



## **Divergent Energy Services Corp.**

Management Discussion and Analysis

As at June 30, 2017 and for the three and six month periods ending June 30, 2017 and 2016

(Amounts are in USD \$000's, except number of shares and per share data)

**Dated: August 16, 2017**

Management Discussion and Analysis

As at June 30, 2017 and for the Three and Six Month Periods Ended June 30, 2017 and 2016

**INTRODUCTION**

This Management's Discussion & Analysis ("MD&A") of the financial condition and results of operations of Divergent Energy Services Corp. ("the Corporation") for the period ended June 30, 2017, contains information current to and is dated August 16, 2017. It should be read in conjunction with the Unaudited Condensed Consolidated Interim Financial Statements for the three and six month periods ended June 30, 2017 ("Q2 2017") and the Audited Consolidated Financial Statements dated December 31, 2016, and notes thereto as well as other information which is available on SEDAR at [www.sedar.com](http://www.sedar.com). All amounts contained herein are in thousands (000's) of United States Dollars unless otherwise indicated.

The Corporation's Unaudited Condensed Consolidated Interim Financial Statements have been prepared in accordance with International Accounting Standards ("IAS") 34 "Interim Financial Reporting". The Corporation's significant accounting policies under International Financial Reporting Standards ("IFRS") are included in Note 3 to the annual financial statements, with the addition of policies as noted in the Q2 2017 Unaudited Condensed Consolidated Interim Financial Statements; both can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

This MD&A contains certain statements that constitute forward-looking statements under the meaning of applicable securities laws. Please see "Forward-Looking Statements" at the end of this document, for a discussion concerning the Corporation's use of such information.

This MD&A and Q2 2017 Unaudited Condensed Consolidated Interim Financial Statements were reviewed by the Audit Committee of the Corporation's Board of Directors on August 16, 2017, and approved by the Corporation's Board of Directors on August 16, 2017. The following MD&A for the Corporation has been prepared by management as of August 16, 2017, and is a review of the financial condition and results of operations of the Corporation.

This MD&A has been prepared in accordance with the requirements of National Instrument 51-102 and covers the period from January 1, 2017, to June 30, 2017, unless otherwise noted.

**CORPORATE PROFILE**

Divergent is a publicly traded entity on the Canadian Venture Exchange ("TSX-V") under the symbol "DVG". Except where the context otherwise requires, "Divergent" or the "Corporation", shall refer to Divergent Energy Services Corp. and its consolidated subsidiaries.

The Corporation's business consists of one operating segment namely Artificial Lift Systems.

The Project management and financing segment was discontinued effective January 1, 2016.

Divergent's products are sold primarily into the US. The Corporation offers normal and customary trade terms to its customers, no significant part of which is of an extended nature. Special inventory requirements are not necessary, and customer merchandise return rights do not extend beyond normal warranty provisions. The market for the Corporation's products is highly competitive.

**SUMMARY DESCRIPTION OF BUSINESS**

**Artificial Lift Systems ("ALS")**

The ALS division provides electric submersible pumping products including the commercialization of an electromagnetic reciprocating submersible pump technology. Divergent currently services Wyoming and Colorado from its facility in Gillette, WY, which generates 100% of the revenue for the division. Three distinct product lines are currently offered:

- **Electric Submersible Pump Systems ("ESP")**

ESP products and services primarily target production operations in the oil and gas industry. ESP products are designed to lift large volumes of fluid from both oil and gas wells.

- **Electric Submersible Progressing Cavity Pump Systems ("ESPCP")**

ESPCP products and services primarily target production operations in the oil and gas industry. Divergent pioneered the introduction of ESPCP's to the Powder River Basin.

- **Linear Electromagnetic Submersible Pumps ("Linear Pump")**

The Linear Pump uses permanent magnet motor technology that duplicates conventional rod pump movement without rod strings or surface lifting equipment. All moving parts are contained within the submersible pump housing, eliminating rod and tubing wear, making the Linear Pump ideal for placement into horizontal wellbores. The Linear Pump is installed similar to an ESP at the bottom of the well on production tubing with electric cable running to the surface. Testing and product development has been conducted in a Saskatchewan oil well, and the product line is expected to begin generating revenue in 2018.

**Divergent Energy Services Corp.**

**Management Discussion and Analysis**

**As at June 30, 2017 and for the Three and Six Month Periods Ended June 30, 2017 and 2016**

**Project Management and Financing (“PMF”)**

The PMF division formerly operated in Mexico through the Corporation’s 100% owned subsidiary CDN Oilfield Technologies & Solutions, S. de R.L. de C.V. (“COTS Mexico”). The division provided working capital for oilfield construction and infrastructure projects from which it generated financing fees. Management has discontinued the operations in Mexico effective December 31, 2016 and is in the process of dissolving the legal entity in Mexico since it has collected the remaining outstanding advances from completed projects.

**QUARTERLY CONDENSED CONSOLIDATED FINANCIAL RESULTS**

**Selected Financial Information**

	<b>Three Months Ended June 30, 2017</b>	<b>2016</b>	<b>Six Months Ended June 30, 2017</b>	<b>2016</b>
Revenue – continuing operations	\$2,140	\$2,640	\$4,303	\$4,759
Revenue – discontinued operations	-	-	-	-
Loss from continuing operations	(856)	(316)	(1,439)	(1,599)
Loss from discontinued operations	(87)	(229)	(167)	(1,147)
Net loss for the period	(943)	(545)	(1,506)	(2,746)
Total assets	3,627	5,714	3,627	5,714
Total liabilities	8,955	9,266	8,955	9,266
Shareholders’ deficiency	(5,328)	(3,552)	(5,328)	(3,552)
Loss per share basic and diluted – continuing operations	(0.01)	(0.01)	(0.01)	(0.02)
Loss per share basic and diluted – discontinued operations	(0.00)	(0.00)	(0.00)	(0.01)
Loss per share – basic and diluted	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.03)

**QUARTER OVERVIEW**

**CONTINUING OPERATIONS**

**For the three and six month periods ended June 30, 2017:**

- Revenues decreased 19% for the three month period ended June 30, 2017 versus 2016
- The Corporation reported a loss from continuing operations of \$856 compared to \$316 in the comparative period
- The Corporation completed a fully subscribed Private Placement for gross proceeds of CAD \$750

**REVENUE, COST OF SALES AND GROSS PROFIT**

	<b>ALS- US</b>		<b>ALS – Canada</b>	
	<b>Three Months Ended June 30,</b>		<b>Three Months Ended June 30,</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
<b>Sales</b>	\$ 2,140	\$ 2,640	\$ -	\$ -
<b>Cost of sales</b>	1,545	2,071	-	-
<b>Gross profit</b>	\$ 595	\$ 569	\$ -	\$ -
<b>Gross profit %</b>	28%	22%	N/A	N/A

**Divergent Energy Services Corp.**

**Management Discussion and Analysis**  
**As at June 30, 2017 and for the Three and Six Month Periods Ended June 30, 2017 and 2016**

	ALS - US		ALS – Canada	
	Six Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
<b>Sales</b>	\$ 4,303	\$ 4,759	\$ -	\$ -
<b>Cost of sales</b>	3,054	3,800	-	-
<b>Gross profit</b>	\$ 1,249	\$ 959	\$ -	\$ -
<b>Gross profit %</b>	29%	20%	N/A	N/A

For the three and six month periods ended June 30, 2017, ALS – US

- Severe spring storms in April left clients with very few days to access their well sites, leading to one of the slowest Aprils in the Corporation’s history. Activity levels returned in May and June, however similar to Q1, the demand by our largest client to use up client owned inventory reduced our revenues. As a result, the activity levels in May and June were indicative of much higher revenue numbers, and management believes this is not representative of lost market share or a reduction in overall market activity.
- Gross profit margin improved relative to the comparative period largely due to improved pricing that was implemented at the start of 2017, however the gross profit margin would have been higher in the second quarter without the client-owned inventory being installed. Margins in the range of 28% to 33% are expected to be sustainable. As of Q2 2017 the Corporation began recording a significant portion of the cost of field vehicle leases and expenses to Cost of Sales from SG&A, and as such the expected range of margins has been adjusted.

For the three and six month periods ended June 30, 2017, ALS – Canada

- One Linear Pump was installed on March 24, 2017 and ran for nearly three months before being removed from the well. The motor section had suffered a ground fault in the motor lead and could not be reinstalled. No modifications are planned for the motor section due to the conclusion that the ground fault may not have been caused by normal operating conditions and may have been the result of a large power surge from a lightning storm that was occurring in the area at the time of failure.
- Canadian operations are in the pre-commercialization phase and all costs are allocated to Product Development Expenses and not to Cost of Sales.

The PMF segment has been discontinued and did not earn revenues for the three and six month periods ended June 30, 2017 (2016 - \$Nil). The Corporation is in the process of dissolving the legal entity in Mexico.

**Sales, general and administrative expenses (“SG&A”)**

	2017	2016	% Change
For the three months ended March 31,	\$801	\$745	8%
For the three months ended June 30,	699	587	19%
For the six months ended June 30,	\$1,500	\$1,332	14%

SG&A expenses increased from the comparative periods of 2016, and are expected to decrease as a percentage of sales as the Corporation’s revenue continues to grow. For the 3 month period ended June 30, 2017 G&A was 33% of sales. Management anticipates that operations can continue to expand with limited need to increase overhead. The most significant increase to SG&A was the increase in rent: Gillette, Wyoming rents its facilities since selling its building in July 2016 and as a result rent expense increased approximately \$40 and \$80 for the three and six month periods ended June 30, 2017 respectively, compared to the 2016 periods.

**Stock based compensation**

	2017	2016	% Change
For the three months ended March 31,	\$41	\$46	(11%)
For the three months ended June 30,	69	112	(58%)
For the six months ended June 30,	\$110	\$158	(44%)

**Divergent Energy Services Corp.**

**Management Discussion and Analysis  
As at June 30, 2017 and for the Three and Six Month Periods Ended June 30, 2017 and 2016**

Stock based compensation has decreased for the three and six months periods ended June 30, 2017 compared to those periods of 2016 due to reduction of grants offered in the past year and due to the reduction in volatility in the stock price as calculated by the Black-Scholes model.

**Product development costs**

	2017	2016	% Change
For the three months ended March 31,	\$206	\$178	16%
For the three months ended June 30,	26	43	40%
For the six months ended June 30,	\$232	\$221	5%

Product development costs include the purchase of prototype and second-generation electromagnetic motors, freight, testing and third party services associated with deployment of the Linear Pumps. As the product line nears commercialization in fiscal 2018 these costs are expected to continue to decrease.

**Net Finance Expense**

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Foreign exchange gain (loss)	(\$477)	\$95	(\$519)	(\$542)
Interest expense	(138)	(115)	(244)	(225)
Accretion expense	(42)	(41)	(83)	(80)
Net finance expense	(\$657)	(\$61)	(\$846)	(\$847)

The Corporation recorded net finance expense of \$657 and \$61 for the three months ended June 30, 2017 and 2016, respectively. For the six months ended June 30, 2017 and 2016, the net finance expense was \$846 and \$847, respectively.

During the three month period ended June 30, 2017 the Corporation recorded a loss on foreign exchange of \$477 compared to a gain of \$95 in Q2 2016 primarily due to the movement in the rate of the Canadian dollar against the US Dollar. The USD denominated loans between the Corporation and its Mexican subsidiary is no longer being recognized as a net investments thus the foreign exchange losses are being recognized in net income versus accumulated other comprehensive income.

**Income Tax Expense**

The Corporation's current income tax expense and deferred income tax expense was \$nil and \$29 for the three and six month periods ended June 30, 2017. The Corporation has non-capital losses for income tax purposes of \$9,501 which expire in 2028 through 2036. Those non-capital losses have not been recognized in the financial statements and are as follows:

Year of Expiry	USA	Mexico	Canada	Total
2028 to 2033	\$3,151	\$-	\$-	\$3,151
2034	195	526	2,066	2,787
2035	208	912	598	1,718
2036	-	1,845	-	1,845
	3,554	\$3,283	\$2,664	\$9,501

**Divergent Energy Services Corp.**

**Management Discussion and Analysis**  
**As at June 30, 2017 and for the Three and Six Month Periods Ended June 30, 2017 and 2016**

**DISCONTINUED OPERATIONS**

The Corporation's management commenced the winding down of operations in Mexico in December 2015, and during the fiscal year 2016 closed the PMF division. The operating results of the PMF segment are presented below as discontinued operations, and it should be noted that the comparative results from operations have been restated to show the discontinued operations separately from continuing operations.

	<b>Three Months Ended June 30, 2017</b>	<b>2016</b>	<b>Six Months Ended June 30, 2017</b>	<b>2016</b>
Selling, general and administrative	\$82	\$39	\$128	\$86
Amortization	-	3	-	6
Stock based compensation	5	12	10	24
Loss on disposal of assets	-	73	-	73
Allowance for doubtful accounts	-	-	-	760
Foreign exchange loss (gain)		63		138
Loss from discontinued operations before income taxes	(87)	(190)	(138)	(1,088)
Income tax expense – current taxes	-	(39)	(29)	(59)
<b>Loss from discontinued operations</b>	<b>(87)</b>	<b>(\$229)</b>	<b>(167)</b>	<b>(\$1,147)</b>

**Income tax expense**

The Mexican subsidiary has current income tax expense of \$Nil and \$29 for the three and six month periods ended June 30, 2017 which relates to interest on an accrued income tax payable on an uncertain tax position which has yet to be settled.

**Cash flows from discontinued operations**

	<b>Six Months Ended June 30,</b>	
	<b>2017</b>	<b>2016</b>
Cash from (used in) operating activities	185	(\$46)
Cash generated from (used in ) investing activities	-	32
<b>Cash flows from discontinued operations</b>	<b>185</b>	<b>(14)</b>

**Statement of Equity – Accumulated other comprehensive income**

In the three and six month periods ended June 30, 2017, accumulated other comprehensive income increased by \$391 and \$105, respectively as compared to the same periods in 2016. The increase was substantially from foreign currency translation of the intercompany loans to COTS Mexico and Extreme from the functional currency of CAD to the reporting currency in USD.

**Divergent Energy Services Corp.**

**Management Discussion and Analysis  
As at June 30, 2017 and for the Three and Six Month Periods Ended June 30, 2017 and 2016**

**SUMMARY OF QUARTERLY RESULTS (UNAUDITED)**

USD	Q2-2017	Q1-2017	Q4-2016	Q3-2016
Revenue – continuing operations	\$2,140	\$2,163	\$2,796	\$3,969
Revenue – discontinued operations	-	-	-	-
Loss for the period – continuing operations	(856)	(582)	(1,047)	(94)
Loss for the period - discontinued operations	(87)	(80)	(603)	(70)
Net loss for the period	(943)	(662)	(1,650)	(164)
Comprehensive loss per share – basic and diluted	(\$0.01)	(\$0.01)	(\$0.02)	(\$0.00)

USD	Q2-2016	Q1-2016	Q4-2015	Q3-2015
Revenues – continuing operations	\$2,640	\$2,119	\$1,969	\$1,192
Revenue – discontinued operations	-	-	-	-
Loss for the period – continuing operations	(371)	(1,335)	(695)	(596)
Loss for the period – discontinued operations	(172)	(864)	(330)	(286)
Net loss for the period	(543)	(2,199)	(1,025)	(882)
Comprehensive loss per share (basic and diluted)	(\$0.01)	(\$0.02)	(\$0.01)	(\$0.01)

**OUTLOOK**

**ONGOING OPERATIONS**

Following the doubling of sales for the year ended 2016, Divergent is well positioned to capitalize on improving demand for artificial lift services. The improved margins posted in Q1 and Q2 2017 are expected to continue and will provide cash flow for the expansion of the business. The client owned inventory that reduced top line sales in Q1 and Q2 is nearly depleted and management believes that the current strong activity will continue and will translate into higher revenues. Future opportunities for growth may include Kansas, Oklahoma, Texas, North Dakota, and Utah in the United States.

**PRODUCT DEVELOPMENT**

With 88 days of operating time and valuable data obtained, the Linear Pump has attracted attention from new clients with different oil well types (depths and rates). The new clients have expressed an interest in providing Divergent with an oil well to further test the Linear Pump so that they can validate numerous benefits:

- Operating cost reductions through reduced service rig interventions to repair worn and broken sucker rods.
- Reduced power consumption using a high efficiency electromagnetic motor vs surface lifting equipment (pump jack).
- Increased production rates when installed lower in the well - a challenging installation for conventional rod pumps. The linear pump can be installed vertically, slant, or horizontal which allows for the pump to be placed lower in the well. The deeper a pump is installed, the lower the fluid level can be drawn down resulting in increased oil production.
- Reduced environmental impact with the elimination of surface lifting equipment.
- Lower carbon footprint with the reduction of steel used.

Encouraged by the increased interest in the Linear Pump by industry participants, we believe the results of the recent test will help to create greater awareness and opportunity for commercialization. Pricing on the Linear Pump system is competitive to most rod pumping applications and the Corporation has numerous incentive plans for early adopters.

**Management Discussion and Analysis**  
**As at June 30, 2017 and for the Three and Six Month Periods Ended June 30, 2017 and 2016**

The outlook for 2017 is as follows:

- Additional Linear Pump installations are expected in both Canada and the United States, with efforts focused on commercial sales now that the Linear Pump has demonstrated solid results.
- Complete the formation of a Technical Advisory Committee comprised of subject matter experts that will provide additional guidance from design and fabrication to control systems and automation.
- Growing activity and revenue from ESP product sales in Wyoming and Colorado. Should the current demand trends continue and the corporation is able to secure proper working capital, the market conditions are conducive for increases in quarterly job counts. This increase would come from expanding the regions that we service and taking on market share from competitors.
- Divergent continues to be the largest provider of ESP products and services for CBM gas producers in the region, with a reputation for quality service that is creating demand from a growing list of clients in the oil well ESP market.
- Continue to attract highly skilled and motivated people who increase the depth of our service offering and enable us to grow our business, including the expansion of our service into Colorado.

The Corporation's vision is to be a premier supplier of submersible pumping products that increase production while reducing costs and carbon footprint. The commercialization of our Linear Pump is complementary to our existing electric submersible pump ("ESP") business, and will provide oil and gas companies the opportunity to capitalize on the Linear Pump's many benefits while differentiating Divergent within a competitive and growing market.

#### **Cash and Liquidity**

The Corporation had cash balances of \$850 and \$100 as at June 30, 2017 and December 31, 2016 respectively.

Cash used in operating activities was \$597 in 2017 prior to changes in non-cash working capital items. The changes in non-cash working capital items includes a decrease in trade receivables and advances of \$412, a decrease in inventories of \$352, a decrease in prepaid expenses of \$117 and a decrease in accounts payable of \$123.

Divergent issued common shares through a private placement for gross proceeds of CAD \$750 and net proceeds of CAD \$709, net of issue costs.

The unaudited condensed consolidated interim financial statements have been prepared on a going concern basis. The going concern basis of presentation assumes that the Corporation 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 unaudited condensed consolidated interim financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis were not appropriate for these financial statements, then adjustments would be necessary to the classification and carrying amounts of the assets and liabilities and the reported revenues and expenses.

The material uncertainties that cast significant doubt on the Corporation's ability to continue as a going concern are set forth below.

The Corporation's debentures, amounting to CAD \$5,750, mature December 31, 2017. The Corporation will not be able to repay these obligations without obtaining additional debt, equity financings or renegotiating terms with the debenture holders.

The Corporation has \$850 in cash at June 30, 2017 and a working capital deficit of \$5,764. The Corporation expects to spend \$500 for the deployment of the commercial version of the Linear Electromagnetic Submersible Pump.

#### **FINANCIAL INSTRUMENTS**

##### **Interest Rate Risk**

Interest rate risk arises from changes in market interest rates that may affect the fair value or future cash flows from the Corporation's financial assets or liabilities. The Corporation is exposed to interest rate risk on certain debt instruments and short term investments to the extent of changes in the underlying market interest rates. Cash flow exposure to interest rate risk is minimal at this time as substantially all of the Corporation's borrowings bear interest at fixed rates.

##### **Commitments**

##### **Long-Term Debt**

As at June 30, 2017, the Corporation had debentures of CAD \$5,750 outstanding and maturing on December 31, 2017.



**Management Discussion and Analysis**  
**As at June 30, 2017 and for the Three and Six Month Periods Ended June 30, 2017 and 2016**

**Lease Commitments**

As at June 30, 2017, the Corporation had the following commitments outstanding in relation to its operating lease commitments:

Year (In 000's)	Total
2017	\$180
2018	318
2019	273
2020	255
2021	170
2022	9
Total	\$1,205

**Summary of Share Capital**

As at June 30, 2017, the Corporation had 105,796,499 common shares issued and outstanding with stated share capital value of \$17,184. 6,026,000 warrants and 8,535,000 stock options, of which 3,099,998 are exercisable, were outstanding at June 30, 2017. As at August 16, 2017, the common shares outstanding are 105,436,319.

**RELATED PARTY TRANSACTIONS**

The following transactions were in the normal course of operations and entered into and recorded at the agreed to exchange amount which reflects fair value.

Debenture interest was paid through the issuance of common shares to an officer and directors amounting to \$34 for the three month period ended and \$46 for the six month period ended June 30, 2017 (for the three and six month periods ended June 30, 2016, \$11 and \$23).

Officers and directors advanced the Corporation CAD \$195, of which CAD \$70 was converted into common shares of the private placement (Note 6(d)). The remaining advances of CAD \$125 is included in accounts payables and accrued liabilities. The advances are due on demand and bear interest at 10%. Interest of CAD \$2 is included in accounts payable and accrued liabilities.

**RISKS AND UNCERTAINTIES - FINANCIAL RISK MANAGEMENT**

**Risk Management Framework**

The Board of Directors has overall responsibility for the establishment and oversight of the Corporation's risk management framework including developing and monitoring the Corporation's risk management policies. The Corporation's risk management policies are established to identify and analyze the risks faced by the Corporation, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Corporation's activities.

**Credit Risk**

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Corporation's receivables from customers.

**Accounts receivable**

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk, particularly in the current economic circumstances. Approximately 91 percent (Q1 2016: 98 percent) of ESP sales are attributable to one counterparty.

The Group has established allowances for impairment of trade receivables in 2017 - \$Nil (2016 - \$Nil).

**Liquidity Risk**

Liquidity risk is the risk that the Corporation may encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Corporation's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Corporation's reputation. See discussion on the Corporation's cash and liquidity above.

**Management Discussion and Analysis**  
**As at June 30, 2017 and for the Three and Six Month Periods Ended June 30, 2017 and 2016**

**Market Risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Corporation's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. The level of market risk to which the Corporation is exposed to, depends on market conditions, expectations of future price or market rate movements and the composition of the Corporation's financial assets and liabilities. The Corporation regularly monitors market risk exposure, tolerances and control processes in order to manage the exposure related to changes in market risk to stay within acceptable market risk limits.

**Currency Risk**

The Corporation is exposed to currency risk on sales and purchases that are denominated in a currency other than the respective functional currencies of Corporation entities, primarily the US dollar, CDN dollar and Mexican Peso. The Corporation does not hedge its foreign currency transactions but does endeavor to contract its business to US dollar equivalency.

Interest on borrowings is denominated in the currency of the borrowing. Generally, borrowings are denominated in Canadian dollars.

**Interest Rate Risk**

Interest rate risk arises from changes in market interest rates that may affect the fair value or future cash flows from the Corporation's financial assets or liabilities. The Corporation is exposed to interest rate risk on certain debt instruments and short term investments to the extent of changes in the underlying market interest rates. Cash flow exposure to interest rate risk is minimal at this time as substantially all of the Corporation's borrowings bear interest at fixed rates.

**Contingencies**

From time to time, the Corporation is subject to legal proceedings, assessments and claims in the ordinary course of business. At this time, in the opinion of management, none of these matters are reasonably expected to have a material adverse effect on the Corporation's financial position.

**Capital Management**

The Corporation's objective when managing its capital is to strike a balance between maintaining investor, creditor and market confidence while sustaining future development of the Corporation.

The Corporation has identified the need for additional equity financing however it has not been successful in raising additional capital.

The Corporation's existing debt agreements do not require maintenance of any financial covenants. There were no changes to the Corporation's approach to capital management during the six month period ended June 30, 2017. The Corporation is not subjected to any internally or externally imposed capital requirements.

**Critical Accounting Policies and Estimates**

The Corporation prepares its interim condensed consolidated financial statements in accordance with IFRS. In preparing its financial statements, management is required to make various estimates and judgments in determining the reported amounts of assets and liabilities, revenues and expenses, as well as the disclosure of commitments and contingencies. Management bases its estimates and judgments on its own experience and various other assumptions believed to be reasonable at the time and under the circumstances in existence when the financial statements were prepared. Anticipating future events cannot be done with certainty; therefore, these estimates may change as new events occur, more experience is acquired or the Corporation's operating environment changes. More detailed information regarding the accounting estimates believed by management to require the most difficult, subjective or complex judgments and which are material to the Corporation's financial reporting results are discussed in the Corporation's financial statements for the year ended December 31, 2016.

In addition the following accounting standards and amendments have been issued but not yet adopted:

**Leases**

On January 13, 2016, the IASB issued IFRS 16, "*Leases*" ("IFRS 16"), which requires entities to recognize lease assets and lease obligations on the balance sheet. For lessees, IFRS 16 removes the classification of leases as either operating leases or finance leases, effectively treating all leases as finance leases. Certain short-term leases (less than 12 months) and leases of low-value assets are exempt from the requirements, and may continue to be treated as operating leases. IFRS 16 is effective for years beginning on or after January 1, 2019, with early adoption permitted. The Corporation is currently evaluating the impact of adopting IFRS 16 on the consolidated financial statements.

**Revenue**

On May 28, 2014, the IASB issued IFRS 15, "*Revenue From Contracts With Customers*" ("IFRS 15") replacing IAS 11, "*Construction Contracts*", IAS 18, "*Revenue*" and several revenue-related interpretations. IFRS 15 establishes a single revenue recognition framework that applies to contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. Disclosure requirements have also been expanded. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The standard may be applied retrospectively or using a modified retrospective approach. The Corporation has assessed the impact of adopting IFRS 15 on the consolidated financial statements, however since there have been no material differences identified as part of the Corporation's preliminary assessments, management does not expect any changes when IFRS 15 is adopted.

Management Discussion and Analysis

As at June 30, 2017 and for the Three and Six Month Periods Ended June 30, 2017 and 2016

**Financial Instruments**

On July 24, 2014, the IASB issued the final version of IFRS 9, “Financial Instruments” (“IFRS 9”) to replace IAS 39, “Financial Instruments: Recognition and Measurement” (“IAS 39”). IFRS 9 introduces a single approach to determine whether a financial asset is measured at amortized cost or fair value and replaces the multiple rules in IAS 39. The approach is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. For financial liabilities, IFRS 9 retains most of the IAS 39 requirements; however, where the fair value option is applied to financial liabilities, the change in fair value resulting from an entity’s own credit risk is recorded in accumulated other comprehensive Income rather than net earnings, unless this creates an accounting mismatch. In addition, a new expected credit loss model for calculating impairment on financial assets replaces the incurred loss impairment model used in IAS 39. The new model will result in more timely recognition of expected credit losses. IFRS 9 is effective for years beginning on or after January 1, 2018. Early adoption is permitted. The Corporation is currently assessing the impact of adopting IFRS 9 on the consolidated financial statements.

**OFF BALANCE SHEET ARRANGEMENTS**

The Corporation has no off balance sheet arrangements, other than operating leases.

**Forward-looking Statements**

*This MD&A contains certain statements that constitute forward-looking statements. These statements relate to future events or the Corporation’s future performance. All statements, other than statements of historical fact, that address activities, events or developments that the Corporation or a third party expects or anticipates will or may occur in the future, are forward-looking statements. These include the Corporation’s future growth, results of operations, performance and business prospects and opportunities; prevailing economic conditions; commodity prices; sourcing, pricing and availability of raw materials, components and parts, equipment, suppliers, facilities and skilled personnel; dependence on major customers; uncertainties in weather and temperature affecting the duration of the service periods and the activities that can be completed; regional competition; and other factors, many of which are beyond the Corporation’s control. These other factors include future prices of oil and natural gas and oil and natural gas industry activity, including the effect of changes in commodity prices on oil and natural gas exploration and development activity, the ability to complete strategic acquisitions and realize the anticipated benefits of any acquisitions that are completed, the Corporation’s outlook regarding the competitive environment it operates in, and the assumptions underlying any of the foregoing. Forward-looking statements are often, but not always, identified by the use of words such as “seek”, “anticipate”, “plan”, “continue”, “estimate”, “expect”, “may”, “will”, “project”, “predict”, “potential”, “targeting”, “intend”, “could”, “might”, “should”, “believe” and similar expressions. These statements involve known and unknown risks, uncertainties and other factors, many of which are beyond the Corporation’s control, including those discussed under “Risks and Uncertainties” and elsewhere in this MD&A that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Corporation believes that the expectations reflected in those forward-looking statements are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this MD&A should not be unduly relied upon. These statements speak only as of the date of this MD&A. The Corporation does not intend, and does not assume any obligation, to update these forward-looking statements, whether as a result of new information, future events or otherwise, except as required under applicable securities laws. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.*



## Corporate Information

### DIRECTORS AND OFFICERS

#### DIRECTORS AND OFFICERS

**Ken Bagan** (2) (3)

Chairman of the Board

**Cam Barton** (1) (2) (3)

Director

**Don Luft** (4)

Director

**Martin Hall** (1) (2)

Director

**Rob Riecken** (1) (3) (4)

Director

**Ken Berg** (4)

Chief Executive Officer

President, Director

**Scott Hamilton**

Chief Financial Officer

- (1) Member of the Audit Committee, Mr. Hall is Chair.
- (2) Member of the Governance and Nominating Committee, Mr Barton is Chair.
- (3) Member of the HR and Compensation Committee, Mr. Riecken is Chair.
- (4) Member of the Health, Safety and Environment Committee, Mr. Luft is Chair.

All members of the Board of Directors are independent with the exception of Ken Berg

### CORPORATE OFFICE

**Divergent Energy Services Corp.**

1500, 715 5 Avenue SW

Calgary, Alberta T2P 2X6

Phone: 403.543.0060

Fax: 403.543.0069

Email: info@divergentenergyservices.com

### BANKER

**HSBC**

Calgary, Alberta

### LAWYERS

**Burstall Winger Zammit LLP**

Calgary, Alberta

### AUDITORS

**KPMG LLP**

Calgary, Alberta

### STOCK EXCHANGE

**TSX Venture**

Calgary, Alberta

### TRANSFER AGENT AND REGISTRAR

**Computershare**

Calgary, Alberta