



May 26, 2021

REPORT TO OUR SHAREHOLDERS

To Our Shareholders,

We are pleased to provide you with the condensed consolidated interim financial statements as at and for the three months ended March 31, 2021 and 2020, and Management's Discussion of Financial Results of White Owl Energy Services Inc. ("White Owl" or "the Corporation" or "the Company") for the three months ended March 31, 2021 and 2020.

FIRST QUARTER MARCH 31, 2021 HIGHLIGHTS

Highlights for the three months ended March 31, 2021 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 on operations, our people and on customer activity:

- 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, Sequeira Partners, to analyze and recommend strategic alternatives including the refinancing of the business. 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.
- Throughout the toughest market conditions in several years, White Owl has continued to service its debt, meeting all interest payments in a timely manner and reducing the Company's term loan during the three months ended March 31, 2021 by US\$100,000 to US\$7,491,031 and by a further US\$190,000 in April 2021.
- The Clairmont water disposal well recompletion and the Clairmont plant recommissioning was completed in January 2021 at a cost of \$981,000, with \$700,000 being funded by Pivotal Energy Partners ("Pivotal"). The construction of the butane blending skid ("Blending Skid") along with plant modifications and addition of tankage was completed in April 2021. The Blending Skid was fully funded by Pivotal at a cost of \$2.7 million. As a result, White Owl has forecast a gradual increase in processing, blending and disposal volumes for the second half of 2021.



- White Owl continues to closely monitor the availability of Canadian and US government financial assistance programs including wage and rent subsidization programs and funding for well abandonments. On May 6, 2021, White Owl received a second loan in the amount of US\$400,263 under the US federal Payroll Protection Program (“PPP”), which becomes a forgivable if used for salaries and wages and other allowable expenses. In addition, in Q1 2021, White Owl applied for assistance under the newly introduced US funded Employee Retention Credit which provides a credit for payroll taxes in respect of US based employees.
- Recovered oil volumes in North Dakota remained relatively robust in Q1 2021, totaling 13,399 barrels and \$807,000 in revenue for the quarter, compared to 16,361 barrels and \$789,000 in revenue in Q1 2020, mitigating the significant decrease in water disposal volumes and disposal revenues experienced over the same period in 2020 (down 63%).
- To lessen the financial impact of lower business volume and revenues, White Owl implemented steps a year ago to reduce both field operating and office administrative costs both in North Dakota and Alberta. The result has been a 43% reduction in operating costs and a 40% reduction in general and administrative (“G&A”) costs in Q1 2021 compared to Q1 2020.
- Q1 2021 consolidated EBITDA decreased to \$125,000 compared to \$964,000 in Q1 2020 due to COVID impacted market conditions prevailing since the second quarter of 2020.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

The following is a table of Financial and Operational Highlights for the three months ended March 31, 2021, with comparatives for the three months ended March 31, 2020.

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Three months ended			
March 31,			
(\$000's, unless otherwise noted)	2021	2020	%
North Dakota operations			
Disposal volumes (Bbls)	2,182,350	4,365,803	-50%
Recovered oil sales volumes (Bbls)	13,399	16,361	-18%
Disposal revenue (\$ per Bbl)	\$0.62	\$0.83	-25%
Oil sales revenue (\$ per Bbl)	\$60.21	\$48.22	25%
Operating costs and royalties (\$ per Bbl)	\$0.66	\$0.62	6%
North Dakota disposal and services revenue			
Disposal revenue	\$1,359	\$3,642	-63%
Oil sales revenue	807	789	2%
Other revenue	63	102	-38%
Total revenue – North Dakota	2,229	4,533	-51%
Operating costs	(1,446)	(2,694)	-46%
Operating income – North Dakota⁽¹⁾	\$783	\$1,839	-57%
Alberta operations			
Volumes (Bbls)			
Disposal and third-party processing	8,339	78,888	-89%
Revenue			
Disposal and third-party processing	\$1	\$115	-99%
Total revenue – Alberta	\$1	\$115	-99%
Operating costs	(318)	(423)	-25%
Operating loss – Alberta	(\$317)	(\$308)	3%
Combined operations			
Oilfield disposal and processing revenue	\$2,167	\$4,546	-52%
Other revenue	63	102	-38%
Total revenue	2,230	4,648	-52%
Operating costs	(1,764)	(3,117)	-43%
Operating income⁽¹⁾	466	1,531	-70%
G&A	(341)	(567)	-40%
EBITDA ⁽¹⁾	\$125	\$964	-87%
Other income and expenses			
Depreciation	(422)	(493)	-14%
Amortization	(15)	(17)	-12%
Impairment	-	(12,360)	-100%
Finance costs	(179)	(223)	-20%
Share-based payments	(24)	(2)	1100%
Foreign exchange (losses) gains	86	(572)	115%
Gain on settlement of promissory notes	-	1,100	-100%
Income tax recovery (expense)	2	-2	200%
Deferred income tax recovery	-	105	-100%
Net loss	(\$427)	(\$11,500)	-96%

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



Total combined revenue from North Dakota and Alberta declined 52% to \$2,230,000 in Q1 2021 from \$4,648,000 in Q1 2020 mainly due to the slowdown in oilfield activity caused by the worldwide pandemic. On a positive note, the realized net oil price received by White Owl for recovered oil volumes sold increased 25% to \$60.21 per barrel in Q1 2021 from \$48.22 per barrel in Q1 2020 due to a steadily increasing oil price since October 2020. The stronger oil price in the current quarter more than offset an 18% decrease in oil volumes sold, resulting in recovered oil sales revenues increasing 2% to \$807,000 in Q1 2021 from \$789,000 in Q1 2020.

To lessen the financial impact resulting from lower volumes and revenues, White Owl implemented cost cutting measures resulting in a 43% and 40% reduction in operating costs and general & administrative (“G&A”) costs, respectively, in Q1 2021 compared to Q1 2020.

North Dakota

Volumes:

The reduction in water disposal volumes in Q1 2021 compared to Q1 2020 was primarily due to COVID related changes in market conditions however this situation was further aggravated by the diversion of production water to fracking programs, particularly adjacent to the New Town and Watford City SWD facilities (please see **OPERATING LOCATIONS** on Page 7). Customers in the New Town and Watford City areas commenced drilling and completion programs in March 2021 and already in Q2 2021 disposal volumes are exceeding the Q1 2021 daily average of 24,248 barrels per day (“bpd”), which was down 50% from the daily average of 47,976 bpd in Q1 2020.

Flowback volumes decreased 76% to 362 bpd in Q1 2021 compared to 1,509 bpd in Q1 2020 due to significantly lower well completion activity by producers. With the slowly increasing levels of drilling and completion activity during Q1 2021 however, there has been an approximate four-fold increase in flowback volumes to 1,379 bpd in April 2021.

Recovered oil volumes remained relatively robust in Q1 2021, totaling 13,399 barrels for the quarter, down 18% from 16,361 barrels in Q1 2020, during a period when water disposal volumes for the quarter decreased by 50%.

Bakken-wide water disposal volumes for the three months ended March 31, 2021 include 16 bpd of Class 1 volumes from the Alexander Class 1 facility compared to 563 bpd from Alexander for the three months ended March 31, 2020. The lower volumes from the Alexander Class 1 facility in 2021 are due to weaker market conditions and drier weather in the region. 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.



Revenue and Pricing:

A 63% decrease in water disposal revenues to \$1,359,000 combined with a 38% decrease in other revenue to \$63,000, and a slight 2% increase in recovered oil revenues to \$807,000, resulted in North Dakota total revenue decreasing 51% to \$2,229,000 in Q1 2021 from \$4,533,000 in Q1 2020.

Since the collapse in commodity prices and industry activity during 2020, average monthly oil prices have steadily increased each month since October 2020 when the benchmark West Texas Intermediate (“WTI”) price averaged US \$39.49 per barrel, having reached an average of US \$62.36 per barrel in March 2021. As a result, White Owl’s realized net oil price for Bakken crude has increased every month from US \$30.35 per barrel in October 2020 to US \$52.95 per barrel in March 2021.

The economic slowdown in 2020 has resulted in pricing pressure for trucked-in water at the Corporation’s facilities with a 15% decrease in price to average US \$0.47 per barrel in Q1 2021 compared to US \$0.55 per barrel in Q1 2020. Competitive pressures have resulted in price decreases at the Watford City SWD (down 25%), the New Town SWD (down 15%), the Tioga SWD (down 14%) and the Epping SWD (down 9%). At the Ross SWD trucked-in water disposal prices have remained constant. Similarly, for the small amount of flowback volumes received in Q1 2021, pricing has declined due to competitive pressures by an average of 8% for the Corporation’s Class 2 water disposal facilities.

Other revenue which includes recoveries from joint venture operations decreased 38% to \$63,000 in Q1 2021 compared to \$102,000 in Q1 2020. 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 by 46% in Q1 2021 to \$1,446,000 from \$2,694,000 in Q1 2020 due to 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, down from 24 hours per day previously. With improving market and labour conditions in North Dakota, some of these reductions in costs may need to be reviewed during the second half of 2021.

Operating Income:

For the three months ended March 31, 2021, operating income decreased 57% to \$783,000 from \$1,839,000 in Q1 2020 due to the unfavourable market conditions.



Alberta

On October 27, 2020, White Owl signed a Construction Ownership & Operatorship Agreement (“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. Under the CO&O, Pivotal has invested an estimated \$3.4 million to date 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 Blending Skid and associated infrastructure. The cost of recommissioning the facility and recompletion of the disposal well was \$981,000, of which Pivotal funded \$700,000 and White Owl funded the balance. The cost of the Blend Skid is estimated at \$2,700,000 and is fully funded by Pivotal.

With the commissioning of the Blending Skid scheduled for Q2 2021, Pivotal, as marketer, will build a customer base in the months ahead, which should result in a gradual increase in processing, blending and disposal volumes for the second half of 2021.

In Q1 2021, oil volumes and waste-water disposal volumes were minimal due to the construction and commissioning activities. As a result, for the three months ended March 31, 2021, the Clairmont Terminal incurred operating losses of \$317,000, compared to operating losses of \$308,000 in Q1 2020. Please see **Canada - Clairmont Terminal** on Page 17 for additional information.

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OPERATING LOCATIONS (dollar amounts in USD except Clairmont):

New Town SWD

New Town Facility (amounts in USD except volumes)		<u>Q1 2021</u>	<u>Q1 2020</u>	<u>Change</u>
Production Water - Trucked	b/d	10,541	15,049	-30%
Flowback	b/d	27	1,202	-98%
Total Fluids Disposed	b/d	10,568	16,252	-35%
Oil Sales	b/qtr	3,680	3,563	3%
Revenue:				
Production Water - Trucked		\$449,385	\$761,218	-41%
Price for Production Water/bbl		0.47	0.56	-15%
Flowback		2,437	137,926	-98%
Price for Flowback/bbl		1.00	1.26	-21%
Recovered Oil		174,875	130,759	34%
Price for Oil/bbl		47.52	36.70	29%
Total Revenue		626,697	1,029,903	-39%
Total Revenue/bbl.		\$0.66	\$0.70	-5%
Operating Expenses		425,246	605,922	-30%
Operating Income		\$201,451	\$423,981	-52%

Environmental and Safety:

There were no environmental or safety incidents in the first quarter of 2021. White Owl continually monitors plant and equipment safety and during Q1 2021 sump pumps were upgraded to a higher electrical rating and lighting on tank farm “catwalks” was improved.

Volumes:

Recovered oil volumes increased 3% to 3,680 barrels in Q1 2021 from 3,563 barrels in Q1 2020, while fluid disposal (production water and flowback) volumes decreased 34% over the same period.

Fluid disposal volumes at the New Town SWD improved in January and February 2021 at 11,480 bpd (68% of capacity) and 13,595 bpd (80% of capacity), respectively, but declined to 6,922 bpd in March 2021 as two main customers diverted production water to their current fracking programs. Both customers have indicated a commitment to increased drilling and completion activity for 2021, supported by strengthening oil prices. Overall, in Q1 2021, fluid disposal volumes at the New Town SWD averaged 10,568 bpd (62% of capacity) compared to 16,252 bpd (96% of capacity), in Q1 2020. The decrease in volumes from Q1 2020 was due to weaker market



conditions and the previously mentioned diversion of production water to fracking programs during March 2021. Once the fracking programs are completed in Q2 2021, White Owl expects the New Town SWD disposal volumes to be closer to the capacity of 17,000 bpd.

For Q1 2021, flowback disposal volumes were negligible at 27 bpd, down 98% from 1,202 bpd in Q1 2020 due to the significant curtailment of drilling and completion activity by area producers since the onset of the global pandemic. With improving commodity prices and slowly increasing drilling and completion activity, greater volumes of flowback fluids are forecast for the second half of 2021.

Revenues and Pricing:

Recovered oil revenues increased 34% in Q1 2021 compared to Q1 2020 due to a 29% increase in the realized net oil price and a 3% increase in recovered oil volumes. During the same period however, trucked-in production water and flowback disposal revenues decreased by 41% and 98%, respectively. As a result, for the three months ended March 31, 2021, total New Town SWD facility revenues decreased 39% to \$626,697 from \$1,029,903 in Q1 2020.

Operating Costs:

In line with the lower volumes received, operating costs decreased 30% to \$425,246 in Q1 2021 from \$605,922 in Q1 2020. Labour costs at the New Town SWD have decreased only slightly due to the nature of the business at the plant which receives trucked-in water volumes only and requires operators onsite for 24 hours per day.

Operating Income:

For the three months ended March 31, 2021, the New Town SWD facility generated operating income of \$201,451 compared to \$423,981 in Q1 2020. This decrease was due to lower water disposal volumes combined with lower pricing due to market conditions.

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Watford City SWD

Watford Facility (amounts in USD except volumes)				
		Q1 2021	Q1 2020	Change
Production Water - Trucked	b/d	7,559	9,236	-18%
Production Water - Piped	b/d	0	1,309	-100%
Flowback	b/d	122	244	-50%
Total Fluids Disposed	b/d	7,681	10,789	-29%
Oil Sales	b/qtr	3,204	4,458	-28%
Revenue:				
Production Water - Trucked		\$306,580	\$504,263	-39%
Price for Prodn. Water-Trucked/bbl		0.45	0.60	-25%
Production Water - Piped		0	57,180	-100%
Price for Prodn. Water Piped/bbl		0.00	0.48	-100%
Flowback		13,667	36,130	-62%
Price for Flowback/bbl		1.24	1.63	-24%
Recovered Oil		157,605	156,247	1%
Price for Oil/bbl		49.19	35.05	40%
Other Income		0	0	0%
Total Revenue		477,852	753,820	-37%
Total Revenue/bbl.		0.69	0.77	-10%
Operating Expenses				
		277,352	433,309	-36%
Operating Income		\$200,500	\$320,511	-37%

Environmental and Safety:

There were no environmental or safety incidents in the first quarter. Recent safety and environmental upgrades include electrically upgraded sump pumps and improved tank level monitoring to control tank levels and prevent spills.

Volumes:

Watford City SWD water disposal volumes have remained steady during the first quarter of 2021 at approximately 55% of capacity and averaged 7,681 bpd for the quarter, down 29% from 10,789 bpd in Q1 2020 due to market conditions.

Recovered oil volumes decreased 28% to 3,204 barrels in Q1 2021 from 4,458 barrels in Q1 2020, in line with the 29% decrease in fluid disposal volumes.



Activity in the Watford City area is projected to increase in the near future as several customers have planned drilling and completion programs in the area that are expected to result in higher flowback and production water volumes to the site during the second half of 2021.

Revenues and Pricing:

For the three months ended March 31, 2021, Watford City SWD facility revenues totaled \$477,852, down 37% from \$753,820 in Q1 2020. A 40% increase in the realized net oil price in Q1 2021 compared to Q1 2020 offset the lower oil volumes and resulted in recovered oil revenues slightly increasing. The lower total revenues resulted from the reduced trucked-in production water disposal volumes (down 18%), lower pipeline water disposal volumes (down 100%) and lower flowback disposal volumes (down 50%). In addition, competitive pressures resulted in lower pricing in Q1 2021 compared to Q1 2020 with trucked-in water disposal pricing down 25% and flowback pricing down 24%.

Operating Costs:

For the three months ended March 31, 2021, operating costs decreased 36% to \$277,352 from \$433,309 in Q1 2020. The percentage decrease exceeds the 29% decrease in fluid disposal volumes due to cost cutting initiatives implemented in Q2 2020.

Operating Income:

For the three months ended March 31, 2021, the New Town SWD facility generated operating income of \$200,500, down 37% from \$320,511 in Q1 2020. This decrease was due to lower water disposal volumes combined with lower pricing due to market conditions.

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Ross SWD

Ross Facility (amounts in USD except volumes)				
		<u>Q1 2021</u>	<u>Q1 2020</u>	<u>Change</u>
Production Water - Trucked	b/d	2,746	10,694	-74%
Flowback	b/d	50	49	2%
Total Fluids Disposed	b/d	2,796	10,743	-74%
Oil Sales	b/qtr	5,152	6,974	-26%
Revenue:				
Production Water - Trucked		\$123,582	\$486,577	-75%
Price for Production Water/bbl		0.50	0.50	0%
Flowback		4,815	5,749	-16%
Price for Flowback/bbl		1.07	1.29	-17%
Recovered Oil		236,994	255,005	-7%
Price for Oil/bbl		46.00	36.57	26%
Other Income		4,200	0	100%
Total Revenue		369,591	747,331	-51%
Total Revenue/bbl.		1.47	0.76	92%
Operating Expenses		245,565	424,496	-42%
Operating Income (Loss)		\$124,026	\$322,835	-62%

Environmental and Safety

There were no environmental or safety incidents in the first quarter of 2021. As a safety improvement, the sump pumps at the facility were upgraded to a higher electrical rating.

Volumes:

Fluid disposal volumes at the Ross SWD facility are lower due to market conditions and the construction of a customer owned SWD nearby, resulting in a loss of customer volumes to the recently constructed SWD. As a result, Q1 2021 fluid disposal volumes averaged 2,796 bpd, down 74% from 10,743 bpd in Q1 2020. The customer owned SWD does not accept third party volumes for disposal.

Recovered oil volumes were down 26% to 5,152 barrels in the quarter from 6,974 barrels in Q1 2020 although prices received for the recovered oil were higher.

Following the startup of the customer owned SWD in February 2021, site operator hours were reduced from 24 hours per day to 12 hours per day and from April 2021 the site will operate unmanned until fluid volumes increase.

Revenues and Pricing:



For the three months ended March 31, 2021, the Ross SWD facility revenues totaled \$369,591, down 51% from \$747,331 in Q1 2020. Recovered oil revenues decreased 7% due to a 28% decrease in recovered oil volumes which was partially offset by a 26% increase in the realized net oil price in Q1 2021 compared to Q1 2020. The 51% lower revenues were a result of the slightly lower recovered oil revenues combined with reduced trucked-in production water revenue (volumes down 74%). Disposal pricing at the Ross SWD has not been reduced.

Operating Costs:

For the three months ended March 31, 2021, operating costs decreased 42% to \$245,565 in Q1 2021 from \$424,496 in Q1 2020. In response to the lower disposal volumes, this facility began operating on an unmanned basis in April 2021.

Operating Income:

For the three months ended March 31, 2021, the Ross SWD facility generated operating income of \$124,026, down 62% from \$322,835 in Q1 2020. This decrease was due to lower water disposal volumes caused not only by weak market conditions but also by the competing SWD well as previously discussed.

Alexander Class 1 Facility

Alexander Facility (Amounts in USD except volumes)				
		<u>Q1 2021</u>	<u>Q1 2020</u>	<u>Change</u>
Class 1 Water-Trucked	b/d	16	563	-97%
Total Fluids Disposed	b/d	16	563	-97%
Class 1 Water	b/qtr	1,443	51,210	-97%
Revenue:				
Class 1 Water		\$8,518	\$229,376	-96%
Price for Class 1 Water		5.90	4.48	32%
Total Revenue		8,518	229,376	-96%
Total Revenue/bbl.		5.90	4.48	32%
Operating Expenses		55,254	216,216	-74%
Operating Income (Loss)		<u>\$ (46,736)</u>	<u>\$ 13,160</u>	<u>-455%</u>

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 operators. 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.



Environmental and Safety

The Alexander Class 1 facility is subject to different regulations than the Class 2 SWD facilities as all waste-water received by Alexander must first be characterized as non-hazardous. As is required by the permit conditions, this is determined by White Owl randomly testing water loads on a regular basis for hazardous materials. On March 23, 2021 a random sample was taken from a customer load and the analysis showed the load contained hazardous materials. White Owl and the customer concerned are working on a solution with the regulator, however until the regulator is satisfied, the Alexander facility will remain closed. It should be stressed that White Owl did not violate any permit conditions nor has this been indicated by the regulator.

Volumes:

At Alexander, business is tied to weather (spring rain) and drilling activity (more drilling mud in land fills). For the past twelve months, Alexander has been impacted by the economic downturn and very dry weather conditions. In addition, in Q1 2021, the facility lost a major customer due to pricing. White Owl intends to rebid this one of several customers' volumes in Q3 2021, but as a result of the lost business, Q1 2021, water disposal volumes totaled 1,443 barrels for the quarter, down significantly from 51,210 barrels in Q1 2020.

White Owl is continuing with marketing efforts to expand Alexander's customer base in the region.

Revenues and Pricing:

For the three months ended March 31, 2021, revenues decreased 97% to \$8,518 from \$229,376 in Q1 2020 due to the market conditions, dry weather and the loss of a customer, as previously discussed.

Operating Costs:

Operating costs for the three months ended March 31, 2021 decreased 74% to \$55,254 from \$216,216 in Q1 2020 mainly due to the lower disposal volumes. The prior period's operating costs of \$216,216 include one-off well workover costs of \$75,600.

Operating Income:

The lower disposal volumes resulted in a Q1 2021 operating loss of \$46,736 compared to operating income of \$13,160 in Q1 2020.

Tioga SWD JV

Tioga (Volumes 100%, dollar amounts at 47% in USD)				
		Q1 2021	Q1 2020	Change
Production Water-Trucked	b/d	3,134	7,213	-57%
Production Water-Piped	b/d	0	8,028	-100%
Flowback	b/d	177	30	482%
Total Fluids Disposed	b/d	3,310	15,272	-78%
Oil Sales	b/qtr	2,443	2,240	9%
Revenue:				
Production Water - Trucked		\$66,861	\$181,181	-63%
Price for Prodn. Water-Trucked/bbl		0.50	0.59	-14%
Production Water - Piped		0	178,541	-100%
Price for Prodn. Water Piped/bbl		0.52	0.52	0%
Flowback		9,381	2,044	359%
Price for Flowback/bbl		1.25	1.57	-20%
Recovered Oil		57,183	39,605	44%
Price for Oil/bbl		49.80	37.62	32%
			0	
Total Revenue		\$133,425	401,370	-67%
Total Revenue/bbl.		0.95	0.61	55%
Operating Expenses		73,220	217,626	-66%
Operating Income		\$60,204	\$183,745	-67%

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.

Environmental and Safety

There were no environmental or safety incidents in the first quarter of 2021.

Volumes:

In Q1 2021, recovered oil volumes were strong, increasing 9% to 2,443 barrels from 2,240 barrels in Q1 2020, even though water disposal volumes were significantly lower than the prior year. Aggravating the lower activity in the area was the commissioning of a customer owned 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. Trucked in volumes have also been lower. As a result, Q1 2021 fluid disposal volumes averaged 3,311 bpd, down 78% from 15,272 bpd in Q1 2020.



In Q1 2021, Hess commenced a drilling and completion program adjacent to the Tioga SWD which is expected to result in an increase in pipeline volumes once the wells are placed into production.

Revenues and Pricing:

The 9% increase in recovered oil volumes combined with a 32% increase in the realized net oil price resulted in recovered oil revenues increasing 44% in Q1 2021 compared to Q1 2020. Despite the increase in recovered oil revenues there was a significant decrease in water disposal volumes and a 14% decrease in trucked-in water pricing. These factors combined to result in total revenues for the Tioga SWD facility decreasing by 67% to \$133,425 in Q1 2021 from \$401,370 in Q1 2020.

Operating Costs:

Operating costs decreased 66% to \$73,220 in Q1 2021 from \$217,626 in Q1 2020, in line with the 78% decrease in fluid volumes and the 9% increase in recovered oil volumes. During 2020, fixed costs were reduced by reducing operator shifts from 24 hours per day to 12 hours per day and this arrangement has remained in effect for Q1 2021 and is planned for the foreseeable future.

Operating Income:

For the three months ended March 31, 2021 operating income decreased 67% to \$60,204 from \$183,745 in Q1 2020 due to the lower disposal volumes.

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Epping SWD JV

Epping (Volumes 100%, Dollar amounts at 32.5% Working Interest in USD)				
		Q1 2021	Q1 2020	Change
Production Water-Trucked	b/d	1,036	860	20%
Production Water-Piped	b/d	3,736	6,687	-44%
Flowback	b/d	246	0	100%
Total Fluids Disposed	b/d	5,017	7,548	-34%
Oil Sales	b/qtr	661	962	-31%
Revenue:				
Production Water-Trucked		\$16,599	\$15,267	9%
Price for Production Water/bbl		0.55	0.60	-9%
Production Water-Piped		56,821	113,571	-50%
Price for Production Water/bbl		0.52	0.57	-9%
Flowback		9,322	0	100%
Price for Flowback/bbl		1.30	0.00	100%
Recovered Oil		10,565	11,417	-7%
Price for Oil/bbl		49.18	36.52	35%
Other Income		0	650	-100%
Total Revenue		93,306	140,904	-34%
Total Revenue/bbl.		0.62	0.63	-1%
Operating Expenses		64,826	105,055	-38%
Operating Income		\$ 28,480	\$35,849	-21%

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.

Environmental and Safety

There were no environmental or safety incidents in the first quarter of 2021. As a safety improvement, the sump pumps at the facility were upgraded to a higher electrical rating. In 2020, there were improvements made to tank level monitoring to help reduce spills.

Volumes:

Total fluid disposal volumes averaged 5,017 bpd in Q1 2021, down 34% from 7,548 bpd in Q1 2020 due to market conditions. In Q1 2021, 74% of fluid volumes were received by pipeline, compared to 89% in Q1 2020.



Volumes at the Epping JV are limited by the 7,200 bpd capacity of the injection well. Currently, the White Owl pipeline agreement with Hess does not require Hess to deliver a specified volume to the site but the landowner has a separate agreement that does require Hess to maximize volumes to the site. In Q1 2021, White Owl and Hess have been working together to maximize the pipeline volumes. This is an ongoing effort and has already resulted in a 24% increase in Hess pipeline volumes in April 2021 over Q1 2021 levels.

Recovered oil volumes decreased to 661 barrels in Q1 2021 from 962 barrels in Q1 2020, approximately matching the 34% decrease in fluid disposal volumes.

Revenues and Pricing:

The decrease in fluid disposal volumes and recovered oil volumes, combined with a 9% decrease in water disposal pricing resulted in total revenues of \$93,306 in Q1 2021, down 34% from \$140,904 in Q1 2020.

Recovered oil sales revenues remained flat in Q1 2021 compared to Q1 2020 as a 35% increase in the realized net oil price offset the 31% decrease in recovered oil volumes.

Operating Costs:

In response to the lower disposal volumes, labor costs have been reduced by reducing manpower from 24 hours per day to a person at the site on a half-time basis. As a result, operating costs decreased 38% to \$64,826 in Q1 2021 from \$105,055 in Q1 2020.

Operating Income:

For the three months ended March 31, 2021 operating income decreased 21% to \$28,480 from \$35,849 in Q1 2020 due to the lower water disposal volumes and pricing.

Canada - Clairmont Terminal

Environmental and Safety

There were no environmental or safety incidents in the first quarter of 2021.

Capital program and Facility Restart

Under the terms of the CO&O between White Owl and Pivotal, Pivotal has invested \$3.4 million and White Owl has invested \$0.3 million to date in the Clairmont Terminal to fund: (i) recommissioning and minor capital upgrades; (ii) the recompletion of a waste-water disposal well in the Belloy formation and (iii) the construction of a Blending Skid.

- (i) Following a six-month period of suspended operations in 2020 due to COVID related market conditions, the Clairmont Terminal was recommissioned in late December 2020. The recommissioning included the

installation of water filters and the recommissioning of the custody transfer meter and piping and equipment with Pivotal providing \$700,000 of the \$981,000 total costs.

- (ii) The waste-water disposal well was recompleted in January 2021, however the well requires an acid job to maximise disposal capacity and this work is scheduled for later in Q2 2021 or early Q3 2021. Funding for this work estimated at \$150,000 will come from the sale of surplus equipment and from working capital.
- (iii) Construction of onsite work for the Blending Skid began mid-March 2021 and was completed in April 2021 and final commissioning of the Blend Facility is expected to be complete by the end of May 2021. This capital program was fully funded by Pivotal in accordance with the terms of the CO&O. The scope of the Blending Skid includes heavy oil tanks for blending with light oil and a large butane bullet for mixing with the light oil/heavy oil blend before it is shipped to the Pembina Peace Pipeline.

Operating Results

In Q1 2021, oil volumes and waste-water disposal volumes were minimal due to the construction and commissioning activities as previously discussed. As a result, for the three months ended March 31, 2021, the Clairmont Terminal incurred operating losses of \$317,000, compared to operating losses of \$308,000 in Q1 2020.

Following commissioning of the Blend Skid in Q2 2021, White Owl anticipates business to slowly increase. Pivotal plans to steadily grow the customer base in the region where oil and gas activity is expected to steadily improve as Montney development increases to meet Kitimat LNG project natural gas demand.

Well Abandonments

The oil field adjacent to the Clairmont Terminal was permanently shut-in by White Owl in 2019 and includes 28 wells of which 5 wells could be completed as waste water disposal wells to support future expansion initiatives. White Owl is planning an abandonment program for the remaining shut-in wells. In this regard, 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. Additional funding to partially, or fully fund, well abandonments under the SRP has been applied for and is pending approval. White Owl also contemplates deploying some of the operating cash flow on well abandonments contemplated for the Clairmont property.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

White Owl's operations and facilities are subject to rigorous federal, provincial, US state and local environmental, health and safety laws and regulations governing among other things, the handling and storage of petroleum products, waste disposal, spills and the protection of employee health, safety and the environment. White Owl's facilities must maintain environmental and other permits from various regulatory authorities in order to operate, and these facilities are subject to inspection from time to time. In addition, legislation requires that facility sites



be abandoned and reclaimed at the end of their useful lives, to the satisfaction of the regulatory authorities. Failure to adhere to these requirements could result in operational disruptions, fines or penalties, or the need to install additional pollution control technology.

More recently, there has been an increasing importance among investors, as well as society as a whole, for companies to follow emerging environmental, social and governance (“ESG”) trends. Given White Owl’s strong existing ESG profile, the Corporation recognises the responsibility to follow ESG trends and are currently expanding existing programs to fall in line with new emerging ESG best practices policies. We are committed to identifying opportunities to minimize our environmental impact, improve our safety, invest in our employees and support the communities in which we live and work.

The Corporation recognizes that predictable, continuous, and strong financial performance requires corporate commitment and focus from the highest level. A wholistic approach to sustainability starts with our Board of Directors and lays the groundwork for long-term performance and risk management. White Owl has a Corporate Governance, Compensation and Risk Management Committee which meets regularly to provide oversight and direction. The responsibilities of the Corporate Governance, Compensation and Risk Management Committee in respect of compensation include: reviewing and providing recommendations to the Board on compensation policies and guidelines for supervisory and management personnel, reviewing and approving corporate goals and objectives relevant to CEO compensation, as well as Non-CEO officer and director compensation. The responsibilities of the Corporate Governance, Compensation and Risk Management Committee in respect corporate governance matters include: reviewing the providing recommendations to the Board regarding the Corporation’s general approach to corporate governance issues and to propose changes as necessary from time to time to respond to particular governance recommendations or guidelines, ensuring that all members of the Board have been informed and are aware of their duties and responsibilities as directors and ensuring that the Corporation has in effect adequate policies and procedures. The responsibilities of the Corporate Governance, Compensation and Risk Management Committee in respect of risk management include: ensuring that the Corporation has in effect adequate policies and procedures to identify and manage the principal risks of the Corporation’s business, develop and monitor the Corporation’s policies and procedures to identify, manage and minimize health, safety and environmental risks and to assess the Corporation’s existing and potential project related risks in order to avoid, manage or mitigate these risks during all project stages and emergency situations.

OUTLOOK

The COVID crisis and the prevailing market conditions continue to impact our business, both North Dakota and in Alberta. There are signs however of an improving marketplace, both in North Dakota and Alberta, with oil prices increasing while rig counts and field activity are also increasing, albeit slowly.



North Dakota

In Q1 2021, oil pricing improved month by month which is benefiting the North Dakota operations with higher proceeds from the sale of recovered oil. WTI averaged US \$57.85 per barrel in Q1 2021 (up from US \$42.64 per barrel in Q4 2020 and US \$40.92 per barrel in Q3 2020). In April 2021, WTI has increased further to average US \$61.70 per barrel for the month. In addition, our forecast for 2021 anticipates an increasing rig count during the second half of the year which should improve the market conditions for White Owl's operations.

Bakken production at the end of Q1 2021 was 1,108,441 barrels of oil per day with 76% of these volumes leaving North Dakota by pipeline with 16% being transported by rail and 5% being refined locally. Gas production at the end of Q1 2021 was 2.8 BCF per day with 94% of this gas now gathered and sold with the balance being flared.

The Dakota Access Pipeline ("DAPL") remains the subject of controversy with legal action being taken by different groups to have the line shut down while a revised Environmental Impact Statement is being prepared. Encouraging remarks by State of North Dakota officials and Enterprise Partners executives at a recent oil show in Bismarck indicate that a shutdown of the line is most unlikely. These remarks were positively received by oil industry executives.

With more favourable market conditions anticipated for the second half of 2021, we anticipate increasing levels of activity. Already in 2021, White Owl customers have commenced drilling and completion programs in the vicinity of the New Town, Watford and Epping SWD facilities, as evidenced by the diversion of production water to fracking operations in March and continuing into April and May. There is also some M&A activity amongst producers and as an example, one of our New Town customers Enerplus Resources has recently announced the purchase of Bruin E&P Operating, which is expected to result in additional volumes at the New Town SWD facility.

Alberta

In Alberta, drilling and completion activity in the Grande Prairie region remains muted, due to a combination of COVID related impacts, political head winds and spring breakup. The Blending Skid at the Clairmont Terminal is in the process of being commissioned as discussed above and Pivotal is fully engaged in developing the market for transportation, treating, blending and disposal services. Due to the competitive nature of the market and the impact of the Secure/Tervita potential merger on processing and disposal services in the area, a reliable forecast for the balance of 2021 is a challenge. However, as discussed above, certainly we anticipate a much stronger financial performance from the Clairmont Terminal.

Corporate

It has been a challenging but constructive first quarter.



The Special Committee of the Board of Directors has been working with Sequeira Partners, the Company's financial advisor to source available capital to replace the ATB loan by year end 2021 and to explore other strategic options that may be available to the Corporation.

In the field, management has been focussed on maximising income and responding to the slow increase in field completion activities. The rig count in North Dakota is slowly increasing and in Alberta the commissioning of the Blending Skid at Clairmont is forecast to result in improving financial performance at that facility. Increasing commodity prices may further accelerate the improvement in market conditions.

White Owl continues to pursue available government COVID related programs and recently received a second loan in the amount of US\$400,263 under the US federal PPP, which becomes a grant if used for salaries and wages and other allowable expenses. These government support programs have been a "life saver" allowing us to retain most of our key people.

We would like to thank all our staff for their significant efforts in a quarter which provided its share of challenges through the continuing pandemic and the difficult working conditions brought on by the winter. The Company generated positive EBITDA during the first quarter and reduced its debt to \$7.3 million as of April 30, 2021. We believe that White Owl is well positioned financially and operationally to meet the challenges ahead and to exit 2021 financially stronger despite the need to confront the headwinds faced by the entire energy industry.

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

Sincerely,

On behalf of the Board of Directors,

Owen Pinnell, P.Eng.

President and CEO

Cautionary Statements:

This letter contains certain forward-looking statements and forward-looking information (collectively referred to herein as "forward looking statements") within the meaning of applicable securities laws. All statements other than statements of present or historical fact are forward



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

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

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

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

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

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

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