



August 2, 2018

REPORT TO OUR SHAREHOLDERS

To Our Shareholders,

We are pleased to provide you with the financial statements and management's discussion of financial results for the three and twelve months ended December 31, 2017. These materials contain detailed financial information and a summary of each operating facility within White Owl's network for the stated periods.

FINANCIAL HIGHLIGHTS (dollar amounts in \$ 000 Canadian)

(\$ 000's Canadian except for volumes)	Three months ended December 31,		Twelve months ended December 31,	
	2017	2016	2017	2016
Volumes received (barrels)	3,545,614	2,883,522	12,845,454	11,248,296
Oilfield waste disposal revenue	\$3,539	\$2,594	\$11,905	\$10,016
Production revenue	279	-	355	-
Operating expenses	(2,340)	(1,876)	(7,145)	(5,963)
Operating income ⁽¹⁾	1,478	718	5,115	4,053
General and administrative	(633)	(508)	(2,087)	(1,611)
EBITDA ⁽¹⁾	845	210	3,028	2,442
Other income and expenses				
Depreciation and depletion	(607)	(382)	(1,863)	(1,393)
Impairment	(744)	-	(1,820)	-
Finance costs	(392)	(299)	(1,237)	(1,423)
Share-based payments	(57)	(50)	(313)	(210)
Foreign exchange (losses) gains	(29)	(13)	75	(55)
Gain on debt extension	-	-	-	269
Loss on debt settlement	-	-	-	(364)
Gain (loss) on disposal of assets	-	31	(2)	674
Loss on abandonment	-	-	(69)	-
Net loss	(\$984)	(\$867)	(\$2,201)	(\$60)

⁽¹⁾ Refer to "Non-GAAP Measures" in the Company's accompanying Management's Discussion of Financial Results the year ended December 31, 2017 for additional information.

White Owl generated revenue of C\$3,818,000 and positive EBITDA of C\$845,000 in the fourth quarter of 2017, a four-fold increase over the EBITDA of C\$210,000 earned in Q4 2016. Increased operating income from the New Town, Watford and Tioga facilities in North Dakota mainly accounted for the increase in EBITDA. Excluding operations at Clairmont, during the fourth quarter the Company disposed of 3,545,614 barrels of fluids, or 38,539 barrels per day which represents a 23% increase over the 2,883,552 barrels of fluids disposed of, or 31,343 barrels per day for the same quarter in 2016. On a per barrel basis, the average revenue received in the fourth quarter of 2017 was C\$0.90 per barrel disposed with a 43% operating margin compared to C\$0.89 per barrel disposed



and a 27% operating margin for the same period in 2016. Approximately 90% of our fourth quarter 2017 volumes were comprised of produced water while the balance was flowback water following drilling operations, which contains more oil that can be separated and sold to generate incremental revenue.

For the year ended December 31, 2017, White Owl generated revenue of C\$12,260,000 million and EBITDA of C\$3,028,000, a 24% increase over the EBITDA of C\$2,442,000 earned in 2016. In 2017, increased operating income from New Town and Tioga were the main contributing factors to the increased EBITDA for the year.

West Texas Intermediate oil prices continue to firm up averaging US\$62.91 per barrel for the first quarter of 2018. The rig count during the fourth quarter of 2017 averaged 48 rigs in North Dakota, compared to an average of approximately 31 rigs for the fourth quarter of 2016. More recently, in Q2 2018, rig count in North Dakota has averaged 56 rigs. With an overall production increase in the Bakken and an increase in the number of drilling rigs and well completions, we are experiencing some recovery in disposal fees but still do not anticipate pricing levels returning to 2014 and 2015 levels any time soon. Moving into 2018, we are receiving higher disposal volumes for both production water and flowback and expect this trend to continue.

OPERATING LOCATIONS (dollar amounts in USD except Clairmont):

New Town

		New Town Facility (amounts in USD except volumes)					
		Q4 2017	Q4 2016	Change	Year 2017	Year 2016	Change
Production Water	b/d	14,465	14,060	3%	13,171	14,263	-8%
Flowback	b/d	1,935	672	188%	1,816	931	95%
Total Fluids Disposed	b/d	16,401	14,732	11%	14,987	15,194	-1%
Oil Sales	b/qtr	5,972	3,712	61%	29,139	20,650	41%
Revenue							
Production Water		\$612,964	\$600,466	2%	\$2,194,414	\$2,511,242	-13%
Price for Production Water	Per bl.	\$0.46	\$0.46	1%	\$0.46	\$0.48	-5%
Flowback		\$130,208	\$65,866	98%	\$533,781	\$317,308	68%
Price for Flowback	Per bl.	\$0.73	\$1.07	-32%	\$0.81	\$0.93	-13%
Recovered Oil		\$287,046	\$140,892	104%	\$1,175,940	\$584,863	101%
Price for Oil	Per bl.	\$48.07	\$37.96	27%	\$40.36	\$32.31	25%
Total Revenue		\$1,030,218	\$807,224	28%	\$3,904,135	\$3,413,413	14%
Total Revenue per bbl.		\$0.68	\$0.60	15%	\$0.71	\$0.61	16%
Operating Expenses		\$690,418	\$848,584	-19%	\$2,297,271	\$2,287,459	0%
Operating Income		\$339,800	(\$41,360)	922%	\$1,606,864	\$1,125,954	43%

During the fourth quarter of 2017, total fluids disposed were 16,401 barrels per day, or 11% higher than the average for the prior year comparable quarter. The Q4 2017 average of total fluids disposed is 8% higher than the 2016 yearly average of 15,194 barrels per day. In particular, flowback volumes increased significantly by 188% in Q4 2017 compared to Q4 2016 and increased by 95% for the year ended 2017 compared to 2016 mainly



due to the completion of previously drilled and uncompleted wells by area producers. Q4 2017 oil sales volumes increased by 61% over Q4 2016, while 2017 annual oil sales volumes increased by 41% over the prior year. The increased Oil Sales volumes are due the aforementioned significant increase in flowback volumes during the periods under review.

Total Revenue per barrel increased by 15% to US\$0.68 per barrel in Q4 2017 compared to US\$0.60 per barrel in Q4 2016 and increased by 16% to average US\$0.71 per barrel for the year ended 2017 year compared to the prior year. Higher oil prices more than offset flat to slightly lower pricing for production water and lower flowback prices. In particular, competitive pressures resulted in a decrease of 32% in the price per barrel for flowback volumes in Q4 2017 compared to Q4 2016, and a decrease of 13% in the average 2017 price per barrel for flowback compared to 2016.

Because of increased volumes and oil prices, Total revenue increased by 28% to US\$1,030,218 in Q4 2017 compared to the prior year comparable quarter and increased by 14% to US\$3,904,135 for the year ended 2017 compared to the prior year. Operating expenses were 19% lower in Q4 2017 due to higher tank cleanout costs in Q4 2016, while operating expenses were flat for the year ended 2017 compared to the prior year. As a result of higher volumes and overall increased pricing per barrel, New Town operating income improved in Q4 2017 to US\$339,800 compared negative US\$41,360 in Q4 2016 and increased by 43% to US\$1,606,864 for the 2017 year compared to the prior year.

Watford City

Watford Facility (amounts in USD except volumes)

		Q4 2017	Q4 2016	Change	Year 2017	Year 2016	Change
Production Water	b/d	12,212	11,379	7%	12,101	9,810	23%
Flowback	b/d	1,287	591	118%	844	955	-12%
Total Fluids Disposed	b/d	13,499	11,970	13%	12,945	10,765	20%
Oil Sales	b/qtr	2,210	4,027	-45%	8,132	14,545	-44%
Revenue							
Production Water		\$522,262	\$605,994	-14%	\$2,194,491	\$2,124,767	3%
Price for Production Water	Per bl.	\$0.46	\$0.58	-20%	\$0.50	\$0.59	-16%
Flowback		\$178,386	\$70,420	153%	\$455,369	\$444,990	2%
Price for Flowback	Per bl.	\$1.51	\$1.29	17%	\$1.48	\$1.27	16%
Recovered Oil		\$107,767	\$147,808	-27%	\$338,694	\$438,593	-23%
Price for Oil	Per bl.	\$48.76	\$36.70	33%	\$41.65	\$33.70	24%
Total Revenue		\$808,415	\$824,222	-2%	\$2,988,554	\$3,008,350	-1%
Total Revenue per bbl.		\$0.65	\$0.75	-13%	\$0.63	\$0.76	-17%
Operating Expenses		\$401,036	\$333,677	20%	\$1,486,571	\$1,304,406	14%
Operating Income		\$407,379	\$490,545	-17%	\$1,501,983	\$1,703,944	-12%



During the fourth quarter of 2017, total fluids disposed were 13,499 barrels per day, or 13% higher than the average for the prior year comparable quarter. The Q4 2017 average is 25% higher than the 2016 yearly average of 10,765 barrels per day. Q4 2017 oil sales volumes decreased by 45% over Q4 2016, while 2017 annual oil sales volumes decreased by 44% over the prior year due to a lower oil content in the disposal fluids.

Oil prices increased by 33% to average US\$48.76 per barrel in Q4 2017 compared to Q4 2016 and increased by 24% to average US\$41.65 per barrel for the 2017 year compared to 2016. Similarly, the price for flowback increased by 17% to US\$1.51 per barrel in Q4 2017 compared to US\$1.29 in Q4 2016 and increased by 16% to average US\$1.48 per barrel for the year ended 2017 compared to US\$1.27 in the prior year.

The higher pricing for oil and flowback was more than offset by the combination of price decreases for production water and lower oil sales volumes resulting in a slight decline of 7% in total revenue to US\$808,415 in Q4 2017 compared to US\$824,222 in Q4 2016, and a decline of 1% in total revenue to US\$2,988,554 for the year ended 2017 compared to US\$3,008,350 for the prior year. Q4 2017 operating expenses increased by 20% over Q4 2016 due, while 2017 annual operating expenses increased by 14% over the prior year due to the increased volumes of fluids disposed. Watford operating income decreased by 17% to US\$407,379 in Q4 2017 compared to the prior year comparable quarter and decreased by 12% to US\$1,501,983 for the year ended 2017 compared to 2016.

Ross

Ross Facility (amounts in USD except volumes)

		<u>Q4 2017</u>	<u>Q4 2016</u>	<u>Change</u>	<u>Year 2017</u>	<u>Year 2016</u>	<u>Change</u>
Production Water	b/d	3,447	2,351	47%	3,122	3,710	-16%
Flowback	b/d	694	60	1057%	377	61	518%
Total Fluids Disposed	b/d	4,141	2,411	72%	3,499	3,771	-7%
Oil Sales	b/qtr	4,258	1,827	133%	9,259	8,661	7%
Revenue							
Production Water		\$142,731	\$98,450	45%	\$516,854	\$636,730	-19%
Price for Production Water	Per bl.	\$0.45	\$0.46	-2%	\$0.45	\$0.47	-4%
Flowback		\$76,250	\$7,449	924%	\$135,585	\$33,775	301%
Price for Flowback	Per bl.	\$1.19	\$1.36	-12%	\$0.99	\$1.52	-35%
Recovered Oil		\$203,452	\$68,871	195%	\$399,868	\$242,086	65%
Price for Oil	Per bl.	\$47.79	\$37.69	27%	\$43.19	\$31.70	36%
Total Revenue		\$422,433	\$174,770	142%	\$1,052,306	\$912,591	15%
Total Revenue per bbl.		\$1.11	\$0.79	41%	\$0.82	\$0.66	25%
Operating Expenses		\$224,780	\$145,297	55%	\$764,087	\$646,925	18%
Operating Income		\$197,654	\$29,473	571%	\$288,219	\$265,666	8%



During the fourth quarter of 2017, total fluids disposed increased significantly by 72% to 4,141 barrels per day compared to Q4 2016, while for the year ended 2017 total fluids disposed decreased by 7% compared to the previous year. Q4 2017 oil sales volumes increased significantly by 133% over Q4 2016 due to higher flowback volumes, while 2017 annual oil sales volumes increased by 7% over the prior year. The volume increase in Q4 2017 is attributable to drilling and completion activity expanding beyond the core area of the Bakken. In particular, oil sales volumes in Q4 2017 accounted for 46% of total 2017 annual oil sales volumes.

Oil prices at Ross increased by 27% to average US\$47.79 per barrel in Q4 2017 compared to Q4 2016 and increased by 36% to average US\$43.19 per barrel for the 2017 year compared to 2016. The increased volumes for both disposal fluids and oil combined with the higher oil prices more than offset the lower pricing for production water and flowback and resulted in a 142% increase in total revenue to US\$422,433 in Q4 2017 compared to US\$174,770 in Q4 2016, and a 15% increase in annual 2017 Total Revenue to US\$1,052,306 compared to US\$912,591 in the prior year. Volume increases accounted for the increase in operating expenses in Q4 2017 compared to Q4 2016 and for the year ended 2017 compared to the prior year. As a result, operating income increased by 571% in Q4 2017 to US\$197,654 and increased by 8% to US\$288,219 for the year ended 2017 compared to the prior year. Q4 2017 contributed 69% of the annual operating income due to the increase in oil sales volumes in the quarter as noted above. We are pleased to report that operations to date in 2018 indicate there is expected to be a substantial improvement in the Ross Facility's financial performance for the year ended 2018.

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Tioga SWD JV
Tioga (Volumes 100%; Dollar amounts at 32% Working Interest in USD)

		Q4 2017	Q4 2016	Change	Year 2017	Year 2016	Change
Production Water-Trucked	b/d	9,602	5,311	81%	8,041	4,500	79%
Production Water-Piped	b/d	4,308	1,563	176%	2,859	1,179	143%
Flowback	b/d	147	93	58%	858	109	686%
Total Fluids Disposed	b/d	14,057	6,967	102%	11,758	5,788	103%
Oil Sales	b/qtr	1,392	821	70%	12,189	821	1385%
Revenue							
Production Water-Trucked		\$127,209	\$70,354	81%	\$422,635	\$79,058	435%
Price for Production Water Per bl.		\$0.45	\$0.45	0%	\$0.45	\$0.45	0%
Production Water-Piped		\$95,129	\$34,520	176%	\$250,454	\$34,520	626%
Price for Production Water Per bl.		\$0.75	\$0.75	0%	\$0.75	\$0.75	0%
Flowback		\$3,263	\$2,303	42%	\$65,251	\$3,650	1688%
Price for Flowback	Per bl.	\$0.76	\$0.84	-10%	\$0.65	\$0.86	-24%
Recovered Oil		\$19,977	\$13,285	50%	\$154,988	\$13,285	1067%
Price for Oil	Per bl.	\$44.86	\$31.03	45%	\$39.74	\$31.03	28%
Overhead Fee Income		\$10,610	\$18,534	-43%	\$40,264	\$24,712	63%
Total Revenue		\$256,188	\$138,995	84%	\$933,592	\$155,224	501%
Total Revenue per bbl.		\$0.62	\$0.68	-9%	\$0.68	\$0.69	-1%
Operating Expenses		\$103,395	\$81,209	27%	\$389,989	\$97,112	302%
Operating Income		\$152,793	\$57,786	164%	\$543,603	\$58,112	835%

White Owl has a 32% working interest in the Tioga SWD Joint Venture (JV). The discussion below is based on total volumes for the facility while the financial information represents White Owl's 32% interest in the JV.

The Tioga SWD began operations in September 2016 and as a result, the year to year financial comparisons need to be reviewed in that context. During the fourth quarter of 2017, Production water-trucked, production water-piped and flowback volumes were significantly higher than in the fourth quarter of 2016. As a result, Q4 2017 total fluids disposed were 102% higher than in Q4 2016. Similarly, Q4 2017 Oil Sales volumes were 70% higher than in the prior year comparable quarter due to the increased flowback volumes.

There was a 9% decrease in total revenue per barrel to US\$0.62 in the fourth quarter of 2017 compared to US\$0.68 per barrel in the fourth quarter of 2016 largely because of competitive pricing pressures for flowback volumes. The volume increases more than offset the slightly lower pricing and resulted in total revenue increasing by 84% to US\$256,188 in Q4 2017 from US\$138,995 in Q4 2016 for White Owl's 32% working interest. The significant increase in fourth quarter 2017 operating Income to US\$152,793 from US\$57,786 in Q4 2016 also reflects a start-up condition in 2016 and an established facility in 2017. The site is currently operating at close to capacity of 15,000 barrels per day.



Epping SWD JV

White Owl has executed a 10-year disposal agreement with Hess to pipeline connect its gathering system to the Epping location providing a long-term commitment to deliver water to the location. White Owl concurrently executed a joint venture agreement with the White Owl Epping LLC under the terms of which the Epping LLC and certain service providers will fund the development of a new US\$4.5 million disposal facility at Epping in Williams County, North Dakota. Under the terms of the agreement, White Owl will receive a 20% carried interest through the development stage of the project which includes the construction of the SWD and drilling of the injection well and can increase this interest to a 32.5% interest at an estimated cost of US\$560,000 subject to availability of funds. All permits and landowner agreements are in place for the facility and the site is expected to be operational by early October 2018.

Canada - Clairmont Processing and Disposal Plant:

White Owl acquired the Clairmont clean oil terminal and emulsion processing facility along with its oil and gas producing assets in the second quarter of 2017 and took over as the AER designated operator at the beginning of September. Since September 2017 we have added additional commercial business lines for third party emulsion treating, dry-oil blending and terminaling, and third-party water disposal. Average oil production associated with the facility is approximately 40 barrels per day.

White Owl acquired this facility due to the potential for an oil pipeline- connected disposal facility in the heart of the Montney development in northwest Alberta. The Montney resource has been compared to the shale development taking place in the Permian and Delaware basins in Texas although restricted takeaway capacity in western Canada has dampened the pace of development. Market conditions in the Grande Prairie area remain strong, although the Clairmont plant currently has limited disposal capacity and needs to be reconfigured for commercial business. As a result, the marketing activities of Trafigura Canada General Partnership, White Owl's marketing partner, are somewhat restricted and will remain so until capital is available to fund the planned expansion. A capital plan, estimated at C\$1,800,000 which addresses these needs and doubles the water disposal capacity of the plant to greater than 750 cubic meters per day has been designed and will be completed once the funding is available.

To date, minor improvements have been made to metering to allow third party dry oil and emulsion truck offloads and third-party water disposal. The 2018 activities are focused on maximizing the processing and disposal capacity of the plant and designing the upgrades needed to increase the capacity for dry-oil blending, emulsion treating, and water disposal. Since the acquisition of Clairmont in September, this facility contributed C\$55,000 of operating income for the year ended 2017. We anticipate a small positive financial contribution from the Clairmont plant in 2018.

DEVELOPMENT LOCATIONS

Alexander: The Class 1 permit application process for the decommissioned Alexander facility is ongoing. The down hole well work required by the regulator has been completed as per the conditions on draft Class 1 permit received in late 2017.

The facility is presently suspended and the cost to recommission the facility will be an estimated US\$350,000 and this work will be completed by the end of the third quarter of 2018 subject to receipt of a final permit from the North Dakota Department of Health (NDDoH). The NDDoH is expected to issue a final permit in August 2018. Undertaking this conversion will differentiate White Owl from area competitors as there is limited competition for provision of this service, which commands premium pricing relative to the Class 2 SWD business. In addition, the Alexander Class 1 facility will be the first commercial Class 1 disposal facility in North Dakota.



Blue Buttes: A permit application has been filed with the North Dakota Industrial Commission for the Blue Buttes SWD and a permit was issued in July 2018. We have made a proposal to a local producer to deliver fluids to the location, initially by truck but eventually through a pipeline connection. The timing for development of this facility is subject to regulatory approvals, customer agreements and the availability of capital.

Johnson's Corner: As described in the financial statements and MDR, the disposal agreement for the Johnson's Corner SWD location expired and was not renewed by the landowner due to a competing need for the location by a local crude oil terminal operator. White Owl has been offered an alternate location adjacent to the original location and has been in discussions with the landowner to purchase the land. The discussions are ongoing.

Additional Disposal Wells: The New Town, Watford City, and Tioga facilities are all operating at maximum disposal capacity and as the need for disposal in these areas increases, a second disposal well may be needed. Permitting for a second disposal well at New Town has been completed, a second disposal well at Watford City is in the permitting process and a second disposal well at Tioga is in the planning stages.

New Projects: We are continuing to work on the development of new projects with the current focus on establishing an anchor customer to pipeline-connect or commit volumes to any of the proposed new locations.

OUTLOOK AND UPDATE

Financial:

As described in the notes to the financial statements, the purchase agreement to acquire the Clairmont facility in the fall of 2017, put White Owl into technical default with its lender. This default has now been remedied.

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 C\$2,200,000 from C\$2,700,000. Under the terms of the Subordination Agreement, White Owl Ltd. paid C\$1,200,000 of the Vendor Note on July 18, 2018 which resulted in the Company's lender (ATB) receiving a first charge on the Clairmont assets. The remaining C\$1,000,000 is payable by White Owl to the vendor on or before November 18, 2018.

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 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. Our budget shows that the Company will be able to support monthly payments to ATB but will need outside funding to meet the lump sum principal payment due to ATB on January 31, 2019 as described in Note 20 to the consolidated financial statements for the year ended December 31, 2017. See D. A. Davidson discussion following.

During July 2018, the Company engaged D. A. Davidson & Co. ("Davidson") of Denver, Colorado to address the pending funding requirements and to review strategic alternatives available to the Company and report to the Board with its recommendations to, among other things, resolve what the Board considers are certain inherent problems with its capital structure. It is expected that the review will include consideration of the expressed concerns of certain preferred shareholders who have been urging the sale of all or substantially all of the



company's assets to pay off the bank debt and redeem the preferred shares. Although the company is under no obligation to redeem the preferred shares, its debt is high, and it has been difficult to source growth capital due to this debt and the presence of the preferred shares in its capital structure. Davidson's broad mandate includes seeking ways to pay down debt, and address the concerns of the preferred shareholders, both of which are expected in the context of the continuing business recovery to provide a significant benefit to common shareholders. The Board expects that the Davidson process should allow us to take advantage of the long-term upside from an otherwise strong business and we anticipate the Board will be considering Davidson's recommendations during the third quarter of 2018.

Operations and Development:

With improving commodity prices, the 2018 year has started out strongly with volumes and price increases at all locations. This improvement in plant performance has been driven by an increase in drilling activity and the fact that the new activity is moving out into Tier 2 acreage areas. Activity in the Ross area in particular has increased substantially. At Watford City, a Denver based midstream company is pipeline connecting up to 12,000 barrels per day of produced water to the facility. At Tioga volumes have increased over 2017 and the facility operates at close to capacity most days. At Epping, the new Epping SWD where White Owl has a 20% carried interest is under construction and scheduled to be operational in the fall of 2018. With permitting nearly complete, the Alexander Class 1 facility is now scheduled to be operational by the fall of 2018. In Canada, market conditions remain strong in the Grande Prairie region, however we are unable to take full advantage of the opportunity at Clairmont, as the needed expansion of the facility is on hold pending availability of capital.

Business in North Dakota has improved considerably over the past year and the resulting increase in disposal demand has continued into 2018. Due to plant improvements and the addition of the Tioga SWD (and shortly the Epping SWD) to our network, White Owl is better positioned for the recovery than it has ever been. We have a competitive market share and have consistently executed to manage the changing dynamics, and despite pricing levels that have yet to fully rebound, we are achieving strong margins. With two new facilities coming on line in North Dakota, we expect 2018 to be a record year for the Company.

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