



July 24, 2019

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, 2018. For the twelve months ended December 31, 2018, total revenue increased by 32% to \$16,122,000 from \$12,260,000 in 2017 while EBITDA increased by 24% to \$3,765,000 from \$3,028,000 in 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

	Three months ended December 31,			Twelve months ended December 31,		
(\$000's Canadian, except volumes)	2018	2017	%	2018	2017	%
North Dakota operations						
Disposal volumes (Bbls)	3,782,364	3,545,614	7%	14,247,468	12,845,454	11%
Recovered oil sales volumes (Bbls)	6,353	12,885	-51%	40,901	50,697	-19%
Disposal revenue (\$ per Bbl)	\$0.75	\$0.73	3%	\$0.72	\$0.73	-1%
Oil sales revenue (\$ per Bbl)	\$51.45	\$47.73	8%	\$68.55	\$40.95	67%
Operating costs and royalties (\$ per Bbl)	\$0.55	\$0.51	8%	\$0.50	\$0.50	-
North Dakota disposal and services revenue						
Disposal revenue	\$2,855	\$2,588	10%	\$10,281	\$9,379	10%
Oil sales revenue	327	615	-47%	2,804	2,076	35%
Other revenue	148	13	1038%	422	52	712%
Total revenue – North Dakota	3,330	3,216	4%	13,507	11,507	17%
Operating costs	(2,082)	(1,814)	15%	(7,189)	(6,437)	12%
Operating income – North Dakota⁽¹⁾	\$1,248	\$1,402	-11%	\$6,318	\$5,070	25%
Alberta operations⁽²⁾						
Volumes (Bbls)						
Disposal and third-party processing	204,961	168,120	22%	787,045	207,673	279%
Oil and gas	4,714	4,811	-2%	18,109	6,405	183%
Revenue						
Disposal and third-party processing	\$424	\$323	31%	\$1,549	\$398	289%
Oil and gas sales	171	279	-39%	1,066	355	200%
Total revenue - Alberta	595	602	-1%	2,615	753	247%
Operating costs	(733)	(526)	39%	(2,859)	(708)	304%
Operating income (loss) - Alberta⁽¹⁾	(\$138)	\$76	-282%	(\$244)	\$45	-642%

	Three months ended December 31,			Twelve months ended December 31,		
(\$000's Canadian, except volumes)	2018	2017	%	2018	2017	%
Combined operations						
Oilfield disposal and processing revenue	\$3,606	\$3,526	2%	\$14,634	\$11,853	23%
Oil and gas sales	171	279	-39%	1,066	355	200%
Other revenue	148	13	1038%	422	52	712%
Combined revenue	3,925	3,818	3%	16,122	12,260	32%
Operating costs	(2,815)	(2,340)	20%	(10,048)	(7,145)	41%
Combined operating income⁽¹⁾	1,110	1,478	-25%	6,074	5,115	19%
General and administrative expenses ("G&A")	(584)	(633)	-8%	(2,309)	(2,087)	11%
EBITDA ⁽¹⁾	\$526	\$845	-38%	\$3,765	\$3,028	24%
Other income and expenses						
Depreciation and depletion	(\$612)	(\$607)	1%	(\$2,206)	(\$1,863)	18%
Impairment	-	(744)	-	-	(1,820)	-
Finance costs	(324)	(392)	-17%	(1,454)	(1,237)	18%
Share-based payments	(24)	(57)	-58%	(129)	(313)	-59%
Foreign exchange (losses) gains	(226)	(29)	679%	(376)	75	-601%
Loss on settlement of promissory notes – net	-	-	-	(142)	-	-
Loss on disposal of property, plant and equipment - net	-	-	-	(133)	(2)	6550%
Loss on abandonment	-	-	-	(43)	(69)	-38%
Net loss	(\$660)	(\$984)	-33%	(\$718)	(\$2,201)	-67%

⁽¹⁾ Refer to "Non-GAAP Measures" in the Company's accompanying Management's Discussion of Financial Results the year ended December 31, 2018 for additional information.

⁽²⁾ The comparative volumes, revenues and expenses for the three and twelve months ended December 31, 2017 are from the date of acquisition of the Clairmont, Alberta oil and gas assets and disposal and third-party processing facility in August 2017.

For the twelve months ended December 31, 2018, total revenue increased by 32% to \$16,122,000 from \$12,260,000 in 2017 while EBITDA increased by 24% to \$3,765,000 from \$3,028,000 in 2017. This improvement in operating results was primarily due to North Dakota fluid volumes disposed increasing by 11% and stronger pricing. For 2018, the average revenue per barrel of fluids disposed increased to \$0.92 from \$0.73 due to stronger realized netback oil prices and due to price increases introduced by White Owl in Q4 2018 for trucked production water and flowback.

In Q4 2018, White Owl generated total revenue of \$3,925,000 in Q4 2018, a 3% increase over the \$3,818,000 generated in Q4 2017, while EBITDA decreased by 38% to \$526,000 from \$845,000 generated in Q4 2017. The decrease in EBITDA in the quarter was due to lower flowback volumes and resulting lower recovered oil sales volumes in North Dakota combined with a lower realised oil price and a small operating loss at Clairmont in Alberta. In addition, operating costs increased by 20% in Q4 2018 over Q4 2017 mainly due to initial high start-up operating costs at the Company's newly commissioned facilities, Epping and Alexander.

North Dakota

For the year ended December 31, 2018, North Dakota total revenue increased by 17% to \$13,507,000 from \$11,507,000 in 2017, while operating income increased by 25% to \$6,318,000 from \$5,070,000 in 2017 mainly due to fluid volumes disposed increasing by 11% year over year, the realized netback oil price increasing by 67% and the price increases for trucked water and flowback as discussed above.



In Q4 2018, North Dakota total revenue increased by 4% to \$3,330,000 from \$3,216,000 in Q4 2017, while operating income decreased by 11% to \$1,248,000 from \$1,402,000 in Q4 2017. The decrease in operating income in Q4 2018 is mainly due to lower flowback volumes disposed and, as a result, lower recovered oil sales volumes. Approximately 97% of White Owl's fourth quarter 2018 disposal volumes were comprised of produced water while the balance of 3% was flowback water from completion operations, which contains significant volumes of oil that can be separated and sold to generate incremental revenue. This compares to Q4 2017 total disposal volumes comprising 89% produced water and 11% flowback. Please see "Operating Locations" on page 4 of this Shareholder Letter for details of volumes and operating income by facility.

For the twelve months ended December 31, 2018, production water (trucked and piped) volumes disposed increased by 14% over 2017 while flowback water volumes disposed decreased by 18% to result in a net increase of 11% in total fluids disposed year over year. The reduced flowback volumes resulted in 2018 oil volume sales decreasing by 19% to 40,901 barrels from 50,697 barrels in 2017. The decrease in oil sales volumes was more than offset by a higher realized netback oil price which resulted in 2018 oil sales revenue increasing by 35% to \$2,804,000 from \$2,076,000 in 2017.

In Q4 2018, production water volumes disposed increased by 15% over Q4 2017, while flowback water volumes disposed decreased by 68% to result in a net increase of 6% in total fluids disposed in Q4 2018 compared to Q4 2017. The reduced flowback volumes resulted in oil volume sales decreasing by 51% to 6,353 barrels in Q4 2018 from 12,885 barrels in Q4 2017 and Q4 2018 oil sales revenue decreasing by 47% to \$327,000 from \$615,000 in Q4 2017.

For the twelve months ended December 31, 2018, there were lower flowback volumes disposed and related oil sales at New Town, Tioga and Watford. At New Town, the decrease in flowback volumes is mainly due to lower customer drilling activity in the area in the quarter. At Tioga and Watford City, the lower flowback volumes were mainly due to production water volumes consuming a greater portion of the plant capacity to meet customer commitments in the quarter. In addition, in 2018, we have seen an improved ability by customers to separate the oil on-site prior to shipping of flowback volumes to White Owl. At Ross, increased drilling and completion activity in the area resulted in flowback volumes disposed and oil volume sales increasing by 178% and 50%, respectively, year over year.

In the three and twelve months ended December 31, 2018, operating costs increased by 15% and 12%, respectively, compared to the 2017 comparable periods due to the increase in water volumes processed by the facilities. Operating costs and royalties averaged \$0.50 per barrel for the twelve months ended December 31, 2018 which is unchanged from 2017.

Alberta

In Alberta, the Clairmont facility generated revenue of \$595,000 in Q4 2018 which is relatively flat compared to \$602,000 in the prior year comparable quarter, while for the year ended December 31, 2018 revenue increased to \$2,615,000 from \$753,000 in 2017. The prior year revenue is from August 17, 2017 which is when the Clairmont facility was acquired by White Owl. In Q4 2018, Clairmont incurred an operating loss of \$138,000 compared to operating income of \$76,000 in Q4 2017. For the year ended December 31, 2018, the operating loss was \$244,000 compared to operating income of \$45,000 in 2017. The 2018 operating loss was mostly due to \$187,000 of workover costs incurred in Q2 2018.

OPERATING LOCATIONS (dollar amounts in USD except Clairmont):
New Town
New Town Facility (amounts in USD except volumes)

		<u>Q4 2018</u>	<u>Q4 2017</u>	<u>Change</u>	<u>2018 Year</u>	<u>2017 Year</u>	<u>Change</u>
Production Water	b/d	13,914	14,465	-4%	13,298	13,171	1%
Flowback	b/d	400	1,935	-79%	1,257	1,816	-31%
Total Fluids Disposed	b/d	14,314	16,401	-13%	14,555	14,987	-3%
Oil Sales	b/qtr	3,667	5,972	-39%	15,134	29,139	-48%
Revenue							
Production Water		\$697,475	\$612,964	14%	\$2,485,298	\$2,194,414	13%
Price for Production Water/bbl		\$0.50	\$0.46	9%	\$0.51	\$0.46	12%
Flowback		49,468	130,208	-62%	\$470,262	\$533,781	-12%
Price for Flowback/bbl		\$1.00	\$0.73	37%	\$1.03	\$0.81	27%
Recovered Oil		141,405	287,046	-51%	\$967,295	\$1,175,940	-18%
Price for Oil/bbl		\$43.88	\$48.07	-9%	\$63.92	\$40.36	58%
Total Revenue		\$888,348	\$1,030,218	-14%	\$3,922,855	\$3,904,135	0%
Total Revenue/bbl.		\$0.68	\$0.69	-1%	\$1.49	\$1.44	3%
Operating Expenses		550,091	690,418	-20%	2,287,261	2,297,271	0%
Operating Income		\$338,257	\$339,800	0%	\$1,635,594	\$1,606,864	2%

Total revenue received for the year ended December 31, 2018 at New Town increased slightly to US\$3,922,855 from US\$3,904,135 in 2017 as higher pricing offset the lower flowback and oil sales volumes. In Q4 2018 a lower oil realised oil price in addition to lower flowback and oil sales volumes led to total revenue decreasing by 14% to US\$888,348 from US\$1,030,218 in Q4 2017. For the twelve months ended December 31, 2018, New Town operating income increased 2% to US\$1,635,594 compared to US\$1,606,864 for 2017 while in Q4 2018, operating income remained flat at US\$338,257 compared to US\$339,800 in Q4 2017.

For the year ended December 31, 2018, higher average pricing for production water (up 12%), flowback water (up 27%) and oil sales (realised netback price up 58%) offset lower flowback volumes and oil sales volumes year over year. The decrease in flowback volumes in 2018 (down 31% year over year and down 79% in Q4 2018 over Q4 2017) was mainly due to lower customer drilling activity in the area. The decrease in oil volumes is due to the lower flowback volumes and the increased customer ability to separate the oil onsite prior to shipping flowback volumes to White Owl. In the first half of 2019, both New Town production water and flowback disposal volumes have increased over 2018 levels.

Total Revenue per barrel increased by 3% to US\$1.49 per barrel for the year ended December 31, 2018 from US\$1.44 per barrel in 2017 and remained relatively flat at US\$0.68 per barrel in Q4 2018 compared to US\$0.69 per barrel in Q4 2017.

Watford City
Watford Facility (amounts in USD except volumes)

		<u>Q4 2018</u>	<u>Q4 2017</u>	<u>Change</u>	<u>2018 Year</u>	<u>2017 Year</u>	<u>Change</u>
Production Water	b/d	8,329	12,212	-32%	11,921	12,101	-1%
Production Water -Piped	b/d	4,453	0		1,245	0	
Flowback	b/d	198	1,287	-85%	333	844	-61%
Total Fluids Disposed	b/d	12,980	13,499	-4%	13,499	12,945	4%
Oil Sales	b/qtr	451	2,210	-80%	6,020	8,132	-26%
Revenue							
Production Water - Trucked		\$430,594	\$522,262	-18%	\$2,161,656	\$2,194,491	-1%
Price for Prodn. Water-Trucked/bbl		\$0.56	\$0.46	21%	\$0.50	\$0.50	0%
Production Water - Piped		196,722	0		\$218,130	\$0	
Price for Prodn. Water Piped/bbl		\$0.48	\$0.00		\$0.48		
Flowback		27,665	178,386	-84%	\$183,219	\$455,369	-60%
Price for Flowback/bbl		\$1.52	\$1.51	1%	\$1.51	\$1.48	2%
Recovered Oil		19,903	107,767	-82%	\$328,456	\$338,694	-3%
Price for Oil/bbl		\$43.88	\$48.76	-10%	\$54.56	\$41.65	31%
					\$7,196	\$0	
Total Revenue		674,884	808,415	-17%	2,898,657	2,988,554	-3%
Total Revenue/bbl.		\$0.57	\$0.66	-13%	\$1.19	\$1.28	-7%
Operating Expenses		410,360	401,036	2%	\$1,553,582	\$1,486,571	5%
Operating Income		\$264,523	\$407,378	-35%	\$1,345,075	\$1,501,983	-10%

For the year ended December 31, 2018 total fluids disposed at the Watford City SWD increased by 4% to 13,499 barrels per day from 12,945 barrels per day in 2017. Total revenues at Watford for the current year remained relatively flat at US\$2,898,657 compared to US\$2,988,554 in 2017 as higher realised prices per barrel of oil sold and per barrel of flowback disposed helped mitigate the impact of lower flowback volumes (down 61% year over year) and oil volume sales (down 26% year over year). With operating costs increasing by 5% year over year due to higher volumes disposed, operating income decreased to US \$1,364,075 from US \$1,501,983 year over year.

In Q4 2018, total fluids disposed were 12,980 barrels per day, or 4% less than the Q4 2017 total fluid volumes. In Q4 2018, a 21% increase in the price for trucked production water helped mitigate the weaker oil price per barrel (down 10%) and lower flowback volumes disposed (down 85%) and oil volume sales (down 80%), resulting in Q4 2018 total revenue of US\$674,884 compared to US\$807,415 for Q4 2017.

At Watford, plant capacity during 2018 was predominantly filled with lower-priced production water due to customer commitments, which replaced higher priced flowback volumes. As a result, flowback volumes averaged 198 barrels per day for Q4 2018, 85 % lower than the 1,287 barrels per day for Q4 2017, while for the year ended December 31, 2018, flowback volumes disposed averaged 333 barrels per day, or 61% lower than the 2017 daily average of 844 barrels per day. In Q4 2018, the associated oil sales at 451 barrels were 80% less than the 2,210 barrels of oil sold in Q4 2017 while 2018 annual oil sales of 6,020 barrels were 26% lower than the 8,132 barrels



of oil sold in the prior year. The decreased oil sales volumes relate to decreased flowback volumes received during the periods under review.

Subsequent to the year end, on January 17, 2019, a fire destroyed the Watford SWD. There were no injuries to onsite personnel, nearby residents, businesses, or emergency responders. The Company has property insurance to cover the costs to rebuild the facility as well as business interruption insurance for the loss of income over the reconstruction period. Reconstruction of the Watford Facility is expected to be complete and operational in the third quarter of 2019.

Ross

Ross Facility (amounts in USD except volumes)

		<u>Q4 2018</u>	<u>Q4 2017</u>	<u>Change</u>	<u>2018 Year</u>	<u>2017 Year</u>	<u>Change</u>
Production Water	b/d	7,227	3,447	110%	5,002	3,122	60%
Flowback	b/d	402	694	-42%	1,046	377	178%
Total Fluids Disposed	b/d	7,629	4,141	84%	6,049	3,499	73%
Oil Sales	b/qtr	1,793	4,258	-58%	13,878	9,259	50%
Revenue							
Production Water		\$329,115	\$142,731	131%	\$904,309	\$516,854	75%
Price for Production Water/bbl		\$0.49	\$0.45	10%	\$0.50	\$0.45	9%
Flowback		32,419	76,250	-57%	\$371,015	\$135,585	174%
Price for Flowback/bbl		\$0.88	\$1.19	-27%	\$0.97	\$0.99	-1%
Recovered Oil		69,548	203,452	-66%	\$738,594	\$399,868	85%
Price for Oil/bbl		\$38.79	\$47.79	-19%	\$53.22	\$43.19	23%
Total Revenue		431,082	422,433	2%	2,013,918	1,052,306	91%
Total Revenue/bbl.		\$0.62	\$1.12	-45%	\$1.22	\$1.10	11%
Operating Expenses		259,337	224,780	15%	\$901,158	\$764,087	18%
Operating Income		\$171,746	\$197,655	-13%	\$1,112,760	\$288,219	286%

Increased activity in the area resulted in significantly higher production water disposal volumes, flowback disposal volumes and recovered oil sales volumes throughout 2018, with year-over-year volume increases of 60%, 178% and 50%, respectively. As a result, for the twelve months ended December 31, 2018, total revenues increased by 91% to US\$2,013,918 from US\$1,052,306 in 2017 while operating income increasing by 286% to US\$1,112,760 from US\$288,219 in 2017 in Q4 2018.

In Q4 2018, the increase in production water disposal volumes (up 110%) was offset by a lower realized oil price in addition to lower flowback volumes (down 42%) and lower oil sales (down 58%). As a result, total revenues increased by 2% to US\$431,082 in Q4 2018 from US\$422,433 in Q4 2017, while operating income at Ross decreased to US\$171,746 from US\$197,655 over the two quarters.

During Q4 2018, total fluids disposed at the the Ross SWD were 7,629 barrels per day, or 84% higher than the average for the prior year comparable quarter, while for the year ended December 31, 2018, total fluids disposed of 6,049 barrels per day was 73% higher than the 2017 yearly average of 3,499 barrels per day. Year over year flowback volumes increased by 178% to 1,046 barrels per day from 377 barrels per day in 2017, resulting in a



50% increase in oil sales to 13,878 barrels for 2018. The increased oil sales volumes relate to the substantially increased flowback volumes received during the year under review.

Tioga SWD JV

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

		Q4 2018	Q4 2017	Change	2018 Year	2017 Year	Change
Production Water-Trucked	b/d	7,943	9,602	-17%	8,860	8,041	10%
Production Water-Piped	b/d	5,409	4,308	26%	4,911	2,859	72%
Flowback	b/d	746	147	408%	237	858	-72%
Total Fluids Disposed	b/d	14,098	14,057	0%	14,009	11,759	19%
Oil Sales	b/qtr	1,380	1,392	-1%	8,283	12,189	-32%
Revenue							
Production Water - Trucked		\$132,571	\$127,209	4%	\$532,994	\$422,635	26%
Price for Prodn. Water-Trucked/bbl		\$0.57	\$0.45	26%	\$0.52	\$0.45	14%
Production Water - Piped		119,421	95,129	26%	\$430,239	\$250,454	72%
Price for Prodn. Water Piped/bbl		\$0.75	\$0.75	0%	\$0.75	\$0.75	0%
Flowback		34,671	3,263	963%	\$40,403	\$65,251	-38%
Price for Flowback/bbl		\$1.58	\$0.65	142%	\$1.46	\$0.65	124%
Recovered Oil		16,660	19,977	-17%	\$138,941	\$154,988	-10%
Price for Oil/bbl		\$37.72	\$39.74	-5%	\$52.42	\$39.74	32%
Overhead Fee Income		0	10,610	-100%	\$0	\$40,264	-100%
Total Revenue		303,322	256,188	18%	1,142,578	933,593	22%
Total Revenue/bbl.		\$0.74	\$0.63	18%	\$1.41	\$1.37	3%
Operating Expenses		118,163	103,395	14%	\$520,945	\$389,988	34%
Operating Income		\$185,159	\$152,793	21%	\$621,633	\$543,604	14%

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.

In 2018, total fluids disposed (ie, production water and flowback combined) increased by 19% compared to 2017. Due to customer demand, trucked and pipelined production water has filled the plant's capacity for much of 2018 and as a result, Tioga has been unable to accept flowback volumes leading to lower oil sales volumes. However, the significant increase in production water volumes (up 10% for trucked and up 72% for pipelined water year over year) has more than offset the impact of the lower flowback and oil sales volumes. As a result, in Q4 2018 and for the year ended December 31, 2018, total revenue at Tioga increased 18% and 22%, respectively, compared to the 2017 comparable periods. Operating income increased by 21% to US\$185,159 for Q4 2018 over Q4 2017 for White Owl's 32% working interest, while for the year ended December 31, 2018, operating income increased by 14% to US\$621,633.

During Q4 2018, total fluids disposed at the the Tioga SWD were 14,098 barrels per day, basically flat when compared to the average for the prior year comparable quarter. Flowback volumes averaged 746 barrels per day



for Q4 2018, 408 % higher than the 147 barrels per day for Q4 2017. The associated oil sales at 1,380 barrels for Q4 2018 was 1% less than the 1,392 barrels of oil sold in Q4 2017 while 2018 annual oil sales of 8,283 barrels was 32% lower than the 12,189 barrels of oil sold in the prior year. The reduced oil sales volumes for the year ended December 31, 2018 relate to the substantially lower flow back fluids disposed during the year.

In 2018, price increases per barrel were introduced by White Owl for disposal of trucked production water and for flowback which combined with a higher realized oil price per barrel resulted in total revenue per barrel increasing by 3% to US\$1.41 per barrel compared to US\$1.37 in the prior year. In Q4 2018, the aforementioned price increases resulted in total revenue per barrel increasing by 18% to average US\$0.74 per barrel for the current quarter compared to US\$0.63 in Q4 2017.

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 have funded the development of a new US\$5.0 million disposal facility at Epping in Williams County, North Dakota. Under the terms of the agreement, White Owl received 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 has increased this interest to a 32.5% interest by investing US\$785,000 in the project.

The facility began accepting piped-in water disposal volumes, through temporary pump facilities, in September of 2018. In Q4 2018, Epping contributed total revenue of US\$101,909 while incurring an operating loss of US\$69,391, which was anticipated during the initial ramp-up period.

Canada - Clairmont Processing and Disposal Plant

White Owl owns and operates an oil pipeline connected oil processing and disposal facility at Clairmont, in the heart of the Montney shale play 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 pipeline takeaway capacity in western Canada has dampened the pace of development. Market conditions in the Grande Prairie area remain strong, although the Clairmont plant operates in an environment of apportioned oil pipeline throughput which limits receipts of clean oil and emulsion and it currently has limited water disposal capacity. As a result, the marketing activities of Trafigura Canada General Partnership, White Owl's marketing partner, are somewhat restricted and will remain so until pipeline capacity (new inter provincial pipelines) out of Alberta increases and the related capital is available to fund any planned expansion of the plant.

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 were 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. The associated oilfield has been permanently shut-in in 2019 due to the risk of gathering line leaks and therefore there are no longer any producing oil wells at Clairmont. The Clairmont waste disposal and third-party processing facility generated operating income of \$58,000 and \$246,000 for the three and twelve months ended December 31, 2018, respectively. Oil and gas sales at Clairmont generated an operating loss of \$197,000 and \$490,000 for the three and twelve months ended December 31, 2018, respectively. The year to date operating loss for oil and gas sales includes a one-time well workover cost of \$187,000 incurred in April 2018.



Alexander Class 1 Facility

The Alexander Class 1 facility was converted from a suspended Class 2 SWD facility and was commissioned in November 2018. Class 1 disposal is a new business line for White Owl with a different customer base and a broader market than Class 2 disposal and the business will take some time to develop as customers become aware of the service and as regulators move to enforce the regulations around Class 1 disposal. The Class 1 facility accepts industrial fluids (as opposed to Class 2 disposal which is for oilfield fluids only) including pipeline test water, refinery wastewater, landfill leachate, oil terminal runoff, vacuum truck rinsate, gas plant cooling tower cleaning waste, waste compressor fluids, pipeline pit waste water and pesticide rinsate. The market for Class 1 fluids will take at least 18 months to develop and this combined with the high commissioning costs related to receiving fresh water fluids during the winter has resulted in an operating loss of US\$65,912 in Q4 2018 and an operating loss of US\$89,283 for the year ended December 31, 2018. It is anticipated that operating results will improve in 2019 with a strong marketing effort. White Owl's Class 1 facility is only the second such facility in North Dakota.

DEVELOPMENT LOCATIONS

Blue Buttes: A permit application has been received from the North Dakota Industrial Commission for the Blue Buttes SWD. The plant site is located on the western edge of the Berthold Reservation directly off the BIA 4 county road and in the middle of the Tier 1 acreage in the Antelope field. Oil companies and truckers operating in the area have expressed a strong interest in having access to this very strategic disposal location as soon as possible. The timing for development of this facility is subject to the availability of capital but management is targeting a June 2020 startup date.

Additional Disposal Wells: The New Town, Tioga and Epping facilities are all operating at maximum disposal capacity and with the need for disposal in these areas increasing, second disposal wells are needed at all locations. Watford City will also need a second disposal well once the facility is rebuilt, as prior to the fire it operated at close to capacity. Permitting for a second disposal well at New Town has been completed, and second disposal wells at Watford City, Epping and Tioga are in the permitting process.

FINANCIAL AND OPERATIONAL UPDATE

Financial:

Effective December 15, 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. This payment was made in January 2019 as scheduled. The 2019 budget shows that the Company will be able to support the monthly payments to ATB.



Operations and Development:

The 2019 year has started out strongly with volumes and price increases at all locations and the addition of two more facilities; the Epping SWD and the Alexander Class 1 disposal facility. The Watford City facility was destroyed by fire in January 2019 and is currently being rebuilt. The facility was fully insured for Business Interruption, Property Loss and Pollution and the total claim to the Company's insurers will be in the vicinity of \$5 million. During Q1 2019, White Owl has paid total deductibles of \$275,000 on this claim.

Management views its network of Class 2 disposal facilities in the Bakken as being strategically located adjacent to much of the Bakken Tier 1 acreage and this is demonstrated by the fact that most of White Owl's SWD facilities currently operate at capacity. Inside its network of facilities, the Company has a series of "low hanging fruit" projects with high returns that it would like to finance with construction commencing in 2019. These include second wells at Epping, Tioga, Newtown and Watford City. White Owl also has the option to purchase a 15% interest in the Tioga SWD from the White Owl Tioga LLC for US\$750,000. In addition as mentioned above, the Company has a well located "shovel ready" location for a new SWD facility adjacent to the Berthold Reservation at Blue Buttes. The bottom line is that to complete all of these projects would cost in excess of US\$15 million and with the potential of increasing annual EBITDA from the current US\$3 million run-rate to in excess of US\$10mm EBITDA annually. These are compelling projects and management is in discussions with capital providers with the goal of sourcing suitable financing so that these projects can proceed.

In Alberta, the Clairmont facility is operating well in a constrained market. Constrained due to oil pipeline egress limitations in Alberta which has a direct impact on throughput at the Clairmont facility, and this market condition is aggravated by the limited new development activity in the area. These problems appear to be political and there is little in the short term that management can do to improve performance at Clairmont. Costs are being controlled and marketing initiatives are a priority.

OUTLOOK

The board and management of White Owl are continuing to seek solutions to the challenges facing the Company, which include the inability to source capital on acceptable terms due its complex capital structure. As discussed above, the Company has a number of high return near term projects requiring capital to develop but struggles to fund these projects due to its current capital structure. Management continues to advance discussions with potential capital providers to fund near and long term projects and at the same time remedy the current shareholder structure. The top priority is to create enhanced value for all shareholders within our current operating asset base. Once this goal has been achieved, the Company can then review strategic opportunities that will provide shareholders with the returns they have been expecting since the Company's inception in 2014.

As we said in the Q3 shareholder letter, in June of 2018, the Company engaged D.A. Davidson & Co. to provide investment banking and financial advisory services to the Company and to identify and execute on opportunities to maximize shareholder value. The process has been slow as available capital for investment in the North American oil and gas industry including oilfield services remains on the sideline. Through this process, we received proposals to acquire the Company, merge with the Company and to purchase specific operating assets. None of the proposals met the Company's stated objective to provide all shareholders with a fair return on their investment. This result was not surprising. Davidson recently advised the Company that the timing of the strategic process would make it difficult to meet our stated objective due to the lack of buyers in the market. Nevertheless, for the short term the process continues, and management and the Board continue to review a number of alternatives which have been identified.



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