



August 26, 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 and six months ended June 30, 2020, along with this Report To Our Shareholders.

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 the COVID-19 health pandemic, as the Company's consolidated EBITDA decreased to negative \$230,000 from positive \$568,000 in Q2 2019 (please see "ECONOMIC ENVIRONMENT" on page 2).
- 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 comparable 2019 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 4).
- 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.
- 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 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;
- 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 environmental 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 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 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.

(\$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.



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 North Dakota 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 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 facility 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. 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 "OPERATING LOCATIONS" on page 10 of this REPORT TO OUR SHAREHOLDERS 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 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 2). 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.

OPERATING LOCATIONS (dollar amounts in USD except Clairmont):

New Town

New Town Facility (amounts in USD except volumes)						
	<u>Q2 2020</u>	<u>Q2 2019</u>	<u>Change</u>	<u>YTD 2020</u>	<u>YTD 2019</u>	<u>Change</u>
Production Water - Trucked b/d	9,800	15,637	-37%	12,424	15,453	-20%
Flowback b/d	240	778	-69%	721	839	-14%
Total Fluids Disposed b/d	10,039	16,416	-39%	13,145	16,292	-19%
Oil Sales b/qtr, yr	2,166	7,183	-70%	5,729	12,100	-53%
Revenue:						
Production Water - Trucked	\$439,025	\$786,857	-44%	\$1,200,243	\$1,547,954	-22%
Price for Production Water/bbl	0.49	0.55	-11%	0.53	0.55	-4%
Flowback	21,788	96,782	-77%	159,714	204,412	-22%
Price for Flowback/bbl	1.00	1.37	-27%	1.22	1.35	-10%
Recovered Oil	45,236	361,711	-87%	175,995	582,348	-70%
Price for Oil/bbl	20.88	50.36	-59%	30.72	48.13	-36%
Total Revenue	506,049	1,245,350	-59%	1,535,952	2,334,714	-34%
Total Revenue/bbl.	\$0.55	\$0.83	-34%	\$0.64	\$0.79	-19%
Operating Expenses	458,112	656,264	-30%	1,064,034	1,261,406	-16%
Operating Income	\$47,938	\$589,086	-92%	\$471,919	\$1,073,308	-56%



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 59% and 34%, respectively, to \$506,049 and \$1,535,952, respectively, from \$1,245,350 and \$2,334,714, respectively, 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 30% to \$458,112 in Q2 2020 from \$656,264 in Q2 2019, while for the six months ended June 30, 2020, operating costs decreased 16% to \$1,064,034 from \$1,261,406 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 \$47,938 and \$471,919, respectively, a decrease of 92% and 56%, respectively, from \$589,086 and \$1,073,308, 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

Watford Facility (amounts in USD except volumes)

	<u>Q2 2020</u>	<u>Q2 2019</u>	<u>YTD 2020</u>	<u>YTD 2019</u>
Production Water - Trucked b/d	5,073	0	7,154	1,025
Production Water - Piped b/d	795	0	1,052	117
Flowback b/d	27	0	135	3
Total Fluids Disposed b/d	5,895	0	8,342	1,145
Oil Sales b/qtr	1,241	0	5,699	210
Revenue:				
Production Water - Trucked	\$209,201	\$0	\$713,464	\$111,312
Price for Prodn. Water-Trucked/bbl	0.45	0.00	0.55	0.60
Production Water - Piped	34,710	0	91,890	10,128
Price for Prodn. Water Piped/bbl	0.48	0.00	0.48	0.48
Flowback	3,434	0	39,564	856
Price for Flowback/bbl	1.41	0.00	1.61	1.41
Recovered Oil	21,082	0	177,329	8,078
Price for Oil/bbl	16.99	0.00	31.12	85.95
Insurance recovery-business interrupti	0	566,968	0	987,003
Other Income	0	0	0	1,230
Total Revenue	268,427	566,968	1,022,247	1,118,607
Total Revenue/bbl.	0.50	0.00		
Operating Expenses	245,825	0	679,134	129,568
Operating Income	\$22,602	\$566,968	\$343,113	\$989,039

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 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, the Watford SWD facility revenues totaled \$268,427 and \$1,022,247, respectively. Due to pricing pressure, the disposal pricing for trucked production water was reduced 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.



For the three and six months ended June 30, 2019, revenues in the above table include the business interruption insurance recovery amounts to compensate the Corporation for the lost income relating to the January 2019 fire.

Operating Costs:

For the three and six months ended June 30, 2020, the Watford City SWD facility operating costs totaled \$245,825 and \$679,134, 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 \$22,602 and \$343,113, respectively, down significantly from \$566,968 and \$989,039, respectively, for the 2019 comparable periods, due to the economic downturn which led to two major area producers curtailing production in Q2 2020.

Ross

Ross Facility (amounts in USD except volumes)						
	<u>Q2 2020</u>	<u>Q2 2019</u>	<u>Change</u>	<u>YTD 2020</u>	<u>YTD 2019</u>	<u>Change</u>
Production Water - Trucked b/d	7,032	5,335	32%	8,863	4,470	98%
Flowback b/d	173	893	-81%	111	865	-87%
Total Fluids Disposed b/d	7,205	6,227	16%	8,974	5,335	68%
Oil Sales b/qtr, yr	5,795	3,203	81%	12,769	4,741	169%
Revenue:						
Production Water - Trucked	\$319,956	\$242,714	32%	806,533	404,499	99%
Price for Production Water/bbl	0.50	0.50	0%	0.50	0.50	0%
Flowback	19,855	81,274	-76%	25,604	156,612	-84%
Price for Flowback/bbl	1.26	1.00	26%	1.27	1.00	27%
Recovered Oil	133,973	156,778	-15%	388,978	231,332	68%
Price for Oil/bbl	23.12	48.95	-53%	30.46	48.79	-38%
Total Revenue	473,784	480,766	-1%	1,221,115	792,443	54%
Total Revenue/bbl.	0.72	0.85	-15%	\$0.75	\$0.82	-8%
Operating Expenses	336,284	280,301	20%	760,780	681,414	12%
Operating Income (Loss)	\$137,500	\$200,465	31%	\$460,335	\$111,029	-315%

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 54% to \$1,221,115 from \$792,443 in the 2019 comparable period, while for the three months ended June 30, 2020, total Ross SWD facility revenues remained relatively unchanged at \$473,784 compared to \$480,766 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% in the three and six months ended June 30, 2020, respectively, 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 20% to \$336,284 from \$280,301 in Q2 2019 mainly due to higher disposal volumes. For the six months ended June 30, 2020, operating costs increased 12% to \$760,780 from \$681,414 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 \$145,000 for tank clean-out expenditures.

Operating Income:

For the six months ended June 30, 2020, operating income increased four-fold to \$460,335 from \$111,029 in the 2019 comparable period. This increase was mainly due to revenues increasing 54% (volumes of water disposal up 68%) while operating costs increased by only 12% due to cost-cutting measures in the second quarter of 2020



and due to 2019 operating costs including tank clean out expenditures as mentioned above. For the three months ended June 30, 2020, operating income for Ross SWD Facility decreased 30% to \$137,500 from \$200,465 in Q2 2019 due to the economic downturn.

Tioga SWD JV

Tioga (Volumes 100%, dollar amounts at 47% 2020 (32% 2019) in USD)

		Q2 2020	Q2 2019	Change	YTD 2020	YTD 2019	Change
Production Water-Trucked	b/d	7,523	5,808	30%	7,368	7,219	2%
Production Water-Piped	b/d	6,569	9,692	-32%	7,298	7,947	-8%
Flowback	b/d	36	82	-56%	33	138	-76%
Total Fluids Disposed	b/d	14,126	15,583	-9%	14,699	15,304	-4%
Oil Sales	b/qtr	2,035	1,215	67%	4,275	3,743	14%
Revenue:							
Production Water - Trucked		\$167,309	\$101,467	65%	\$348,490	\$250,585	39%
Price for Prodn. Water-Trucked/bbl		0.52	0.60	-13%	0.55	0.60	-8%
Production Water - Piped		146,082	146,761	0%	324,623	241,101	35%
Price for Prodn. Water Piped/bbl		0.52	0.52	0%	0.52	0.52	-1%
Flowback		1,932	3,807	-49%	3,975	12,773	-69%
Price for Flowback/bbl		1.26	1.60	-21%	1.40	1.59	-12%
Recovered Oil		26,549	19,397	37%	66,153	55,482	19%
Price for Oil/bbl		27.76	49.89	-44%	32.92	46.32	-29%
			0		0	0	
Total Revenue		\$341,872	271,431	26%	743,242	559,941	33%
Total Revenue/bbl.		0.57	0.41	39%	0.59	0.43	37%
Operating Expenses		209,522	153,108	37%	427,148	306,743	39%
Operating Income		\$132,350	\$118,322	12%	\$316,094	\$253,199	25%

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.

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 total revenues (net to White Owl) increased 26% to \$341,872 from \$271,431 in Q2 2019, mainly due to the additional 15% working interest acquired January 1, 2020, which accounted for \$109,108 of revenue in the current quarter. At the 100% working interest level the total revenues for this facility decreased 14% 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 33% to \$743,242 from \$559,941 in the 2019 comparable period, due again to the additional 15% working interest acquired, which accounted for \$237,205 of revenue in the current six-month period. There was an 8% price decrease in the trucked-in 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 \$209,522 from \$153,108 in Q2 2019, while for the six months ended June 30, 2020 operating costs increased to \$427,148 from \$306,743 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.



Operating Income:

For the three months ended June 30, 2020, operating income increased 12% to \$132,350 from \$118,322 in Q2 2019 with the additional working interest acquired representing for \$42,240. For the six months ended June 30, 2020, operating income increased 25% to \$316,094 from \$253,199 in the 2019 comparable period with the additional working interest acquired accounting for \$100,880.

Alexander Class 1 Facility

Alexander Facility (Amounts in USD except volumes)							
		<u>Q2 2020</u>	<u>Q2 2019</u>	<u>Change</u>	<u>YTD 2020</u>	<u>YTD 2019</u>	<u>Change</u>
Production Water-Trucked	b/d	292	92	217%	427	89	382%
Total Fluids Disposed	b/d	292	92	217%	427	89	382%
Class 1 Water	b/qtr, yr	26,574	8,387	217%	77,784	16,126	382%
Revenue:							
Class 1 Water		\$109,135	\$40,595	169%	\$338,511	\$55,927	505%
Price for Class 1 Water		4.11	4.84	-15%	4.35	3.47	25%
Total Revenue		109,135	40,595	169%	338,511	55,927	505%
Total Revenue/bbl.		4.11	4.84	-15%	4.35	3.47	25%
Operating Expenses		261,272	165,608	58%	477,488	341,910	40%
Operating Income (Loss)		<u>\$ (152,137)</u>	<u>\$ (125,013)</u>	<u>-22%</u>	<u>\$ (138,977)</u>	<u>\$ (285,983)</u>	<u>51%</u>

White Owl's Class 1 water disposal business was established during 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 169% to \$109,135 compared to \$40,595 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 \$338,511 from \$55,927 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 \$261,272 compared to \$165,608 in Q2 2019 mainly due to well workover costs totaling \$139,000 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 \$477,488 compared to \$341,910 in the 2019 comparable period due to the recording of well workover costs totaling \$204,000 in the current six-month period.

Operating Income:

In the three months ended June 30, 2020, White Owl recorded an operating loss of \$152,137 compared to an operating loss of \$125,013 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 \$138,977, an improvement from the operating loss of \$285,983 in the six months ended June 30, 2019.

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Epping SWD JV

Epping (Volumes 100%, Dollar amounts at 32.5% Working Interest in USD)

		Q2 2020	Q2 2019	Change	YTD 2020	YTD 2019	Change
Production Water-Trucked	b/d	934	4,082	-77%	897	4,272	-79%
Production Water-Piped	b/d	5,415	933	480%	6,051	1,974	207%
Flowback	b/d	0	548	-100%	0	288	-100%
Total Fluids Disposed	b/d	6,348	5,563	14%	6,948	6,533	6%
Oil Sales	b/qtr, yr	893	2,912	-69%	1,855	4,588	-60%
Revenue:							
Production Water-Trucked		\$16,567	\$72,431	-77%	\$31,834	\$150,728	-79%
Price for Production Water/bbl		0.60	0.60	0%	0.60	0.60	1%
Production Water-Piped		83,281	17,941	364%	196,851	75,272	162%
Price for Production Water/bbl		0.52	0.65	-20%	0.55	0.64	-15%
Flowback		0	27,596	-100%	0	29,013	-100%
Price for Flowback/bbl		0.00	1.70	-100%	0.00	1.70	-100%
Recovered Oil		7,705	46,572	-83%	19,122	71,478	-73%
Price for Oil/bbl		26.55	49.21	-46%	31.72	47.94	-34%
Other Income		0	0	100%	650	0	
Total Revenue		107,554	164,540	-35%	248,457	326,491	-24%
Total Revenue/bbl.		0.57	1.01	-43%	0.60	0.84	-28%
Operating Expenses		90,395	244,058	-63%	195,448	392,818	-50%
Operating Income		\$ 17,160	(\$79,518)	-122%	\$ 53,009	(\$66,327)	-180%

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 35% to \$107,544 from \$164,540 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.

For the six months ended June 30, 2020, Epping revenues (net to White Owl) decreased 24% to \$248,457 from \$326,491 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 63% to \$90,395 from \$244,098 in Q2 2019. The decrease is due to cost savings measures, including staff reductions, implemented in 2020 and well workover costs incurred during Q2 2019. Operating costs for the six months ended June 30, 2020 decreased 50% to \$195,448 from \$392,818 in the 2019 comparable period, again, due to the cost savings measures implemented in 2020 and well workover costs of \$98,000 incurred in the 2019 comparable six-month period.

Operating Income:

Operating income for White Owl's net interest in the Epping SWD facility totaled \$17,160 in Q2 2020 compared to an operating loss of \$79,518 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 \$53,009 compared to an operating loss of \$66,327 for the 2019 comparable six-month period. The operating loss in 2019 was due to the previously mentioned well workover costs as well as due to commissioning costs



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 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 during 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 \$140,000 compared to \$431,000 for the six months ended June 30, 2019.

Since the beginning of March 2020, the unprecedented market conditions and resulting oil price weakness has caused a material decline in business volumes with reductions in 2020 capital programs, drilling and completion activity, and the shutting-in of existing production.

In terms of previously announced capital improvements planned for White Owl's operating locations, these projects are now on hold. Several of these projects would have dramatically increased plant capacity, however there is now little demand for this increased capacity and these developments will only proceed once market conditions improve and as resources become available. The one exception is Tioga, where we increased our



ownership from a 32% interest to a 47% interest in the Tioga SWD through the exercise of our right to purchase a 15% interest from the White Owl Tioga LLC for US \$782,500. This purchase was effective January 1, 2020 and was funded by the November 2019 private placement proceeds. During this recent downturn, the Tioga SWD facility has continued to operate at close to full capacity and the joint venture partners are actively considering an expansion of plant capacity.

At the Epping SWD facility, despite slowing activity in the area, our pipeline-connected customer continues to request more disposal capacity. White Owl and its partner, the White Owl Epping LLC are pursuing this project with caution. The partners have agreed that, considering market conditions, lowering the risk for the current owners is important and they are reviewing a proposal to bring in a third party industry partner to contribute up to fifty percent of the project cost. The partners' interest in the project would be reduced by this approach. The first disposal well operates at a maximum capacity of approximately 7,300 barrels of water per day and at this level is marginally profitable.

At the Ross SWD facility, management continues to consider the replacement of the rental pumps with a permanent pump installation. The project is on hold until market conditions improve.

The decline in volumes at both the New Town and Watford City SWD facilities was primarily a result of shut-in wells in the region and at the time of this report, activity is picking up with fracing crews once again active in the area. At the New Town SWD facility, there remains a need to upgrade the plant with new pumps and to clean up contamination due to fluid leaks from the existing pump skids. Like the Ross SWD facility, market conditions will dictate the schedule for this upgrade. The Watford City SWD facility is a new plant with no capital projects planned.

The Alexander Class 1 facility has seen a decline in business during Q2 which has continued into Q3. With operating budgets under pressure, customers are reducing their Class 1 fluids disposal needs through storage and other means.

Aggravating business decline in the field is the uncertainty surrounding operation of the Dakota Access Pipeline ("DAPL"). On July 6, 2020, the U.S. District Court for the District of Columbia ordered DAPL shut down and emptied by early August 2020. DAPL transports approximately one-third of North Dakota oil production volumes to Midwest and Gulf Coast refineries and, if shut down, would result in significant disruption to oil and gas activity in the state of North Dakota where the Company operates. On appeal by DAPL's owners, Energy Transfer LP was granted DAPL an administrative stay while it considers whether the line should be shut down due to permitting issues dating to 2017. This ruling means oil can keep flowing through DAPL. At this time, it is not possible to determine the outcome of the permitting review process on the operations of the Company.



In Canada, the Clairmont processing and disposal plant expansion and recommissioning plans are under consideration. The scope of the proposed project includes the addition of water disposal capacity, an increase in plant pumping and storage capacity and the addition of butane blending capability. Subject to finalising agreements with the joint venture partner, start up of the facility is scheduled for October 1, 2020.

OPERATIONAL UPDATE

Since the beginning of March 2020, the unprecedented market conditions and resulting oil price weakness has caused a material decline in business volumes with reductions in 2020 capital programs, drilling and completion activity, and the shutting-in of existing production.

In terms of previously announced capital improvements planned for White Owl's operating locations, these projects are now on hold. Several of these projects would have dramatically increased plant capacity, however there is now little demand for this increased capacity and these developments will only proceed once market conditions improve and as resources become available. The one exception is Tioga, where we increased our ownership from a 32% interest to a 47% interest in the Tioga SWD through the exercise of our right to purchase a 15% interest from the White Owl Tioga LLC for US \$782,500. This purchase was effective January 1, 2020 and was funded by the November 2019 private placement proceeds. During this recent downturn, the Tioga SWD facility has continued to operate at close to full capacity and the joint venture partners are actively considering an expansion of plant capacity.

At the Epping SWD facility, despite slowing activity in the area, our pipeline-connected customer continues to request more disposal capacity. White Owl and its partner, the White Owl Epping LLC are pursuing this project with caution. The partners have agreed that, considering market conditions, lowering the risk for the current owners is important and they are reviewing a proposal to bring in a third party industry partner to contribute up to fifty percent of the project cost. The partners' interest in the project would be reduced by this approach. The first disposal well operates at a maximum capacity of approximately 7,300 barrels of water per day and at this level is marginally profitable.

At the Ross SWD facility, management continues to consider the replacement of the rental pumps with a permanent pump installation. The project is on hold until market conditions improve.

The decline in volumes at both the New Town and Watford City SWD facilities was primarily a result of shut-in wells in the region and at the time of this report, activity is picking up with fracing crews once again active in the area. At the New Town SWD facility, there remains a need to upgrade the plant with new pumps and to clean up contamination due to fluid leaks from the existing pump skids. Like the Ross SWD facility, market conditions will dictate the schedule for this upgrade. The Watford City SWD facility is a new plant with no capital projects planned.



The Alexander Class 1 facility has seen a decline in business during Q2 which has continued into Q3. With operating budgets under pressure, customers are reducing their Class 1 fluids disposal needs through storage and other means. In addition, dry weather has reduced demand for landfill leachate disposal.

Aggravating business decline in the field is the uncertainty surrounding operation of the Dakota Access Pipeline ("DAPL"). On July 6, 2020, the U.S. District Court for the District of Columbia ordered DAPL shut down and emptied by early August 2020. DAPL transports approximately one-third of North Dakota oil production volumes to Midwest and Gulf Coast refineries and, if shut down, would result in significant disruption to oil and gas activity in the state of North Dakota where the Company operates. On appeal by DAPL's owners, Energy Transfer LP was granted DAPL an administrative stay while it considers whether the line should be shut down due to permitting issues dating to 2017. This ruling means oil can keep flowing through DAPL. At this time, it is not possible to determine the outcome of the permitting review process on the operations of the Company.

In Canada, the Clairmont processing and disposal plant expansion and recommissioning plans are under consideration. The scope of the proposed project includes the addition of water disposal capacity, an increase in plant pumping and storage capacity and the addition of butane blending capability. Subject to finalising agreements with the joint venture partner, start up of the facility is scheduled for October 1, 2020.

CORPORATE MATTERS

White Owl's term debt position has decreased to US \$7,693,608 at June 30, 2020 from US \$8,117,653 at December 31, 2019 and from US\$10,797,694 at December 31, 2018. Effective April 30, 2020, the Corporation's lender has agreed to accept interest-only payments, reducing the monthly principal and interest blended payment of US \$186,650 to interest-only of approximately US \$33,000 per month. This interest only payment will continue for a limited time, in order to manage the Corporation's liquidity during this period of economic uncertainty and reduced cash flows.

As discussed in the previous quarterly report, the outstanding Clairmont vendor note of \$1,400,000 was redeemed in Q1 2020 for a final repayment of \$300,000. As a result, the Corporation's other debt comprised of promissory notes, mortgage payable and lease liabilities, has been reduced by 59% to \$852,000 at June 30, 2020 from \$2,058,000 at December 31, 2019.

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.

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.