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## **MANAGEMENT'S DISCUSSION OF FINANCIAL RESULTS**

**For the three and twelve months ended December 31, 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 twelve months ended December 31, 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 March 26, 2021 and should be read in conjunction with White Owl's audited consolidated financial statements for the years ended December 31, 2020 and 2019. 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 processing and disposal facilities in North Dakota and Alberta. In North Dakota, the Company is involved in the processing and disposal of third-party oilfield fluids. In Alberta, White Owl operates a pipeline-connected terminal at Clairmont and provides treating, blending and water disposal services from the facility which was recommissioned in December 2020 after being temporarily shut-in during April 2020 due to market conditions.

The Company, through its network of facilities, is providing services to some of the largest independent oil and gas operators in North America.

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

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### **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 health pandemic to protect staff, stakeholders and local communities;
- Providing a high level of customer service including a focus on expedited truck unload times and high facility onstream times to make White Owl facilities a sought-after location for our trucking customers;
- The operation, design and construction of facilities that provide efficient and safe separation of fluids; and
- Acquiring and integrating strategically located saltwater disposal facilities (“SWDS”) 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. Additional revenue is generated through the sale of crude oil recovered during the water disposal process. 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. White Owl’s Class 2 SWD facilities in North Dakota are located near New Town, Watford City, Ross, Tioga and Epping. The Class 1 facility is located near 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, 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. White Owl has an inventory of expansion opportunities at its Class 2 facilities, which depend on improved market conditions and include second wells to increase injection capacity at Epping, Tioga and New Town. 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 Terminal”), in the heart of the Montney shale play development in the Grande Prairie area of northwest Alberta. On October 27, 2020, White Owl executed a Blending, Construction, Ownership and

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Operating Agreement (“CO&O”) with Pivotal Energy Partners (“Pivotal”) a well funded midstream company, aimed at creating a transparent marketing, infrastructure, and crude oil optimization business at the Clairmont Terminal. Pivotal recognised the strategic value of Clairmont’s location and based on the terms of the CO&O, Pivotal will provide the necessary capital, marketing, trucking, and optimisation services for the business. This is a positive development for the Clairmont Terminal following the temporary shut-down of operations in April 2020 due to volatile market conditions caused by the COVID pandemic. (Please see “Alberta” on Page 10).

#### **FOURTH QUARTER AND YEAR ENDED DECEMBER 31, 2020 HIGHLIGHTS**

The year ended December 31, 2020 was dominated by the COVID pandemic and although local authorities ordered non-essential business closures and implemented “stay at home” orders, our industry was classified as an “essential service.” As a result, White Owl’s operations in North Dakota remained open throughout 2020, including technical support and administration. The Clairmont facility in Alberta was temporarily shut down in April of 2020 due to the rapid decline in business brought on by the COVID pandemic. The facility was reopened in December 2020.

To manage the additional safety risks presented by COVID-19, White Owl’s management implemented a comprehensive plan to assist in keeping our field crews, support staff and customers safe and well-informed. These procedures will continue until we see a normalisation of oil and gas activity in both of our markets.

Highlights for the three and twelve months ended December 31, 2020 for both North Dakota and Alberta are summarized as follows and include the Corporation’s ongoing efforts to mitigate the impact of the COVID related economic downturn:

- The Clairmont Terminal was recommissioned in December 2020 and began accepting oil volumes for emulsion treating and terminal services. The recommissioning activities included minor capital upgrades and the recompletion of an existing well (06-03) in the Belloy formation for water disposal. The existing custody transfer meter was upgraded and a water filtration system was installed for the injection system.
- White Owl has successfully applied for five government assistance programs including the wage and rent subsidization programs and funding for well abandonment. In Canada, the Corporation has applied under the Canadian Emergency Wage Subsidy (“CEWS”), the Canadian Emergency Business Account (“CEBA”) and the Canadian Emergency Rent Subsidy (“CERS”) programs and has received \$292,500 as of December 31, 2020. In addition, White Owl has received funding approval of \$140,000 under the Alberta Government’s federally funded Site Rehabilitation Program to abandon two wells. In North Dakota, the Corporation has received a loan of US \$358,596 under the US federal Payroll Protection Program, which becomes a grant if used for salaries and wages.

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- General and administrative expenses (“G&A”) decreased 35% in 2020 compared to the prior year, not including severance costs recorded in 2019. The Corporation also decreased fixed operating costs by 17% in 2020 compared to 2019 in response to lower fluid disposal volumes.
- Throughout the toughest market conditions in several decades, White Owl has continued to service its debt, meeting all interest payments in a timely manner and reducing long-term debt during the twelve months ended December 31, 2020 by US \$526,622 to US\$7,591,031.
- Q4 2020 consolidated EBITDA improved to \$195,000 compared to \$169,000 in Q3 2020 but is down significantly from \$1,729,000 in Q4 2019 due to market conditions. For the twelve months ended December 31, 2020, consolidated EBITDA decreased to \$1,099,000 from \$4,734,000 in the twelve months ended December 31, 2019.
- On January 17, 2020, White Owl Ltd. entered into a release agreement with the Clairmont Terminal 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 audited Consolidated Financial Statements for the twelve months ended December 31, 2020.
- On January 15, 2021, White Owl formed a Special Committee of the Board of Directors comprised of independent directors with the mandate to engage a financial advisor to explore strategic options that may be available to the Corporation. On March 18, 2021, the Corporation engaged a financial advisor. This decision was in response to recent actions by White Owl’s lender (ATB) who has advised the Corporation that it needs to source an alternate financing arrangement and make full repayment of outstanding loans by December 31, 2021.

#### **ECONOMIC ENVIRONMENT**

The COVID crisis has had an industry wide negative influence on global oil and gas prices and activity. Capital expenditure budgets have been scaled-back or cancelled entirely and production in Alberta and North Dakota has been curtailed or shut-in due to weak commodity prices. This is evidenced in North Dakota by the drilling rig count falling from 60 at the beginning of January 2020 to 13 at year end 2020 and in Alberta by the decrease in business volume in April 2020 at White Owl’s Clairmont facility.

For Q4 2020, the benchmark West Texas Intermediate oil price (“WTI”) averaged US \$42.64 per barrel. This was down from pre-COVID pricing levels of US \$55.00 to US \$60.00 per barrel but a 53% increase over the quarterly low average price of US \$27.88 per barrel in Q2 2020. Over the second half of 2020, WTI has averaged US \$41.78 per barrel with North Dakota oil prices being further discounted by between \$2 and \$6 per barrel.

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Since the onset of the COVID crisis in March, North Dakota's daily oil production has decreased by approximately a third from 1,500,000 barrels per day ("bpd") in February 2020 to approximately 1,100,000 bpd in recent months, which has resulted in a reduction in White Owl's daily water disposal volumes from an average of 47,976 bpd in Q1 2020 to 27,502 bpd in Q4 2020. On a positive note, recovered oil volumes did not decrease to the same extent year over year, with 48,490 barrels recovered in 2020, down 8% from 52,934 barrels in 2019.

#### **Financial Impact on White Owl**

##### *General*

As a result of the present economic circumstances the entire oil and gas industry is dealing with the adverse financial effects of the COVID crisis on market conditions.

- For White Owl, in North Dakota, materially lower disposal volumes combined with customer pricing pressure and lower prices for recovered oil has resulted in lower revenues, operating income and cash flows.
- In Alberta, White Owl temporarily shut down the Clairmont Terminal during Q2 2020, resulting in additional related contractor and personnel costs of \$113,023 recorded in Q2 2020. During Q3 and Q4 of 2020, the Corporation entered into a Blending, Construction, Ownership and Operating Agreement ("CO&O") with Pivotal Energy Partners Inc ("Pivotal") to recommission the Clairmont Terminal. Pivotal recognised the strategic value of the Clairmont facility and agreed to provide the necessary capital, marketing, trucking, and optimisation services to fully exploit the processing, blending and disposal business at Clairmont. The Corporation completed the recommissioning of the Clairmont Terminal in December 2020 and commissioned the new Belloy water disposal well in February 2021.

##### *Reduction in Expenses*

To lessen the financial impact of the lower business volume and revenues, White Owl immediately took steps to reduce both field operating and office administrative costs both in North Dakota and Alberta. The result has been a 34% reduction in G&A costs in 2020 compared to 2019 (not including severance costs recorded in 2019) and lower fixed operating costs at the facilities in North Dakota. The following is a summary of the cost-cutting measures undertaken during 2020:

- Salary reductions of 10% for all employees;
- Reductions in staffing of field and office personnel;
- Reduced costs of materials, parts and services for the Corporation's operating facilities;
- Cancellation of all non-essential business travel;

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- Office lease cost reductions;
- Reduced office expenses;
- Reduced field staffing expenses such as accommodation, coveralls, cleaning supplies;
- Increased accounts receivable monitoring; and
- Reduced hourly rates charged by certain professional service providers.

#### *Liquidity Management*

Despite the enormous challenges posed by COVID-19, we have maintained an adequate liquidity position. The Company exited 2020 with a cash balance of \$1.4 million and \$1.2 million of available borrowing capacity under our secured credit facilities, providing the Corporation with liquidity for 2021. During the year, the Company undertook the following actions aimed at preserving cash and stabilising liquidity until market conditions improve.

- Maintenance Capital:

During the year, White Owl reduced its maintenance capital program by approximately 25% and this reduction is continuing into 2021. The only monies being spent relate to breakdowns, health and safety and environmental related projects.

- Growth Capital:

Other than at Clairmont, where Pivotal is funding the development, growth projects have been put on hold until market conditions improve.

- Operating and General and Administrative Cost Savings:

Please refer to Cost-Cutting Measures above.

- Government Subsidy Programs:

White Owl has successfully applied for five government assistance programs, including wage and rent subsidization and well abandonment funding. In Canada, the Company has applied under the CEWS, CEBA and CERS programs and has received \$292,500 to December 31, 2020. In addition, the Company has received funding approval of \$140,000 from the Alberta Government's federal funded Site Rehabilitation Program to abandon two wells and is also seeking funding for additional abandonments. In North Dakota, the Company has received a loan of US \$358,596 which becomes a grant should the entire amount be applied to salaries and wages. The Company anticipates that this loan will be forgiven.

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**FINANCIAL AND OPERATIONAL HIGHLIGHTS**

The following is a table of Financial and Operational Highlights for the three and twelve months ended December 31, 2020, with comparatives for 2019. The highlights do not recognise volumes, revenues and expenses for the Watford City facility from January 17, 2019 when the plant was destroyed by fire, through to October 15, 2019 when operations at the facility restarted. However, the business interruption insurance recovery amounts which replace lost income are recognised as a separate line item below operating income. The recovered amounts are included in EBITDA and earnings for the three and twelve months ended December 31, 2019.

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| (\$000's, unless otherwise noted)                                | Three months ended<br>December 31, |              |              | Twelve months ended<br>December 31, |               |              |
|------------------------------------------------------------------|------------------------------------|--------------|--------------|-------------------------------------|---------------|--------------|
|                                                                  | 2020                               | 2019         | %            | 2020                                | 2019          | %            |
| <b>North Dakota operations</b>                                   |                                    |              |              |                                     |               |              |
| Disposal volumes (Bbls) <sup>(1)</sup>                           | 2,530,202                          | 4,418,935    | -43%         | 13,106,933                          | 13,246,977    | -1%          |
| Recovered oil sales volumes (Bbls) <sup>(1)</sup>                | 13,472                             | 17,211       | -22%         | 48,490                              | 52,934        | -8%          |
| Disposal revenue (\$ per Bbl)                                    | 0.67                               | 0.86         | -22%         | 0.74                                | 0.86          | -14%         |
| Recovered oil sales revenue (\$ per Bbl)                         | 43.68                              | 57.55        | -24%         | 42.19                               | 61.11         | -31%         |
| Operating costs and royalties (\$ per Bbl)                       | 0.65                               | 0.60         | 8%           | 0.65                                | 0.74          | -12%         |
| <b>North Dakota disposal and services revenue <sup>(1)</sup></b> |                                    |              |              |                                     |               |              |
| Disposal revenue                                                 | 1,708                              | 3,786        | -55%         | 9,701                               | 11,374        | -15%         |
| Recovered oil sales revenue                                      | 588                                | 991          | -41%         | 2,046                               | 3,235         | -37%         |
| Other revenue                                                    | 69                                 | 104          | -34%         | 355                                 | 473           | -25%         |
| <b>Total revenue – North Dakota <sup>(1)</sup></b>               | <b>2,365</b>                       | <b>4,881</b> | <b>-52%</b>  | <b>12,102</b>                       | <b>15,082</b> | <b>-20%</b>  |
| Operating costs                                                  | (1,646)                            | (2,647)      | -38%         | (8,542)                             | (9,795)       | -13%         |
| <b>Operating income – North Dakota <sup>(1)</sup></b>            | <b>719</b>                         | <b>2,234</b> | <b>-68%</b>  | <b>3,560</b>                        | <b>5,287</b>  | <b>-33%</b>  |
| <b>Alberta operations <sup>(2)</sup></b>                         |                                    |              |              |                                     |               |              |
| <b>Volumes (Bbls)</b>                                            |                                    |              |              |                                     |               |              |
| Disposal and third-party processing                              | 9,728                              | 209,181      | -95%         | 90,942                              | 1,092,198     | -92%         |
| Oil and gas                                                      | -                                  | -            | -            | -                                   | 1,856         | -100%        |
| <b>Revenue</b>                                                   |                                    |              |              |                                     |               |              |
| Disposal and third-party processing                              | 16                                 | 407          | -96%         | 138                                 | 1,762         | -92%         |
| Oil and gas sales                                                | -                                  | -            | -            | 1                                   | 99            | -99%         |
| <b>Total revenue - Alberta</b>                                   | <b>16</b>                          | <b>407</b>   | <b>-96%</b>  | <b>139</b>                          | <b>1,861</b>  | <b>-93%</b>  |
| Operating costs                                                  | (197)                              | (418)        | -53%         | (1,026)                             | (2,072)       | -50%         |
| <b>Operating loss - Alberta <sup>(1)</sup></b>                   | <b>(181)</b>                       | <b>(11)</b>  | <b>1545%</b> | <b>(887)</b>                        | <b>(211)</b>  | <b>320%</b>  |
| <b>Combined operations <sup>(1)</sup></b>                        |                                    |              |              |                                     |               |              |
| Oilfield disposal and processing revenue                         | 2,311                              | 5,185        | -55%         | 11,885                              | 16,371        | -27%         |
| Oil and gas sales                                                | -                                  | -            | -            | 1                                   | 99            | -99%         |
| Other revenue                                                    | 69                                 | 104          | -34%         | 355                                 | 473           | -25%         |
| <b>Total revenue</b>                                             | <b>2,380</b>                       | <b>5,289</b> | <b>-55%</b>  | <b>12,241</b>                       | <b>16,943</b> | <b>-28%</b>  |
| Operating costs                                                  | (1,843)                            | (3,073)      | -40%         | (9,568)                             | (11,867)      | -19%         |
| <b>Operating income <sup>(1)</sup></b>                           | <b>537</b>                         | <b>2,216</b> | <b>-76%</b>  | <b>2,673</b>                        | <b>5,076</b>  | <b>-47%</b>  |
| General and administrative expenses ("G&A")                      | (342)                              | (848)        | -60%         | (1,574)                             | (2,616)       | -40%         |
| Insurance recovery – business interruption                       | -                                  | 361          | -100%        | -                                   | 2,274         | -100%        |
| <b>EBITDA <sup>(1)</sup></b>                                     | <b>195</b>                         | <b>1,729</b> | <b>-89%</b>  | <b>1,099</b>                        | <b>4,734</b>  | <b>-77%</b>  |
| <b>Other income and expenses</b>                                 |                                    |              |              |                                     |               |              |
| Depreciation and depletion                                       | (458)                              | (507)        | -10%         | (1,849)                             | (1,803)       | 3%           |
| Amortization                                                     | (15)                               | -            | 100%         | (64)                                | -             | 100%         |
| Impairment                                                       | -                                  | (2,403)      | -100%        | (12,360)                            | (7,148)       | 73%          |
| Finance costs                                                    | (216)                              | (242)        | -11%         | (795)                               | (1,241)       | -36%         |
| Share-based payments                                             | (24)                               | (9)          | 167%         | (36)                                | (58)          | -38%         |
| Foreign exchange gains                                           | 380                                | 106          | 258%         | 256                                 | 138           | 86%          |
| Gain on settlement of promissory notes                           | -                                  | -            | -            | 1,100                               | -             | 100%         |
| Loss on disposal of property, plant and equipment - net          | -                                  | -            | -            | (46)                                | (4)           | 1050%        |
| Loss on abandonment                                              | -                                  | (4)          | -100%        | -                                   | (83)          | -100%        |
| Insurance recovery – property damage                             | -                                  | 799          | -100%        | -                                   | 4,823         | -100%        |
| Income tax expense                                               | -                                  | -            | -            | (5)                                 | -             | 100%         |
| Deferred income tax recovery                                     | -                                  | -            | -            | 105                                 | -             | 100%         |
| <b>Net (loss)</b>                                                | <b>(138)</b>                       | <b>(531)</b> | <b>-74%</b>  | <b>(12,595)</b>                     | <b>(642)</b>  | <b>1862%</b> |

<sup>1)</sup> 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 October 15, 2019 when the facility recommenced operations.

<sup>2)</sup> Refer to "Non-GAAP Measures" for additional information.

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Total combined revenue from North Dakota and Alberta declined 28% from \$16,943,000 in 2020 to \$12,241,000 in 2019 due to the slowdown in oilfield activity in North Dakota and the temporary nine-month shut-in of the Clairmont Terminal in Alberta. Plant volumes in North Dakota declined in 2020 from 2019 levels as producers shut-in wells and suspended drilling and completion programs in response to poor market conditions. Revenue declines were driven by a 14% reduction in water disposal fees per barrel on 1% lower volumes and a 31% decrease in the netback realised oil price combined with 8% lower volumes of recovered oil in 2020, compared to 2019. As described above, the percentage declines referenced above are not really indicative of actual business performance in North Dakota as nine months of 2019 performance did not include volumes, revenues and expenses for the Watford City facility. The related insurance recoveries however were recorded below operating income on the Consolidated Statement of Comprehensive Loss and included in EBITDA.

For the three months ended December 31, 2020, EBITDA was \$195,000, a slight improvement from \$169,000 in Q3 2020, but down significantly from EBITDA of \$1,729,000 in Q4 2019. The decrease in EBITDA is mainly due to lower North Dakota disposal revenue which declined 55% to \$1,708,000 in Q4 2020 from \$3,786,000 in Q4 2019. In addition, recovered oil revenues in the current quarter declined 41% to \$588,000 from \$991,000 in Q4 2019 as the realized net oil price decreased 24% to \$43.68 per barrel while recovered oil volumes decreased 22%. Q4 2019 EBITDA includes business interruption insurance recovery of \$361,000 to compensate White Owl for lost revenues relating to the January 17, 2019 Watford City facility fire.

Combined operating costs decreased 40% for the three months ended December 31, 2020 to \$1,843,000 compared to \$3,073,000 in Q4 2019. This decrease was mainly due to lower disposal volumes combined with cost-cutting initiatives implemented by White Owl in the second quarter of 2020.

For the twelve months ended December 31, 2020, EBITDA decreased 77% to \$1,099,000 from \$4,734,000 in the twelve months ended December 31, 2019. In North Dakota operating income (revenues less operating costs) decreased 33% to \$3,560,000 in 2020 from \$5,287,000 in 2019. In Alberta, the temporary shut down of the Clairmont Terminal due to market conditions resulted in an increased operating loss of \$887,000 in 2020 compared to \$211,000 in 2019.

#### **North Dakota**

##### *Volumes:*

For the twelve months ended December 31, 2020, fluid disposal volumes (trucked, pipeline, flowback water and Class 1 water) remained relatively consistent at 35,811 barrels per day (“bpd”) compared to 36,293 bpd in 2019. The inferred consistency in volumes during the COVID slow-down is an anomaly and due to the absence of the Watford City facility volumes in 2019 when the facility was undergoing reconstruction. Volumes for the twelve months ended December 31, 2020 and December 31, 2019 include 297 bpd and 402 bpd,

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respectively, of Class 1 volumes from the Alexander Class 1 facility. The lower volumes from the Alexander Class 1 facility in 2020 is due to lower oilfield activity and drought conditions. A primary source of disposal volumes for this facility is non-hazardous landfill leachate associated with spring and summer rainfall and the disposal of drill cuttings related to drilling activity.

For the twelve months ended December 31, 2020, North Dakota oil sales volumes decreased 8% to 48,490 barrels compared to 52,934 barrels in 2019. Recovered oil volume sales in the first quarter of 2020 were strong (16,360 barrels), while the second and third quarters of 2020 were impacted by the economic downturn, with oil volume sales of 10,449 barrels and 8,209 barrels, respectively. Q4 2020 was the second strongest quarter in the year for recovered oil volumes with 13,472 barrels recovered and sold mainly due to improved volumes at the Ross facility. In the twelve months ended December 31, 2020, the Ross, New Town and Watford City facilities accounted for 51% (2019: 39%), 22% (2019: 50%) and 20% (2019: 0%), respectively, of the Corporation's recovered oil volumes. The Watford City facility was undergoing reconstruction in 2019.

For the three months ended December 31, 2020, total fluid disposal volumes from all facilities (trucked, pipeline, flowback water and Class 1 water) decreased 43% to 27,502 bpd from 48,032 bpd in Q4 2019. These volumes include 190 bpd in Q4 2020 and 607 bpd in Q4 2019 for the Alexander Class 1 facility.

#### *Revenue and Pricing:*

For the twelve months ended December 31, 2020, total revenue decreased 20% to \$12,102,000 from \$15,082,000 in 2019 due to the previously mentioned decrease in fluid disposal and recovered oil volumes and pricing. The 2019 revenues also exclude the Watford City facility revenues due to the fire in Q1 2019. With business interruption insurance proceeds included in the 2019 revenue, North Dakota year-end revenues would have decreased 30% for 2020 compared to 2019.

For the three months ended December 31, 2020, North Dakota total revenue decreased 52% to \$2,365,000 from \$4,881,000 in Q4 2019. This decrease included a 77% decrease in revenues from the Alexander Class 1 facility to \$97,000 in Q4 2020 from \$425,000 in Q4 2019, for the reasons discussed above.

The economic slowdown in 2020 resulted in pricing pressure for trucked-in water at most of the Corporation's facilities. During 2019 and early 2020, the range of pricing for trucked-in water was US \$0.50 to US \$0.60 per barrel, while today this range has been reduced to US \$0.40 to US \$0.50 per barrel. Specifically, competitive pressures have resulted in price decreases at the Watford City facility (down 19%), the New Town facility (down 10%), the Tioga facility (down 10%) and the Epping facility (down 18%). At the Ross facility which has no pipeline connection, trucked-in water disposal prices have remained constant. Similarly, for the small amount of flowback volumes received in 2020, pricing has declined due to competitive pressures by an average of 7% for the Corporation's Class 2 water disposal facilities.

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Other revenue which includes recoveries from joint venture operations decreased to \$69,000 and \$355,000 for the three and twelve months ended December 31, 2020, respectively, compared to \$104,000 and \$473,000 in the 2019 comparable periods, respectively. The decrease in other revenue is mainly due to lower operating costs at the joint venture facilities, Tioga SWD and Epping SWD, resulting in lower administrative fees.

#### *Operating Costs:*

Operating costs in North Dakota declined during the year as a result of cost-cutting measures including a salary reduction for all professional staff and hourly paid employees. Several mid-management positions in the field were eliminated and facility operating personnel were reduced at sites with lower volumes. In particular, one pipeline connected site now operates unmanned while facilities with low volumes operate manned for 12 hours per day from 24 hours per day previously.

For the three and twelve months ended December 31, 2020, North Dakota operating costs decreased 38% to \$1,646,000 and decreased 13% to \$8,542,000, respectively, from \$2,647,000 and \$9,795,000 in the comparable 2019 periods, respectively.

#### *Operating Income:*

For the twelve months ended December 31, 2020, operating income (including business interruption insurance proceeds of \$2,274,000 for 2019) decreased 53% to \$3,560,000 from \$7,561,000 due to the unfavourable market conditions. Q4 2020 operating income decreased 72% to \$719,000 from \$2,595,000 in Q4 2019. The Q4 2019 operating income includes business interruption insurance proceeds of \$361,000 from the Watford City facility fire claim plus operating income from the remaining facilities of \$2,274,000.

### **Alberta**

On October 27, 2020, White Owl signed a CO&O with Pivotal, aimed at creating a marketing, infrastructure, and crude oil optimization business at the Clairmont Terminal. Pivotal is a crude oil transportation and marketing company who recognised the strategic significance of the Clairmont facility due to its location and crude oil pipeline connection. This is a positive development for the Clairmont facility which was temporarily shutdown in April 2020 due to market conditions. Under the CO&O, Pivotal will invest an estimated \$3.2 million in the Clairmont facility to fund recommissioning, minor capital upgrades, the recompletion of a disposal well in the Belloy formation and the construction of a butane blending skid and associated infrastructure. White Owl will continue to own the assets and operate the joint venture while Pivotal will share in the revenue generated from operations. The resulting joint venture operating income is forecast to eliminate the cash losses at the Clairmont Terminal and provide the Company with cash flow that could partially be deployed on the well abandonment program contemplated on the Clairmont property. The water disposal well at Clairmont was commissioned in February 2021, while the butane blending business is expected to be

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commissioned in Q2 2021. The CO&O also contemplates further expansion at the site to meet the improving market conditions forecast as Montney development increases to meet Kitimat LNG project gas demand. Recent information provided from ATB Institutional Research speaks positively on oil and gas activity in the Grande Prairie area and there are signs of increased drilling activity in the area.

For the three and twelve months ended December 31, 2020, the Clairmont Terminal incurred operating losses of \$181,000 and \$887,000, respectively, compared to operating losses of \$11,000 and \$211,000 in the 2019 comparable periods, respectively.

The Company also owns 30 suspended oil wells at Clairmont and has plans to abandon the majority of these wells. To date, the Company has received funding approval of \$140,000 under the Alberta Government's federally funded Site Rehabilitation Program to abandon two wells and has made application for funding to abandon several additional wells.

### Revenue and operating income (loss) by facility

| (\$000's)                                    | Three months ended<br>December 31, |                |             | Twelve months ended<br>December 31, |                |             |
|----------------------------------------------|------------------------------------|----------------|-------------|-------------------------------------|----------------|-------------|
|                                              | 2020                               | 2019           |             | 2020                                | 2019           |             |
| <b>Oilfield waste disposal and oil sales</b> |                                    |                |             |                                     |                |             |
| New Town                                     | \$696                              | \$1,451        | -52%        | \$3,572                             | \$6,299        | -43%        |
| Watford City <sup>(1)</sup>                  | 531                                | 661            | -20%        | 2,541                               | 836            | 204%        |
| Ross                                         | 709                                | 1,591          | -55%        | 2,892                               | 4,013          | -28%        |
| Alexander                                    | 97                                 | 425            | -77%        | 639                                 | 1,035          | -38%        |
| Tioga JV                                     | 129                                | 397            | -68%        | 1,499                               | 1,515          | -1%         |
| Epping                                       | 133                                | 251            | -47%        | 604                                 | 912            | -34%        |
| Clairmont                                    | 16                                 | 409            | -96%        | 138                                 | 1,761          | -92%        |
|                                              | 2,311                              | 5,185          | -55%        | 11,885                              | 16,371         | -27%        |
| <b>Oil and gas revenue</b>                   | -                                  | -              | -           | 1                                   | 99             | -99%        |
| <b>Other income</b>                          | 69                                 | 104            | -34%        | 355                                 | 473            | -25%        |
| <b>Total revenue</b>                         | <b>2,380</b>                       | <b>5,289</b>   | <b>-55%</b> | <b>12,241</b>                       | <b>16,943</b>  | <b>-28%</b> |
| <b>Operating income (loss)</b>               |                                    |                |             |                                     |                |             |
| New Town                                     | 123                                | 605            | -80%        | 843                                 | 2,924          | -71%        |
| Watford City                                 | 169                                | 160            | 6%          | 894                                 | (713)          | -225%       |
| Ross                                         | 319                                | 918            | -65%        | 1,004                               | 1,733          | -42%        |
| Alexander                                    | (25)                               | 153            | -116%       | (244)                               | 96             | -354%       |
| Tioga JV <sup>(2)</sup>                      | 10                                 | 187            | -95%        | 556                                 | 686            | -19%        |
| Epping                                       | 53                                 | 106            | -50%        | 154                                 | 88             | 75%         |
| Clairmont-Midstream                          | (113)                              | 88             | -228%       | (626)                               | 428            | -246%       |
|                                              | 536                                | 2,217          | -76%        | 2,581                               | 5,242          | -51%        |
| <b>Oil and gas operating loss</b>            | <b>(68)</b>                        | <b>(105)</b>   | <b>-35%</b> | <b>(263)</b>                        | <b>(639)</b>   | <b>-59%</b> |
| <b>Other revenue</b>                         | <b>69</b>                          | <b>104</b>     | <b>-34%</b> | <b>355</b>                          | <b>473</b>     | <b>-25%</b> |
| <b>Combined operating income</b>             | <b>\$537</b>                       | <b>\$2,216</b> | <b>-76%</b> | <b>\$2,673</b>                      | <b>\$5,076</b> | <b>-47%</b> |

<sup>1)</sup> For the three and twelve months ended December 31, 2019, the Company received business interruption recovery proceeds of \$361,000 and \$2,274,000, respectively, which amounts are included in EBITDA as a separate line item below operating income.

<sup>2)</sup> 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.

## **WHITE OWL ENERGY SERVICES INC.**

### **MANAGEMENT DISCUSSION OF FINANCIAL RESULTS – Q4 2020**

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#### **New Town SWD Facility**

##### *Volumes:*

For the three and twelve months ended December 31, 2020, volumes received at the New Town SWD facility declined with capacity utilization of 60% and 71%, respectively, compared to capacity utilization of 92% and 94%, respectively, in 2019.

Total fluids disposed (production water and flowback) decreased 35% and 24% to 10,142 bpd and 12,064 bpd respectively, in the three and twelve months ended December 31, 2020 compared to 15,603 bpd and 15,968 bpd, respectively for the comparable 2019 periods. With reduced drilling and completion activity in the area, flowback volumes decreased 88% and 48% in the three and twelve months ended December 31, 2020. Following the reduction in flowback volumes, Q4 2020 recovered oil volumes declined 52% to 2,590 barrels from 5,409 barrels in Q4 2019. For the full year, recovered oil volumes declined 59% to 10,787 barrels for the twelve months ended December 31, 2020, from 26,361 barrels in 2019.

##### *Revenues and Pricing:*

For the three and twelve months ended December 31, 2020, total New Town SWD facility revenues decreased 52% and 43%, respectively, to \$696,000 and \$3,572,000 compared to \$1,451,000 and \$6,299,000 for the comparable 2019 periods. The lower revenues resulted from the reduced fluid disposal and recovered oil volumes and lower unit pricing (down 16% for trucked-in water, 29% for flowback and 23% for the realized net oil price in Q4 2020 versus Q4 2019). Pricing for flowback volumes in particular showed a significant decrease as high demand for flowback disposal in 2019 allowed for premium pricing. For the twelve months ended December 31, 2020, pricing for trucked water, flowback and recovered oil prices declined 10%, 23% and 32%, respectively, from the prior year.

##### *Operating Costs:*

In line with the lower volumes received, operating costs decreased 32% to \$573,000 in Q4 2020 from \$846,000 in Q4 2019, while for the twelve months ended December 31, 2020, operating costs decreased 19% to \$2,729,000 from \$3,375,000 in 2019. Due to the fixed component of operating costs, the percentage decrease of 32% and 19% in the three and twelve months ended December 31, 2020 is less than the percentage decrease in fluid disposal volumes (35% and 24%, respectively).

##### *Operating Income:*

For the three and twelve months ended December 31, 2020, the New Town SWD facility generated operating income of \$123,000 and \$843,000, respectively, compared to \$605,000 and \$2,924,000 for the 2019 comparable periods, respectively. This decrease was due to lower disposal and recovered oil volumes combined with lower oil prices caused by market conditions.

## **WHITE OWL ENERGY SERVICES INC.**

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#### **Watford City SWD Facility**

##### *Volumes:*

For Q4 2020, capacity utilisation at the Watford City SWD was 55% with average daily fluids disposal of 7,787 bpd, which compares to capacity utilization rate of 65%, or 9,447 bpd, in Q4 2019. For the twelve months ended December 31, 2020, capacity utilisation was 60% with average daily disposal of 8,693 bpd. For the twelve months ended December 31, 2019, capacity utilisation was only 20% as the facility was undergoing reconstruction for nine months of the year following the January 2019 fire.

##### *Revenues and Pricing:*

For the three and twelve months ended December 31, 2020, the Watford City SWD facility revenues totaled \$531,000 and \$2,541,000, respectively. As a result of unfavourable market conditions starting in Q2 2020, disposal pricing for trucked production water was reduced from US \$0.60 per barrel to average US \$0.45 per barrel in Q4 2020 and \$0.49 per barrel in the twelve months ended December 31, 2020. The pricing for pipeline production water is contract based and remained unchanged throughout the year. Flowback disposal pricing was also reduced in Q2 to US \$1.25 per barrel from US \$1.60 per barrel. Again, lower realized net oil prices for recovered oil sales (down 18% year over year) further reduced year over year comparative revenue.

##### *Operating Costs:*

For the three and twelve months ended December 31, 2020, the Watford City SWD facility operating costs totaled \$362,000 and \$1,647,000, respectively. As for all of White Owl's SWD facilities, variable operating costs have been reduced to reflect the reduction in revenues. Cost-cutting measures included a reduction in personnel, wage rollbacks and stringent cost controls.

##### *Operating Income:*

For the three and twelve months ended December 31, 2020, operating income totaled \$169,000 and \$894,000, respectively. It should be noted that for the three and twelve months ended December 31, 2019, the Watford City SWD facility recorded business interruption insurance recovery amounts of \$361,000 and \$2,274,000, respectively, which amounts are recorded as a separate line item below operating income and included in EBITDA and net loss.

#### **Ross SWD Facility**

##### *Volumes:*

The twelve months ended December 31, 2020 was a good year for recovered oil sales at the Ross SWD facility, with recovered oil increasing 19% to 24,797 barrels sold over the 20,793 barrels sold in 2019.

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### **MANAGEMENT DISCUSSION OF FINANCIAL RESULTS – Q4 2020**

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For the twelve months ended December 31, 2020, plant capacity utilization was 44% compared to 59% capacity utilization in 2019. For Q4 2020, capacity utilization was 33% compared to 89% for Q4 2019. Disposal volumes at this facility have historically been volatile due to its location on the fringes of the Bakken development where oilfield activity tends to be inconsistent.

For the twelve months ended December 31, 2020, total fluids disposed (production water and flowback) decreased 24% to 7,312 bpd from 9,670 bpd in 2019. Volumes declined further in Q4 2020 due to reduced area activity and total fluids disposed decreased 62% to 5,504 bpd from 14,672 bpd in Q4 2019.

#### *Revenues and Pricing:*

For the twelve months ended December 31, 2020, total revenues decreased 28% to \$2,892,000 from \$4,013,000 in 2019. For the three months ended December 31, 2020, total revenues decreased 55% to \$709,000 from \$1,591,000 in Q4 2019. Although oil and gas activity throughout the basin declined during 2020, there has been little pressure on pricing for trucked in water disposal at the Ross SWD facility. However, due to the significant decline in drilling activity, flowback pricing has experienced competitive pressure, dropping 16% in Q4 2020 compared to Q4 2019. Despite the large increase in recovered oil volumes, over the twelve months ended December 31, 2020, recovered oil revenues decreased 17% compared to 2019 due to the 30% decrease in the realised net oil price. For the twelve months ended December 31, 2020, flowback revenues decreased 90%, matching the significant decline in flowback volumes.

#### *Operating Costs:*

For the three months ended December 31, 2020, operating costs decreased 42% to \$390,000 from \$673,000 in Q4 2019, mainly as a result of lower disposal volumes (down 62%). For the twelve months ended December 31, 2020, operating costs decreased 17% to \$1,888,000 from \$2,280,000 in the prior year.

#### *Operating Income:*

For the twelve months ended December 31, 2020, operating income decreased 42% to \$1,004,000 from \$1,733,000 in 2019. This decrease was a result of lower production water and flowback volumes (down 14% and 90%, respectively) and a lower net realized oil price (down 30%). For the three months ended December 31, 2020, operating income for the Ross SWD facility decreased 65% to \$319,000 from \$918,000 in Q4 2019.

### **Alexander Class 1 Facility**

White Owl's Class 1 water disposal business, established during the latter part of 2019, has a broad customer base including oil producers, pipeline operators and landfill operator. 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.

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#### *Volumes:*

Operating results for most of 2020 were impacted by lower landfill disposal of drill cuttings due to reduced drilling and completion activity and very dry weather conditions. The reduced oilfield activity combined with the dry weather over the summer and fall months resulted in lower leachate and other non-hazardous oilfield related waste for disposal.

For the twelve months ended December 31, 2020, volumes disposed decreased 27% to 108,875 barrels from 148,240 barrels disposed in 2019. In Q4 2020, volumes disposed totaled 17,508, a modest improvement over the 13,583 barrels disposed in the previous quarter, but still well below the 55,884 barrels disposed in Q4 2019.

#### *Revenues and Pricing:*

For the twelve months ended December 31, 2020, revenues decreased 38% to \$639,000 from \$1,035,000 in 2019 mainly due to lower disposal volumes and an 18% decrease in pricing. Alexander revenues decreased to \$97,000 in Q4 2020 compared to \$425,000 in Q4 2019, due to the significant decrease in disposal volumes.

#### *Operating Costs:*

Operating costs for the three months ended December 31, 2020 decreased 55% to \$122,000 from \$272,000 in Q4 2019 mainly due to the lower disposal volumes. Operating costs for the twelve months ended December 31, 2020 decreased 6% to \$883,000 from \$939,000 in 2019 and included a one-off well workover costing \$275,000 earlier in the current year.

#### *Operating Income:*

The lower disposal volumes combined with lower pricing and the well workover costs resulted in an operating loss of \$244,000 for the twelve months ended December 31, 2020 compared to operating income of \$96,000 in 2019. For the three months ended December 31, 2020, White Owl recorded an operating loss of \$25,000 compared to operating income of \$153,000 in Q4 2019.

#### **Tioga SWD JV**

For the three and twelve months ended December 31, 2020, White Owl's working interest in the Tioga SWD Joint Venture ("Tioga JV") was 47%. White Owl increased its interest in the Tioga JV effective January 1, 2020, through the purchase of a 15% interest in the Tioga JV from the White Owl Tioga LLC. 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 the three and twelve months ended December 31, 2019 represent a 32% interest in the Tioga JV.

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#### *Volumes:*

For the twelve months ended December 31, 2020, total fluids disposed decreased 28% to 11,248 bpd from 15,539 bpd in 2019, while in Q4 2020 total fluids disposed decreased 75% to 3,900 bpd from 15,718 bpd in Q4 2019. Flowback volumes are generally insignificant at the Tioga SWD because capacity is usually filled with trucked and pipeline water as a result of commitments to customers.

The significant decrease in throughput at the Tioga SWD facility is a result of; (i) Hess Corporation (“Hess”) reduced production from their wells in the Tioga area due to market conditions and (ii) Hess commissioned a new SWD in September 2020 resulting in the diversion of pipeline volumes from the Tioga SWD facility to the newly constructed Hess SWD which is on the same gathering system. Hess had provided White Owl with a forecast showing sufficient volumes for both SWD’s, but this forecast was recently revised to reflect the reduction in oil production mentioned above. White Owl is actively marketing its disposal services in the area and anticipates that volumes will increase through 2021 as activity in the area improves.

Recovered oil volumes decreased 40% to 5,273 for the twelve months ended December 31, 2020 from 8,762 barrels in 2019. For the three months ended December 31, 2020, recovered oil volumes decreased to 766 barrels from 3,458 barrels in Q4 2019 due to the lower fluid disposal volumes and less oil recovery.

#### *Revenues and Pricing:*

As a result of the reduction in disposal volumes in 2020, total revenues for the Tioga SWD facility decreased 33% (at the 100% working interest level) year over year. In addition, for the twelve months ended December 31, 2020, market conditions led to a 10% price decrease for trucked-in water disposal compared to 2019, while pricing for contracted pipeline water remained constant. The average realized netback oil price for oil sales in 2020 decreased by 27% over the price received in 2019.

For the twelve months ended December 31, 2020, total revenues (net to White Owl) remained relatively steady at \$1,499,000 compared to \$1,515,000 in 2019. The revenue received from the additional 15% working interest acquired by the Corporation for the twelve months ended December 31, 2020 offset the impact of the lower disposal volumes. The additional 15% working interest accounted for \$478,000 of the annual revenue. The fourth quarter of 2020 saw the full impact of the SWD commissioned by Hess in Q3 2020 with total revenues (net to White Owl) decreasing 68% to \$129,000 from \$397,000 in Q4 2019. White Owl’s additional 15% working interest accounted for \$41,000 of the fourth quarter revenue.

#### *Operating Costs:*

Operating costs decreased 23% (at the 100% working interest level) for the twelve months ended December 31, 2020 compared to the 2019 year, approximately matching the 28% decrease in fluid volume disposals year

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over year. As a result of the decrease in fluid disposal volumes in the fourth quarter of 2020, the facility is now being manned for only 12 hours per day. This change has reduced direct labour costs by 50%.

#### *Operating Income:*

For the twelve months ended December 31, 2020 operating income decreased 19% to \$556,000 from \$686,000 in 2019, with the increase in working interest accounting for \$177,000 of the 2020 operating income. For the three months ended December 31, 2020, operating income decreased to \$10,000 from \$187,000 in Q4 2019 due to the significantly lower volumes and revenues (down 75% and 68%, respectively).

#### **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.

#### *Volumes:*

The Epping SWD has been operating at near its capacity of approximately 7,300 bpd (gross) with total fluids disposed in the three and twelve months ended December 31, 2020 accounting for 91% and 98% of capacity, respectively. The bulk of fluids received have been delivered via pipeline, however trucked in volumes are received when there is plant capacity. Pipeline water volumes have a lower oil content than trucked or flowback water and as a result, there have been lower oil revenues in the three and twelve months ended December 31, 2020 compared to the comparable 2019 periods.

Total fluid disposal volumes averaged 6,291 bpd in Q4 2020 of which 92% were received by pipeline. In Q4 2019, 76% of total fluid disposal volumes were received by pipeline. For the twelve months ended December 31, 2020, total fluid disposal volumes averaged 6,642 bpd of which 90% was received by pipeline, while for the twelve months ended December 31, 2019, total fluid disposal volumes averaged 7,137 bpd of which 50% was received by pipeline.

The materially higher pro-rata share of pipeline volumes in 2020 compared to 2019 (90% versus 50% of total fluids disposed) has led to significantly lower recovered oil volumes due to the lower oil content of water delivered by pipeline. As result, recovered oil volumes decreased to 399 barrels in Q4 2020 from 2,194 barrels in Q4 2019, while for the twelve months ended December 31, 2020 recovered oil volumes decreased 73% to 2,254 barrels from 8,504 barrels in 2019.

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#### *Revenues and Pricing:*

For the three months ended December 31, 2020, Epping revenues (net to the White Owl) decreased 47% to \$133,000 from \$251,000 in Q4 2019 mainly due to lower volumes of trucked production water (down 75%) and the low reclaimed oil sales volumes in the current quarter.

For the twelve months ended December 31, 2020, Epping revenues (net to White Owl) decreased 34% to \$604,000 from \$912,000 in 2019 mainly due to lower flowback and oil revenues. Flowback revenues decreased to nil for the twelve months ended December 31, 2020 as there have been no flowback volumes in 2020 due to the drastic reduction in field well completion activity in the surrounding area. Recovered oil revenues for the twelve months ended December 31, 2020 decreased 82% due to a 73% decrease in oil volumes combined with a 33% drop in the realized net oil price.

#### *Operating Costs:*

For the year ending December 31, 2020, the decision in the second quarter of the year to operate the facility unmanned led to a decrease in operating costs to \$0.19 per barrel of fluid disposed from \$0.32 per barrel in 2019. In 2019, one-off well workover costs accounted for \$0.10 per barrel of the \$0.32 per barrel recorded for 2019. As a result, operating costs for Q4 2020 decreased 45% to \$80,000 from \$145,000 in Q4 2019, while operating costs for the twelve months ended December 31, 2020 decreased 46% to \$450,000 from \$824,000 in 2019.

#### *Operating Income:*

For the twelve months ended December 31, 2020, operating income increased 75% to \$154,000 from \$88,000 in 2019. The lower operating income in 2019 was due to well workover costs as well as due to ongoing commissioning costs. In Q4 2020, operating income decreased to \$53,000 from \$106,000 in Q4 2019 mainly due to the lower trucked-in and flowback water volumes and associated lower recovered oil sales.

#### **Canada - Clairmont Terminal**

The Clairmont Terminal was temporarily shut-down in April 2020 due to unfavourable market conditions. During Q3 2020, White Owl was approached by several marketing companies who recognised the strategic value of the plant location and the Pembina Pipeline connection and expressed an interest in partnering with the Company on a Butane blending project at Clairmont. The signing of a CO&O with Pivotal Energy Partners of Calgary in Q3 2020 was a significant development and construction of the Butane blending facilities is scheduled to be completed in Q2 2021. These facilities are expected to eliminate the cash losses at the Clairmont Terminal and provide a growing stream of income for both Pivotal and White Owl. The Clairmont Butane blending project is scheduled for completion in Q2 2021, with the estimated cost of \$2,500,000 to be fully funded by Pivotal in accordance with the terms of the CO&O.

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The Company contemplates deploying some of this cash flow on well abandonments contemplated for the Clairmont property. As part of the Government of Alberta's federally funded Site Rehabilitation Program “SRP”), White Owl has received funding approval for \$140,000 to abandon two wells that are part of the shut-in oilfield adjacent to the Clairmont Terminal. Additional funding to partially or fully fund well abandonments under the SRP has been applied for and is pending approval.

Restart of the Clairmont Terminal was completed in December 2020 and included the installation of water filters and the recommissioning of the custody transfer meter and piping and equipment. The water disposal well was also recommissioned in February 2021. The total cost of recommissioning the Clairmont Terminal and the water disposal well was \$980,000, and in accordance with the terms of the CO&O \$700,000 has been funded by Pivotal with the balance of \$280,000 paid for by White Owl.

As the Clairmont Terminal was shut-in for most of 2020, total Clairmont operations (midstream plus oil and gas production) for Q4 2020 reported an operating loss of \$181,000 (midstream loss of \$113,000 and oil and gas loss of \$68,000) compared to an operating loss of \$11,000 (midstream operating income of \$94,000 less oil and gas loss of \$105,000) in Q4 2019. For the twelve months ended December 31, 2020, the combined midstream and oil and gas operating loss totaled \$887,000 compared to an operating loss of \$211,000 in 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 December 31, 2020, other revenue decreased to \$69,000 from \$104,000 in Q4 2019 mainly due to lower operating costs at the Tioga and Epping SWDS resulting in lower administrative fees for White Owl. For the twelve months ended December 31, 2020, other revenue decreased 25% to \$355,000 from \$473,000 in the 2019 year mainly due to lower operating costs in the current year and due to Epping SWD capital overhead fees earned in the prior year period when construction of this facility was completed.

#### G&A Expenses

|                             | Three months ended<br>December 31, |       | Twelve months ended<br>December 31, |         |
|-----------------------------|------------------------------------|-------|-------------------------------------|---------|
| (\$000's)                   | 2020                               | 2019  | 2020                                | 2019    |
| Salaries and management     | \$168                              | \$490 | \$739                               | \$1,306 |
| Professional fees           | 103                                | 225   | 459                                 | 803     |
| Travel and related expenses | 13                                 | 33    | 59                                  | 133     |
| General office expenses     | 46                                 | 77    | 261                                 | 322     |
| Third party consulting fees | 15                                 | 26    | 68                                  | 68      |
| Lease liability recoveries  | (3)                                | (3)   | (12)                                | (16)    |
|                             | \$342                              | \$848 | \$1,574                             | \$2,616 |

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### **MANAGEMENT DISCUSSION OF FINANCIAL RESULTS – Q4 2020**

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In Q4 2020, G&A expenses decreased to \$342,000 from \$848,000 in Q4 2019 due to cost-cutting measures implemented at the beginning of the second quarter of 2020, the receipt of federal government assistance and the inclusion of severance costs in Q4 2019. Excluding the severance costs recorded in Q4 2019, the current quarter's G&A expense decreased 47%. For the twelve months ended December 31, 2020, G&A expenses decreased to \$1,574,000 from \$2,616,000 in the 2019 year. Again, excluding severance costs recorded in 2019, the current year's G&A expenses decreased by 35%.

For the three and twelve months ended December 31, 2020, salaries and management expenses decreased 66% and 43%, respectively, compared to the 2019 comparable periods, due to staff reductions and salary rollbacks, the receipt of federal government assistance and the inclusion of severance costs in 2019. For the three and nine months ended December 31, 2020, \$62,955 and \$232,500, respectively, was credited to salaries and management expenses in respect of amounts received under the CEWS and CERS programs.

Professional fees for the three and twelve months ended December 31, 2020 decreased 54% and 43%, respectively, compared to the 2019 comparable periods due to lower financial advisory and legal costs.

#### **Depreciation and Depletion**

Depreciation and depletion for the three months ended December 31, 2020 totaled \$458,000 compared to \$507,000 in Q4 2019, while for the twelve months ended December 31, 2020, depreciation and depletion increased 3% to \$1,849,000 from \$1,803,000 in 2019 year. The increase in 2020 is primarily due to increased depreciation for the Watford SWD which returned to full operation in Q4 2019 which was undergoing reconstruction for most of 2019.

#### **Impairment**

At December 31, 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 December 31, 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 terminal cash generating unit ("CGU") due to the temporary 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 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 in Q1 2020. This expense comprised \$3,318,703 against property, plant

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and equipment and \$9,041,242 against goodwill. The impairment expense of \$3,318,703 against property plant and equipment relates to the Clairmont Terminal (\$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 (\$2,549,289) and the New Town SWD (\$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 Terminal 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 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 first quarter of 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 which was destroyed by fire in January 2019 and returned to full operation in October 2019. With this final payment, White Owl recovered 100% of reconstruction costs and lost income resulting from the fire.

#### Finance costs

|                                                   | Three months ended<br>December 31, |       | Twelve months ended<br>December 31, |         |
|---------------------------------------------------|------------------------------------|-------|-------------------------------------|---------|
| (\$000's)                                         | 2020                               | 2019  | 2020                                | 2019    |
| Interest on term loan                             | \$149                              | \$198 | \$616                               | \$989   |
| Interest on promissory notes and mortgage payable | 10                                 | 10    | 37                                  | 35      |
| Interest on lease liabilities                     | 7                                  | 5     | 23                                  | 19      |
| Loan commitment fee                               | 32                                 | -     | 32                                  | 53      |
| Accretion of decommissioning obligations          | 12                                 | 27    | 62                                  | 119     |
| Interest (income) expenses bank charges and other | 6                                  | 2     | 25                                  | 26      |
|                                                   | \$216                              | \$242 | \$795                               | \$1,241 |

The decrease in interest on term loan in Q4 2020 compared to Q4 2019 is mainly due to lower interest rates and principal outstanding. In Q4 2020, the Company's average term loan interest rate was 5.92% compared to an average of 7.03% in Q4 2019. For the twelve months ended December 31, 2020, the Company's average term loan interest rate was 5.79% compared to an average of 7.53% in the 2019 comparable twelve-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 until December 2020. On December 21, 2020, the Company signed an

# WHITE OWL ENERGY SERVICES INC.

## MANAGEMENT DISCUSSION OF FINANCIAL RESULTS – Q4 2020

amended and restated credit agreement with its senior lender with the resumption of principal payments of \$100,000 per quarter commencing December 31, 2020. (Please see **Term Loan** on Page 26).

### Foreign Exchange Losses, Gains

For the three months ended December 31, 2020, the Company recorded foreign exchange gains of \$380,000, compared to \$106,000 in Q4 2019. For the twelve months ended December 31, 2020, the Company recorded foreign exchange gains of \$256,000 compared to \$138,000 in the prior year. The foreign exchange gains 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 months ended December 31, 2020 was 1.3030 compared to 1.3200 for Q4 2019. For the twelve months ended December 31, 2020, the average exchange rate was 1.3411 compared to 1.3268 for the prior year comparable twelve-month period.

### Share-based payments

During Q4 2020 the Company recorded share-based payments of \$24,000 compared to \$9,000 in Q4 2019, while for the twelve months ended December 31, 2020, the Company recorded share-based payments of \$36,000 compared to \$58,000 in the prior year. 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)             | Q4 2020 | Q3 2020 | Q2 2020 | Q1 2020  | Q4 2019 | Q3 2019 | Q2 2019 | Q1 2019 |
|-----------------------|---------|---------|---------|----------|---------|---------|---------|---------|
| Revenue               | \$2,380 | \$2,606 | \$2,607 | \$4,648  | \$5,289 | \$4,776 | \$3,475 | \$3,403 |
| EBITDA <sup>(1)</sup> | 195     | 169     | (230)   | 964      | 1,729   | 2,048   | 568     | 389     |
| Net Income (loss)     | (138)   | (399)   | (557)   | (11,500) | (531)   | 2,531   | 1,154   | (3,796) |

<sup>(1)</sup> Refer to “Non-GAAP Measures” for additional information.

Revenues, EBITDA and Net Loss in both the second, third and fourth quarters of 2020 have been impacted by 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 and New Town SWDS 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 terminal. 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 fire which was partially offset by the \$2,005,000 (US\$1,500,000) of insurance proceeds for property damage and business interruption.

# WHITE OWL ENERGY SERVICES INC.

## MANAGEMENT DISCUSSION OF FINANCIAL RESULTS – Q4 2020

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

At December 31, 2020, the Company had negative working capital of \$8,393,000 (December 31, 2019 - \$8,475,000), an accumulated deficit of \$29,138,000 (December 31, 2019 - \$16,543,000) and net loss for the year ended December 31, 2020 of \$12,595,000 (2019 - \$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 until December 2020. The Company is in compliance with all terms of the amended and restated credit agreement as at December 31, 2020. Under the terms of the amended and restated loan agreement certain subsequent conditions must be satisfied in 2021 to maintain the ongoing availability of the Term Loan and Operating Loan, including the repayment of all loan facilities by December 31, 2021 which may include other alternate sources of financing (please see **Term Loan** on Page 26). 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 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.

# WHITE OWL ENERGY SERVICES INC.

## MANAGEMENT DISCUSSION OF FINANCIAL RESULTS – Q4 2020

### Investing Activities

#### *Capital Expenditures and Acquisition of Joint Venture Interest*

|                                                          | Three months ended<br>December 31, |       | Twelve months ended<br>December 31, |         |
|----------------------------------------------------------|------------------------------------|-------|-------------------------------------|---------|
| (\$000's)                                                | 2020                               | 2019  | 2020                                | 2019    |
| <b>Capital expenditures</b>                              | <b>\$318</b>                       | 1,186 | <b>\$837</b>                        | \$5,762 |
| Acquisition of 15% joint interest in Tioga Joint Venture | -                                  | -     | <b>1,000</b>                        | -       |
|                                                          | <b>\$318</b>                       | 1,186 | <b>\$1,837</b>                      | \$5,762 |

Capital expenditures during the three and twelve months ended December 31, 2020 include amounts for the installation of an automated metering and invoicing system, tank heaters, sump pump upgrades, truck offload improvements, static dissipators and spare parts inventory in respect of the Corporation's North Dakota facilities and White Owl's share of Clairmont recommissioning costs (please see **Canada - Clairmont Terminal** on Page 19).

#### *Acquisition of 15% Interest in Tioga Joint Venture*

In 2016, White Owl Tioga LLC, a 40% owner of the Tioga SWD, 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<br>(000's)                   | Common<br>shares | Amount<br>(\$000) | Preferred<br>shares | Amount<br>(\$000) | Total         | Amount<br>(\$000) |
|------------------------------------------------------------|------------------|-------------------|---------------------|-------------------|---------------|-------------------|
| <b>Balance December 31, 2018</b>                           | <b>47,983</b>    | <b>\$19,392</b>   | <b>26,469</b>       | <b>\$12,353</b>   | <b>74,452</b> | <b>\$31,745</b>   |
| Shares issued                                              | 17,650           | 1,765             | -                   | -                 | 17,650        | 1,765             |
| Share issue costs                                          | -                | (39)              | -                   | -                 | -             | (39)              |
| <b>Balance December 31, 2019 and<br/>December 31, 2020</b> | <b>65,633</b>    | <b>\$21,118</b>   | <b>26,469</b>       | <b>\$12,353</b>   | <b>92,102</b> | <b>\$33,471</b>   |

## **WHITE OWL ENERGY SERVICES INC.**

### **MANAGEMENT DISCUSSION OF FINANCIAL RESULTS – Q4 2020**

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As at December 31, 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 6,204,000 share options outstanding as of December 31, 2020 (December 31, 2019 – 1,689,000), with a weighted average exercise price of \$0.11 per share. In the three and twelve months ended December 31, 2020, 300,000 and 4,704,000 options, respectively, were granted to directors, officers and employees at \$0.05 per option, and with an option expiry date of January 23, 2025. During the twelve months ended December 31, 2020, 89,000 options expired and 100,000 options were cancelled. During the year ended December 31, 2019, 2,025,000 options expired, and 455,000 options were cancelled.

#### **Term Loan**

Effective December 21, 2020, 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 have a non-revolving reducing loan facility (the “Term Loan”) in the amount of US \$7,691,031 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 3.00%. Until demand, the Term Loan is repayable in monthly payments of interest, quarterly payments of US \$100,000 until June 30, 2021 and additional quarterly payments of 80% of the Company’s excess cash flow. Excess cash flow is calculated as quarterly earnings before interest, taxes, depreciation, depletion and amortization (“EBITDA”) less maintenance capital expenditures of US \$85,125, loan renewal fee of US \$25,000 and principal and interest payments on the Term Loan and Operating Loan. 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 3.00%. During the year ended December 31, 2020, the Company made principal payments on the Term Loan of \$708,582 (US \$526,622) (2019 - \$3,536,775 (US \$2,680,041)). The facilities are subject to review by the lender with the next annual review date set for June 30, 2021.

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 \$12,334 (December 31, 2019 - \$10,426). The

# WHITE OWL ENERGY SERVICES INC.

## MANAGEMENT DISCUSSION OF FINANCIAL RESULTS – Q4 2020

Company had drawn \$nil on the Operating Loan at December 31, 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 EBITDA, debt service coverage and working capital ratios:

| Period                      | EBITDA<br>three months<br>ended<br>(\$000's) | Working capital<br>ratio | Debt service ratio |
|-----------------------------|----------------------------------------------|--------------------------|--------------------|
| December 31, 2020           | 44                                           | 1.40:1                   | 0.90:1             |
| March 31, 2021              | 71                                           | 1.35:1                   | 0.45:1             |
| June 30, 2021               | 181                                          | 1.35:1                   | 0.80:1             |
| July 1, 2021 and thereafter | -                                            | 1.50:1                   | 1.25:1             |

The debt service coverage ratio is calculated as follows:

$$\text{Debt service coverage ratio} = \frac{\text{EBITDA}}{\text{Debt service obligations}}$$

The debt service coverage ratio at December 31, 2020 was 1.07 (December 31, 2019 – 1.73). The ratio is calculated based on the trailing four quarters at December 31, 2020.

The working capital ratio is calculated as follows:

$$\text{Working capital ratio} = \frac{\text{Current assets}}{\text{Current liabilities excluding term loan, deferred consideration, lease liabilities, loans payable and decommissioning obligations}}$$

The working capital ratio at December 31, 2020 was 1.59 to 1 (December 31, 2019 – 1.75 to 1).

### *Conditions subsequent*

Under the loan agreement, the following subsequent conditions must be satisfied to maintain the ongoing availability of the Term Loan and Operating Loan:

- On or before January 31, 2021, White Owl's Board of Directors shall form a special committee and engage a financial advisor to consider strategic alternatives, including a process in respect of either the issuance of equity or the sale of assets with the result being the repayment of the Term Loan and Operating Loan;
- On or before March 31, 2021, White Owl shall have a comprehensive plan recommended by the special committee and approved by the Board of Directors with specific milestones, appointment of a financial advisor, all to the satisfaction of ATB, for the purposes of assessing the strategic alternatives;

## **WHITE OWL ENERGY SERVICES INC.**

### **MANAGEMENT DISCUSSION OF FINANCIAL RESULTS – Q4 2020**

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- On or before May 31, 2021, White Owl and ATB will agree upon and revise the quarterly Term Loan principal repayments due on September 30, 2021 and December 31, 2021; and
- On or before December 31, 2021, White Owl shall repay in full all indebtedness payable to ATB under the Term Loan and Operating Loan.

It shall be a default or event of default of the Commitment Letter if White Owl fails to satisfy the conditions above.

On January 15, 2021, White Owl's Board of Directors formed a special committee in accordance with the requirements of the conditions subsequent of the Commitment Letter. On March 18, 2021, the Company engaged a financial advisor.

#### **Promissory Note Settlement**

On January 17, 2020, White Owl Ltd. entered into a release agreement with the Clairmont Terminal 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 audited Consolidated Financial Statements for the twelve months ended December 31, 2020.

#### **OUTLOOK**

The COVID crisis and the prevailing market conditions have had a drastic impact on business in both North Dakota and in Alberta. While the Clairmont terminal in Alberta was temporarily shut in during Q2 2020, the Company has attracted \$3.2 million of expansion capital for the Butane blending and disposal business which are scheduled to be fully operational in Q2 2021. However, the business outlook for 2021 and 2022 for both the North Dakota and Alberta markets is very much tied to the oil price environment, the status of COVID vaccinations and the associated political machinations around both issues.

#### **North Dakota**

For the first quarter of 2021, oil pricing has improved which is benefiting the North Dakota business with higher proceeds from the sale of recovered oil. In January 2021, WTI averaged US \$52.11 per barrel (up from US \$40.92 per barrel in Q3 2020 and US \$42.64 per barrel in Q4 2020). In February 2021, WTI has increased further to average US \$59.07 per barrel. In addition, our forecast for 2021 anticipates a substantial increase in the drilling rig count during the second half of the year which should improve the market conditions for White Owl's business.

Although there has been little improvement in business during Q1 2021, the Company sees encouraging signs of a return to increased activity by the second half of 2021, as evidenced by a mix of public statements and anecdotal discussions with customers. There is also some M&A activity amongst producers and as an example,

## **WHITE OWL ENERGY SERVICES INC.**

### **MANAGEMENT DISCUSSION OF FINANCIAL RESULTS – Q4 2020**

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one of our New Town customers Enerplus Resources has recently announced the purchase of Bruin E&P Operating. It seems that today the purchase of reserves offers superior economics to drilling for reserves in the Bakken. Active drilling is however needed to replace the steep declines in oil production that has taken place over the past 12 months.

At this time, although the improving oil price and rig count over recent months is a cause for cautious optimism, the short-term outlook for 2021 continues to remain uncertain until producers announce capital expenditure programs for the year. Capital programs have been on hold until the status of the Dakota Access Pipeline (DAPL) has been decided. The chance that this line may be shut-in until certain environmental permits have been issued is a concern for the entire industry in North Dakota. Based on industry outlook and discussions with customers however, we are forecasting a slow first half of 2021 with a stronger second half of the year.

#### **Alberta**

The highlight for White Owl's Alberta business is the planned restart and addition of Butane blending at the Clairmont Terminal as discussed above. During the year, management worked with Pivotal on the terms of agreement to develop the processing and disposal business at the Clairmont Terminal. The scope of the agreement with Pivotal, which was executed in late October 2020, contemplated an initial investment of \$700,000 by Pivotal to recommission the plant and to expand the water disposal and metering capacity. This work has now been completed. The Butane blending project involves a further investment of \$2.5 million by Pivotal, for the construction of a butane blending capability at the plant. The Butane blending project is scheduled to be completed during Q2 2021. The agreement with Pivotal has a term of 10 years and anticipates Pivotal funding further expansion as market conditions warrant.

Although not yet realised, the potential at Clairmont is very encouraging due strictly to the processing and water disposal capability of the plant, its strategic, oil pipeline connected location and the new capital being invested in Butane blending. There is an indication of increased activity in the Grande Prairie region as producers respond to the improved commodity price environment. There is also the recognition that pipeline egress from Alberta is forecast to improve and that there is anticipated demand for more gas production from the region once the Kitimat LNG project comes on-line. All projections are for significantly increased drilling activity.

#### **Corporate**

Aggravating the current challenging market conditions and the unknown future effects of COVID-19, as it relates to our business, is the recent action by White Owl's lender who has advised the Corporation that it needs to find an alternate banking arrangement and make full repayment of outstanding loans by December 31, 2021. To satisfy this requirement, the Special Committee of the Board of Directors has engaged a financial advisor to pursue strategic alternatives available to the Corporation including sourcing suitable debt financing.

## **WHITE OWL ENERGY SERVICES INC.**

### **MANAGEMENT DISCUSSION OF FINANCIAL RESULTS – Q4 2020**

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Despite the banking challenge, White Owl is in a financial position to “weather the storm” over the next few months until market conditions begin to normalise. We currently face a difficult operating environment in both our markets with improving commodity prices encouraging development activity while anti pipeline sentiment surrounds customer forecasts with uncertainty

In North Dakota the status of the \$3.8 billion DAPL pipeline which ships about 40% of the crude oil produced from the Bakken shale region in North Dakota to refiners in the Midwest and exporters in the U.S. Gulf remains uncertain. Without the 557,000-barrel-per-day line, getting oil out of the area, which has about 1 million bpd of output, would be much more difficult and expensive. DAPL’s controlling owner, Dallas-based Energy Transfer LP, is fighting to keep the pipeline running after a judge threw out its permit to run the line under a South Dakota lake that is a water source for Native American tribes that want the pipeline shut down. The dispute continues and is having a direct impact on customer drilling and development budgets, with no indication of when a decision will be made by the courts.

In Alberta, lack of pipeline capacity also remains an issue, although there is now a clear pathway to completion of two of the three main crude export pipeline projects (the Trans Mountain expansion and Enbridge's Line 3 replacement). Capital investment in Canada’s upstream oil and gas projects is expected to rise in 2021, but the increase still may be relatively modest coming off a year in which demand for oil was crushed by the pandemic. The Canadian Association of Petroleum Producers recently forecast a 14 per cent increase in upstream investment, amounting to about a \$3.36 billion uptick from what the organization’s president described as the “record lows of 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.

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## **MANAGEMENT DISCUSSION OF FINANCIAL RESULTS – Q4 2020**

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### **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 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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