
MANAGEMENT'S DISCUSSION OF FINANCIAL RESULTS

For the three and twelve-month periods ended December 31, 2018

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 three and twelve-month periods ended December 31, 2018. 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 United States ("US"). **This MDFR does not constitute an MD&A for the purposes of Canadian or US 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 July 24, 2019 and should be read in conjunction with White Owl's audited consolidated financial statements for the years ended December 31, 2018 and 2017. The financial statements and comparative information have been prepared in accordance with International Financial Reporting Standards ("IFRS").

All amounts are stated 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 fluids. In Alberta, White Owl operates a 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 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;
- The operation, design and construction of facilities that provide efficient and safe separation of fluids; and
- Acquiring and integrating strategically located Salt Water Disposal ("SWD") plants into its expanding network.

Key Business Components

Water disposal

In North Dakota, the Company operates five disposal facilities which accept produced water and flowback from producers for disposal through Company-operated Class 2 SWD facilities and one Class 1 facility that accepts non-hazardous industrial fluids such as pipeline test water, refinery wastewater, collected rainwater, and landfill leachate. Additional revenue is generated through the sale of crude oil recovered through the water disposal process. White Owl's Class 2 SWD operating facilities in North Dakota are located at New Town, Watford, Ross, Tioga and Epping, the latter of which commenced operations in September 2018. In 2018 the Company expanded its North Dakota network of midstream facilities, in addition to the Epping facility, through

WHITE OWL ENERGY SERVICES INC.

MANAGEMENT DISCUSSION OF FINANCIAL RESULTS – Q4 2018

the conversion of a suspended Class 2 facility at Alexander into a Class 1 disposal facility. Further expansion opportunities include the development of a facility at Blue Buttes where the Company has received a permit to drill an injection well. Development at Blue Buttes is conditional on the Company securing necessary financing on acceptable terms.

Processing services

White Owl owns and operates an oil processing facility near Clairmont in the Grand Prairie area of central Alberta. The facility is connected to Pembina Pipeline Corporation's Peace Pipeline for marketing oil volumes and has been 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 through a volatile commodity price environment. The Company plans to expand the capacity of 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 will increase the capacity for third-party water disposal. The plant expansion and upgrades are subject to financing.

The Clairmont facility also included certain petroleum and natural gas properties including a number of non-producing oil wells. The Company views these properties to be incidental to the facility operations and is currently exploring various alternatives to manage the properties.

OPERATIONAL AND FINANCIAL HIGHLIGHTS

For the twelve months ended December 31, 2018, total revenue increased by 32% to \$16,122,000 from \$12,260,000 in 2017 while EBITDA increased by 24% to \$3,765,000 from \$3,028,000 in 2017. This improvement in operating results was primarily due to North Dakota fluid volumes disposed increasing by 11% and stronger pricing. For 2018, the average revenue per barrel of fluids disposed increased to \$0.92 from \$0.73 due to stronger realized netback oil prices and due to price increases introduced by White Owl in Q4 2018 for trucked production water and flowback. In Q4 2018, lower flowback volumes and related oil sales combined with higher operating costs mainly due to commissioning of the Epping and Alexander facilities resulted in EBITDA decreasing by 38% to \$526,000 from \$845,000 in Q4 2017.

Financial and operating results

(\$000's, unless otherwise noted)	Three months ended December 31,			Twelve months ended December 31,		
	2018	2017	%	2018	2017	%
North Dakota operations						
Disposal volumes (Bbls)	3,782,364	3,545,614	7%	14,247,468	12,845,454	11%
Recovered oil sales volumes (Bbls)	6,353	12,885	-51%	40,901	50,697	-19%
Disposal revenue (\$ per Bbl)	\$0.75	\$0.73	3%	\$0.72	\$0.73	-1%
Oil sales revenue (\$ per Bbl)	\$51.45	\$47.73	8%	\$68.55	\$40.95	67%
Operating costs and royalties (\$ per Bbl)	\$0.55	\$0.51	8%	\$0.50	\$0.50	-
North Dakota disposal and services revenue						
Disposal revenue	\$2,855	\$2,588	10%	\$10,281	\$9,379	10%
Oil sales revenue	327	615	-47%	2,804	2,076	35%
Other revenue	148	13	1038%	422	52	712%
Total revenue – North Dakota	3,330	3,216	4%	13,507	11,507	17%
Operating costs	(2,082)	(1,814)	15%	(7,189)	(6,437)	12%
Operating income – North Dakota⁽¹⁾	\$1,248	\$1,402	-11%	\$6,318	\$5,070	25%

WHITE OWL ENERGY SERVICES INC.

MANAGEMENT DISCUSSION OF FINANCIAL RESULTS – Q4 2018

Financial and operating results (continued)

(\$000's, unless otherwise noted)	Three months ended December 31,			Twelve months ended December 31,		
	2018	2017	%	2018	2017	%
Alberta operations⁽²⁾						
Volumes (Bbls)						
Disposal and third-party processing	204,961	168,120	22%	787,045	207,673	279%
Oil and gas	4,714	4,811	-2%	18,109	6,405	183%
Revenue						
Disposal and third-party processing	\$424	\$323	31%	\$1,549	\$398	289%
Oil and gas sales	171	279	-39%	1,066	355	200%
Total revenue - Alberta	595	602	-1%	2,615	753	247%
Operating costs	(733)	(526)	39%	(2,859)	(708)	304%
Operating income (loss) - Alberta⁽¹⁾	(\$138)	\$76	-282%	(\$244)	\$45	-642%
Combined operations						
Oilfield disposal and processing revenue	\$3,606	\$3,526	6%	\$14,634	\$11,853	26%
Oil and gas sales	171	279	-39%	1,066	355	200%
Other revenue	148	13	1038%	422	52	712%
Total revenue	3,925	3,818	3%	16,122	12,260	32%
Operating costs	(2,815)	(2,340)	20%	(10,048)	(7,145)	41%
Operating income⁽¹⁾	1,110	1,478	-25%	6,074	5,115	19%
General and administrative expenses ("G&A")	(584)	(633)	-8%	(2,309)	(2,087)	11%
EBITDA⁽¹⁾	\$526	\$845	-38%	\$3,765	\$3,028	24%
Other income and expenses						
Depreciation and depletion	(612)	(607)	1%	(2,206)	(1,863)	18%
Impairment	-	(744)	-	-	(1,820)	-
Finance costs	(324)	(392)	-17%	(1,454)	(1,237)	18%
Share-based payments	(24)	(57)	-58%	(129)	(313)	-59%
Foreign exchange (losses) gains	(226)	(29)	679%	(376)	75	-601%
Loss on settlement of promissory notes – net	-	-	-	(142)	-	-
Loss on disposal of property, plant and equipment - net	-	-	-	(133)	(2)	6550%
Loss on abandonment	-	-	-	(43)	(69)	-38%
Net loss	(\$660)	(\$984)	-33%	(\$718)	(\$2,201)	-67%

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

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

North Dakota

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

In Q4 2018, North Dakota total revenue increased by 4% to \$3,330,000 from \$3,216,000 in Q4 2017, while operating income decreased by 11% to \$1,248,000 from \$1,402,000 in Q4 2017. The decrease in operating income in Q4 2018 is mainly due to lower flowback volumes disposed and, as a result, lower recovered oil sales volumes. Approximately 97% of White Owl's fourth quarter 2018 disposal volumes were comprised of

WHITE OWL ENERGY SERVICES INC.

MANAGEMENT DISCUSSION OF FINANCIAL RESULTS – Q4 2018

produced water while the balance of 3% was flowback water from completion operations, which contains significant volumes of oil that can be separated and sold to generate incremental revenue. This compares to Q4 2017 total disposal volumes comprising 89% produced water and 11% flowback. Please see “Revenue and operating income (loss) by facility” on page 4 of this MDFR.

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

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

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

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

Alberta

In Q4 2018, total revenue from operations at Clairmont remained relatively consistent at \$595,000 compared to \$602,000 in Q4 2017. The Company acquired Clairmont in Q3 2017 and accordingly, comparatives for the twelve months ended December 31, 2017 are not meaningful. Until such time as the planned reconfiguration, upgrade and expansion program of the facility is complete, Clairmont operations are not expected to result in a significant contribution to the Company’s operating income.

The remainder of this page is intentionally left blank

WHITE OWL ENERGY SERVICES INC.

MANAGEMENT DISCUSSION OF FINANCIAL RESULTS – Q4 2018

Revenue and operating income (loss) by facility

(\$000's)	Three months ended December 31,			Twelve months ended December 31,		
	2018	2017		2018	2017	
Oilfield waste disposal and oil sales						
New Town	1,174	1,311	-10%	5,086	5,052	1%
Watford City	890	1,028	-13%	3,755	3,875	-3%
Ross	568	538	6%	2,603	1,359	92%
Alexander	20	13	54%	20	13	54%
Tioga JV	402	313	28%	1,484	1,157	28%
Epping	128	-	-	137	-	-
Clairmont	424	323	31%	1,549	397	290%
	3,606	3,526	2%	14,634	11,853	23%
Oil and gas revenue	171	279	-39%	1,066	355	200%
Other income	148	13	1038%	422	52	712%
Total revenue	3,925	3,818	3%	16,122	12,260	32%
Operating income (loss)						
New Town	447	433	3%	2,123	2,077	2%
Watford City	349	517	-32%	1,741	1,943	-10%
Ross	226	252	-10%	1,435	368	290%
Alexander	(88)	5	-1860	(118)	(23)	413%
Tioga JV ⁽²⁾	245	181	35%	807	652	24%
Epping	(78)	-	-	(92)	-	-
Clairmont-Midstream	58	(9)	744	246	(82)	400%
	1,159	1,379	-16%	6,142	4,935	24%
Oil and gas operating income (loss)	(197)	86	-329%	(490)	128	-483%
Other revenue	148	13	1038%	422	52	712%
Combined operating income ⁽¹⁾	1,110	1,478	-25%	6,074	5,115	19%

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

⁽²⁾ 2018 Tioga operating income is net of prior period overhead fee income of \$50,000 reclassified to other revenue.

New Town

For the twelve months ended December 31, 2018, New Town revenue increased by 1% to \$5,086,000 from \$5,052,000 in 2017 while operating income increased by 2% to \$2,123,000 compared to \$2,077,000 for 2017. For the year ended December 31, 2018, higher pricing for production water (up 12%), flowback water (up 27%) and oil sales (realised netback price up 58%) more than offset lower flowback volumes and oil sales volumes year over year. The decrease in flowback volumes in 2018 (down 31% year over year) was mainly due to lower customer drilling activity in the area. The decrease in oil volumes is due to the lower flowback volumes and the increased customer ability to separate the oil onsite prior to shipping flowback volumes to White Owl. In the first half of 2019, both production water and flowback disposal volumes have increased over 2018 levels.

In Q4 2018, a lower realized oil price in addition to lower flowback and oil sales volumes led to total revenue decreasing by 10% to \$1,174,000 from \$1,311,00 in Q4 2017, while lower operating costs and a weaker Canadian dollar resulted in New Town operating income increasing by 3% in the current quarter to \$447,000.

Watford City

For the year ended December 31, 2018, revenues at Watford totaled \$3,755,000, down slightly from \$3,875,000 in 2017 as higher realized oil prices and fluid prices helped partially offset the impact of lower flowback

WHITE OWL ENERGY SERVICES INC.

MANAGEMENT DISCUSSION OF FINANCIAL RESULTS – Q4 2018

volumes (down 61% year over year) and oil volume sales (down 26% year over year). As a result, operating income totaled \$1,741,000 in 2018 compared to \$1,943,000 in 2017.

In Q4 2018, a 21% increase in the price for trucked production water partially offset the weaker oil price per barrel (down 10%) and lower flowback volumes disposed (down 85%) and oil volume sales (down 80%), resulting in Q4 2018 total revenue of \$890,000 compared to \$1,028,000 for Q4 2017. At Watford, plant capacity during 2018 was predominantly filled with lower-priced production water due to customer commitments, which replaced higher priced flowback volumes.

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

Ross

Increased activity in the area resulted in significantly higher production water disposal volumes, flowback disposal volumes and recovered oil sales volumes throughout 2018, with year-over-year volume increases of 60%, 178% and 50%, respectively. As a result, for the twelve months ended December 31, 2018, total revenues increased by 92% to \$2,603,000 in 2018 from \$1,393,000 while in Q4 2018 total revenues increased by 6% to \$568,000 from \$538,000 in Q4 2017. For the year ended December 31, 2018, the increased revenues resulted in operating income increasing by 290% to \$1,435,000 from \$368,000 in 2017.

In Q4 2018, the increase in production water disposal volumes (up 110% over Q4 2017) was slightly more than offset by a lower realized oil price in addition to lower flowback volumes (down 42%) in the current quarter and lower oil volume sales (down 58%). As a result, Q4 2018 operating income at Ross decreased to \$226,000 from \$252,000 in Q4 2017.

Tioga

In 2018, total fluids disposed (ie, production water and flowback combined) increased by 19% compared to 2017. Due to customer commitments, trucked and pipelined production water has filled the plant's capacity for much of 2018 and as a result, Tioga has been unable to accept flowback volumes leading to lower oil sales volumes. However, the significant increase in production water volumes (up 26% year over year) has more than offset the impact of the lower flowback and oil sales volumes and for the three and twelve months ended December 31, 2018, total revenue at Tioga increased 28% and 28%, respectively, compared to the 2017 comparable periods. Operating income increased by 35% to \$245,000 for Q4 2018 over Q4 2017 for White Owl's 32% working interest, while for the year ended December 31, 2018, operating income increased by 24% to \$807,000.

Alexander

At Alexander, the Company has converted a suspended Class 2 facility 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 wastewater which must be disposed of through a Class 1 facility. The Alexander facility is one of two commercial Class 1 facilities in North Dakota and, as a result, there is limited competition for the provision of this service, which commands premium pricing relative to the Class 2 SWD business. The cost of the conversion to a Class 1 Facility was approximately US\$400,000.

In Q4 2018, Alexander was commissioned and contributed total revenue of \$20,000 while incurring an operating loss of \$88,000 for the quarter.

WHITE OWL ENERGY SERVICES INC.

MANAGEMENT DISCUSSION OF FINANCIAL RESULTS – Q4 2018

Epping

In May of 2018, the Company commenced construction of a SWD facility at Epping in Williams County, North Dakota and on July 12, 2018 entered into a joint venture arrangement with White Owl Epping LLC (“Epping LLC”) for the construction and operation of the facility. Epping LLC, together with certain service providers, provided funding to develop the facility which cost approximately US\$5.0 million. Pursuant to the joint venture arrangement, White Owl will operate and own 32.5% interest in the facility (carried interest of 20% plus 12.5% interest acquired for a total cost of US\$780,000). For administering the joint venture, the Company will receive an operating fee of 8% of the cost of operations and a fee of 3% of capital expenditures. The facility began accepting piped-in water disposal volumes, through temporary pump facilities, in September of 2018. In Q4 2018, Epping contributed total revenue of \$128,000 while incurring an operating loss of \$78,000, which was anticipated during the initial ramp-up period.

Clairmont

The Clairmont waste disposal and third-party processing facility generated operating income of \$58,000 and \$246,000 for the three and twelve months ended December 31, 2018, respectively. Oil and gas sales at Clairmont generated an operating loss of \$197,000 and \$490,000 for the three and twelve months ended December 31, 2018, respectively. The year to date operating loss for oil and gas sales includes a one-time well workover cost of \$187,000 incurred in April 2018.

Other Revenue

Other revenue includes operational, administration and capital fees charged by White Owl for services provided by White Owl to the Tioga and Epping LLCs and Joint Ventures. Other income for the three and twelve months ended December 31, 2018 include capital fees of \$185,000 relating to the construction of the Epping facility.

G&A expenses

	Three months ended December 31,		Twelve months ended December 31,	
(\$000's)	2018	2017	2018	2017
Salaries and management	\$310	\$180	\$1,267	\$943
Professional fees	154	329	456	624
Travel and related expenses	40	55	164	191
General office expenses	79	52	335	203
Third party consulting fees	1	17	87	126
	\$584	\$633	\$2,309	\$2,087

In Q4 2018, G&A expenses totalled \$584,000, or 15% of total revenue, compared to \$633,000, or 17% of total revenue in Q4 2017. For the twelve months ended December 31, 2018, G&A expenses totalled \$2,309,000, or 14% of total revenue, compared to \$2,087,000, or 17% of total revenue in 2017. The increase in salaries and management expenses is due to additional staffing related to the purchase of Clairmont in Q3 2017 and the addition of the Epping and Alexander facilities in North Dakota in 2018. Professional fees for the twelve months ended December 31, 2018 include advisory and legal amounts attributable to the strategic alternatives process, as well as legal costs related to a revised and restated credit facility that was undertaken in 2018. Professional fees for 2017 include legal costs related to the acquisition of the Clairmont assets in Q3 2017. The increase in general office expenses in 2018 over 2017 is mainly due to the implementation of new accounting software and an expansion of the office lease required by the increase in corporate activity.

As previously discussed, operational, administration and capital fees are charged by White Owl for services provided by White Owl to the Tioga and Epping LLCs and Joint Ventures, which results in a partial recovery

WHITE OWL ENERGY SERVICES INC.

MANAGEMENT DISCUSSION OF FINANCIAL RESULTS – Q4 2018

of G&A expenses. For the three and twelve months ended December 31, 2018, White Owl recovered \$148,000 and \$422,000, respectively, which is included in Other revenue.

Depreciation and depletion

Depreciation and depletion for the three and twelve months ended December 31, 2018 totaled \$612,000 and \$2,206,000, respectively, compared to \$607,000 and \$1,863,000 for the comparable periods in 2017. The increase for the 2018 year is primarily due to depletion and depreciation related to the Clairmont property which was acquired by the Company in Q3 2017.

Finance costs

(\$000's)	Three months ended December 31,		Twelve months ended December 31,	
	2018	2017	2018	2017
Interest on term loan	\$276	\$239	\$1,111	\$943
Interest on promissory notes and mortgage payable	25	21	56	42
Accretion of promissory notes	1	87	169	124
Accretion of decommissioning obligations	35	29	125	61
Interest (income) expenses bank charges and other	(13)	16	(7)	67
	\$324	\$392	\$1,454	\$1,237

The increase in interest on term loan in 2018 over 2017 is mainly due to an increase in the bank's prime lending rate.

Foreign exchange losses, gains

The Company recorded a foreign exchange loss of \$226,000 and \$376,000, respectively, for the three months and twelve months ended December 31, 2018. The gains and losses reflect the impact of changes in exchange rates on US dollar cash balances and short-term intercompany loans. The average exchange rates for the three and twelve months ended December 31, 2018 were 1.32 USD/CDN and 1.30 USD/CDN, respectively, as compared to 1.27 USD/CDN and 1.30 USD/CDN for the comparable periods in 2017.

Share-based payments

During the three and twelve months ended December 31, 2018, the Company recorded share-based payments of \$24,000 and \$129,000 respectively, compared to \$57,000 and \$313,000 for the same periods in 2017. Share-based payments relate to the amortization of costs of stock options issued to management, employees and directors of the Company.

SUMMARY OF QUARTERLY RESULTS

(\$000's)	2018				2017			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	\$3,925	\$4,516	\$3,969	\$3,712	\$3,818	\$3,202	\$2,806	\$2,434
EBITDA ⁽¹⁾	526	1,485	751	1,003	845	1,010	891	282
Net Income (loss)	(660)	82	(205)	65	(984)	132	(949)	(400)

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

The net loss in Q4 2018 reflects operating losses at the Epping and Alexander facilities due to start-up expenses and an operating loss incurred by Clairmont oil and gas operations. The net losses for the fourth and second

WHITE OWL ENERGY SERVICES INC.

MANAGEMENT DISCUSSION OF FINANCIAL RESULTS – Q4 2018

quarters of 2017 reflect impairment expenses of \$744,000 and \$1,076,000, respectively, relating to specific properties that were recognized during the quarters.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity risk is the risk that the Company will not be able to meet financial obligations as they become 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.

At December 31, 2018, the Company had negative working capital of \$14,455,000 (December 31, 2017 - \$14,207,000), an accumulated deficit of \$15,901,000 (December 31, 2017 - \$15,183,000) and a net loss for the year ended December 31, 2018 of \$718,000 (2017 - \$2,201,000). 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, competition, successfully raising capital for acquisition and development opportunities and successful implementation of management's plans to raise 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.

Investing activities

(\$000's)	Three months ended December 31,		Twelve months ended December 31,	
	2018	2017	2018	2017
Capital expenditures	\$1,410	\$440	\$2,343	\$1,596

Capital expenditures during the twelve months ended December 31, 2018 primarily relate to the acquisition of an additional 12.5% working interest in the Epping SWD facility, which when added to the company's 20% carried interest brings White Owl's total working interest in this facility to 32.5%. Capital expenditures also include amounts incurred for the conversion of the Alexander Class 2 well to a Class 1 well, the installation of a vapor recovery unit at Clairmont and permitting costs for a second well at Watford.

WHITE OWL ENERGY SERVICES INC.

MANAGEMENT DISCUSSION OF FINANCIAL RESULTS – Q4 2018

Financing activities

Share Capital

Shares issued and outstanding (000's)	Common shares	Amount (\$000)	Preferred shares	Amount (\$000)	Total	Amount (\$000)
Balance, December 31, 2017	41,504	\$18,340	26,469	\$12,353	67,973	\$30,693
Shares issued	6,735	1,247	-	-	6,735	1,247
Cancellation of shares	(256)	(128)	-	-	(256)	(128)
Share issue costs		(67)		-		(67)
Balance, December 31, 2018	47,983	\$19,392	26,469	\$12,353	74,452	\$31,745

As at December 31, 2018, there were 4,000,000 (December 31, 2017 – 4,000,000) common shares held in escrow.

During the twelve months ended December 31, 2018, the Company issued 6,735,000 common shares, 2,000,000 at \$0.15 per common share and 4,735,000 common shares at \$0.20 per share for total proceeds of \$1,247,000 before share issue costs of \$67,172. Additionally, the Company issued 208,950 broker warrants which entitle the holder to acquire one common share per warrant held at \$0.20 per share. The warrants expired on February 22, 2019. In June 2018, an officer of the Company surrendered 256,000 White Owl common shares to repay \$128,000 of promissory notes receivable.

Share Options

There were 4,169,000 share options outstanding as of December 31, 2018, with a weighted average exercise price of \$0.42 per share. During the twelve months ended December 31, 2018, the Company cancelled 100,000 share options having a weighted average exercise price of \$0.53 per share.

Effective July 17, 2018, the Company signed an amended and restated credit agreement (“Commitment Letter”) with Alberta Treasury Branches (“ATB”) 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\$14,987,030) 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\$186,650 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. Subsequent to the year end, the Company paid the lump sum of US\$1,000,000 on January 31, 2019. 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%. During the year ended December 31, 2018, the Company made principal payments on the Term Loan of \$771,486 (US\$583,708) (2017 - \$266,840 (US\$200,000)).

Execution of the amended and restated credit agreement has resolved certain default conditions existing under the previous credit agreement with ATB.

The Operating Loan is a US\$1,000,000 facility and is reduced by outstanding letters of credit of \$53,862 (December 31, 2017 - \$53,862) and credit card balances of \$20,632 (December 31, 2017 - \$11,009). The Company had drawn \$306,945 (US\$225,000) on the Operating Loan at December 31, 2018 (December 31, 2017 – \$658,613 (US\$525,000)).

Under the loan agreement for the Term Loan and Operating Loan, the Company is required to maintain the following minimum debt service coverage and working capital ratios:

WHITE OWL ENERGY SERVICES INC.

MANAGEMENT DISCUSSION OF FINANCIAL RESULTS – Q4 2018

Period	Working capital ratio	Debt service ratio
October 1, 2018 to December 31, 2018	1.28:1	1.25:1
January 1, 2019 to June 30, 2019	1.30:1	1.15:1
July 1, 2019 to December 31, 2019	1.40:1	1.25:1
January 1, 2020 and thereafter	1.50:1	1.25:1

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 December 31, 2018 was 1.82 (December 31, 2017 – 1.66). The ratio is calculated based on the trailing four quarters at December 31, 2018.

The working capital ratio is calculated as follows:

$$\text{Working capital ratio} = \frac{\text{Current assets}}{\text{Current liabilities excluding term loan and vendor note}}$$

The working capital ratio at December 31, 2018 was 1.42 to 1.

The Company was in compliance with the Commitment Letter covenants at December 31, 2018.

OUTLOOK

Throughout 2018 producer activity and demand for disposal services in North Dakota remained strong resulting in total 2018 water volumes disposed increasing by 11% to average 39,102 barrels per day from 35,193 barrels per day in 2017. In 2019 the North Dakota oil and gas activity continues to strengthen with Q1 2019 water disposal volumes for White Owl exceeding 41,000 barrels per day. To capitalize on this strengthening market, the Company expanded its network of disposal facilities in North Dakota in 2018 with the construction of a SWD facility at Epping which began receiving water disposal volumes in September 2018 and the conversion of a suspended Class 2 disposal facility into a Class 1 facility at Alexander which commenced operations in Q4 2018. The Watford City SWD facility which was destroyed in a fire in January 2019, as previously discussed, is on schedule for commissioning late in Q3 2019. Until then, White Owl's insurance policy is reimbursing the Company for reconstruction costs and lost revenues.

In Canada, 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. The Montney resource has been compared to the shale development taking place in the Permian and Delaware basins in Texas although restricted pipeline takeaway capacity in western Canada has dampened the pace of development. Market conditions in the Grande Prairie area remain strong, although the Clairmont plant operates in an environment of apportioned oil pipeline throughput which limits receipts of clean oil and emulsion and it currently has limited disposal capacity. As a result, the marketing activities of Trafigura Canada General Partnership, White Owl's marketing partner, are somewhat restricted and will remain so until pipeline capacity (new inter-provincial pipelines) out of Alberta increases and the related capital is available to fund any planned expansion of the Clairmont plant.

To date, minor improvements have been made to metering to allow third party dry oil and emulsion truck offloads and third-party water disposal. The 2019 activities are focused on maximizing the processing and disposal capacity of the plant and designing the upgrades needed to increase the capacity for dry-oil blending,

WHITE OWL ENERGY SERVICES INC.

MANAGEMENT DISCUSSION OF FINANCIAL RESULTS – Q4 2018

emulsion treating, and water disposal. The associated oilfield has been permanently shut-in due to the risk of gathering line leaks and therefore there are no longer any producing oil wells at Clairmont. The Clairmont midstream facility contributed \$246,000 of operating income in 2018 while the oil production at Clairmont incurred an operating loss of \$490,000 for the year.

On June 13, 2018, the Company engaged D.A. Davidson & Co. to provide investment banking and financial advisory services to the Company. The process has been slow as the appetite for investment in the North American oil and gas industry including oilfield services remains weak. Nevertheless, the process is ongoing, and management and the Board are currently reviewing a number of alternatives which have been identified.

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 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.