

Consolidated Financial Statements of

WHITE OWL ENERGY SERVICES INC.

December 31, 2017 and 2016

(Expressed in thousands Canadian dollars)

Independent Auditors' Report

To the Shareholders of White Owl Energy Services Inc.

We have audited the accompanying consolidated financial statements of White Owl Energy Services Inc., which comprise the consolidated statement of financial position as at December 31, 2017, the consolidated statements of comprehensive loss, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of White Owl Energy Services Inc. as at December 31, 2017 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 to the consolidated financial statements which describes matters and conditions that indicate the existence of material uncertainties which may cast significant doubt about White Owl Energy Services Inc.'s ability to continue as a going concern.

Calgary, Alberta
August 1, 2018

MNP LLP
Chartered Professional Accountants

WHITE OWL ENERGY SERVICES INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in thousands of Canadian dollars)

	December 31, 2017	December 31, 2016
ASSETS		
CURRENT		
Cash	1,202	2,584
Trade and other receivables (Note 15)	3,039	2,374
Promissory notes (Note 17)	170	170
Deposits and prepaid expenses	1,324	183
	5,735	5,311
Property, plant and equipment (Note 5)	29,840	26,453
Goodwill (Note 6)	7,995	8,557
	43,570	40,321
LIABILITIES		
CURRENT		
Operating loan (Note 7)	659	-
Term loan (Note 7)	14,278	15,550
Current portion of promissory notes (Note 8)	3,138	21
Current portion of mortgage payable (Note 9)	9	9
Trade and other payables	1,585	1,232
Current portion of decommissioning liabilities (Note 10)	273	-
	19,942	16,812
Promissory notes (Note 8)	18	43
Mortgage payable (Note 9)	128	146
Decommissioning liabilities (Note 10)	4,180	1,171
	24,268	18,172
SHAREHOLDERS' EQUITY		
Share capital (Note 12)	30,693	30,377
Warrants (Note 12)	53	53
Contributed surplus	1,173	860
Accumulated other comprehensive income	2,566	3,841
Deficit	(15,183)	(12,982)
	19,302	22,149
	43,570	40,321

Going concern considerations (Note 2)
Commitments (Note 18)
Subsequent events (Note 20)

Approved on behalf of the Board of Directors:

Signed "Owen C. Pinnell"
Director

Signed: "Robb D. Thompson"
Director

The accompanying notes are an integral part of the consolidated financial statements.

WHITE OWL ENERGY SERVICES INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Expressed in thousands of Canadian dollars)

	Year ended December 31,	
	2017	2016
REVENUE		
Oilfield disposal and processing services	11,905	10,016
Production revenue	355	-
	12,260	10,016
EXPENSES		
Operating costs	7,145	5,963
General and administrative	2,087	1,611
Depreciation and depletion (Note 5)	1,863	1,393
Impairment (Note 5)	1,820	-
Finance costs (Note 14)	1,237	1,423
Foreign exchange (gains) losses	(75)	55
Share-based payments (Note 13)	313	210
Gain on debt extension (Note 8)	-	(269)
Loss on debt settlement (Note 8)	-	364
Loss (gain) on disposal of assets (Note 4&5)	2	(674)
Loss on abandonment (Note 5)	69	-
	14,461	10,076
NET LOSS	(2,201)	(60)
OTHER COMPREHENSIVE INCOME (LOSS)		
Exchange loss on translating foreign operations	(2,281)	(906)
Change in fair value of net investment hedges (Note 15)	1,006	498
	(1,275)	(408)
NET COMPREHENSIVE LOSS	(3,476)	(468)

The accompanying notes are an integral part of the consolidated financial statements.

WHITE OWL ENERGY SERVICES INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Expressed in thousands of Canadian dollars)

	Share Capital	Warrants	Contributed surplus	Accumulated other comprehensive income	Deficit	Total
Balance at December 31, 2015	20,649	-	650	4,249	(12,922)	12,626
Net loss	-	-	-	-	(60)	(60)
Other comprehensive loss	-	-	-	(408)	-	(408)
Share-based payments (Note 13)	-	-	210	-	-	210
Settlement of share repurchase obligations (Note 14)	5,511	-	-	-	-	5,511
Settlement of promissory notes (Note 8)	2,666	-	-	-	-	2,666
Common shares issued (Note 12)	1,768	-	-	-	-	1,768
Common shares issued on exercise of stock options	2	-	-	-	-	2
Share issue costs (Note 12)	(166)	-	-	-	-	(166)
Share issue costs – broker warrants (Note 12)	(53)	53	-	-	-	-
Balance at December 31, 2016	30,377	53	860	3,841	(12,982)	22,149
Net loss	-	-	-	-	(2,201)	(2,201)
Other comprehensive loss	-	-	-	(1,275)	-	(1,275)
Share-based payments (Note 13)	-	-	313	-	-	313
Common shares issued (Note 12)	316	-	-	-	-	316
Balance at December 31, 2017	30,693	53	1,173	2,566	(15,183)	19,302

The accompanying notes are an integral part of the consolidated financial statements.

WHITE OWL ENERGY SERVICES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in thousands of Canadian dollars)

	Year ended December 31,	
	2017	2016
CASH FLOWS RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Net loss	(2,201)	(60)
Adjustments for non-cash items:		
Depreciation and depletion (Note 5)	1,863	1,393
Impairment (Note 5)	1,820	-
Accretion (Note 14)	185	204
Unrealized foreign exchange losses (gains)	(80)	88
Share-based payments (Note 13)	313	210
Gain on debt extension (Note 8)	-	(269)
Loss on debt settlement (Note 8)	-	364
Loss (gain) on disposal of assets (Note 4&5)	2	(674)
Loss on abandonment (Note 5)	69	-
Abandonment expenditures	(130)	-
Change in non-cash working capital (Note 19)	(1,722)	103
Cash from operating activities	119	1,359
INVESTING		
Property, plant and equipment expenditures (Note 5)	(1,596)	(4,010)
Acquisition (Note 5)	(1,341)	-
Proceeds from the sale of property, plant and equipment (Note 5)	-	7
Joint venture cash acquired (Note 4)	-	1,049
Change in non-cash working capital (Note 19)	76	25
Cash used in investing activities	(2,861)	(2,929)
FINANCING		
Proceeds from issuance of shares, net of costs (Note 12)	316	1,602
Proceeds from the exercise of stock options	-	1
Proceeds from operating loan (Note 7)	2,520	-
Repayment of operating loan (Note 7)	(1,861)	-
Repayment of term loan (Note 7)	(267)	(510)
Repayment of mortgage payable (Note 9)	(8)	(7)
Issuance of promissory notes payable (Note 8)	1,000	67
Repayment of promissory notes payable (Note 8)	(433)	(5)
Repayment of promissory notes receivable	-	62
Change in non-cash working capital (Note 19)	123	8
Cash from financing activities	1,390	1,218
Foreign exchange loss on cash held in foreign currency	(30)	(123)
NET DECREASE IN CASH	(1,382)	(475)
CASH, BEGINNING OF YEAR	2,584	3,059
CASH, END OF YEAR	1,202	2,584

The accompanying notes are an integral part of the consolidated financial statements.

WHITE OWL ENERGY SERVICES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Years ended December 31, 2017 and 2016
(All figures expressed in Canadian dollars unless otherwise noted)

1. CORPORATE INFORMATION

White Owl Energy Services Inc. (“White Owl”) was incorporated under the Business Corporations Act of the province of Alberta on September 26, 2013 (together with its subsidiaries, the “Company”). White Owl Energy Services, Inc. (“White Owl (US)”) was incorporated under the laws of the state of North Dakota on September 24, 2013. On November 1, 2013, White Owl acquired all the issued and outstanding shares of White Owl (US) by a share purchase agreement.

The Company is headquartered in Calgary, Alberta and is actively involved in the collection, processing, and disposal of oilfield waste in North Dakota and third-party oil treating, terminalling, blending and water disposal in central Alberta. The Company’s registered office is 1150, 1122 – 4th Street SW, Calgary, AB T2R 1M1.

The consolidated financial statements were approved and authorized for issuance by the Board of Directors on August 1, 2018

2. BASIS OF PRESENTATION AND GOING CONCERN

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

The consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue operations in the foreseeable future and will realize its assets and discharge its liabilities in the normal course of operations.

At December 31, 2017, the Company had negative working capital of \$14,207,000 (December 31, 2016 - \$11,501,000), an accumulated deficit of \$15,183,000 (December 31, 2016 - \$12,982,000) and a net loss for the year ended December 31, 2017 of \$2,201,000 (2016 - \$60,000). In addition, the Company was in default under its senior lender General Services Agreement (“GSA”) (see Note 7). These factors indicate the existence of material uncertainties which may cast significant doubt about the Company’s ability to continue as a going concern. 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 and remediating the senior lender GSA default (see Note 20 Subsequent events for remediation of the senior lender default). 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.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of measurement

The consolidated financial statements have been prepared using historical costs and fair value of certain items, as detailed in the accounting policies set out in this note.

WHITE OWL ENERGY SERVICES INC.
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(All figures expressed in Canadian dollars unless otherwise noted)

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its consolidated subsidiaries, which are the entities over which the Company has control. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefit from its activities. All intercompany transactions and balances are eliminated on consolidation.

Functional and presentation currency

Each of the Company's subsidiaries is measured using the currency of the primary economic environment in which the entity operates (the "Functional Currency"). The consolidated financial statements are presented in Canadian dollars, which is the Functional Currency of White Owl.

For foreign entities whose Functional Currency is not the Canadian dollar, the Company translates assets and liabilities at period-end rates and income and expense accounts at average exchange rates. Adjustments resulting from these translations are reflected in the consolidated statement of comprehensive loss as exchange differences on translating foreign operations.

Transactions in currencies other than the entity's Functional Currency are translated at rates in effect at the time of the transaction. Foreign currency monetary assets and liabilities are translated at current rates. Gains or losses from the changes in exchange rates are recognized in the consolidated statement of comprehensive loss in the period of occurrence as foreign exchange gains (losses).

Use of judgments and estimates

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates, assumptions and judgments that affect the reported amounts of assets, liabilities, revenue and expense for the period. Such estimates relate to unsettled transactions and events as of the date of the financial statements. Accordingly, actual results may differ from estimated amounts as transactions are settled in the future. Estimates and assumptions are reviewed on an ongoing basis. Revisions to estimates are applied prospectively.

The following are the critical judgments that management made in applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements:

- Determining the ability of the Company to continue as a going concern;
- Determining the aggregation of assets into cash generating units ("CGUs");
- Determining key assumptions for impairment testing of goodwill and property, plant and equipment;
- Determining the existence of contingent liabilities or whether an outflow of resources is probable and needs to be accounted for as a provision; and,
- Useful lives of property, plant and equipment.

The following are the critical estimates and assumptions with the most significant effect on amounts recognized in the financial statements. They are discussed further in the accounting policies that follow.

- Financial instruments and hedging;
- Revenue recognition;
- Recoverability of asset carrying values for impairment testing purposes;
- Fair value determination of share-based payments;
- Taxes;
- Decommissioning liabilities; and,
- Business combinations.

WHITE OWL ENERGY SERVICES INC.
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(All figures expressed in Canadian dollars unless otherwise noted)

Revenue recognition

Revenue is recognized when it is reasonably assured, that any future economic benefit associated with the revenue item will flow to the Company and the amount of revenue can be reliably measured. Revenue associated with services provided such as disposal, oil treating, terminalling and blending are recognized when the services are rendered. Revenue from the sale of crude oil is recorded when title and risk of loss transfers to the customer.

Share-based payments

The Company has a share-based option incentive plan (the “Option Plan”). Under the Option Plan, the Company may grant to directors, officers and employees of the Company or any of its affiliates, rights to acquire up to 10% of the issued and outstanding cumulative total of the common and preferred shares of the Company. The Option Plan is equity settled. The fair value of options at the date of grant is calculated using the Black-Scholes option pricing model method with the share-based payment expense recognized over the vesting period of the option and a corresponding increase to contributed surplus. When options are exercised, the proceeds, together with the amount recorded in contributed surplus, are transferred to share capital. Forfeitures are estimated and accounted for at the grant date and adjusted, if necessary, in subsequent periods.

Financial instruments

Financial assets

The Company classifies its financial assets as fair value through profit and loss (“FVTPL”) and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. FVTPL assets include financial assets held for trading and financial assets designated upon initial recognition at FVTPL.

Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. FVTPL assets are carried in the statement of financial position at fair value, with changes in fair value recognized in finance income or finance cost in the consolidated statement of loss and comprehensive loss. The Company’s FVTPL assets are comprised of cash.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. Loans and receivables are initially recognized at fair value plus transaction costs and subsequently carried at amortized cost using the effective interest method. The Company’s loans and receivables are comprised of trade and other receivables and promissory notes.

A provision for impairment of loans and receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the loan and receivable is impaired. The amount of the provision is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the loan and receivable is reduced through the use of an allowance account, and the amount of the loss is recognized in the consolidated statement of loss and comprehensive loss. When a loan and receivable is uncollectible, it is written off against the allowance account for loans and receivables.

Financial assets are de-recognized when the contractual rights to the cash flows from the financial asset settle or when the contractual rights to those assets are transferred.

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Financial liabilities

Other financial liabilities are recognized initially at fair value plus transaction costs and subsequently measured at amortized cost using the effective interest rate method. Other financial liabilities include trade and other payables, operating loan, term loan, promissory notes and mortgage payable.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of loss and comprehensive loss.

Financial liabilities are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Derivative instruments and hedging activities

All derivative instruments are recorded on the consolidated statement of financial position at fair value unless they qualify for and are designated under a normal purchase and normal sales exemption or are considered to meet other permitted exemptions.

The Company applies hedge accounting to arrangements that qualify and are designated for hedge accounting treatment, which includes hedges of foreign currency exposures of net investments in foreign operations. Hedge accounting is discontinued prospectively if the hedging relationship ceases to be effective or the hedging or hedged items cease to exist as a result of maturity, expiry, sale, termination, cancellation or exercise.

In hedging, the foreign currency exposure of a net investment in a foreign operation, the effective portion of foreign exchange gains and losses on the hedging instruments is recognized in other comprehensive loss and the ineffective portion is recognized in the consolidated statement of loss. The amounts recognized previously in accumulated other comprehensive loss are reclassified to the consolidated statement of loss in the event the Company reduces its net investment in a foreign operation.

In some cases, derivatives do not meet the specific criteria for hedge accounting treatment. In these instances, the changes in fair value are recorded in the consolidated statement of loss in the period of change.

Derivatives embedded in other financial instruments or contracts (host instrument) are recorded as separate derivatives. Embedded derivatives are measured at fair value if their economic characteristics are not clearly and closely related to those of the host instrument, their terms are the same as those of a stand-alone derivative and the total contract is not held for trading or accounted for at fair value. When changes in the fair value of embedded derivatives are measured separately, they are included in the consolidated statement of loss.

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Business combinations

The Company uses the acquisition method of accounting to account for business combinations. The consideration transferred is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Company. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

Joint operations

The consolidated financial statements include the Company's share of a joint venture operation's assets, liabilities and a proportionate share of the relevant revenues and related costs, classified according to their nature.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation, depletion and any recognized impairment losses.

Depreciation is based on a straight-line basis and is calculated over the estimated useful life of the assets, which has been estimated at 15-20 years for disposal wells, plant infrastructure and equipment. The expected useful lives of property, plant and equipment are reviewed annually to ensure that they remain appropriate. Changes in useful lives are accounted for prospectively as a change in estimate.

The net carrying value of oil and gas properties plus future development costs are depleted using the unit of production method based on proved and probable reserves, gross of royalties, as determined by independent reserve evaluators.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of net assets acquired and liabilities assumed in a business combination. Goodwill is not amortized but is reviewed for impairment at least annually. An impairment loss in respect of goodwill is not reversed in a subsequent period.

Impairment of non-financial assets

The carrying values of the Company's CGUs are reviewed at each reporting date to determine whether there is an indication of impairment loss. If any such indication exists, the Company will prepare an impairment test. For the purpose of impairment testing, goodwill is allocated to CGUs expected to benefit from the business combination in which the goodwill arose. To the extent that the carrying amount of a CGU exceeds its recoverable amount, the excess would first reduce the carrying value of goodwill and any remainder would reduce the carrying values of the long-term assets of the CGUs on a pro-rated basis.

Impairment testing compares the carrying values of the assets or CGUs being tested with their recoverable amounts (recoverable amounts being the greater of the assets' or CGUs' values in use or their fair values less costs to sell). Value-in-use is assessed using the present value of the expected future cash flows of the relevant asset. When it is not possible to estimate the recoverable amount of an individual asset, the asset is tested as part of a CGU, which is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The key assumptions for the value in use calculation include discount and growth rate estimates of the risks associated with the projected cash flows, based on the best information available as of the date of the impairment test. The weighted average growth rates reflect a nominal inflationary rate, as required by IFRS, which is calculated over the remaining useful life of each asset or CGU. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs.

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Impairment losses are immediately recognized to the extent that the asset or CGU carrying values exceed their recoverable amounts. Should the recoverable amounts for previously impaired assets or CGUs subsequently increase, the impairment losses previously recognized (other than in respect of goodwill) may be reversed to the extent that the resulting carrying value does not exceed the carrying value that would have been the result if no impairment losses had been previously recognized.

At December 31, 2017, the Company has four salt water disposal facility CGUs in North Dakota and one CGU for the Company's Alberta properties (December 31, 2016 – four CGU's).

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of that obligation.

Decommissioning liabilities

The Company provides for estimated future decommissioning costs for all of its facilities based on the useful lives of the assets and the long-term commitments of certain sites. Over this period, the Company recognizes the liability for the future decommissioning liabilities associated with property, plant and equipment. These obligations are initially measured at the discounted future value of the liability. This value is capitalized as part of the cost of the related asset and amortized over the asset's useful life. The balance of the liability is adjusted each period for the unwinding of the discount, with the associated expense included within finance charges as accretion expense. Decommissioning costs and timing are estimated by management, in consultation with the Company's engineers and environmental, health and safety staff, on the basis of current regulations, costs, technology and industry standards. Other key estimates include discount and inflation rates. Actual decommissioning costs are charged against the provision as incurred.

Taxes

Tax expense is comprised of current and deferred tax. Tax expense is recognized in the consolidated statement of comprehensive loss except to the extent that it relates to items recognized in other comprehensive loss or directly in equity.

Current tax expense is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded, using the asset and liability method, on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. However, deferred tax is not recorded on taxable temporary differences arising on the initial recognition of goodwill. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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Share capital

Common shares, preferred shares and warrants are classified as equity. Incremental costs directly attributable to the issue of common and preferred shares are recognized as a deduction from equity.

Recent accounting pronouncements

On May 28, 2014, the IASB issued IFRS 15 “Revenue from Contracts with Customers”, a new standard that specifies recognition requirements for revenue as well as requiring entities to provide the users of financial statements with more informative and relevant disclosures. The standard replaces IAS 11 “Construction Contracts” and IAS 18 “Revenue” as well as a number of revenue-related interpretations. The Company will adopt the standard for reporting periods beginning January 1, 2018. The Company is currently evaluating the impact of adoption of this standard and the effect on White Owl’s consolidated financial statements has not yet been determined.

IFRS 9 ‘Financial instruments’ was issued by the IASB in July 2014 as a complete standard, including the requirements previously issued related to classification and measurement of financial assets and liabilities, and additional amendments to introduce a new expected loss impairment model for financial assets including credit losses. Retrospective application of this standard with certain exemptions is effective for fiscal years beginning on or after January 1, 2018. The Company is currently evaluating the impact of adoption of this standard and the effect on White Owl’s consolidated financial statements has not yet been determined.

In January 2016, the IASB issued IFRS 16 “Leases”. For lessees applying IFRS 16, a single recognition and measurements model for leases would apply, with required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if the entity is also applying IFRS 15 “Revenue from Contracts with Customers”. The Company is currently evaluating the impact of adoption of this standard and the effect on White Owl’s consolidated financial statements has not yet been determined.

4. JOINT OPERATION

White Owl has entered into joint arrangement relating to the operation of a salt water disposal facility at Tioga in North Dakota (“Tioga Joint Venture”).

The Company accounts for this joint arrangement as a joint operation and recognizes its share of the assets, liabilities, revenues and expenses of the joint operation.

During the third quarter of 2016, the Company contributed equipment, permitting, engineering and project development with a carrying value of US\$651,471 and a fair value of US\$1,200,000 in exchange for a 32% interest in the Tioga Joint Venture. The Company recorded a gain of \$719,584 (US\$548,529) on the property, plant and equipment contributed to the Tioga Joint Venture. An operating committee governs the Tioga Joint Venture with an appointee from each of the Tioga Joint Venture partners. Decisions of the operating committee require unanimous consent of the appointees. The following table summarizes the assets contributed by each party at the inception of the Tioga Joint Venture:

(\$000’s)	Tioga Joint Venture	White Owl 32% Interest
Cash	3,279	1,049
Property, plant and equipment	1,642	525
	4,921	1,574

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At December 31, 2017, the Company has recorded \$141,295 (December 31, 2016 - \$179,693) in amounts owing from the Tioga Joint Venture. These amounts have been recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties and is equal to fair value.

5. PROPERTY, PLANT AND EQUIPMENT

COST

(\$000's)	Land	Plant & equipment	Disposal wells	Oil and Gas properties	Total
Balance at December 31, 2015	709	21,552	5,673	-	27,934
Additions	26	3,138	846	-	4,010
Net contribution to joint operation (Note 4)	-	(369)	-	-	(369)
Disposals	-	(11)	(47)	-	(58)
Change in decommissioning costs (Note 10)	-	43	11	-	54
Foreign exchange effect	(21)	(607)	(154)	-	(782)
Balance at December 31, 2016	714	23,746	6,329	-	30,789
Additions	30	1,333	215	18	1,596
Acquisition	-	5,949	-	503	6,452
Change in decommissioning costs (Note 10)	-	314	51	284	649
Foreign exchange effect	(48)	(1,564)	(416)	-	(2,028)
Balance at December 31, 2017	696	29,778	6,179	805	37,458

ACCUMULATED DEPRECIATION

(\$000's)					
Balance at December 31, 2015	-	(2,678)	(441)	-	(3,119)
Depreciation	-	(1,050)	(343)	-	(1,393)
Net contribution to joint operation (Note 4)	-	40	-	-	40
Disposals	-	3	3	-	6
Foreign exchange effect	-	97	33	-	130
Balance at December 31, 2016	-	(3,588)	(748)	-	(4,336)
Depreciation	-	(629)	(1,137)	-	(1,766)
Depletion	-	-	-	(97)	(97)
Impairment	(152)	(590)	(1,078)	-	(1,820)
Foreign exchange effect	6	265	130	-	401
Balance at December 31, 2017	(146)	(4,542)	(2,833)	(97)	(7,618)

CARRYING AMOUNTS

(\$000's)					
Balance at December 31, 2016	714	20,158	5,581	-	26,453
Balance at December 31, 2017	550	25,236	3,346	708	29,840

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Acquisition

On June 22, 2017, White Owl's Canadian subsidiary, White Owl Energy Services Ltd. ("White Owl Ltd."), acquired a 95% interest in a clean oil terminal and treating, blending and water disposal facility and 100% interest in the associated oil and gas production at Clairmont in the Grande Prairie area of Alberta (the "Clairmont facility"). The acquisition was completed through two separate transactions. The Clairmont facility is connected to the regional Pembina pipeline system and a crude oil marketing and a terminalling agreement ("Terminalling Agreement") has been executed with Trafigura Canada General Partnership ("Trafigura"), a large global crude oil marketer. The facility will be reconfigured to provide commercial oil emulsion treating, terminalling, blending and disposal services. The transaction closed on August 22, 2017.

The acquisition was funded through cash payments of \$1,341,000, the issuance of a \$2,700,000 promissory note from the vendor ("Vendor Note") and a \$240,000 promissory note payable to White Owl Ltd.'s 5% partner in the Clairmont facility ("Partner Note"). The Vendor Note is non-interest bearing with payments due on June 22, 2018 of \$1,300,000 and June 22, 2019 of \$1,400,000. In addition, the Vendor Note gave the vendor a first charge on the Clairmont assets. The fair value of the Vendor Note at the date of the acquisition was determined to be \$2,189,036 using an effective interest rate of 15%. The Partner Note is non-interest bearing and due in 12 equal monthly payments of \$20,000 with the first payment commencing November 22, 2017. White Owl Ltd. is currently in arrears with respect to the monthly payments and is accruing interest at a rate of 10% per annum on the amount in arrears. The fair value of the Partner Note at the date of the acquisition was determined to be \$216,149 using an effective interest rate of 15%.

White Owl Ltd. was required to pay a total of \$1,835,000 to the Alberta Energy Regulator for the liability management rating deposit ("LMR"), of which \$792,000 was refunded in November 2017 and the remaining \$1,043,000 of the deposit is refundable once the LMR rating becomes greater than one. White Owl Ltd. financed a portion of the LMR deposit via a \$1,000,000 promissory note ("Trafigura Note") issued by Trafigura. The Trafigura Note bears interest at nine percent per annum and is due June 1, 2018. The principal amount outstanding on the Trafigura Note will be reduced monthly by 20% of the net blending revenue to White Owl Ltd. under the Terminalling Agreement. If the monthly average net blending revenue is less than \$50,000 for the first six months after the effective date of the Terminalling Agreement then White Owl Ltd. will be required to pay the net difference, if any, of 50% of the truck terminal revenue that White Owl Ltd. receives for crude oil deliveries at the Clairmont Facility and applicable access fees ("Additional Payment"). The Additional Payment will cease at the earlier of the average monthly net blending revenue for two consecutive months being greater than \$50,000 and the repayment of the Trafigura Note.

The acquisition is considered a business combination under IFRS as the assets meet the definition of a business. The acquisition has been accounted for using the acquisition method of accounting, whereby the assets acquired, and the liabilities assumed were recorded at their estimated fair values. White Owl has determined that the transaction is a single business combination as the assets and liabilities assumed constitute a single business rather than two separate businesses. White Owl determined the following estimated fair values of the net assets acquired and liabilities assumed based on management's best estimate of fair value and available external documentation, which takes into consideration the condition of the assets acquired, current industry conditions and the discounted future cash flows expected to be received for the assets and expended to settle the outstanding liabilities. The operating results of the Clairmont facility have been included in White Owl's consolidated financial statements from August 22, 2017.

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The following table sets out the details of the above acquisition including the consideration given and allocation of the purchase price to the fair value of the assets acquired and liabilities assumed:

(\$000's)

Consideration:

Cash	1,341
Promissory notes	2,405
Total consideration	3,746

Allocated to:

Property, plant and equipment	6,452
Decommissioning obligations	(2,706)
Net assets acquired	3,746

From the date of the acquisition of August 22, 2017 to December 31, 2017, the Clairmont facility contributed approximately \$397,059 of oil field waste disposal services revenue and \$355,421 of production revenue and \$390,039 of loss before interest and tax to White Owl. The Company incurred acquisition related transaction costs of \$54,488 for legal fees which have been expensed to general and administrative expense in the consolidated statement of comprehensive loss. If the acquisition had been effective January 1, 2017, the impact on the Company's revenue and comprehensive loss would have been immaterial.

Dispositions

During the year ended December 31, 2016, the Company sold property, plant and equipment for cash consideration of \$6,494. The sales resulted in a loss of \$45,178 recognized in comprehensive loss.

Impairment

At December 31, 2017, White Owl evaluated its property, plant and equipment for indications that an asset or CGU may be impaired. As a result of this assessment, the Company recognized the following impairment:

Under an amended landowner agreement, White Owl was required to drill a well by December 31, 2017 at the Johnson's Corner site. White Owl was unable to fulfil its obligation to drill a well due to capital constraints. As a result, the landowner did not renew the landowner agreement with White Owl for the Johnson's Corner site. During the year end December 31, 2017, White Owl recognized an impairment expense of \$743,292 for costs previously capitalized to property, plant and equipment related to the Johnson's Corner site.

During 2017, White Owl applied for a Class 1 permit at the Killdeer site. Pressure testing related to the Class 1 application for downhole work at Killdeer was unsuccessful due to poor casing and the decision was made to abandon the well. During the year ended December 31, 2017, White Owl recognized an impairment expense of \$1,076,282 for costs previously capitalized to property, plant and equipment and a loss on abandonment of \$68,677.

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6. GOODWILL

(\$000's)

Balance at December 31, 2015	8,820
Foreign exchange effect	(263)
Balance at December 31, 2016	8,557
Foreign exchange effect	(562)
Balance at December 31, 2017	7,995

7. TERM LOAN AND OPERATING LOAN

Term Loan

(\$000's)

Balance at December 31, 2015	16,558
Principal payments	(510)
Foreign exchange effect	(498)
Balance at December 31, 2016	15,550
Principal payments	(267)
Foreign exchange effect	(1,005)
Balance at December 31, 2017	14,278

The Term Loan is a non-revolving, reducing demand facility bearing interest at an annual rate of US prime plus 1.75%. Principal payments of \$266,840 (US\$200,000) were made during the year ended December 31, 2017 and subsequent required principal payments were waived by the lender, Alberta Treasury Branches ("ATB"). No principal payments have been made during 2018.

To partially fund the Clairmont facility acquisition, White Owl Ltd. issued the \$2,700,000 Vendor Note giving the vendor a first charge on the Clairmont assets. As a result, the Clairmont assets could not be included in the ATB's GSA which provides ATB with security over the balance of White Owl's assets. White Owl Ltd. used the working capital and operating lines of its parent, White Owl, to close the transaction which resulted in a default under the terms of the GSA. Subsequent to December 31, 2017, pursuant to a subordination agreement ("Subordination Agreement") dated effective June 21, 2018 between White Owl Ltd. and the vendor, the Vendor Note was reduced to \$2,200,000. Under the terms of the Subordination Agreement, White Owl Ltd. paid \$1,200,000 of the Vendor Note on July 18, 2018 which has placed ATB in first position in relation to the Clairmont facility and which has remedied the default.

In addition, effective July 17, 2018, White Owl entered into an amended and restated credit agreement with ATB ("Commitment Letter"), further details are provided in Note 20.

Operating Loan

The operating loan is a US\$1,000,000 facility and is reduced by outstanding letters of credit of \$53,862 (December 31, 2016 - \$53,862) and credit card balances of \$11,009 (December 31, 2016 - \$41,361). The Company had drawn \$658,613 (US\$525,000) on the operating line at December 31, 2017 (December 31, 2016 – nil).

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Covenants

Under the loan agreement for the term and operating loans, the Company is required to maintain a minimum Debt Service Coverage Ratio of 1.25 to 1. The Debt Service Coverage Ratio is calculated as follows:

$$\text{Debt Service Coverage Ratio} = \frac{\text{Earnings before interest, depreciation, taxes and amortization}}{\text{Debt service obligations}}$$

The Debt Service Coverage Ratio at December 31, 2017 was 1.66 (December 31, 2016 – 1.55). The ratio is calculated based on the trailing four quarters at December 31, 2017.

Security

The Term Loan and Operating Loan are secured by all of the Company's present and future acquired property.

8. PROMISSORY NOTES

	US \$2,000,000 note	Truck note 1	Truck note 2	Vendor note	Partner note	Trafigura note	Total
(\$000's)							
Balance at December 31, 2015	2,530	-	-	-	-	-	2,530
Issuance	-	32	35	-	-	-	67
Principal payments	-	(3)	(2)	-	-	-	(5)
Change in fair value	(269)	-	-	-	-	-	(269)
Repayment	(2,266)	-	-	-	-	-	(2,266)
Accretion	124	-	-	-	-	-	124
Foreign exchange effect	(119)	1	1	-	-	-	(117)
Balance at December 31, 2016	-	30	34	-	-	-	64
Issuance	-	-	-	2,189	216	1,000	3,405
Principal payments	-	(10)	(11)	-	-	(412)	(433)
Accretion	-	-	-	113	11	-	124
Foreign exchange effect	-	(2)	(2)	-	-	-	(4)
Balance at December 31, 2017	-	18	21	2,302	227	588	3,156
Less current portion	-	(10)	(11)	(2,302)	(227)	(588)	(3,138)
Total non-current portion	-	8	10	-	-	-	18

In August 2017, as part of the Clairmont facility acquisition (see Note 5), the Company entered into the following promissory notes:

- The \$2,700,000 Vendor Note is non-interest bearing with payments due on June 22, 2018 of \$1,300,000 and June 22, 2019 of \$1,400,000. The fair value of the Vendor Note at the date of the acquisition was determined to be \$2,189,036 using an effective interest rate of 15%. The Vendor Note is measured at amortized cost and will accrete up to the principal balance on the respective payment dates. In addition, the Vendor Note gave the vendor a first charge on the Clairmont assets. Pursuant to the subordination agreement dated effective June 21, 2018 between White Owl Ltd. and the vendor, the Vendor Note was reduced to \$2,200,000. Under the terms of the Subordination Agreement, White Owl Ltd. paid \$1,200,000 of the Vendor Note on July 18, 2018 which resulted in ATB receiving a first charge on the Clairmont assets. The remaining \$1,000,000 is payable by White Owl to the vendor on or before November 18, 2018.

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- The \$240,000 Partner Note is payable to White Owl Ltd.'s 5% partner in the Clairmont facility. The Partner Note is non-interest bearing and due in 12 equal monthly payments of \$20,000 with the first payment scheduled for November 22, 2017. The fair value of the Partner Note at the date of the acquisition was determined to be \$216,149 using an effective interest rate of 15%. The Partner Note is measured at amortized cost and will accrete up to the principal balance on the respective payment dates. White Owl Ltd. is currently in arrears with respect to the monthly payments and is accruing interest at a rate of 10% per annum on the amount in arrears.
- The \$1,000,000 Trafigura Note was issued to finance a portion of the \$1,835,000 LMR deposit required as part of the Clairmont facility acquisition. The Trafigura Note bears interest at nine percent per annum and is due June 1, 2018. The principal amount outstanding on the Trafigura Note will be reduced monthly by 20% of the net blending revenue to White Owl Ltd. under the Terminalling Agreement. If the monthly average net blending revenue is less than \$50,000 for the first six months after the effective date of the Terminalling Agreement then White Owl Ltd. will be required to pay the net difference, if any, of 50% of the truck terminal revenue that White Owl Ltd. receives for crude oil deliveries at the Clairmont Facility and applicable access fees ("Additional Payment"). The Additional Payment will cease at the earlier of the average monthly net blending revenue for two consecutive months being greater than \$50,000 and the repayment of the Trafigura Note. The remaining balance of the Trafigura Note was repaid on July 19, 2018.

In September 2016, the Company entered into a promissory note agreement for a half ton truck in North Dakota with a principal amount of US\$24,650 bearing interest at 5.75% ("Truck note 1"). The Company will make monthly payments of US\$748 until September 5, 2019.

In October 2016, the Company entered into a promissory note agreement for a half ton truck in North Dakota with a principal amount of US\$25,650 bearing interest at 5.75% (Truck note 2"). The Company will make monthly payments of US\$780 until November 5, 2019.

In February 2016, the Company reached an agreement to extend the repayment terms of the US\$2,000,000 promissory note ("US\$2,000,000 note"). The fair value of the US\$2,000,000 note at the date of the amendment was determined using an effective interest rate of 9.75% and, as a result, the carrying value of the US\$2,000,000 note was reduced by \$269,000 with a corresponding gain recorded in the consolidated statement of comprehensive loss. In December 2016, the Company entered into the debt settlement agreement with the holders of the US\$2,000,000 note. The Company recorded a loss on the debt settlement of \$364,310 which reflects the difference between the carrying amount of the US\$2,000,000 note and fair value for the common shares issued.

9. MORTGAGE PAYABLE

(\$000's)

Balance at December 31, 2015	169
Principal payments	(7)
Foreign exchange effect	(7)
Balance at December 31, 2016	155
Principal payments	(8)
Foreign exchange effect	(10)
Balance at December 31, 2017	137

The Company has a mortgage agreement that bears interest at 4.95% and requires annual payments of US\$12,091 until January 1, 2020, at which time the annual payment will be adjusted based on changes in interest rates for two subsequent five-year terms. As at December 31, 2017, the current portion of the mortgage payable is \$8,574 (December 31, 2016 - \$8,736)

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10. DECOMMISSIONING LIABILITIES

(\$000's)

Balance at December 31, 2015	1,121
Additions	87
Accretion	25
Change in estimate	(33)
Foreign exchange effect	(29)
Balance at December 31, 2016	1,171
Acquisition (Note 5)	2,706
Accretion	61
Change in estimate	649
Abandonment costs incurred	(56)
Foreign exchange effect	(78)
Balance at December 31, 2017	4,453
Less current portion	(273)
Total non-current portion	4,180

The Company's decommissioning liabilities were estimated by management based on the Company's estimated costs to remediate, reclaim and abandon the Company's facilities and estimated timing of the costs to be incurred in future periods. The Company has estimated the net present value of its decommissioning obligations at December 31, 2017 based on a total undiscounted future liability of \$6,460,780 (December 31, 2016 – \$1,921,314). These costs are expected to be incurred in approximately 1 to 20 years. The Company used risk-free interest rates at December 31, 2017 of 2.26% to 2.58% (December 31, 2016 – 2.31% to 2.79%) and an inflation rate of 2.0% (December 31, 2016 – 2.0%) to calculate the net present value of its decommissioning liabilities.

11. TAXES

The components of the Company's net tax expense which has been recorded in these consolidated financial statements are as follows:

	Year ended December 31,	
(\$000's)	2017	2016
Net loss	(2,201)	(60)
Statutory income tax rate	27%	27%
Recovery at statutory rate	(594)	(16)
Tax rate differential between Canada and United States	(198)	208
Non-deductible share based payments	84	57
Other	(1,118)	(2,621)
Change in deferred tax asset not recognized	1,826	2,372
	-	-

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Details of deferred tax assets (liabilities) are as follows:

(\$000's)	December 31, 2017	December 31, 2016
Property, plant and equipment	(3,287)	(3,894)
Investment in Tioga Joint Venture	(121)	-
Non-capital loss carry forwards	3,408	3,894
	-	-

Details of the unrecognized deductible temporary differences are as follows:

(\$000's)	Year ended December 31, 2017	2016
Share issue costs	414	713
Other	4,206	1,002
Non-capital loss carry forwards	20,389	17,426
Unrecognized deductible temporary differences	25,009	19,141

At December 31, 2017, the Company has non-capital losses carry forwards in the United States of \$19,007,576 (December 31, 2016 - \$15,426,825) and in Canada of \$8,883,088 (December 31, 2016 - \$4,523,073) which, if not utilized, will expire between 2033 and 2037.

12. SHARE CAPITAL

Authorized

An unlimited number of common and preferred shares without nominal or par value.

Issued

(\$000's)	December 31, 2017	December 31, 2016
Common shares	18,340	18,024
Preferred shares	12,353	12,353
	30,693	30,377

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COMMON SHARES

	Number (000's)	Amount (\$000's)
Balance at December 31, 2015	26,759	8,296
Settlement of share repurchase obligations (Note 14)	-	5,511
Shares issued upon exercise of stock options	1	2
Settlement of promissory note (Note 8)	8,000	2,666
Shares issued	5,873	1,768
Share issue costs	-	(166)
Share issue costs – broker warrants	-	(53)
Balance at December 31, 2016	40,633	18,024
Shares issued	871	334
Share issue costs	-	(18)
Balance at December 31, 2017	41,504	18,340

WARRANTS

	Number (000's)	Amount (\$000's)
Balance at December 31, 2015	-	-
Unitholder warrants issued	2,836	-
Broker warrants issued	350	53
Balance at December 31, 2016 and 2017	3,186	53

At December 31, 2017, there were 4,000,000 (December 31, 2016 – 4,000,000) common shares held in escrow.

In January 2017, the Company issued 285,714 common shares at \$0.35 per common share for total proceeds of \$100,000.

In June 2017, the Company issued 585,000 common shares at \$0.40 per common share for total proceeds of \$234,000.

During the fourth quarter of 2016, the Company issued, through a series of private placements, 5,672,666 units at \$0.30 per unit for gross proceeds of \$1,701,800. Each unit entitles the holder to one common share and one half common share purchase warrant. Each full warrant plus \$0.50 allows the holder to purchase a common share. The warrants can be exercised until October 31, 2018. The Company determined that the fair value of the unit holder warrants was negligible. The Company paid commissions to the brokers of the private placements of \$165,560 and issued 350,200 broker warrants at \$0.30 per common share exercisable until October 31, 2018. Based on a Black-Scholes option pricing model, the Company calculated the fair value of the broker warrants to be \$0.15 per warrant. Proceeds from the issuance will be used to fund capital expenditures and working capital.

In December 2016, the Company issued 200,000 common shares at US\$0.25 (\$0.33) per common share for total proceeds of US\$50,000 (\$66,645).

PREFERRED SHARES

	Number (000's)	Amount (\$000's)
Balance at December 31, 2016 and 2017	26,469	12,353

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The Senior Preferred Class A Voting Shares are convertible into common shares of the Company, at the option of the holder, on a one to one basis, and rank ahead of common shares on liquidation, dissolution or winding up of the Company at par value.

13. SHARE-BASED PAYMENT PLANS

The Company has established an Option Plan pursuant to which shares are available for the granting of incentive stock options. Pursuant to the Option Plan, the exercise price of an option cannot be less than the current market price of shares at the date of issuing the option. Options generally vest over a three-year period and are generally issued for a maximum term of five years from date of grant.

	Number (000's)	Weighted average exercise price (\$)
Balance at December 31, 2015	2,539	0.53
Granted	1,780	0.30
Exercised	(2)	0.50
Cancelled/Forfeited	(248)	0.50
Balance at December 31, 2016	4,069	0.43
Granted	200	0.30
Balance at December 31, 2017	4,269	0.42

The following table summarizes information about options outstanding at December 31, 2017:

Options Outstanding				Options Exercisable	
Range of Exercise Price \$	Weighted Average Exercise Price \$	Number of Options (000's)	Weighted Average Contractual Life Remaining (years)	Number of Options (000's)	Weighted Average Exercise Price \$
0.30 – 0.45	0.30	1,980	4.00	593	0.30
0.46 – 0.59	0.50	2,025	1.56	2,025	0.50
0.60 – 0.75	0.75	264	2.01	234	0.75
	0.42	4,269	2.72	2,852	0.48

The Company records share-based payments over the vesting period based on the fair value of options granted to employees and directors. The value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. The model assumptions for the options issued are as follows:

	2017	2016
Risk-free interest rate	1.55%	0.99%
Expected life of options	5 years	5 years
Expected volatility	100%	100%
Expected dividend rate	0%	0%
Expected forfeiture rate	15%	15%
Weighted average fair value	\$0.22	\$0.22

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The risk-free interest rate is based on the Government of Canada bond yields for five-year terms. Expected volatility is determined by comparison with the figures disclosed by selected comparable peer companies. Forfeiture rates are estimated based on management's expectations and rates disclosed by selected comparable peer companies.

During the year ended December 31, 2017, \$312,911 (2016 - \$210,226) in share-based payment expense related to equity-settled stock options has been recognized in comprehensive loss.

14. FINANCE COSTS

	Year ended December 31,	
(\$000's)	2017	2016
Interest on term loan	943	904
Interest on promissory notes and mortgage payable	42	96
Cost of share repurchase obligation settlement	-	139
Loan fees	-	32
Accretion of promissory notes (Note 8)	124	124
Accretion of share repurchase obligations	-	55
Accretion of asset retirement obligations (Note 10)	61	25
Interest, bank charges and other	67	48
	1,237	1,423

As part of certain business combinations completed in 2014, the vendors of the Watford, New Town and Roy facilities received shares as well as the right to have the Company repurchase these shares three years after the acquisition dates. The share repurchase rights were recorded at the cash required to settle the rights discounted at 9%. In February 2016, the Company terminated the share repurchase obligations that required the Company to repurchase 2,000,000 shares of the Company at US\$0.50 and 4,000,000 shares at US\$0.88 in exchange for a payment of \$139,000, release of US\$500,000 held in escrow and the termination of the Company's rights to repurchase these shares. The Company recorded an increase in share capital of \$5,511,000 and a settlement expense of \$139,000.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Net investment in foreign operations

The Company hedges its net investment in foreign operations with US dollar denominated debt that has a carrying value of \$14,277,969 (US\$11,381,402) at December 31, 2017 (December 31, 2016 - \$15,550,349 (US\$11,581,402)). No hedge ineffectiveness was recognized during the year ended December 31, 2017 and 2016.

Financial instruments and risk management

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk, foreign currency risk, interest rate risk and commodity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

Risk management is carried out by senior management.

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Fair values

The Company's financial instruments recognized on the consolidated statement of financial position consist of cash, trade and other receivables, promissory notes, term loan, trade and other payables and mortgage payable. The fair values of the cash, trade and other receivables, promissory notes, term loan and trade and other payables approximates their carrying value due to the short term or demand nature of these instruments. Mortgage payable is carried at amortized cost which approximates fair value as interest rates at December 31, 2017 were consistent with interest rates in these instruments.

The Company has classified its financial instrument fair values based on the required three level hierarchies:

- Level 1: Valuations based on quoted prices in active markets for identical assets or liabilities;
- Level 2: Valuations based on observable inputs other than quoted active market prices; and,
- Level 3: Valuations based on significant inputs that are not derived from observable market data, such as discounted cash flows methods.

The fair value hierarchy level at which a fair value measurement is categorized is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. The Company records cash at fair value using level 1 inputs. There were no transfers from levels 1, 2 and 3 during the year.

Credit risk

Credit risk arises when a failure by counter parties to discharge their obligations could reduce the amount of future cash inflows from financial assets at the reporting date. A substantial portion of the Company's trade and other receivables balance is with customers in the petroleum industry and is subject to normal industry credit risks.

The Company manages its exposure to credit risk through standard credit granting procedures and short payment terms. The Company attempts to monitor financial conditions of its customers and the industries in which they operate. The Company derived significant revenue from two major customers, which exceeded 10% of revenues from operations for the year ended December 31, 2017 (2016 – two customers). The customers accounted for 19% and 19% of revenue for the year ended December 31, 2017 respectively (2016 – 20% and 15%). At December 31, 2017, 23% and 13% of trade and other receivables were receivable from these customers respectively (December 31, 2016 – 16% and 3%). The Company's maximum exposure to credit risk at December 31, 2017 was the total of cash, trade and other receivables and promissory notes of \$4,410,457 (December 31, 2016 - \$5,128,335). The Company believes that there is no unusual exposure associated with the collection of these trade and other receivables and no allowance for doubtful accounts is required.

The aging of trade and other receivables is as follows:

(\$000's)	Current	30-60 days	60-90 days	90+days	Total
	1,603	899	422	115	3,039

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet financial obligations at the point at which they are due. The Company's operating cash requirements are continuously monitored by management. As factors impacting cash requirements change, liquidity risks may necessitate the need for the Company to raise capital by issuing equity or obtaining debt financing. The Company also mitigates liquidity risk by maintaining an insurance program to minimize exposure to insurable losses.

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The following are the contractual maturities of financial liabilities at December 31, 2017:

(\$000's)	2018	2019	2020	2021	2022+	Total
Term loan ⁽¹⁾	14,278	-	-	-	-	14,278
Operating loan	659	-	-	-	-	659
Mortgage payable ⁽²⁾	9	9	9	10	100	137
Promissory notes	3,138	18	-	-	-	3,156
Trade and other payables	1,585	-	-	-	-	1,585
	19,669	27	9	10	100	19,815

(1) Reflects demand nature of loan and assumes no change in US prime rate.

(2) Assumes no change in applicable interest during term outstanding.

Foreign currency risk

The Company generates revenue and expenses in US dollars and, therefore, fluctuations in the value of the Canadian dollar relative to the US dollar can affect the Company's net income (loss). Some of this foreign exchange impact is partially offset by interest expense on US dollar-denominated debt. The Company does not hedge its exposure to currency fluctuations other than the use of US dollar denominated debt. As the Company's US dollar-denominated operations continue to grow, exposure to changes in currency rates will increase.

Interest rate risk

The Company has floating interest rate debt which subjects it to interest rate cash flow risk. The Company does not maintain an active hedge program to mitigate the Company's exposure to interest rate fluctuations. If interest rates had been 10% higher/lower during the year, and all other variables were held constant, the Company's consolidated net loss before taxes would be approximately \$96,600 lower/higher for the year ended December 31, 2017 (2016 - \$90,400).

Commodity risk

The Company recovers and sells crude oil which subjects it to the commodity price of crude oil. The Company does not maintain an active hedge program to mitigate the Company's exposure to commodity price fluctuations.

16. CAPITAL MANAGEMENT

The Company's objective is to ensure adequate sources of capital are available to carry out its planned capital program, to achieve operational growth and increased cash flow so as to sustain future development of the business and to maintain shareholder confidence. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its assets. Management considers capital to be the Company's total debt facilities, promissory notes, mortgage payable and equity as the components of capital to be managed. In order to maintain or adjust the capital structure, the Company may issue shares, raise debt and/or adjust its capital spending to manage its projected debt levels.

The Company strives to manage its capital to meet the Company's objective and maintain compliance with the financial covenants contained within its debt facilities (Note 7).

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The Company's capital structure is as follows:

(\$000's)	December 31, 2017	December 31, 2016
Operating loan	659	-
Term loan	14,278	15,550
Promissory notes	3,156	64
Mortgage payable	137	155
Total equity	19,302	22,149
	37,532	37,918

17. RELATED PARTY TRANSACTIONS

The Company had promissory notes receivable from officers of the Company of \$170,000 at December 31, 2017 (December 31, 2016 - \$170,000). These unsecured promissory notes are due on demand and bear interest at 3% per annum. Repayments of \$nil were made during the year ended December 31, 2017 (2016 - \$61,500). These transactions are initially measured at fair value.

The Company considers its directors and executives to be key management personnel. In addition to their salaries and director fees, the Company also provides non-cash benefits to key management personnel through participation in the Company's option program. The remuneration of key management personnel was as follows:

(\$000's)	Year ended December 31, 2017	2016
Compensation and short-term benefits	718	806
Share-based payments	244	156
	962	962

Key management personnel of the Company controlled 15% of the fully diluted shares or 11% of the outstanding voting shares of the Company at December 31, 2017 (December 31, 2016 – 15% and 11%).

18. COMMITMENTS

Operating leases

The Company has entered into operating land lease agreements at the Company's facilities and operating leases for office space. The agreements require future minimum payments as follows:

(\$000's)	December 31, 2017
Within one year	266
After one year but not more than five years	784
Greater than five years	-
	1,050

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Letters of Credit

At December 31, 2017, the Company had issued \$53,862 (December 31, 2016 - \$53,862) in letters of credit. The letters of credit have been deducted from the Company's available operating line (Note 7). The letters of credit relate to security for the Company's asset retirement obligations and are held with regulatory bodies.

19. CHANGES IN NON-CASH WORKING CAPITAL

(\$000's)	Year ended December 31,	
	2017	2016
Trade and other receivables	(790)	(344)
Deposits and prepaid expenses	(1,150)	121
Trade and other payables	417	359
	(1,523)	136
Allocated to:		
Operating	(1,722)	103
Investing	76	25
Financing	123	8
	(1,523)	136

20. SUBSEQUENT EVENTS

Subsequent to year end, the Company entered into the following transactions:

Effective June 21, 2018, the Company entered into the Subordination Agreement with the holders of the Vendor Note, issued on acquisition of the Clairmont property. Pursuant to the Subordination Agreement, between White Owl Ltd. and the vendor, the Vendor Note was reduced to \$2,200,000 from \$2,700,000. Under the terms of the Subordination Agreement, White Owl Ltd. paid \$1,200,000 of the Vendor Note on July 18, 2018 which resulted in the Company's lender receiving a first charge on the Clairmont assets. The remaining \$1,000,000 is payable by White Owl to the vendor on or before November 18, 2018.

Subsequent to year end, the Company issued by way of private placements a total of 6,735,000 common shares, 2,000,000 common shares at \$0.15 per common share and 4,735,000 common shares at \$0.20 per common share, for total proceeds of \$1,247,000 before share issue costs of \$67,172. Additionally, the Company issued 208,950 broker warrants at \$0.20 per common share exercisable until February 22, 2019. The Company determined that the fair value of the broker warrants was negligible.

Effective July 17, 2018 the Company signed an amended and restated credit agreement with the ATB ("Commitment Letter") 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\$11,381,402 (CA\$14,278,000) 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 is payable on demand and bears interest at an annual rate of US prime plus 1.75%. Until demand, the Term Loan is repayable: (i) in blended equal monthly payments of principal and interest of US\$185,256 over an amortization period commencing August 31, 2018 and ending December 31, 2024, and; (ii) a lump sum principal payment on January 31, 2019 of US\$1,000,000, after which monthly payments will be reduced to maintain the original amortization period. The Operating Loan is a revolving demand facility in the maximum amount of US\$1,000,000 bearing interest at the US prime rate plus 1.75%. The Company is required to maintain a minimum debt service coverage ratio of 1.25 to 1.00 and, a working capital ratio of 1.4 to 1.0 as at September 30, 2018 increasing to 1.5 to 1 as at March 31, 2019.

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The Company entered into a joint venture arrangement with White Owl Epping LLC (“Epping LLC”) for the construction and operation of a SWD facility at Epping in the state of North Dakota. Epping LLC is an independent entity formed pursuant to the laws of North Dakota. Epping LLC together with certain service providers will fund the development of the project. The Company will operate and hold a 20% carried interest in the facility. In addition to the Company’s ownership interest, the Company will be reimbursed for all direct operating costs and will be paid an operating fee of 8% of the cost of operations and a fee of 3% of capital expenditures. Construction of the facility has commenced with completion expected in early October 2018.

The Company has engaged D. A. Davidson & Co. to provide financial advisory and investment banking services to White Owl in conjunction with its review of financial and strategic alternatives available to the Company which may, include the sale of certain properties. D. A. Davidson is an investment banking firm based in Denver Colorado.