
MANAGEMENT'S DISCUSSION OF FINANCIAL RESULTS

For the three and twelve-month periods ended December 31, 2017

Management's Discussion of Financial Results ("MDFR") is provided to assist readers in the assessment of the results of operations, liquidity and capital resources of White Owl Energy Services Inc. ("White Owl" or the "Company") as at and for the year ended December 31, 2017. White Owl is a private company and is not required to prepare and file Management's Discussion and Analysis ("MD&A") in accordance with regulatory requirements in Canada or the USA. **This MDFR does not constitute an MD&A for the purposes of Canadian or United States securities laws and may not include all the information that might otherwise be required or expected thereunder.**

This MDFR is based on information available to August 1, 2018 and should be read in conjunction with White Owl's audited consolidated financial statements for the years ended December 31, 2017 and 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 that owns and operates midstream facilities in North Dakota and Alberta. In North Dakota the Company is involved in the collection, processing and disposal of third party oilfield waste. In Alberta, White Owl operates a recently acquired, pipeline connected terminalling, treating, blending and water disposal facility. The Company, through its expanding network of midstream facilities is providing services to some of the largest independent oil and gas operators on the continent.

Strong customer relationships combined with identified expansion and greenfield projects, provide White Owl with opportunities to continue the expansion of its midstream business in North Dakota and Alberta.

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;
- Operating, designing and constructing facilities that provide efficient and safe separation of fluids;
- Acquiring and integrating strategically located Salt Water Disposal ("SWD") plants into its expanding network; and,
- Integrating vertically into complementary, value-add, and higher margin services.

Key Business Components

Water disposal

In North Dakota, the Company operates four disposal facilities which accept produced water and flowback from producers for disposal through Company operated Class 2 SWD facilities. Additional revenue is generated through the sale of crude oil recovered through the water disposal process. White Owl's operating disposal facilities in North Dakota are located at New Town, Watford, Ross and Tioga.

Additionally, the Company has received conditional regulatory approval for the conversion of a suspended Class 2 facility, at Alexander, North Dakota, into a Class 1 facility. Class 1 facilities are permitted to receive non-hazardous industrial water as opposed to non-hazardous oilfield water received at Class 2 facilities. A variety of industries produce non-hazardous waste water which must be disposed of through a Class 1 facility and currently, there are no commercial Class 1 facilities in North Dakota. Well testing necessary to satisfy the conditions set out in the conditional approval have been completed and final regulatory approval has been applied for. The cost of the conversion, to be funded from cash flow, is estimated to be approximately US\$350,000 and the facility is expected to be operational in the fourth quarter of 2018.

White Owl has also entered into landowner agreements for the development of SWD facilities at Epping and Blue Buttes in North Dakota. The Epping facility has received regulatory approval and, subsequent to year end, the Company entered

WHITE OWL ENERGY SERVICES INC.

MANAGEMENT DISCUSSION OF FINANCIAL RESULTS – 2017

into a joint venture arrangement whereby White Owl will operate and hold a 20% carried interest in the facility. Construction of the facility commenced in the second quarter of 2018 (see the Subsequent Events section of this MDR). A permit for the Blue Buttes well has been applied for and is being processed.

Development of the Blue Buttes facility is conditional on the Company securing necessary financing at acceptable terms.

Processing services

During August of 2017, White Owl acquired an oil processing facility near Clairmont in the Grand Prairie area of central Alberta. The facility is connected to the Pembina Pipeline Corporation oil sales pipeline system and is being reconfigured into a third-party crude oil emulsion treating, terminalling, blending and water disposal facility. The facility is located within the heart of the Montney resource play in Alberta where producers have been most active. The Company plans to expand capacity at the facility to process and ship to pipeline up to 15,000 cubic meters (M3) per month of dry and emulsion oil. In addition, planned upgrades to the water disposal system are expected to increase capacity to 4,500 M3 per month of third-party water. Current capacity is approximately 7,500 M3 per month of dry and emulsion oil, and 3,000 M3 per month of third-party water. The majority of the plant expansion and upgrades are planned for 2019.

The Clairmont acquisition also included certain petroleum and natural gas properties including a number of producing oil wells. The Company views these properties to be incidental to the facility acquisition and is currently exploring various alternatives including maximizing current production and farm-out or sale of the properties.

OPERATIONAL AND FINANCIAL HIGHLIGHTS

Overall operating results and EBITDA for the three months and year ended December 31, 2017 were much improved over the comparative periods in 2016. Strengthening oil prices, improved weather conditions and the resulting higher activity levels and volumes in North Dakota had a positive impact on 2017 results.

Financial and operating results -total operations

(\$ 000's, unless otherwise noted)	Three months ended December 31,		Twelve months ended December 31,	
	2017	2016	2017	2016
North Dakota Operations				
Disposal volumes, Bbls	3,545,614	2,883,522	12,845,454	11,248,296
Oil sales volumes, Bbls	12,885	10,384	50,697	44,855
Disposal revenue (\$ per Bbl)	\$0.73	\$0.77	\$0.73	\$0.76
Oil sales revenue (\$ per Bbl)	\$47.73	\$36.11	\$40.95	\$32.57
Operating costs and royalties (\$ per Bbl)	\$0.51	\$0.65	\$0.50	\$0.53
Disposal revenue	\$2,601	\$2,219	\$9,431	\$8,555
Oil sales revenue	615	375	2,076	1,461
Oilfield disposal and processing services revenue	3,216	2,594	11,507	10,016
Operating costs	1,814	1,876	6,437	5,963
Operating income – North Dakota ⁽¹⁾	\$1,402	\$718	\$5,070	\$4,053
Alberta Operations				
Oilfield disposal and processing services	\$323	-	\$398	-
Production revenue	279	-	355	-
Total revenue	602	-	753	-
Operating costs	526	-	708	-
Operating income - Alberta ⁽¹⁾	\$76	-	\$45	-

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

WHITE OWL ENERGY SERVICES INC.

MANAGEMENT DISCUSSION OF FINANCIAL RESULTS – 2017

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

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

North Dakota

Water disposal volumes for the three and twelve months ended December 31, 2017 increased 23% and 14% respectively over comparable periods in 2016. Disposal revenue for the three and twelve months ended increased 17% and 10% respectively over 2016 with the impact from increased volumes being partially offset by marginally lower realized disposal prices in 2017. Lower 2017 realized disposal prices reflect increased competition in the area and are expected to recover in 2018 with increased activity and demand.

For the three and twelve months ended December 31, 2017, oil sales volumes increased 24% and 13% respectively over comparable periods in 2016 due to higher flowback volumes received. This increase in oil sales volumes combined with a 26% increase in realized crude oil prices, resulted in a 42% increase in oil revenue for the year ended December 31, 2017 as compared to 2016.

The overall increase in 2017 disposal and oil volumes over 2016 volumes resulted in an 8% increase in total 2017 operating costs and royalties as compared to 2016 costs. On a per Bbl basis operating costs and royalties for the year ended December 31, 2017 decreased 6% from \$0.53 per Bbl in 2016 to \$0.50 per Bbl in 2017. White Owl incurred abnormally high per unit operating costs in the fourth quarter of 2016 which resulted from high tank clean out and maintenance costs at New Town which were not incurred in 2017.

Operating income from North Dakota properties increased 25% to \$5,070,000 in 2017 from \$4,053,000 in 2016.

Alberta

From the date of acquisition on August 22, 2017 to December 31, 2017, operations at Clairmont were in a break-even position and had a minimal impact on overall 2017 operating income. Midstream and production revenue of \$753,000 from Clairmont comprised 6% of total corporate revenue, and operating income of \$45,000 comprised only 1% of total operating income for the year.

The Company is planning a \$1,100,000 reconfiguration, upgrade and expansion program at Clairmont during the first quarter of 2019 subject to the availability of funds.

WHITE OWL ENERGY SERVICES INC.

MANAGEMENT DISCUSSION OF FINANCIAL RESULTS – 2017

Revenue and operating income (loss) by facility

(\$ 000's)	Three months ended December 31,		Twelve months ended December 31,	
	2017	2016	2017	2016
Oilfield waste disposal services revenue				
New Town	\$1,311	\$1,079	\$5,052	\$4,514
Watford	1,028	1,099	3,875	3,977
Ross	538	233	1,359	1,216
Alexander	13	-	13	110
Tioga JV	326	183	1,209	199
Clairmont	323	-	397	-
	3,539	2,594	11,905	10,016
Production revenue	279	-	355	-
	\$3,818	\$2,594	\$12,260	\$10,016
Operating income (loss) ⁽¹⁾				
New Town	\$433	(58)	2,077	1,507
Watford	517	654	1,943	2,276
Ross	252	39	368	356
Alexander	5	(8)	(23)	(172)
Tioga JV	194	91	704	86
Clairmont	(9)	-	(82)	-
	1,392	718	4,987	4,053
Production operating income	86	-	128	-
	\$1,478	\$718	\$5,115	\$4,053

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

New Town

New Town operating income for the year ended December 31, 2017 increased 38% over 2016. This is primarily due to increases of 95% and 41% respectively in flowback and oil sales volumes, partially offset by an 8% decrease in disposal volumes over 2016 volumes. Flowback volumes command a higher price than disposal volumes and contain a higher amount of recoverable oil. These factors, together with strengthening crude oil prices, more than offset the decline in disposal volumes. The increase in flowback volumes reflects increased drilling activity in the area during 2017.

Watford

Water disposal volumes at Watford for the year ended December 31, 2017 increased 23% over 2016 however flowback and oil sales volumes decreased 12% and 44% respectively from 2016 levels. As a result, 2017 revenue was virtually unchanged from 2016. Operating costs for the 2017 year increased by 15% due to higher disposal volumes. Although total operating costs increased in 2017, on a per barrel basis, costs decreased from \$0.43 per Bbl in 2016 to \$0.41 per Bbl in 2017. Operating income for the 2017 year decreased by 15% from the prior year largely as a result of the decrease in flowback volumes and oil sales.

Ross

Operating income for the year ended December 31, 2017 at the Ross facility was comparable to 2016. Revenue increased 12% over 2016, due to increased flowback and oil sales volumes in the fourth quarter of 2017 and was offset by a 14% year over year increase in operating expenses. Activity in the area around Ross that began to increase in the third quarter of 2017 and continued into the first quarter of 2018, now appears to be leveling off.

WHITE OWL ENERGY SERVICES INC.

MANAGEMENT DISCUSSION OF FINANCIAL RESULTS – 2017

Alexander

Operations at the Alexander facility remain suspended; however, the Company continues to incur fixed costs of approximately \$3,400 per month for insurance, taxes, and royalty obligations. The Company expects to receive final regulatory approval for conversion of the facility into a Class 1 disposal facility in the near future.

Tioga

Operations at Tioga, in which the Company has a 32% interest, commenced in the fourth quarter of 2016 and 2017 represents the first full year of operations. Revenue and operating income increased throughout 2017. During the fourth quarter of 2017, the facility was operating at near capacity and White Owl recognized revenue of \$326,000 and operating income of \$194,000.

General and administrative (“G&A”) expenses

(\$ 000's)	Three months ended December 31,		Twelve months ended December 31,	
	2017	2016	2017	2016
Salaries and management	\$180	\$268	\$943	\$940
Professional fees	329	81	624	209
Travel and related expenses	55	95	191	233
General office expenses	52	64	203	229
Third party consulting fees	17	-	126	-
	\$633	\$508	\$2,087	\$1,611

G&A expenses for the three months and twelve months ended December 31, 2017 were higher than the comparable periods in 2016 primarily due to legal expenses incurred on the Clairmont acquisition and third-party consulting fees related to business development on new projects.

Depreciation and depletion

Depreciation and depletion for the three and twelve months ended December 31, 2017 totaled \$607,000 and \$1,863,000 respectively as compared to \$382,000 and \$1,393,000 for the same periods in 2016. Depreciation and depletion for 2017 relating to the Clairmont assets was \$232,032 and \$254,754 respectively for the three and twelve months ended December 31, 2017.

Impairment

At December 31, 2017, White Owl evaluated its property, plant and equipment for indications that an asset or cash generating unit (“CGU”) may be impaired. As a result of this assessment, the Company recognized the following impairments:

Under an amended landowner agreement, White Owl was required to drill a well by December 31, 2017 at the Johnson’s Corner site. White Owl was unable to fulfil this obligation due to capital constraints. As a result, the landowner did not renew the landowner agreement with White Owl for the Johnson’s Corner site. During the year end December 31, 2017, White Owl recognized an impairment expense of \$743,292 for costs previously capitalized to property, plant and equipment related to the Johnson’s Corner site.

During 2017, White Owl applied for a Class 1 permit at the Killdeer site. Pressure testing related to the Class 1 application for downhole work at Killdeer was unsuccessful due to poor casing and the decision was made to abandon the well. During the year ended December 31, 2017, White Owl recognized an impairment expense of \$1,076,282 for costs previously capitalized to property, plant and equipment and a loss on abandonment of \$68,677.

WHITE OWL ENERGY SERVICES INC.

MANAGEMENT DISCUSSION OF FINANCIAL RESULTS – 2017

Finance costs

(\$ 000's)	Three months ended December 31,		Twelve months ended December 31,	
	2017	2016	2017	2016
Interest on term loan	\$239	\$228	\$943	\$904
Interest on promissory notes and mortgage payable	21	20	42	96
Cost of share repurchase obligation settlement	-	-	-	139
Loan fees	-	-	-	32
Accretion of promissory notes	87	33	124	124
Accretion of share repurchase obligations	-	-	-	55
Accretion of asset retirement obligations	29	6	61	25
Interest, bank charges and other	16	12	67	48
	\$392	\$299	\$1,237	\$1,423

Foreign exchange losses (gains)

The Company recorded foreign exchange gains of \$75,000 during the twelve months ended December 31, 2017 compared to foreign exchange losses of \$55,000 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 rates for the twelve months ended December 31, 2017 and 2016 was 1.30 USD/CDN and 1.33 USD/CDN, respectively.

Share-based payments

During the twelve months ended December 31, 2017, the Company recorded share-based payments of \$313,000 compared to \$210,000 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

(\$ 000's)	2017				2016			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	\$3,818	\$3,202	\$2,806	\$2,434	\$2,594	\$2,436	\$2,693	\$2,293
EBITDA ⁽¹⁾	845	1,010	891	282	210	683	947	602
Net Income (loss)	\$(984)	\$132	\$(949)	\$(400)	\$(867)	\$620	\$306	\$(118)

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

LIQUIDITY AND CAPITAL RESOURCES

Liquidity risk is the risk that the Company will not be able to meet financial obligations as 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 funds its operations, acquisitions and capital program through a combination of cash provided by operations, equity, bank debt and promissory notes. The Company's objective in the management of its capital resources, is to secure adequate sources of capital to fund capital investments, while ensuring that sufficient operating cash flow is available to sustain and grow the operating business.

WHITE OWL ENERGY SERVICES INC.

MANAGEMENT DISCUSSION OF FINANCIAL RESULTS – 2017

At December 31, 2017, the Company had negative working capital of \$14,207,000 (December 31, 2016 - \$11,501,000), an accumulated deficit of \$15,183,000 (December 31, 2016 - \$12,982,000) and a net loss for the year ended December 31, 2017 of \$2,201,000 (2016 - \$60,000). In addition, the Company was in default under its senior lender General Services Agreement (“GSA”). These factors indicate the existence of material uncertainties which may cast significant doubt about the Company’s ability to continue as a going concern. Effective June 17, 2018 the Company signed an amended and restated credit agreement and remedied the default conditions under the GSA (see the Subsequent Events in this MDR). 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, competition, successfully accessing 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.

Cash provided (used) by operations

	Three months ended December 31,		Twelve months ended December 31,	
(\$000's)	2017	2016	2017	2016
Cash from (used) in operating activities	\$910	\$(328)	\$119	\$1,359
Abandonment expenditures	-	-	130	-
Change in non-cash working capital	(346)	311	1,722	(103)
Cash provided (used) by operations ⁽¹⁾	\$564	\$(17)	\$1,971	\$1,256

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

Cash provided by operations is a non-GAAP measure determined as cash from operating activities before abandonment expenditures and changes in non-cash working capital. Cash provided by operations for the year ended December 31, 2017 increased 57% over 2016 due primarily to increased revenues which more than offset increases in Operating costs and G&A and other expenses.

Investing activities

	Three months ended December 31,		Twelve months ended December 31,	
(\$000's)	2017	2016	2017	2016
Capital expenditures	\$440	\$766	\$1,596	\$4,010

Capital expenditures in 2017, excluding acquisitions, relate primarily to relatively minor upgrades and improvements to the Company’s various facilities including approximately \$330,000 of expenditures at Clairmont associated with the reconfiguration of the facility.

Acquisition

Consistent with the Company’s objective to expand its operations into active exploration and development areas with a growing demand for processing and disposal services, in 2017 White Owl acquired an oil processing facility in the heart of the developing Montney resource play in Northwest Alberta.

On June 22, 2017, White Owl’s Canadian subsidiary, White Owl Energy Services Ltd. (“White Owl Ltd.”), acquired a 95% interest in a clean oil terminal and treating, blending and water disposal facility and 100% interest in the associated oil and gas production at Clairmont in the Grande Prairie area of Alberta (the “Clairmont Facility”). The acquisition was completed through two separate transactions. The Clairmont Facility is connected to the regional Pembina pipeline system and a crude oil marketing and a terminalling agreement (the “Terminalling Agreement”) has been executed with Trafigura Canada General Partnership (“Trafigura”), a large global crude oil marketer. The facility will be modified to

WHITE OWL ENERGY SERVICES INC.

MANAGEMENT DISCUSSION OF FINANCIAL RESULTS – 2017

provide commercial terminalling, blending and processing and disposal services including disposal of production water and flowback fluids. The transaction closed on August 22, 2017.

The acquisition was funded through cash payments of \$1,341,000, the issuance of a \$2,700,000 promissory note from the vendor (“Vendor Note”) and a \$240,000 promissory note payable to White Owl Ltd.’s 5% partner in the Clairmont Facility (“Partner Note”). The Vendor Note is non-interest bearing with payments due on June 22, 2018 of \$1,300,000 and June 22, 2019 of \$1,400,000. In addition, the Vendor Note gave the vendor a first charge on the Clairmont assets. The fair value of the Vendor Note at the date of the acquisition was determined to be \$2,189,036 using an effective interest rate of 15%. Please refer to Note 20 Subsequent Events in the Consolidated Financial Statements of the Company for the year ended December 31, 2017.

The Partner Note is non-interest bearing and due in 12 equal monthly payments of \$20,000 with the first payment scheduled to commence November 22, 2017. White Owl Ltd. is currently in arrears with respect to the monthly payments and is accruing interest at a rate of 10% per annum on the amount in arrears. The fair value of the Partner Note at the date of the acquisition was determined to be \$216,149 using an effective interest rate of 15%.

White Owl Ltd. was required to pay a total of \$1,835,000 to the Alberta Energy Regulator for the liability management rating deposit (“LMR”), of which \$792,000 was refunded in November 2017 and the remaining \$1,043,000 of the deposit is refundable once the LMR rating becomes greater than one. White Owl Ltd. financed a portion of the LMR deposit via a \$1,000,000 promissory note (“Trafigura Note”) issued by Trafigura. The Trafigura Note bears interest at nine percent per annum and was due on June 1, 2018. The principal amount outstanding on the Trafigura Note will be reduced monthly by 20% of the net blending revenue to White Owl Ltd. under the Terminalling Agreement. If the monthly average net blending revenue is less than \$50,000 for the first six months after the effective date of the Terminalling Agreement then White Owl Ltd. will be required to pay the net difference, if any, of 50% of the truck terminal revenue that White Owl Ltd. receives for crude oil deliveries at the Clairmont Facility and applicable access fees (“Additional Payment”). The Additional Payment will cease at the earlier of the average monthly net blending revenue for two consecutive months being greater than \$50,000 and the repayment of the Trafigura Note. The remaining balance of the Trafigura Note in the amount of \$517,443 was repaid on July 19, 2018.

Financing activities

Share Capital

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

At December 31, 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.

Share Options

There were 4,269,000 share options outstanding as of December 31, 2017, with a weighted average exercise price of \$0.42 per share. During the twelve months ended December 31, 2017, the Company granted 200,000 (2016 – 1,780,000) share options at a weighted average exercise price of \$0.30 per share.

Term Loan and Operating Loan

The Term Loan is a non-revolving, reducing demand facility bearing interest at an annual rate of US prime plus 1.75%. Principal payments of \$266,840 (US\$200,000) were made during the year ended December 31, 2017 and subsequent required principal payments were waived by the lender, Alberta Treasury Branches (“ATB”). No principal payments have been made during 2018.

WHITE OWL ENERGY SERVICES INC.

MANAGEMENT DISCUSSION OF FINANCIAL RESULTS – 2017

To partially fund the Clairmont facility acquisition, White Owl Ltd. issued the \$2,700,000 Vendor Note giving the vendor a first charge on the Clairmont assets. As a result, the Clairmont assets could not be included in ATB's GSA which provides ATB with security over the balance of White Owl's assets. White Owl Ltd. used the working capital and operating lines of its parent, White Owl, to close the transaction which resulted in a default under the terms of the GSA. Subsequent to December 31, 2017, pursuant to a subordination agreement ("Subordination Agreement") dated effective June 21, 2018 between White Owl Ltd. and the vendor, the Vendor Note was reduced to \$2,200,000. Under the terms of the Subordination Agreement, White Owl Ltd. paid \$1,200,000 of the Vendor Note on July 18, 2018 which has placed ATB in first position in relation to the Clairmont facility and which has remedied the default.

In addition, effective July 17, 2018, White Owl entered into an amended and restated credit agreement with ATB ("Commitment Letter"), further details are provided in Note 20 Subsequent Events in the Consolidated Financial Statements of the Company for the year ended December 31, 2017.

The operating loan is a US\$1,000,000 facility and is reduced by outstanding letters of credit of \$53,862 (December 31, 2016 - \$53,862) and credit card balances of \$11,009 (December 31, 2016 - \$41,361). The Company had drawn \$658,613 (US\$525,000) on the operating line at December 31, 2017 (December 31, 2016 – nil).

SUBSEQUENT EVENTS

Subsequent to the year end, the Company entered into the following transactions:

Effective June 21, 2018, the Company entered into the Subordination Agreement with the holders of the Vendor Note, issued on acquisition of the Clairmont property. Pursuant to the Subordination Agreement, between White Owl Ltd. and the vendor, the Vendor Note was reduced to \$2,200,000 from \$2,700,000. Under the terms of the Subordination Agreement, White Owl Ltd. paid \$1,200,000 of the Vendor Note on July 18, 2018 which resulted in the Company's lender receiving a first charge on the Clairmont assets. The remaining \$1,000,000 is payable by White Owl to the vendor on or before November 18, 2018.

Subsequent to year end, the Company issued by way of private placements a total of 6,735,000 common shares, 2,000,000 common shares at \$0.15 per common share and 4,735,000 common shares at \$0.20 per common share, for total proceeds of \$1,247,000 before share issue costs of \$67,172. Additionally, the Company issued 208,950 broker warrants at \$0.20 per common share exercisable until February 22, 2019. The Company determined that the fair value of the broker warrants was negligible.

Effective July 17, 2018 the Company signed an amended and restated credit agreement with the ATB ("Commitment Letter") which amends and restates in its entirety the previous credit agreement between the Company and ATB. Under the terms of the Commitment Letter, the Company will have a non-revolving reducing loan facility (the "Term Loan") in the amount of US\$11,381,402 (CA\$14,278,000) 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. The Operating Loan is a revolving demand facility in the maximum amount of US\$1,000,000 bearing interest at the US prime rate plus 1.75%. The Company is required to maintain a minimum debt service coverage ratio of 1.25 to 1.00 and, a working capital ratio of 1.4 to 1.0 as at September 30, 2018 increasing to 1.5 to 1 as at March 31, 2019.

The Company entered into a joint venture arrangement with White Owl Epping LLC ("Epping LLC") for the construction and operation of a SWD facility at Epping in the state of North Dakota. Epping LLC is an independent entity formed pursuant to the laws of North Dakota. Epping LLC together with certain service providers will fund the development of the project. The Company will operate and hold a 20% carried interest in the facility. In addition to the Company's ownership interest, the Company will be reimbursed for all direct operating costs and will be paid an operating fee of 8% of the cost of operations and a fee of 3% of capital expenditures. Construction of the facility has commenced with completion expected in early October 2018.

The Company has engaged D. A. Davidson & Co. to provide financial advisory and investment banking services to White Owl in conjunction with its review of financial and strategic alternatives available to the Company which may, include

WHITE OWL ENERGY SERVICES INC.

MANAGEMENT DISCUSSION OF FINANCIAL RESULTS – 2017

the sale of certain properties. D. A. Davidson is an investment banking firm based in Denver Colorado.

OUTLOOK

Crude oil prices strengthened throughout 2017 and this trend has continued into 2018 to date. This improved price environment has generated increased producer activity and demand for disposal services in North Dakota. These factors together with improving plant efficiencies have resulted in higher margins at all locations which are expected to continue throughout 2018. To further capitalize on this strengthening market, the Company has commenced construction of the SWD facility at Epping and the conversion of a suspended Class 2 facility into a Class 1 facility at Alexander.

In Canada, the recent acquisition of the oil pipeline-connected Clairmont plant in the heart of the Alberta Montney shale play, presents the Company with exposure to a second shale basin. This is a significant acquisition that affords White Owl an opportunity to satisfy the need for processing and disposal services within an area where there is growing demand. Customer response to the addition of a new facility in the area has been positive although the plant's commercial processing and disposal capacity is currently limited. Minor plant improvements directed at increasing capacity are ongoing and a larger \$1.1 million reconfiguration, upgrade and expansion program planned for the first quarter of 2019. This larger expansion, which is subject to the availability of funding, includes adding water disposal capacity and further plant modifications to increase the fluid handling and third party treating and terminalling capability.

With the engagement of D.A. Davidson & Co., and the other transactions outlined above under Subsequent Events, White Owl is increasingly confident that it will be able to realize on its opportunities to the satisfaction of all shareholders.

NON-GAAP MEASURES

The MDFR makes reference to terms commonly used in the industry including operating income, EBITDA and cash provided by operations. Such terms do not have a standard meaning as prescribed by IFRS and therefore may not be comparable with the determination of similar measures of other entities. These measures are identified as non-GAAP measures and are used by Management to analyze operating performance and leverage. The Company's method of determining non-GAAP measures is disclosed where the measure is first used within the MDFR. Operating income, EBITDA and cash provided by operations should not be considered as an alternative to, or more meaningful than net income (loss) or cash flow from operating activities as determined in accordance with IFRS.

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

WHITE OWL ENERGY SERVICES INC.

MANAGEMENT DISCUSSION OF FINANCIAL RESULTS – 2017

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