
Management Discussion of Financial Results Q2 2017

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 what is provided in the financial statements and notes.

This MDFR is based on information available to September 29, 2017 and should be read in conjunction with White Owl’s unaudited condensed consolidated financial statements for the three and six months ended June 30, 2017 (“consolidated financial statements”) and audited consolidated financial statements for the year ended December 31, 2016. The 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 involved in the collection, processing and disposal of oilfield waste in North Dakota. White Owl operates an expanding network of produced water and flow back disposal facilities providing services to some of the largest independent oil and gas operators on the continent. These strong customer relationships combined with new facilities opportunities, are allowing White Owl to handle an increasing volume of oilfield fluids for its North Dakota customers. More recently the Company has acquired an oil pipeline connected processing facility in the Grande Prairie area of Alberta.

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 operating Class 2 salt water disposal (“SWD”) wells and one suspended SWD well which is being re-permitted for Class 1 disposal. The Company also has five additional facility locations in North Dakota at varying stages of development and is contemplating expanding into other active drilling areas in North America in the future. The operating Class 2 SWD wells and facilities are situated at Ross, New Town, Watford, and Tioga and the development locations in North Dakota are at Alexander (Class 1), Epping, Johnson’s Corner, Tudor, and Van Hook.

Oilfield Waste Processing

Liquid waste is generated as a result of drilling, completions and production-related activities. White Owl has planned to develop two oilfield treatment plants to process these streams, one at Johnson’s Corner (permitted) and one at Tioga (in permitting). These plants will separate fluids 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 landfills in North Dakota. It is the Company’s intention to eventually provide oilfield waste processing and disposal services across the entire Bakken development in North Dakota.

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Class 1 Non-Hazardous Waste Water Disposal

In the fall of 2017, the Company expects to receive a permit and within 90 days thereafter be commissioned for the processing and disposal of Class 1 non-hazardous waste water at the Alexander location and to have the site commissioned. Class 1 fluids are regulated by the Department of Health in the State of North Dakota with oversight by the US Environmental Protection Agency. A variety of industries including midstream oil and gas, landfills and mines produce Class 1 non-hazardous waste water which must be disposed of at a Class 1 non-hazardous waste water facility. There are currently no commercial Class 1 non-hazardous waste water facilities in North Dakota.

Operational Philosophy

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 including a focus on expedited truck unload times;
- 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; and,
- Vertically integrating into complementary, value-add, and higher margin services.

OPERATIONAL AND FINANCIAL HIGHLIGHTS

Financial results for the second quarter of 2017 were much improved over the first quarter of the year with higher activity levels, reduced operating costs, and improved weather conditions all having a positive impact on second quarter results. Activity levels at the Company's SWD facilities is driven by higher oil prices which result in more drilling activity. The rig count in North Dakota is currently 58 rigs which has resulted in increased activity at our facilities. White Owl continues to focus on its customer needs while investing in business development opportunities in areas where additional water disposal capacity is needed.

Financial and operating results

	Three months ended		Six months ended	
		June 30,		June 30,
(\$000's except for volumes)	2017	2016	2017	2016
Volumes received (barrels)	3,042,068	2,892,248	5,817,723	5,448,146
Oilfield waste disposal services revenue	2,806	2,693	5,240	4,986
Operating expenses	(1,499)	(1,376)	(3,188)	(2,710)
Operating income⁽¹⁾	1,307	1,317	2,052	2,276
General and administrative	(416)	(370)	(879)	(727)
EBITDA ⁽¹⁾	891	947	1,173	1,549
Other income and expenses				
Depreciation and amortization	(371)	(281)	(720)	(625)
Impairment	(1,076)	-	(1,076)	-
Finance (costs) income	(273)	(281)	(523)	(773)
Share-based payments	(93)	(79)	(180)	(157)
Foreign exchange (losses) gains	42	-	46	(31)
Gain on debt extension	-	-	-	269
Loss on disposal of assets	-	-	-	(44)
Loss on abandonment	(69)	-	(69)	-
Net income (loss)	(949)	306	(1,349)	188

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

The operational and financial highlights for the second quarter of 2017 are as follows:

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- Earnings before interest, taxes, depreciation and amortization (“EBITDA”) in second quarter 2017 totaled \$891,000, a decrease of \$56,000 or 6% from the second quarter of 2016. The decrease in EBITDA was largely due to a result of higher operating costs in the second quarter 2017 compared to the same period the year prior. General and administration (“G&A”) expenses were higher year over year mostly due increased in business development costs.
- Second quarter revenues were up 4% year over year while water volumes were up 5% and oil sales were unchanged. The operating margin for the quarter was 47% compared 49% over the same period last year.

Revenue and operating income by facility

(\$000's)	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Oilfield waste disposal services revenue				
New Town	1,236	1,313	2,244	2,296
Watford	1,014	1,046	1,874	1,855
Ross	261	298	545	726
Alexander	-	36	-	109
Tioga JV	295	-	577	-
	2,806	2,693	5,240	4,986
Operating income ⁽¹⁾				
New Town	555	636	825	1,080
Watford	541	637	857	1,023
Ross	31	77	48	240
Alexander	(8)	(33)	(17)	(67)
Tioga JV	188	-	339	-
	1,307	1,317	2,052	2,276

⁽¹⁾ Refer to “Non-GAAP Measures” for additional information.

Operating income for the three months ended June 30, 2017 at the New Town facility was 13% lower than for the same period last due to 15% lower disposal volumes, and higher operating costs as a percentage of revenue. The decrease in operating income was partially offset by a 9% increase in oil sales year over year for the same periods. The decrease in disposal volumes was largely due to increased competition in the area. Revenues, operating income, disposal volumes, and oil sales were all up substantially from the first quarter of 2017.

Operating income for the three months ended June 30, 2017 at the Watford facility was 15% lower than for the same period last year due to 3% lower revenues, 16% higher operating costs, and 46% lower oil volumes. The Watford plant had considerably less flow back volumes in Q2 2017 compared to Q2 2016, which contributed to the lower revenues. Flowback fluids command a higher disposal price and often contribute significant skim oil volumes. Revenues, operating income, disposal volumes, and oil sales were all up substantially from the first quarter of 2017.

Operating income for the three months ended June 30, 2017 at the Ross facility was 60% lower than for the same period last year due to 12% lower revenues, 4% higher operating expenses, 18% lower disposal volumes, and 19% lower oil volumes. Ross continues to be outside of the tier one acreage and active drilling areas and as a result receives low water volumes on a daily basis. This is not expected to improve until commodity prices encourage more drilling on the fringes of the Bakken play. Operating income was up substantially from the first quarter of 2017.

Operations at the Alexander facility continue to be suspended. Alexander continues to incur costs of approximately \$3,400 per month for insurance, taxes, and royalty obligations. The facility is now actively being re-permitted for Class 1 disposal, and will reopen early in 2018 as a Class 1 facility after a further investment of \$400,000.

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Operating income for the three months ended June 30, 2017 at the Tioga facility for White Owl's 32% interest in the plant was \$188,000 which consists of \$174,000 of operating income from the facility and \$14,000 of overhead income to the Company as compensation for its role as operator in the Tioga Joint Venture. Revenues, operating income, and oil sales were all substantially from the first quarter of 2017, while disposal volumes were 15% lower.

G&A expenses

(\$000's)	Three months ended		Six months ended	
	2017	June 30, 2016	2017	June 30, 2016
Salaries and management	241	228	481	460
Professional fees	80	34	145	71
Travel and related expenses	41	58	82	100
General office expenses	50	50	99	96
Third party consulting fees	4	-	72	-
	416	370	879	727

G&A expenses in the three months ended June 30, 2017 were higher than the comparable period in the prior year due to higher third-party consulting fees related to business development on new projects.

Depreciation and amortization

Depreciation and amortization for the three and six months ended June 30, 2017 was \$371,000 and \$720,000 compared to \$281,000 and \$625,000 for the same period in 2016.

Impairment and loss on abandonment

During 2017, White Owl applied for a Class 1 permit the Killdeer site. Pressure testing related for downhole work at Killdeer was unsuccessful due to poor casing and the decision was made to abandon the well. During the six months ended June 30, 2017, White Owl has recognized an impairment expense of \$1,076,000 for costs previously capitalized to property, plant and equipment and a loss on abandonment of \$69,000. Experience gained and permitting materials generated have been used in the permitting of White Owl's proposed Class 1 facility at Alexander.

Finance costs

(\$000's)	Three months ended		Six months ended	
	2017	June 30, 2016	2017	June 30, 2016
Interest on term loan	242	219	470	454
Interest on long-term debt	3	25	6	51
Cost of share repurchase obligation settlement	-	-	-	139
Accretion of long-term debt	-	29	-	60
Accretion of share repurchase obligations	-	-	-	55
Accretion of asset retirement obligations	8	7	16	13
Interest, bank charges and other	20	1	31	1
	273	281	523	773

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Foreign exchange losses (gains)

The Company recorded foreign exchange gains of \$46,000 during the six months ended June 30, 2017 compared to foreign exchange losses of \$31,000 for the same period in 2016. The gains and losses primarily relate to the impact of changes in exchange rates on US dollar cash balances and short-term intercompany loans. The average exchange rate for the six months ended June 30, 2017 and 2016 was 1.33 USD/CDN.

Share-based payments

During the six months ended June 30, 2017, the Company recorded share-based payments of \$180,000 compared to \$157,000 for the same period in 2016. Share-based payments relate to the cost of stock options issued to management, employees and directors of the Company.

SUMMARY OF QUARTERLY RESULTS

	2017		2016				2015	
(\$000's)	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenue	2,806	2,434	2,594	2,436	2,693	2,293	2,815	2,859
EBITDA	891	282	210	683	947	602	898	565
Net Income (loss)	(949)	(400)	(867)	620	306	(118)	(10,937)	(199)

⁽¹⁾ Refer to “Non-GAAP Measures” for additional information.

EBITDA in the second quarter of 2017 was slightly lower than for the second quarter of 2016. This decrease in EBITDA was largely due to higher operating costs and higher G&A costs.

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 combined with equity financing when available. 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, 2017, the Company had negative working capital of \$11,235,000 an accumulated deficit of \$14,331,000 and a net loss for the six months ended June 30, 2017 of \$1,349,000. 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 the Company’s business plan. 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 operations

	Three months ended June 30,		Six months ended June 30,	
(\$000's)	2017	2016	2017	2016
Cash provided by operating activities	(553)	137	(459)	862
Abandonment expenditures	130	-	130	-
Change in non-cash working capital	1,049	565	995	41
Cash provided by operations	626	702	666	903

Cash provided by operating activities before changes in working capital in the second quarter of 2017 was lower due to higher operating costs mostly attributed to monthly accrual for disposal of solids for each facility.

Investing activities

	Three months ended June 30,		Six months ended June 30,	
(\$000's)	2017	2016	2017	2016
Capital expenditures	259	342	1,001	1,716

The following major capital projects were completed during the six months ended June 30, 2017:

- At New Town; \$42,000 to upgrade the transformer; \$26,000 was required to improve the offload, \$30,000 was invested in the pretreating tank system and recycle pump upgrades; \$65,000 for the for upgrading of lightening protection; and \$35,000 for the chemical suction pump.
- At Watford, a new oil treating system was installed at a cost of \$37,000.
- A deposit of \$500,000 in March 2017 and a further escrowed payment of \$862,000 was made in June 2017 towards the Clairmont acquisition. At June 30, 2017, these amounts were recorded in the consolidated financial statements under deposits and prepaid expenses.
- A pressure washer was acquired for use at all facilities at a cost of \$27,000.

Financing activities

Share Capital

(000's)	Common shares	Preferred shares	Total
Balance, December 31, 2016	40,633	26,469	67,102
Shares issued	871	-	871
Balance, June 30, 2017	41,504	26,469	67,973

At June 30, 2017, there were 4,000,000 (December 31, 2016 – 4,000,000) common shares held in escrow.

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

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

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Share Options

There were 4,069,000 share options outstanding as of June 30, 2017, with a weighted average exercise price of \$0.43 per share.

Term Loan and Operating Loan

The term loan is a non-revolving, reducing demand facility at an annual interest rate of US prime plus 1.75%. Principal payments of \$266,840 (US\$200,000) were made during the six months ended June 30, 2017 (2016 - \$246,404 (US\$182,573)). The Company is required to make monthly interest payments as well as total principal payments of US\$100,000 each quarter until June 30, 2017. The Company is required to make an additional payment of principal and interest if the debt service coverage ratio is greater than 1.5 to 1 as calculated on June 30, 2017. The additional payment would be equal to the Company's excess earnings before interest, depreciation, taxes and amortization for the three months ended June 30, 2017. At June 30, 2017, the Company's debt service ratio is less than 1.5 to 1 and no additional payment will be required. The remaining balance at June 30, 2017 will be repaid over a seven-and-a-half-year amortization period. Blended monthly principal and interest payments of approximately US\$156,575 will start on July 31, 2017 if the US prime rate remains unchanged from current rates. The loan is subject to annual review in June 2017 which is expected to be completed in September 2017.

The Company also has an US\$1,000,000 operating loan facility and is reduced by outstanding letters of credit of \$53,862 and credit card balances of \$11,213. The Company had drawn \$199,440 (US\$150,000) on the operating line at June 30, 2017 (December 31, 2016 – nil).

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

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

The Debt Service Coverage Ratio at June 30, 2017 was 1.27 (December 31, 2016 – 1.55). The ratio is calculated based on the trailing four quarters at June 30, 2017.

OUTLOOK

The second quarter of the year was much improved over the first quarter of the year and financial results were positively affected by the higher activity levels, stabilized commodity prices, and more favorable weather conditions. These factors helped contribute to higher revenues and lower operating costs. With commodity prices appearing to have stabilized in the US\$45 to US\$50 per barrel range, the drilling rig count has remained steady around 60 rigs and producers in North Dakota are drilling their best locations. White Owl's operating income in the second quarter was much improved over the first quarter and July and August seem to be tracking at or above historical monthly averages.

On June 22, 2017 White Owl's Canadian subsidiary, White Owl Energy Services Ltd. (White Owl Ltd), acquired a clean oil terminal and treating, blending and water disposal facility and associated oil and gas production (60 boepd) at Clairmont in the Grande Prairie area of Alberta, for a total purchase price of \$3,700,000. The transaction closed in escrow awaiting regulatory body transfers and closed on August 21, 2017. The facility is connected to the regional Pembina pipeline system and a crude oil marketing and a terminalling agreement has been executed with Trafigura Canada General Partnership ("Trafigura"), a large global crude oil marketer. The facility will be modified to provide commercial terminalling, blending and processing and disposal services including disposal of production water and flow back fluids.

To partially fund the transaction, the vendor provided White Owl Ltd. with a \$2,700,000 interest free vendor take back loan (VTB) giving the vendor a first charge on the Clairmont assets. As a result, the Clairmont assets could not be included in the Alberta Treasury Branch (ATB) senior lenders General Services Agreement (GSA) which provides ATB with security over the balance of White Owl's assets. To close the acquisition, White Owl Ltd. provided the vendor with a

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deposit of \$500,000 on March 2017, and a closing payment of \$861,657 on June 22, 2017. In addition, and prior to the August closing, the White Owl Ltd paid \$835,000 to the Alberta Energy Regulator (AER) for the liability management rating deposit (LMR). The deposit will be refunded to White Owl Ltd once the LMR rating becomes positive which will occur once the increase in plant volumes and oil and gas production increase the calculated net asset value of the Clairmont assets. White Owl Ltd. used the working capital and operating lines of the parent to close the transaction which resulted in a default under the terms of the GSA. ATB has since provided the Company with a letter confirming the default and has requested that White Owl provide it with a plan to replace the funds. Remedying the default requires that the funds withdrawn from the parent's accounts be replaced and as a result, White Owl Ltd. is in the process of marketing a \$4,000,000 debenture offering which is scheduled to close in early October. The use of proceeds for the debenture will be to reimburse the Parent with up to \$2,300,000, with any balance being allocated to capital expenditures and working capital for the Clairmont project.

In North Dakota and Alberta, we continue to focus on improving service levels and meeting customer needs while investing in business development in areas of growing demand where additional facility and midstream services are needed. On the financial front, the focus for the balance of the year will be on paying down bank debt and replenishing the operating line which was used to fund the regulator bond. At the same time, White Owl continues to seek new capital to finance commercial development opportunities and improve its working capital position.

NON-GAAP MEASURES

Operating income and 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 G&A 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 impact of general economic conditions in the United States, Canada 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

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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