



Date: September 9, 2019

Via Email only

RE: Update on Strategic Alternatives Process and the Path Forward

Dear Shareholders,

As most of you are aware, in 2018 a group of preferred shareholders sought to force the Company to redeem their shares, although no such redemption right exists in the Company's Articles nor in the Agreements they signed when they acquired their shares.

Nonetheless, while market conditions did not seem optimal for a transaction that would meet these demands, in the fall of 2018 the Company engaged D.A. Davidson & Co. ("Davidson") as a financial advisor to assess strategic alternatives including a sale, merger, joint venture, financing, partnership or re-organization of the Company. This process was undertaken under constant scrutiny by the dissident preferred shareholder group who were singularly focussed on a sale of the company that would result in the redemption or purchase of their shares.

White Owl remained in this process until recently, at a cost of approximately \$600,000 in investment banking and legal fees alone and with untold hours of management and board of directors' time. During the process, Davidson reached out to about 70 potential candidates including PE funds, strategic buyers, lenders and other industry JV partners. As a result of this process, four potentially viable proposals were received (all in the form of non-binding letters of intent), one to purchase the North Dakota assets, two to purchase White Owl's assets and one to purchase the undeveloped Blue Buttes site in North Dakota. None of the proposals involved the purchase of shares of the Company which for most shareholders would be the most tax effective structure for a sale or merger.

The board of directors reviewed the proposals and considered the implications of the transaction structure, debt repayment, and the range of value received by holders of both the preferred and common shares. This analysis resulted in two proposals being the most favourable, one a proposal to acquire all the assets of the Company (which would not in the view of management provide a suitable return on investment to common shareholders) and the other a proposal to merge the North Dakota assets with a competitor in the North Dakota marketplace (which would not in the view of management be financeable on reasonable terms). In January of this year and in the middle of the strategic process, the Watford City SWD was destroyed by fire, which resulted in a significant delay in the process as recommended by the financial advisor.

In the meantime, management has been developing its business plan for 2019 and 2020, but before addressing the recommendations on a path forward, we think it is appropriate to advise all shareholders of the position of the Board regarding certain allegations and complaints of the dissident shareholder group.

1. It was suggested that the Company is in a desperate position demonstrated by recent actions of the management team to resolve certain outstanding financial matters including a small loan

by management to the Company, selling of a royalty interest on our Watford City SWD to fund a payment due to the Company's lender and pursuit of two joint ventures on our Tioga and Epping SWD locations.

- a. On the management loan, shareholder funds were used to make the **Clairmont** vendor loan payment of CAD\$1.2 million and this was made on schedule. However, at the last minute, the Company's Bank advised that there was a shortfall in the account of \$20,000 and that this shortfall could not be taken from working capital. The shortfall was advanced by Owen Pinnell on favourable terms to the Company.
- b. On the **Watford City** royalty, funds were required to make the US\$1.1 million balloon payment to the Bank by January 31, 2019 and these funds could not come from working capital. Several supportive shareholders advanced these funds to the Company and in return received a 9% royalty on the Watford City SWD site. White Owl owns the land at Watford City and it is the only White Owl facility without a landowner royalty. Our Epping, Tioga, Ross and Alexander facilities pay a 10% royalty to the landowner and at Newtown we pay a 12.5% royalty to the landowner. This was an underutilized asset that was used to solve a critical short-term payment to the Bank.
- c. On the **Tioga and Epping** joint ventures, White Owl has been unable to raise significant capital in large part due to the presence of preferred shares in its capital structure. Hess Corporation is our largest customer in North Dakota and to satisfy their request to build SWD facilities at Tioga and Epping, we raised just under US\$6 million in two LLCs to fund the development of these facilities. White Owl earned a 32% interest in the Tioga facility for developing and managing the project and providing surplus equipment.

At Epping, White Owl earned a 32.5% interest in the facility for developing and managing the project and providing US\$0.75 million of capital. The Tioga facility has historically generated over US\$0.5 million in annual cashflow for White Owl and the Epping facility is forecast to generate similar cash flows once a proposed 2nd well has been drilled. The dissident preferred shareholder group were strongly opposed to these projects, but the projects have substantially improved the Company's fiscal position. With our customers pushing to have us expand these facilities and with White Owl having the right to purchase an additional 15% interest in Tioga, income from these two facilities are expected grow considerably should the proposed expansion of these sites proceed.

2. The most significant criticism of management by the dissident preferred shareholder group over the past 2 years has been about the Clairmont acquisition where inadvertently the Clairmont vendor was provided with a first charge on the facility ahead of ATB, the Company's lender. The dissident preferred shareholder group was rightly critical of this error as it created a significant problem with the Company's Bank (ATB) but that has now been resolved to the satisfaction of ATB.
3. The energy services business has been difficult over the past few years for reasons most of you are familiar with. However, despite these headwinds, White Owl's business continues to improve with growing EBITDA and declining debt. In 2018, White Owl generated EBITDA of US\$3.0 million, an increase of 25% over the US\$2.4 million earned in 2017. As for the bank, we have paid down over US\$2.5 million of principal to ATB over the past thirteen months and White Owl's current cash flow is sufficient to ensure that all required payments to the lender will be made.
4. The dissident preferred shareholder group has suggested that White Owl's administrative costs

are high. In our view, management compensation is in line with industry standards, but professional expenses for the reasons explained above, have been higher than we would like. We report in IFRS and are audited so accounting fees are high and our legal and other professional expenses increased substantially due to the strategic alternatives process.

5. In regard to our 2018-year end and Q1 and Q2 2019 results, the energy services business can be volatile, there are seasonal influences and sometimes one-time events. We recently had a fire at our **Watford City** facility which was covered by business interruption and property insurance and will be operational again in October 2019. However, the IFRS accounting treatment of the Watford City SWD fire, among other things, has delayed the release of the Q1 and Q2 2019 financial results which should be in your hands by the end of September. We apologise for the delay.
6. White Owl has not had an Annual General Meeting ("AGM") since June of 2017. The Board considered that since we were in a strategic process and there could potentially be a transaction which would require shareholder approval, the AGM was postponed until the Company had a proposal that was supported by the Board and would be recommended for approval by the shareholders. That never happened. As the Davidson process has now been terminated, we will be scheduling an Annual General Meeting for November of this year.

Notwithstanding the failure of the strategic process, which in retrospect was probably initiated a year or two sooner than it should have been, the Company is on a path forward that the Board believes will result in a substantial increase in the enterprise value of the Corporation over the next 12 to 24 months, which is expected to lead to a liquidity event that provides a suitable return on investment to both the common and preferred shareholders. In North Dakota, our Class 2 SWD facilities are all operating at capacity and urgently require 2nd wells to meet customer demand. Our current plans are to purchase the additional 15% interest in the **Tioga** LLC, taking our ownership up to 47%, and to drill a 2nd disposal well which we plan to have on stream by January 2020 at a cost to White Owl of US\$1.75 million. At **Epping** we plan to drill a 2nd disposal well which again we plan to have on stream by January 2020 at a cost to White Owl of US\$0.85 million. We are working with existing shareholders on the financing for these two projects. Our **Ross** SWD also operates at capacity of 15,000 barrels per day, but we need to replace the rental pump at this location with a larger pump skid. Our **Watford City** rebuilt SWD will be operational in October and we are also planning a 2nd well at this location due to customers' demand. The **Newtown** SWD also operates at capacity and needs a 2nd disposal well. In addition to these low risk projects, we have a permitted shovel ready new SWD project at **Blue Buttes** and are working on financing for this project which we would like to have on stream by June of 2020. These projects will increase EBITDA substantially from our current annual EBITDA run rate of US\$3 – US\$3.5 million).

In Canada, operations at the **Clairmont** midstream facility are improving. Following a pipeline leak, we have shut in the oil and gas production and, as a result, we incur a monthly fixed cost of \$40,000 for insurance, leasehold payments, property taxes and power commitments. We are also incurring costs for the gradual abandonment of the suspended oil wells. On the other hand, business at the Clairmont midstream facility is improving and the midstream profits now cover the oil and gas production expense so there should not be a cash drain going forward. Oil pipeline connected facilities have a strategic value due to the difficulty in getting new pipeline connections in Canada and we are confident, over the long term, the Clairmont facility will prove to be a valuable asset for the Company. There is some capital needed to develop additional water disposal capacity and longer term to increase the blending capacity at the plant.

The financing environment for energy projects remains difficult but we are working on several fronts to

acquire the capital needed for the proposed go-forward plan. By 2019 year-end our term loan with ATB will be down to US\$8.2 million (from US\$11.4 million in July 2018), however ATB seems to have little appetite for additional funding at this time. Instead, we are working toward securing a facility to replace ATB and to provide additional working capital that is expected to include a CA\$2M equity raise.

Please feel free to call me to discuss the items raised above and if you have questions on the go forward plan, which we believe is in the best interest of all shareholders.

Your truly

On behalf of the Board of Directors

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