after September 30, 2019, the Company had the option to redeem the total amount of the Debentures (the “Redemption”) at par and in exchange would earn an additional 15% interest in the Tioga SWD. Effective January 1, 2020, the Company completed the Redemption and earned an additional 15% interest in the Tioga SWD for proceeds of US\$782,500, with funding provided from a portion of the proceeds of the private placement completed in November 2019. As a result, the Company’s interest in Tioga SWD has increased to 47% after completion of the Redemption, while White Owl Tioga LLC’s interest has decreased to 25%.

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

Financing Activities

Share Capital

Shares issued and outstanding (000’s)	Common shares	Amount (\$000)	Preferred shares	Amount (\$000)	Total	Amount (\$000)
Balance, December 31, 2017	41,504	18,340	26,469	12,353	67,973	30,693
Shares issued	6,735	1,247	-	-	6,735	1,247
Cancellation of shares	(256)	(128)	-	-	(256)	(128)
Share issue costs	-	(67)	-	-	-	(67)
Balance December 31, 2018	47,983	19,392	26,469	12,353	74,452	31,745
Shares issued	17,650	1,765	-	-	17,650	1,765
Share issue costs	-	(39)	-	-	-	(39)
Balance December 31, 2019 and June 30, 2020	65,633	21,118	26,469	12,353	92,102	33,471

As at June 30, 2020, there were 4,000,000 (December 31, 2019 – 4,000,000) common shares held in escrow.

In November 2019, the Company issued 17,650,000 common shares at \$0.10 per common share for total proceeds of \$1,765,000 before share issue costs of \$38,789.

Share Options

There were 1,689,000 share options outstanding as of June 30, 2020 (December 31, 2019 – 1,689,000), with a weighted average exercise price of \$0.32 per share. During the year ended December 31, 2019, 2,025,000 options expired, and 455,000 options were cancelled.

Term Loan

Effective December 19, 2019, the Company signed an amended and restated credit agreement (“Commitment Letter”) with Alberta Treasury Branches (“ATB”) which amends and restates in its entirety the previous credit agreement between the Company and ATB. Under the terms of the Commitment Letter, the Company will

WHITE OWL ENERGY SERVICES INC.

MANAGEMENT DISCUSSION OF FINANCIAL RESULTS – Q2 2020

have a non-revolving reducing loan facility (the “Term Loan”) in the amount of US\$9,106,681 and a revolving, operating demand loan facility (the “Operating Loan”) in the amount of US\$1,000,000, secured by a security interest over all present and future property and a floating charge on all lands. The Term Loan matures January 1, 2025, is payable on demand and bears interest at an annual rate of US prime plus 1.75%. Until demand, the Term Loan is repayable in blended equal monthly payments of principal and interest of US\$186,650 over an amortization period ending December 31, 2024. The Operating Loan is a revolving demand facility in the maximum amount of US\$1,000,000 bearing interest at the US prime rate plus 1.75%. During the six months ended June 30, 2020, the Company made principal payments on the Term Loan of \$581,262 (US\$426,622) (2019 - \$2,478,707 (US\$1,877,662)). The facilities are subject to review by the lender with the next annual review date set for September 30, 2020. On April 30, 2020, the Company’s senior lender accepted interest-only payments, which may continue for an undefined period, subject to the agreement of the senior lender.

Execution of the amended and restated credit agreement has resolved certain default conditions existing under the previous credit agreement with ATB.

The Operating Loan is a US\$1,000,000 facility and is reduced by outstanding letters of credit of \$53,862 (December 31, 2019 - \$53,862) and credit card balances of \$1,886 (December 31, 2019 - \$10,426). The Company had drawn \$nil on the Operating Loan at June 30, 2020 (December 31, 2019 – \$681,870 (US\$525,000)).

Under the loan agreement for the Term Loan and Operating Loan, the Company is required to maintain the following minimum debt service coverage and working capital ratios:

Period	Working capital ratio	Debt service ratio
December 31, 2019 to December 31, 2020	1.30:1.00	1.25:1.00
January 1, 2021 to June 30, 2021	1.40:1.00	1.25:1.00
July 1, 2021 and thereafter	1.50:1.00	1.25:1.00

The debt service coverage ratio is calculated as follows:

$$\text{Debt service coverage ratio} = \frac{\text{Earnings before interest, depreciation, taxes and amortization}}{\text{Debt service obligations}}$$

The debt service coverage ratio at June 30, 2020 was 1.86 to 1.00 (December 31, 2019 – 1.73 to 1.00). The ratio is calculated based on the trailing four quarters at June 30, 2020.

The working capital ratio is calculated as follows:

$$\text{Working capital ratio} = \frac{\text{Current assets}}{\text{Current liabilities excluding term loan and vendor note}}$$

The working capital ratio at March 31, 2020 was 1.69 to 1.00 (December 31, 2019 – 1.75 to 1.00).

WHITE OWL ENERGY SERVICES INC.

MANAGEMENT DISCUSSION OF FINANCIAL RESULTS – Q2 2020

Promissory Note Settlement

On January 17, 2020, White Owl Ltd. entered into a release agreement with the vendor for a final repayment of \$300,000 to fully repay the remaining \$1,400,000 outstanding on the Vendor Note. As a result, a gain on settlement of promissory note of \$1,100,000 was recorded in the Condensed Consolidated Interim Financial Statements for the three and six months ended June 30, 2020.

OUTLOOK

As a result of the significant decline in crude oil prices, White Owl has taken proactive steps to preserve shareholder value. As discussed above, the Company has reduced its 2020 capital budget and lowered its cost structure through workflow improvements, vendor service cost reductions, project deferrals and reduced cash compensation for its executives and employees.

These aggressive actions are aimed at preserving liquidity while maintaining our options for a return to a more normalized pricing environment. We are continuously reviewing our operating plans and will make additional adjustments as the impact of the unprecedented market dislocation continues to unfold. We effectively executed our strategy in Q1, building off the positive momentum for Q3 and Q4 2019 but then we were faced with the impact of the global health pandemic on commodity prices. Also during the quarter, with the assistance of government grants, we improved our liquidity position by increasing our cash balance (net of amounts drawn on the lender operating line) to \$2.5 million as at June 30, 2020 from \$1.8 million as at December 31, 2019.

The government grants have helped with liquidity, but during Q2 2020, business conditions in the Bakken changed considerably with the operating rig count dropping from 60 to 12 with most smaller producing companies putting all capital spending on hold. The larger well funded companies which make up over 80% of White Owl's business are taking a different approach, which seems to be business as usual. Early in Q3 2020 and as a result of improved commodity prices, several of these larger companies have begun to complete wells, with fracing crews again becoming active.

Despite these "green shoots", this unprecedented operating environment is being aggravated by political uncertainty in the US. We do not therefore see a return to pre-COVID market conditions any time soon, although we do anticipate a slightly better operating environment for the balance of the year.

Based on the foregoing, we will remain focused on execution in the field. We will concentrate on maximizing cash flow, stringently managing costs, and collaborating with our customers and truckers to utilize technology, maximize business volumes and deliver more predictable results. Any capital spending will be based on a strong business case and availability of funds. The exception is the proposed Clairmont recommissioning and expansion project which is expected to be funded by a joint venture partner.

WHITE OWL ENERGY SERVICES INC.

MANAGEMENT DISCUSSION OF FINANCIAL RESULTS – Q2 2020

NON-GAAP MEASURES

The MDFR makes reference to terms commonly used in the industry including operating income, EBITDA and cash provided by operations. Such terms do not have a standard meaning as prescribed by IFRS and therefore may not be comparable with the determination of similar measures of other entities. These measures are identified as non-GAAP measures and are used by Management to analyze operating performance and leverage. The Company's method of determining non-GAAP measures is disclosed where the measure is first used within the MDFR. Operating income, EBITDA and cash provided by operations should not be considered as an alternative to, or more meaningful than, net income (loss) or cash flow from operating activities as determined in accordance with IFRS.

FORWARD-LOOKING INFORMATION

This discussion contains forward-looking information, which is disclosure regarding possible events, conditions or financial performance that is based on assumptions about future courses of action and economic conditions. Such forward-looking information may be identified by words such as "anticipate", "will", "intend", "could", "should", "may", "might", "expect", "forecast", "plan", "potential", "project", "assume", "contemplate", "believe", "budget", "shall", "continue", "milestone", "target", "vision", and similar terms or the negative thereof or other comparable terminology.

The forward-looking information in this discussion is subject to significant risks and uncertainties and is based on a number of material factors and assumptions which may prove to be incorrect, including, but not limited to, the following: corporate strategy; general market conditions; the oil and natural gas industry; activity levels in the oil and gas sector, including market fundamentals, drilling levels, commodity prices for oil and natural gas; demand for the Company's services; operational performance; expansion strategy; debt service; capital expenditures; completion of facilities; the impact of new facilities on the Company's financial and operational performance; future capital needs; and access to capital through equity market and debt markets.

The forward-looking information relies on material assumptions and known and unknown risks and uncertainties, certainty of which are beyond the Company's control. Such risks and uncertainties include, without limitation, the impact of general economic conditions in the United States, Canada and globally; industry conditions; the Company's ability to increase its market share; volatility of commodity prices; delays resulting from an inability to obtain regulatory approvals; an inability to access sufficient capital from internal and external sources; changes in laws and regulations and changes in how they are interpreted and enforced; environmental risks; increased competition; and the lack of qualified personnel or management. Readers are cautioned that the foregoing list of factors and risks are not exhaustive. The Company's actual results, performance or achievements could differ materially from those expressed in, or implied by, the forward-looking information and, accordingly, no assurances can be given that any of the events anticipated by the

WHITE OWL ENERGY SERVICES INC.
MANAGEMENT DISCUSSION OF FINANCIAL RESULTS – Q2 2020

Forward-Looking Statements will transpire or occur. Although the Company has attempted to identify important risks and factors that could cause actual actions, events or results to differ materially from those described, there may be other factors and risks that cause actions, events or results not anticipated, estimated or intended. Accordingly, readers should not place any undue reliance on the forward-looking information, as such information may not be appropriate for other purposes.

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