

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of the financial condition and operations of Whitemud Resources Inc. ("Whitemud" or the "Company") has been prepared by management as of November 14, 2017 and should be read in conjunction with the Company's condensed interim financial statements for the period ended September 30, 2017, which have been prepared in accordance with International Financial Reporting Standards. Some of the statements made herein contain "forward-looking information". Please see "Cautionary Notes Regarding Forward-Looking Statements".

### HISTORY AND OVERVIEW

The Company is developing kaolin resources in the Wood Mountain area of southern Saskatchewan for the production of metakaolin. Metakaolin is a high performance supplementary cementing material ("SCM") used as a performance enhancing additive to concrete. Metakaolin can replace up to 20% of the cement used to make concrete while enhancing performance and reducing cost.

In December 2010, the TSX Venture Exchange (the "TSXV") issued a bulletin suspending the listing of the Company's shares and reclassifying the Company's listing from a Tier 1 company to a Tier 2 company. On February 25, 2011, the TSXV issued a further bulletin transferring the Company's listing to NEX effective February 28, 2011, where its listing would remain suspended until April 3, 2013 when the Alberta Securities Commission revoked the Cease Trade Order. On June 27, 2013 an application to have the Company reinstated for trading on the NEX was approved by the TSXV.

### Company Outlook and Going Concern

The condensed interim financial statements for the period ended September 30, 2017 were prepared by management in accordance with International Financial Reporting Standards applicable to a going concern entity, which assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. The uncertainty in the use of the going concern assumption is impacted by the following factors.

As at September 30, 2017, the Company had a working capital deficiency of \$36,336,458 (2016 – \$37,558,194). For the nine month period then ended, the Company earned net income of \$306,420 (2016-loss of \$3,958,450) and operating cash flow of \$107,242 (2016 – negative \$237,177) with a resulting accumulated deficit of \$114,903,113 (2016 - \$112,397,726). In order for the Company to continue operations for the longer term, including generating sufficient cash flows and ultimately attaining profitable operations, additional financing will be required. The Company requires the continuing support of its creditors. There is no assurance that the creditors will not demand repayment of the loan on the maturity date. Management is currently reviewing its options for additional financing beyond the non-revolving operating facility.

Based on the Company's current projections future operations are also dependent on the Company's ability to streamline and enhance the production process to consistently produce high quality metakaolin, to generate improved market acceptance for the Company's product and the ongoing support of its creditors.

Critical work to determine the integrity of the processing facilities through replacement and upgrading of equipment, analyzing the chemistry of the Company's ore body, and marketing kaolin and metakaolin is ongoing. Produced metakaolin continues to be tested by potential end users.

There is sufficient inventory to meet its demand requirements for metakaolin for the upcoming year. The Company continues to provide metakaolin to customers by truck and rail from its storage facility. The Company anticipates that revenue generation in 2017 will continue to be challenging for customers in the oilfield industry and will negatively affect its own revenue forecasts for the next year. The Company has acquired two new customers.

During the fourth quarter of 2015, Midstream Energy Partners, a division of Whitemud, was formed with the intention of diversifying the Company's revenue streams through the marketing of hydrocarbon commodities in addition to its kaolin and metakaolin products. Whitemud is seeking to generate new revenue streams through this division to assist the Company in paying down its debts and stabilizing its operations. Refer to Note 18 of the condensed interim financial statements for data on operating segments. This division is ~~performing~~ very performing very well and has contributed positively to results for the first quarter of 2017.

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 the Company's ability to generate improved market acceptance for the Company's product, to secure financing, and receive the ongoing support of its creditors. There is no certainty that these and other strategies will be sufficient to permit the Company to continue beyond the foreseeable future as such strategies are contingent upon new equity or debt funds from shareholders, investors and lenders, as well as improved market acceptance for the Company's kaolin and metakaolin.

These condensed interim financial statements do not reflect any adjustments relating to the recoverability and classification of recorded assets or liabilities that may be necessary should the Company be unable to continue as a going concern. In order for the Company to continue operations for the longer term, to generate sufficient cash flows and ultimately attain profitable operations, additional financing will be required. The Company's continuation as a going concern is dependent upon management's plans coming to fruition (see "Risks and Uncertainties") and such plans are contingent upon new equity, debt or alternate financing from investors, as well as increased market acceptance of the Company's product.

## **RESULTS OF OPERATIONS**

For the nine months ended September 30, 2017, the Company had a net income of \$306,420 (\$0.000 per share) compared to a loss of \$3,958,450 (\$0.007 per share) for the comparable period ended September 30, 2016. This is primarily because of the lenders' decision to waive interest for 2017 amounting to an increase in earnings of approximately \$2,850,000. Midstream Energy Partners division contributed an additional \$995,000 in net income over the same period in 2016.

### **Metakaolin division**

Metakaolin sales increased 61% to \$427,754 in the six months ended September 30, 2017 from \$265,520 in the first nine months of 2016. Operating expenses for the period ended September 30, 2017 were \$926,551 (2016 - \$877,200). The increase was primarily the increase in cost of goods sold as sales increased. Cost of goods sold was \$408,183. The remaining cash outlay for operating costs was \$518,368.

General and administration expenses for the period ended September 30, 2017 were \$123,105 (2016 - \$152,661). Finance charges for the period ended September 30, 2017 were \$16,209 (2016 - \$2,846,392). The reduction was the result of the lenders' decision to waive interest for 2017. The Company was unable to make the required principal and interest payments to its creditors. The lenders have extended the maturity date of the loan to December 31, 2017. The creditors have not demanded repayment as at the date of this Management Discussion and Analysis.

Depreciation expense for the period ended September 30, 2017 was \$901,444 (2016 - \$1,196,054). In 2016, the Company changed the rate of depreciation after reviewing estimates of the useful life of the buildings and processing equipment.

At September 30, 2017, there were 5,089 tonnes ( 2016 - 7,210 tonnes) of finished metakaolin in bulk inventory available for sale.

### **Midstream Energy Partners division**

For the period ended September 30, 2017 Midstream Energy Partners division had sales revenue in the amount of \$24,903,352 and cost of sales of \$23,207,757. General and administrative costs were \$22,184. The division contributed net income of \$1,845,178 to the Company in the first nine months of 2017 compared to \$849,892 in the nine months of 2016. The division began operations in late 2015. The division has exceeded the initial expectations of management.

## Selected annual data

	2016	2015	2014	2013
Sales volume –metakaolin (tonnes)	2,017	2,010	2,639	2,423
Revenue – metakaolin (1)	\$ 421,822	\$ 402,825	\$ 525,729	\$ 492,913
Revenue – hydrocarbons	\$ 6,381,663	\$ 423,030	-	-
Financing charges	\$ 3,861,298	\$ 3,396,843	\$ 2,983,753	\$ 2,641,633
Impairment	-	\$ 3,500,000	\$ 4,500,000	-
Net loss	\$ 5,507,706	\$ 8,516,770	\$ 9,242,405	\$ 3,755,000

(1) Revenue in 2016 included sales of gravel in the amount of \$6,916.

## Selected quarterly data (in \$) – See Note 18 of interim condensed interim financial statements for segment reporting

	September 2017	June 2017	March 2017	December 2016	September 2016	June 2016	March 2016	December 2015
Metakaolin revenue	427,754	89,926	203,821	149,386	130,394	42,184	92,942	108,155
Midstream Energy Partners gross margin	1,695,595	659,230	413,182	176,779	345,052	415,808	108,229	10,315
Net income (loss)	289,610	214,031	(197,221)	(1,549,256)	(1,262,551)	(1,249,601)	(1,446,298)	(4,784,442)

## FINANCING

### Current Loan Facilities

Following a Proposal by its Receiver and ratified by the Court of Queen’s Bench of Alberta, the Company entered into an agreement with parties previously related to directors and officers of Whitemud to establish two borrowing facilities as follows:

The Company has the following notes payable:

	September 30, 2017	December 31, 2016
Kasten Energy (“Kasten”) (a), (c)	\$ 2,007,818	\$ 2,007,818
Petrogas Energy (“Petrogas”) (b), (c)	38,715,805	38,715,805
	<b>\$ 40,723,623</b>	<b>\$ 40,723,623</b>

(a) Kasten provided operational and Proposal funding of \$1,139,561 during receivership. The outstanding balance as at September 30, 2017 includes accrued interest of \$868,257 (December 31, 2016- \$868,257). Kasten has agreed to waive interest for 2017.

(b) Petrogas provided operational and proposal funding during receivership of \$15,984,062 and operational funding of \$7,515,938 (2016-\$7,515,938) after receivership to recommence operations. The outstanding balance as at September 30, 2017 includes accrued interest of \$15,215,805 (December 31, 2016 - \$15,215,805). Petrogas has agreed to waive interest for 2017.

- (c) The notes payable to Kasten and Petrogas (the “lenders”) include a fully advanced term loan in the amount of \$24,639,561 (2016 - \$24,639,561) which is due on demand and had a maturity date of January 16, 2014. Both debt facilities bear an interest rate of 10% per annum compounded semi-annually at the end of February and August of each year. Principal reductions of 1/20th of the outstanding balance are required annually on April 4th, the anniversary date of the loan agreement. The lenders hold a general security agreement and other collateral registered as a first charge against all assets of the Company. The Company has not made required principal and interest payments to its creditors and it is in default under the loan agreement. The lenders have extended the maturity date of the loan to December 31, 2017 and have waived interest charges for the fiscal year 2017. The lenders have not demanded repayment of the loan as of the date of the condensed interim financial statements.

### **Capital expenditures and impairments**

There were capital expenditures of \$1,413 (2016 - \$4,129) for the period ended September 30, 2017.

### **LIQUIDITY AND CAPITAL RESOURCES**

At September 30, 2017, the Company had a working capital deficiency of \$36,336,458 (December 2016 – \$37,558,194). The condensed interim financial statements have been prepared on a going concern basis in accordance with International Financial Reporting Standards, which assumes Whitemud will realize its assets and discharge its liabilities and commitments in the normal course of business. The application of the going concern concept is dependent upon the ability of the Company to raise additional capital to support ongoing activities and achieve profitable operations. The Company has not made principal and interest payments and is in default under the loan agreement. The lenders have agreed to waive interest for 2017 and have not demanded repayment of the loan. They have also extended the maturity date to December 31, 2017. The Company requires the ongoing support of its creditors. Operations have been funded through loan facilities provided by its creditors as described in note 9 of the condensed interim financial statements.

### **OFF-BALANCE SHEET ARRANGEMENTS**

The Company has no off-balance sheet arrangements at the time of this management discussion and analysis.

### **FINANCIAL AND OTHER INSTRUMENTS**

The Company’s cash and cash equivalents and restricted cash are measured at fair value through profit or loss. All of the Company’s other financial instruments are measured at amortized cost using the effective interest rate method. The Company does not have a hedge or other risk control strategy in place.

### **OUTSTANDING COMMON SHARES**

The Company is authorized to issue an unlimited number of Class A voting and an unlimited number of Class B non-voting common shares.

Under a Court Order (the “Court Order”), the sponsors of the Proposal were issued 16,000,000 Class A voting common shares in July 2012. On June 28, 2013 pursuant to the Court Order, the Company issued 326,499,700 Class B non-voting common shares to Kasten and Petrogas. Due to the financial position of the Company and the facts described in Note 1 of the condensed interim financial statements, no value has been attributed to the shares. As a result, shareholders other than Kasten and Petrogas will continue to hold 52.98% of the issued Class A common shares (being 5.5% of all the issued shares of the Company after the issuance of Class B non-voting common shares). 34,026,300 Class A common shares were issued and outstanding as at September 30, 2017 and December 31, 2016.

## **Loans to former directors and officers**

To assist directors, officers and employees in exercising stock options granted, the Company made loans to certain directors and officers. These loans were interest free, secured by a promissory note, and were due for a period not to exceed four years. The Company has taken action to collect the loans from former directors and officers. The Company has recorded a provision for an uncollectible amount of \$190,000 in its Statement of Net Loss and Comprehensive Loss for the year ended December 31, 2016. The remaining amount of \$372,775 is included in accounts receivable as at September 30, 2017. The Company has commenced legal action to collect the unpaid amounts.

## **RECENT AND FUTURE ACCOUNTING PRONOUNCEMENTS**

The condensed interim financial statements for the period ended September 30, 2017, including comparatives, are the Company's financial statements presented in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committees ("IFRIC").

The following are standards or amendments to existing standards as well as future accounting pronouncements that are relevant to the Company's condensed interim financial statements:

- IFRS 9 – Financial Instruments
- IFRS 15 – Revenue from Contracts with Customers
- IFRS 16 - Leases

The Company is currently assessing the impact of future standards and amendments. The adoption of recent standards had no impact on the amounts recorded in the Company's condensed interim financial statements.

## **CRITICAL ACCOUNTING ESTIMATES**

Whitemud prepares its financial statements in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board ("IASB"). In doing so, management is required to make various estimates and judgments in determining the reported amounts of assets and liabilities, revenues and expenses for each year presented and in the disclosure of commitments and contingencies. Management bases its estimates and judgments on its own experience, guidelines established by the Canadian Institute of Mining, Metallurgy and Petroleum and various other factors believed to be reasonable under the circumstances. In reference to the Company's significant accounting policies as described in note 3 to the September 30, 2017 condensed interim financial statements, management believes the following critical accounting policies reflect its more significant estimates and judgments used in the preparation of the financial statements.

Inventories are valued at the lower of weighted average production cost and net realizable value, while consumable supplies and spares are valued at the lower of weighted-average cost and replacement cost. Determination of realizable value or replacement costs requires estimates to be made for costs to complete and sell inventory. Management periodically makes estimates regarding whether an allowance is necessary for slow moving or obsolete consumable supplies and spares inventories.

In 2016, the Company changed the rate of depreciation to better reflect the useful lives of the processing plant and equipment. Under IFRS, this change is considered a change in accounting estimate and accounted for prospectively by amortizing the cumulative changes over the remaining useful life of the related assets. Mobile equipment and other administrative-type assets are depreciated according to the declining balance or straight-line method, based on an estimate of their useful lives.

Significant decommissioning and reclamation activities are often not undertaken until substantial completion of the useful lives of productive assets. Regulatory requirements and alternatives with respect to

these activities are subject to change over time. A significant change to either the estimated costs or recoverable reserves would result in a material change in the amount charged to earnings.

If it is determined that carrying values of property, plant and equipment cannot be recovered, then the asset is written down its recoverable amount. Any excess of book value over recoverable amount is charged to income in the period in which the impairment is determined. Recoverability and fair value assessments are dependent upon assumptions and judgments regarding future prices, costs of production, sustaining capital requirements and economically recoverable reserves and resources. A material change in assumptions may significantly impact the potential impairment of these assets.

The Company uses the liability method of accounting for deferred income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. Deferred income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities, calculated using the currently enacted or substantively enacted tax rates anticipated to apply in the period that the temporary differences are expected to reverse. Deferred income tax inflows and outflows are subject to estimation in terms of both timing and amount of future taxable earnings. Should these estimates change the carrying value of income tax assets or liabilities may change.

Grants under Whitemud's stock-based compensation plans are accounted for in accordance with the fair-value-based method of accounting. For stock-based compensation plans that will settle through the issuance of equity such as stock options, the fair value of stock options is estimated using the Black-Scholes option pricing model. These valuation models require the input of certain assumptions including expected share price volatility.

## **RISKS AND UNCERTAINTIES**

The continued operation, development and exploitation of the Company's kaolin resources and operation of its processing plant involve a high degree of financial risk. The risk factors which should be taken into account in assessing the Company's activities include, but are not limited to, those set out in the paragraphs below. These risks are not intended to be presented in any assumed order of priority. Any one or more of these risks could have a material effect on the Company and should be taken into account in assessing the Company's activities.

To date, the Company has not earned significant revenues and is developing markets for metakaolin. Whitemud does not have formal sales contracts and the Company has not exhibited consistent quality of product on a commercial scale including the fact that the process has not been proven at the large production levels projected. The Company's funds from operations are insufficient to fund current operations, meet obligations and provide the required working capital. As a result, additional capital investment is required. Lenders have extended the maturity date of the loan to December 31, 2017 and there is no assurance that demand for payment will not be made at that date. The lenders have agreed to waive interest for 2017. Should financing not be readily available, market acceptance not achieved or support from creditors not obtained, the Company will face a severe lack of liquidity that could lead to a further cessation of operations.

Construction of the Company's processing facility and mine is complete and the Company has completed commissioning and testing of the plant. Risks include, without limitation, equipment failures, labour disputes, work stoppages and equipment delivery delays, all of which may have an adverse effect on the Company's ongoing operations and financial condition.

The cement products industry is competitive and the particular market that the Company is targeting is currently using lower priced inferior products in many instances to produce concrete. As a result the Company may not secure the metakaolin sales volumes and prices anticipated for the Gollier Creek plant in the near term.

Mining involves a high degree of risk and the Company has a limited history of metakaolin operations. The Company currently depends on a single property with a kaolin resource. The Company's operations are subject to environmental risks and the actual costs of reclamation for the property are subject to regulatory body guidelines. Changes in government regulations could impact Whitemud's future financial performance.

The condensed interim financial statements have been prepared on a going concern basis in accordance with IFRS, which assume Whitemud will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. The application of the going concern concept is dependent upon the ability of the Company to raise additional capital to support ongoing activities, receive continued support of its creditors, and achieve profitable operations. To date, the Company's main source of cash resources has been through the issuance of equity and debt. This dependence on the private and public market to fund cash flow needs of the Company has resulted in management including a "Nature of the Organization and Future Operations" note in its condensed interim financial statements.

## **CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

Some of the statements made herein contain "forward-looking information" which may include, but is not limited to, statements with respect to the future financial or operating performance of the Company, government approvals, the costs and timing of the development and commissioning of the project and the Company's liquidity and capital resources. Without limiting the generality of the foregoing, the Company has made materially forward-looking statements: (i) under the heading "History" with regard to the replacement of up to 20% of the cement used; (ii) "Liquidity and Capital Resources", regarding the sufficiency of working capital; and the necessity for additional financing; and (iii) under the heading "Company Outlook and Going Concern", the assumption that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business, the uncertainty about the appropriateness of the going concern assumptions, the anticipated requirement for additional financing, generate improved market acceptance for the Company's product. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", "believes", or variations (including negative variations) of such words and phrases, or state that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Material risk factors that could cause results to differ materially from any future results include the following risk factors: "Whitemud has no operating revenue, history of Metakaolin or Kaolin project development or operations," is applicable to the forward-looking statements identified in (i) through (iii) above; "The Metakaolin market Whitemud is targeting is underdeveloped," is applicable to the forward-looking statements identified in (i) and (iii) above; "Whitemud may not achieve sales volumes and sales prices for products," is applicable to the forward-looking statements identified in (i) through (iii) above; "Whitemud does not have formal sales contracts," is applicable to the forward-looking statements identified in (i) through (iii) above; "the Company has not exhibited consistent quality of product on a commercial scale" is applicable to the forward looking statements identified in (i) through (iii) above; "the process has not been proven at the large production levels projected," is applicable to the forward-looking statements identified in (i) and (iii) above; "Mining/quarrying operations are subject to a high degree of risk," is applicable to forward-looking statements made in (i) through (iii) above; "Government regulation may adversely affect Whitemud," is applicable to forward-looking statements made in (iii) above; and "Whitemud's distribution and sales of its products face uncertainty," is applicable to forward-looking statements made in (i) and (iii) above. "No assurance that new business ventures will develop on a profitable and sustained basis or that the Company will have the necessary contractual commitments, resources, and working capital to continue with the new business ventures" is applicable to forward-looking statements made in (iii). The forgoing list of risk factors is not exhaustive. Additional information on risk factors is included under the heading "Risks and Uncertainties" in this Management's Discussion and Analysis, as well as general business, economic, competitive, political and social uncertainties; the actual results of exploration activities; actual results of reclamation activities; conclusions of economic evaluations; changes in project parameters as plans continue to be refined; future prices of metakaolin and kaolin; possible variations of kaolinized ore deposit composition and qualities; failure of plant, equipment or processes to operate as anticipated; accidents, labour disputes and other risks of the mining industry; delays in obtaining government approvals or in obtaining sufficient debt or equity financing if required, or in the completion of development or construction activities, including the potential expansion of the plant. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in the forward-looking statements, there may be other factors that cause actions, events or results to differ from those anticipated, estimated or intended. In making its forward-looking statements, the Company used, among others, the following material factors or assumptions to develop forward-looking information enumerated above: the target market for Whitemud will accept Whitemud's metakaolin for its stated purpose, use of metakaolin remains economic, government regulations governing Whitemud's title to mineral properties, its permits and plant operations

will not change, the economic conditions will improve to an extent where the current suppressed concrete industry will improve to levels experienced prior to the economic downturn and that the various independent reviews conducted on the Company's products and resources are accurate. Forward-looking statements contained herein are made as of the date hereof subject to the requirements of applicable securities legislation and except as otherwise required by law, the Company assumes no obligation to update any forward-looking statements, whether as a result of new information, future events or results or otherwise. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, the reader is cautioned not to place undue reliance on forward-looking statements.

#### **OTHER INFORMATION**

Additional information related to the Company is available for viewing on SEDAR at [www.sedar.com](http://www.sedar.com) and at the Company's website at [www.whitemudresources.com](http://www.whitemudresources.com).