



Management Discussion of Financial Results Q2 2015

White Owl Energy Services Inc. (White Owl or the Company) is a private company and therefore is not required to prepare and file Management Discussion and Analysis (MD&A) in accordance with National Instrument 51-102 – Continuous Disclosure Obligations, which requires public companies to prepare MD&A in accordance with Form 51-102F1 of National Instrument 51-102 or Items 303 of Regulation S-K or Regulation S-B under applicable United States securities laws. **Therefore this discussion may not include all the information that might otherwise be required or expected thereunder. The following discussion of financial results does not constitute MD&A for the purposes of Canadian or United States securities laws or any other laws.** This discussion called the Management Discussion of Financial Results (MDFR) is being provided to help shareholders, lenders and other stakeholders meet their needs for additional information beyond that provided in the financial statements and notes.

This discussion of financial results is based on information available to August 28, 2015 and should be read in conjunction with White Owl's unaudited condensed financial statements for the three and six months ended June 30, 2015 and audited Financial Statements for the year ended December 31, 2014. The audited Financial Statements and comparative information have been prepared in accordance with International Financial Reporting Standards (IFRS).

All amounts are in Canadian dollars unless otherwise noted.

CORPORATE OVERVIEW

White Owl is an oilfield service company providing oil field waste processing and disposal services to exploration and production companies with unconventional oil and gas operations throughout North Dakota. With an expanding network of produced water and flow back disposal facilities, White Owl is well positioned to continue developing its assets to handle additional oilfield fluids and solids processing, recovery and disposal throughout the Bakken oilfield in North Dakota.

A description of the Company's key business segments follows.

Produced Water and Waste Water Disposal

The Company provides produced water and "frac" water disposal services through a network of four Class 2 salt water disposal ("SWD") wells in the state of North Dakota and may expand to other markets in the future. These Class 2 SWD wells and facilities are situated at Ross, New Town, Watford and Alexander (previously Roy) and the Company is currently developing additional facilities in North Dakota at Epping, Tioga, Johnson's Corner and Killdeer.

Oilfield Waste Processing

Liquid waste is generated as a result of drilling, completions and production related activities primarily associated with unconventional oil and gas operations. White Owl's planned oilfield waste processing systems will separate waste into three components: recoverable oil, waste water and residual solids. Recovered oil will be sold while separated solids will be processed and transported to third party licensed facilities in North Dakota. It is the Company's intention to permit and develop oilfield waste processing services at its Johnson's Corner and Tioga locations and to provide oilfield waste receiving at its Class 2 SWD locations across North Dakota.

Within its markets, the Company differentiates itself by:

- Operating with the highest levels of responsible environmental, health and safety stewardship.
- Providing a high level of customer service with a focus on expedited unload times.

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- Operation, design and construction of facilities that provide efficient and safe separation of fluids.
- Acquiring and integrating strategically located SWD plants into its expanding network.
- Vertically integrating into complementary, value-add, and higher margin services.

OPERATIONAL AND FINANCIAL HIGHLIGHTS

White Owl is well positioned to pursue additional projects in the North Dakota market although plans have been tempered by the recent sharp decline in oil prices and drilling activity. The Company intends to use free cash flow to fund its plant improvement plans while additional sources of capital will be needed to fund new plant construction.

Financial and operating results

	Three months ended		
	June 30, 2015	March 31, 2015	June 30, 2014
Volumes received (000's barrels)	2,675	2,512	498
Revenue	\$ 2,651,336	\$ 2,581,980	\$ 330,965
Operating expenses	1,450,338	2,000,976	151,232
Operating income⁽¹⁾	1,200,998	581,004	179,733
General and administrative	498,132	440,563	299,948
EBITDA ⁽¹⁾	702,866	140,441	(120,215)
Other income and expenses			
Interest income	(840)	(925)	(2,652)
Depreciation and amortization	297,389	295,387	85,134
Finance costs	409,783	369,586	-
Foreign exchange gains	35,831	(198,543)	99,941
Share based payments	129,247	123,779	-
Net loss	\$ (168,544)	\$ (448,843)	\$ (302,638)

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

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	Six months ended	
	June 30, 2015	June 30, 2014
Volumes received (000's barrels)	5,187	498
Revenue	\$ 5,233,316	\$ 330,965
Operating expenses	3,451,314	151,232
Operating income⁽¹⁾	1,782,002	179,733
General and administrative	938,695	431,716
EBITDA ⁽¹⁾	843,307	(251,983)
Other income and expenses		
Interest income	(1,765)	(4,179)
Depreciation and amortization	592,776	85,245
Finance costs	779,369	-
Foreign exchange gains	(162,712)	99,299
Share based payments	253,026	-
Net loss	\$ (617,387)	\$ (432,348)

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

The financial results include the operations of the four facilities acquired during 2014. Operational and financial highlights for the second quarter of 2015 include:

- Total disposal volumes increased 6% in the second quarter compared to the first quarter, with an 18% increase at the New Town facility partially offset by an 8% decrease at the Ross facility.
- The Company reported EBITDA of \$702,866 in the second quarter, the highest level achieved by the Company since inception.
- The Watford and New Town facilities continued to experience strong demand for their services. These facilities continue to operate at close to capacity, even after the capacity increase completed at the New Town facility this year.
- Successful completion of a facility audit as well as ongoing marketing efforts have resulted in increased volumes at Alexander, although the volumes continue to be lower relative to other locations given its location closer to the fringe of the Bakken.
- Management's focus on operational efficiency and improved maintenance practices resulted in a \$341,104 decrease in operating costs compared to the first quarter, excluding the impact of the first quarter, non-recurring tank cleaning at the New Town facility.
- A new agreement was reached with the Alberta Treasury Branch which enhances White Owl's financial flexibility by reducing principal payments required on the term loan and suspending the debt covenant calculation until December 31, 2015.
- Management continues to work on improving and expanding its relationship with producers by completing facility audits, improving service levels and evaluating possible pipeline connections.

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Revenue and operating income by facility

	Three months ended		
	June 30, 2015	March 31, 2015	June 30, 2014
Revenue			
New Town facility	\$ 1,332,554	\$ 1,122,905	\$ -
Ross facility	613,591	763,131	330,965
Watford facility	666,127	677,557	-
Alexander (previously Roy) facility	39,064	18,387	-
	\$ 2,651,336	\$ 2,581,980	\$ 330,965
Operating income ⁽¹⁾			
New Town facility	\$ 732,608	\$ 255,187	\$ -
Ross facility	277,779	333,314	179,733
Watford facility	257,509	168,783	-
Alexander (previously Roy) facility	(66,898)	(176,280)	-
	\$ 1,200,998	\$ 581,004	\$ 179,733

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

	Six months ended	
	June 30, 2015	June 30, 2014
Revenue		
New Town facility	\$ 2,455,459	\$ -
Ross facility	1,376,722	-
Watford facility	1,343,684	330,965
Alexander (previously Roy) facility	57,451	-
	\$ 5,233,316	\$ 330,965
Operating income ⁽¹⁾		
New Town facility	\$ 987,795	\$ -
Ross facility	611,093	179,733
Watford facility	426,292	-
Alexander (previously Roy) facility	(243,178)	-
	\$ 1,782,002	\$ 179,733

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

Second quarter operating income at the New Town facility was higher than the prior quarter due to an 18% increase in plant throughput, higher oil prices and higher oil sales volumes. In addition the Company incurred one-time tank cleaning costs of \$209,534 in the first quarter of 2015.

Second quarter operating income at the Ross facility was lower than in the prior quarter due to an 8% decrease in plant throughput and lower oil sales volumes partially offset by higher oil prices and lower operating costs. Operating results for the Ross facility in the second quarter of 2014 reflect two months of operation from the date of acquisition of April 30, 2014 to June 30, 2014.

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Second quarter operating income at the Watford facility was higher than the prior quarter due to lower maintenance and rental charges as a result of the improvements made to the facility since it was acquired in 2014.

Second quarter operating losses at the Alexander facility were lower than in the prior quarter following the successful completion of a major customer audit on the facility and ongoing marketing efforts resulting in increased volumes, although Alexander volumes remain lower than other locations. Management continues to focus on improving customer awareness of the facility to increase processing volumes.

General and administrative expenses

	Three months ended		
	June 30, 2015	March 31, 2015	June 30, 2014
Salaries and management consulting	\$ 262,808	\$ 247,947	\$ 133,948
Professional fees	114,487	77,399	126,000
Travel and related expenses	60,790	53,475	23,476
General office expenses	60,047	61,742	16,524
	\$ 498,132	\$ 440,563	\$ 299,948

	Six months ended	
	June 30, 2015	June 30, 2014
Salaries and management consulting	\$ 510,755	\$ 223,726
Professional fees	191,886	142,066
Travel and related expenses	114,265	39,500
General office expenses	121,789	26,424
	\$ 938,695	\$ 431,716

Second quarter general and administrative expenses were higher than the previous quarter in part due to transaction costs related to the acquisition of assets in Alberta of \$26,448. General and administrative expenses for the current year were higher than the previous year due to increased head office staff and associated office and travel costs.

Depreciation and amortization

Depreciation and amortization for the three and six months ended June 30, 2015 was \$297,389 and \$592,776 compared to \$85,134 and \$85,245 for the same periods in 2014. The increase is primarily the result of acquisition of the Ross, Watford, New Town and Alexander facilities in 2014.

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Finance costs

	Three months ended		
	June 30, 2015	March 31, 2015	June 30, 2014
Interest on term loan	\$ 210,584	\$ 215,033	\$ -
Interest on long-term debt	23,191	23,299	-
Loan amendment fee	32,163	-	-
Accretion of long-term debt	26,983	26,684	-
Accretion of share repurchase obligations	96,546	97,467	-
Accretion of asset retirement obligations	5,454	5,735	-
Bank charges and other	14,862	1,368	-
	\$ 409,783	\$ 369,586	\$ -

	Six months ended	
	June 30, 2015	June 30, 2014
Interest on term loan	\$ 425,617	\$ -
Interest on long-term debt	46,490	-
Loan amendment fee	32,163	-
Accretion of long-term debt	53,667	-
Accretion of share repurchase obligations	194,013	-
Accretion of asset retirement obligations	11,189	-
Bank charges and other	16,230	-
	\$ 779,369	\$ -

Finance costs in the second quarter of 2015 were higher than the prior quarter due to the fees related to the amendment of the term loan.

Foreign exchange (gains) losses

The Company recorded foreign exchange losses of \$35,831 and foreign exchange gains of \$162,712 during the three and six months ended June 30, 2015 compared to foreign exchange losses of \$99,941 and \$99,299 during the same periods in 2014. The gains and losses primarily relate to the impact of changes in USD/CAD exchange rates on US dollar cash balances in the Canadian operating entity. The average exchange rates for the three and six months ended June 30, 2015 were 1.23 USD/CDN and 1.24 USD/CDN compared to 1.09 USD/CDN and 1.10 USD/CDN during the same periods in 2014.

Share based payments

During the three and six months ended June 30, 2015, the Company recorded share based payments of \$129,247 and \$253,026 compared to \$nil and \$nil for the same periods in 2014. Share based payments relate to the cost of stock options issued to management, employees and directors of the Company.

SUMMARY OF QUARTERLY RESULTS

	2015			
	Q1	Q2	Q3	Q4
Revenue	\$ 2,581,980	\$ 2,651,336	\$	\$
EBITDA	140,441	702,866		
Net loss	\$ (448,843)	\$ (168,544)	\$	\$

	2014			
	Q1	Q2	Q3	Q4
Revenue	\$ -	\$ 330,965	\$ 1,443,588	\$ 2,687,688
EBITDA	(131,769)	(120,214)	196,215	313,992
Net loss	\$ (129,710)	\$ (302,638)	\$ (287,093)	\$ (366,277)

	2013			
	Q1	Q2	Q3	Q4
Revenue	\$ -	\$ -	\$ -	\$ -
EBITDA	-	-	-	(83,103)
Net loss	\$ -	\$ -	\$ -	\$ (82,380)

The quarterly results include the operations of the Ross facility from April 30, 2014, the Watford facility from July 1, 2014 and the New Town and Alexander facilities from September 22, 2014.

LIQUIDITY AND CAPITAL RESOURCES

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 manages its liquidity risk through cash and debt management. Management's assessment of the Company's liquidity reflects estimates, assumptions and judgments relating to current market conditions. The Company has funded its operations, acquisitions and capital program with a combination of equity, bank debt and vendor take back notes. To manage its liquidity and capital resources, the Company ensures that adequate sources of capital are available to fund capital investments, while ensuring that sufficient operating cash flow is available to sustain and grow the operating business.

As at June 30, 2015, the Company had negative working capital of \$10,234,267, an accumulated deficit of \$1,785,485 and a net loss for the six months ended June 30, 2015 of \$617,387. 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. 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, changes by competitors, 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.

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Cash provided by (used in) operations

	Three months ended		
	June 30, 2015	March 31, 2015	June 30, 2014
Cash provided by (used in) operations before change in working capital	\$ 422,932	\$ (98,360)	\$ (116,495)
Change in working capital	(173,994)	467,058	16,765
Cash provided by (used in) operations	\$ 248,938	\$ 368,698	\$ (99,730)

	Six months ended	
	June 30, 2015	June 30, 2014
Cash provided by (used in) operations before change in working capital	\$ 324,572	\$ (247,162)
Change in working capital	293,064	(6,885)
Cash provided by (used in) operations	\$ 617,636	\$ (254,047)

Cash flow from operating activities before changes in working capital improved in the second quarter of 2015 primarily as a result of lower operating and maintenance costs compared to the first quarter.

Investing activities

	Three months ended		
	June 30, 2015	March 31, 2015	June 30, 2014
Capital expenditures	\$ 769,493	\$ 627,417	\$ 96,535

	Six months ended	
	June 30, 2015	June 30, 2014
Capital expenditures	\$ 1,396,910	\$ 553,712

Following are highlights of the capital projects completed during the six months ended June 30, 2015:

- \$448,000 for the relocation of injection pumps from the Alexander facility to the New Town facility, an expanded containment berm at the New Town facility and the installation of a replacement pump at the Alexander facility. The result was an increase in the throughput at the New Town facility from approximately 11,000 barrels of water per day ("BWPD") when the plant was acquired to approximately 15,000 BWPD in June 2015 with capacity to process 18,000 BWPD. This increase in capacity is expected to be absorbed entirely by customer demand in the third quarter.
- \$271,000 for engineering, design and regulatory applications for the Company's development opportunities including a facility expected to be 'pipeline connected' near Tioga, a Class 1 disposal well near Killdeer, expansion of existing facilities as well as permitting and design at new locations.
- \$212,000 for engineering and design work at the Johnson's Corner location.
- \$139,000 for customer lounges at the New Town and Watford facilities with an electronic ticketing

- system at the New Town facility.
- \$128,000 to begin work on two high speed unload stations at the New Town facility which will be able to unload trucks in 10 to 15 minutes compared to 20 to 30 minutes at the existing four unload stations.

During the remainder of 2015, the Company will complete the new unload stations at New Town, an improved oil treating system at Ross, incur ongoing costs related to regulatory and design work for the development opportunities and site grading at Watford. The Watford grading costs have been funded by the vendor of this facility, and will be reflected in the third quarter report.

Financing activities

Share Capital

The Company issued 866,667 shares during the six months ended June 30, 2015 in exchange for a suspended well in Alberta and certain SWD facility equipment valued at \$650,000. The following table summarizes the shares outstanding at June 30, 2015.

	Common Shares	Preferred shares
Balance, December 31, 2014	25,892,121	26,468,592
Balance, June 30, 2015	26,758,788	26,468,592

Share Options

There were 2,539,000 share options outstanding as of June 30, 2015 with a weighted average exercise price of \$0.53.

Term Loan and Operating Line

The term loan of \$15,442,605 (US\$12,622,558) at June 30, 2015 (December 31, 2014 – \$14,791,275 (US\$12,750,000)) is a non-revolving, reducing demand facility at an annual interest rate of US prime plus 1.75%. Principal payments of \$477,800 were made during the six months ended June 30, 2015. During the remainder of 2015 White Owl will make interest only monthly payments and two principal payments of US\$200,000, the first September 30, 2015 and the second on December 31, 2015. The remaining balance at December 31, 2015 will be repaid over a nine year amortization period. Blended monthly principal and interest payments of US\$141,000 will start on January 31, 2016 and will continue at the same level if the US prime rate remains unchanged from current rates. The loan is subject to annual review with the next review scheduled for June 2016.

At June 30, 2015, the Company was required to maintain a minimum Debt Service Coverage Ratio of 1.25:1 calculated on a quarterly basis 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 for the three months ended June 30, 2015 was 1.24. White Owl is not required to meet this ratio until the fourth quarter of 2015. The ratio will be calculated based on the trailing one quarter at December 31, 2015, the trailing two quarters at March 31, 2016, the trailing three quarters at June 30, 2016 and the trailing four quarters thereafter.

OUTLOOK

The sharp reduction in oil prices has resulted in lower drilling and completion activity in North Dakota as the number of drilling rigs active in the Bakken region declined dramatically from 190 this time last year to approximately 75 currently. Fluid volumes received at White Owl's four facilities are primarily from existing producing wells, which has contributed to the Company maintaining volumes without significant decline and averaging 28,000 BWPd in the second quarter of 2015. In response to competitive pressure and the broader commodity market, the Company has reduced prices by 15% on average at its SWD facilities and receives substantially lower prices for its recovered oil sales. Oil producers in North Dakota have reduced their capital budgets and where possible, shifted focus to drilling activities within the heart of the Bakken in McKenzie and Dunn Counties, which are situated close to our New Town and Watford City SWDs. As a result of the reduced oil prices, there are also more than 800 wells awaiting completion. This back-log in completions is causing oil production to level off but will eventually result in new production coming on stream, and is expected to provide additional volumes to White Owl's New Town and Watford City SWDs.

The State of North Dakota is very supportive of Bakken development and implemented measures to support the industry through this period of lower commodity prices. Should the West Texas Intermediate ("WTI") benchmark oil price remain below US\$52.06 for five consecutive months the state resource tax will be reduced from 6.5% to 2.0%, and remain there until there are five consecutive months of WTI above US\$52.06.

With oil prices remaining volatile, management continues to be prudent with its capital resources. The Company intends to complete several small capital projects at New Town and Watford City in 2015 with the objective of increasing throughputs and improving efficiencies. Larger capital projects are on hold pending availability of new capital to fund development. The greenfield facilities at Johnson's Corner and Tioga are the two preferred locations and capital will be allocated to these projects to the extent possible in 2015, subject to the Company's cash flow and financing initiatives.

White Owl is strengthening its customer relationships and becoming increasingly knowledgeable about all facets of the North Dakota market. Although the oilfield service industry is driven by the price of oil, White Owl's business specifically is tied more to production than drilling. The Company remains optimistic that the impact of the current commodity price environment will be manageable assuming some level of recovery for commodity prices by early 2016. Longer term, White Owl's strategy is to create a full service oilfield processing, recovery and disposal company in North Dakota, followed by expansion into other prolific regions as capital and resources allow. This business plan is being executed through a combination of acquisitions complemented by the development of greenfield facilities.

NON-GAAP MEASURES

Operating income and Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") are not recognized measures under IFRS. Management believes that operating income is a useful measure of financial performance, cost control and operating efficiency. Management believes that in addition to net income, EBITDA is a useful supplemental measure of financial performance as it provides an indication of results generated by the Company's principal business activities prior to consideration of non-cash charges. Operating income and EBITDA are commonly accepted measures in the industry which is useful for knowledgeable investors for comparison purposes. Operating income is calculated as revenue from oilfield waste disposal services less operating expenses. EBITDA is calculated as operating income less general and administrative expenses. White Owl's determination of operating income and EBITDA may not be comparable to that reported by other companies.

FORWARD-LOOKING INFORMATION

This discussion contains forward-looking information, which is disclosure regarding possible events, conditions or financial performance that is based on assumptions about future courses of action and economic conditions. Such forward-looking information may be identified by words such as "anticipate", "will", "intend", "could", "should", "may", "might", "expect", "forecast", "plan", "potential", "project", "assume", "contemplate", "believe", "budget", "shall", "continue", "milestone", "target", "vision", and similar terms or the negative thereof or other comparable terminology.

The forward-looking information in this discussion is subject to significant risks and uncertainties and is based on a number of material factors and assumptions which may prove to be incorrect, including, but not limited to, the following: corporate strategy; general market conditions; the oil and natural gas industry; activity levels in the oil and gas sector, including market fundamentals, drilling levels, commodity prices for oil and natural gas; demand for the Company's services; operational performance; expansion strategy; debt service; capital expenditures; completion of facilities; the impact of new facilities on the Company's financial and operational performance; future capital needs; and access to capital through equity market and debt markets.

The forward-looking information relies on material assumptions and known and unknown risks and uncertainties, certainty of which are beyond the Company's control. Such risks and uncertainties include, without limitation, the Company's limited operating history; the impact of general economic conditions in Canada, the United States and globally; industry conditions; the Company's ability to increase its market share; volatility of commodity prices; delays resulting from an inability to obtain regulatory approvals; an inability to access sufficient capital from internal and external sources; changes in laws and regulations and changes in how they are interpreted and enforced; environmental risks; increased competition; and the lack of qualified personnel or management. Readers are cautioned that the foregoing list of factors and risks are not exhaustive. The Company's actual results, performance or achievements could differ materially from those expressed in, or implied by, the forward-looking information and, accordingly, no assurances can be given that any of the events anticipated by the Forward-Looking Statements will transpire or occur. Although the Company has attempted to identify important risks and factors that could cause actual actions, events or results to differ materially from those described, there may be other factors and risks that cause actions, events or results not anticipated, estimated or intended. Accordingly, readers should not place any undue reliance on the forward-looking information, as such information may not be appropriate for other purposes.

website at www.whiteowl-services.com