DIVERGENT ENERGY SERVICES

Divergent Energy Services Corp.

Management Discussion and Analysis
As at December 31, 2017 and 2016 and for the years ended December 31, 2017 and 2016

Dated: March 22, 2018

INTRODUCTION

This Management's Discussion & Analysis ("MD&A") of the financial condition and results of operations of Divergent Energy Services Corp. and its consolidated subsidiaries (the "Corporation" or "Divergent") for the years ended December 31, 2017 and 2016, contains information current to and is dated March 22, 2018. It should be read in conjunction with the audited annual consolidated financial statements and notes thereto and other information which is available on SEDAR at www.sedar.com. All amounts contained herein are in thousands (000's) of United States Dollars unless otherwise indicated.

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 annual consolidated financial statements were reviewed by the Audit Committee of the Corporation's Board of Directors on March 22, 2018, and approved by the Board of Directors on March 22, 2018. The following MD&A for the Corporation has been prepared by management as of March 22, 2018, 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 December 31, 2017, unless otherwise noted.

NON GAAP MEASURES

In this MD&A, we refer to financial measures that do not have any standardized meaning as prescribed by General Accepted Accounting Principles ("GAAP"). These non-GAAP financial measures are relevant to an understanding of the financial statements and are not presented elsewhere in the financial statements. These measures have been described and presented in order to provide shareholders and potential investors with additional measures for analyzing our ability to generate funds to finance our operations and information regarding our liquidity. Users are cautioned that non-GAAP financial measures presented by the Corporation may not be comparable with measures provided by other entities. Below are the non-GAAP measures that Divergent uses.

Adjusted EBITDA means earnings before interest, taxes, depreciation, amortization and accretion. EBITDA is not a recognized measure under GAAP. Management believes that in addition to net earnings, EBITDA is a useful supplemental measure as it provides an indication of the results of the Corporation's business prior to consideration to how the activities are financed, amortized or how the results may be taxed in various jurisdictions.

Readers should be cautioned, however, EBITDA should not be construed as an alternative to net earnings determined in accordance with GAAP as an indicator of Divergent's performance. Divergent's method of calculating EBITDA may differ from other organizations and, accordingly, EBITDA may not be comparable to measures by other organizations.

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 December 31, 2016.

Divergent's Mexican subsidiary was dissolved effective December 31, 2017.

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. There are three distinct product lines as follows:

- **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. ESPCPs are specially designed for abrasion resistance in tough pumping applications and able to move viscous fluids at high flow rates.

- **Linear Electromagnetic Submersible Pump ("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 surface. Testing and product development has been conducted in a Saskatchewan oil well, and the product line is expected to begin generating revenue once proven commercially viable.

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 discontinued the operations in Mexico effective December 31, 2016 and has legally dissolved the entity in Mexico.

ANNUAL CONDENSED CONSOLIDATED FINANCIAL RESULTS

Selected Financial Information

For the year ended December 31,	2017	2016	2015
Revenue - Continuing operations	$8,182	$11,524	$5,458
Revenue – Discontinued operations	-	-	310
Results from operating activities	(588)	(1,402)	(2,065)
Loss for the year – Continuing operations	(1,749)	(2,868)	(2,795)
Income (loss) for the year – Discontinued operations	(380)	(1,690)	(2,660)
Net loss for the year	(2,129)	(4,558)	(5,455)
Total assets	3,232	3,900	5,907
Long-term debt (including current portion and debentures)	4,584	4,137	4,032
Shareholders' deficiency	(5,889)	(4,993)	(1,530)
Loss per share – Continuing operations basic and diluted	($0.02)	($0.03)	($0.03)
Income (loss) per share – Discontinued operations basic and diluted	(0.00)	($0.02)	($0.03)
Net loss per share – basic and diluted	($0.02)	($0.05)	($0.06)
Cash dividends	Nil	Nil	Nil

RECENT DEVELOPMENTS

The Corporation amended the terms of its previously issued 10% secured debentures to extend the maturity date of the Debentures from December 31, 2017 to December 31, 2021. In consideration for the Debenture holders approving the extension, the Corporation issued on January 1, 2018 an aggregate of 5,750,000 additional common share purchase warrants, exercisable at a price of $0.13 on or before December 31, 2021. Of the additional common share purchase warrants issued, 1,377,000 were issued to directors and officers of the Corporation.

In October 2017 Divergent signed a three-year exclusive services contract with a client in the Powder River Basin which will provide a strong base of activity and revenue from the methane-based market in Wyoming. We anticipate that the contract is of sufficient value to support the operating cash flows of the entire Corporation and allow the sales team to focus on new growth opportunities. The improved margins posted in all the quarters of 2017 are expected to continue and we expect the contract will provide the necessary cash flow for the expansion of the business.

The agreement that provides Divergent with the exclusive rights to deploy the technology continues to be reviewed. Divergent is seeking an ownership interest in the intellectual property of the Linear Pump rather than act solely as the exclusive distributor.

The Corporation legally dissolved its Mexican subsidiary on February 19, 2018. All the remaining assets were disposed of and the intercompany loans from the Corporation and its sister companies were attributed to contributed surplus of the Mexican subsidiary prior to its dissolution which has created a tax liability of $955.

2017 PERFORMANCE OVERVIEW

CONTINUING OPERATIONS

- Divergent achieved positive cash flows from operations for the three and twelve months ended December 31, 2017 of $197 and $46 for the respective periods.
- The Corporation also recorded EBITDA of $869 for the fourth quarter of 2017.
- Gross profit increased 17% for the year ended December 31, 2017 compared to the year ended December 31, 2016
- General and administrative expenses decreased 12% for the year ended December 31, 2017 as compared to the year ended December 31, 2016 as management continues its mandate to control costs and streamline processes

RESULTS FROM OPERATING ACTIVITIES

THREE MONTHS ENDED DECEMBER 31,

	2017	**2016**	% Change
Revenue	$2,101	$2,796	(25%)
Cost of sales	1,505	2,489	(40%)
Gross profit	596	307	94%
General and administrative expense	595	705	(16%)
Stock based compensation	31	15	107%
	626	720	(13%)
Results from operating activities	($30)	($413)	(93)%

The Corporation successfully entered a multi-year contract that created a step change in Q4 2017 whereby service quality is rewarded with profitability and not simply focused on top line revenue. The overall effect has reduced recorded revenue and increased gross profit.

REVENUE, COST OF SALES AND GROSS PROFIT

	Three Months Ended December 31,		Year Ended December 31,	
	2017	2016	2017	2016
Sales	$ 2,101	$ 2,796	$ 8,182	$ 11,524
Cost of sales	1,505	2,489	5,841	9,531
Gross profit	$ 596	$ 307	$ 2,341	$ 1,993
Gross profit %	28%	11%	29%	17%

For the three months ended December 31, 2017,

- Gross Profit increased 94% from 2016.as a result of several initiatives coming to fruition to improve operational performance and efficiency
- The decrease in revenue was expected and built into the pricing model of the multi-year contract signed in the fourth quarter

For the twelve months ended December 31, 2017,

- Gross profit increased 17% from the comparative period ended December 31, 2016 as a result of improved pricing across the industry and lowered costs throughout the supply chain.
- The decrease in revenue from 2016 of was expected and mainly due to lower activity from the largest client who started an intensive production performance review that resulted in less wells being serviced and pumps replaced.

GENERAL AND ADMINISTRATIVE EXPENSES

	2017	2016	% Change
For the three months ended March 31,	$800	$721	11%
For the three months ended June 30,	699	709	(1%)
For the three months ended September 30,	654	848	(23%)
For the three months ended December 31,	596	862	(31%)
For the twelve months ended December 31,	$2,749	$3,140	(12)%

For the three months ended December 31, 2017, selling, general and administrative expenses decreased 31% from the comparative period of 2016. The significant variances in costs were as follows:

- Professional fees decreased to $3 from $73 which reflects emphasis on cost reductions and greater use of internal resources for the 4th Quarter 2017 in comparison to Q4 2016.
- Salaries and wages decreased to $331 in Q4 2017 in comparison to $378 in Q4 2016 due to the less bonuses for the period.

For the twelve months ended December 31, 2017, selling, general and administrative expenses decreased 12% from the comparative period of 2016. The most significant variances in costs were as follows:

- Professional fees decreased to $225 from $271 for the year ended December 31, 2017 and 2016, respectively. The 2016 costs were higher due to the efforts to close a financing for the Mexico business that was ultimately unsuccessful.
- Consulting fees decreased to $65 from $228 for the year ended December 31, 2017 compared to the same period in 2016. The decrease is due to the renegotiation and termination of certain consulting agreements.

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 three months ended September 30,	49	25	96%
For the three months ended December 31,	46	225	(80%)
For the year ended December 31,	$327	$471	(31%)

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 anticipated commercialization in fiscal 2018 these costs are expected to continue to decrease.

STOCK BASED COMPENSATION

	2017	2016	% Change
For the three months ended March 31,	$42	$48	(13%)
For the three months ended June 30,	69	110	(37%)
For the three months ended September 30,	38	52	(27%)
For the three months ended December 31,	31	45	(31%)
For the year ended December 31,	$180	$255	(29%)

Stock based compensation has decreased for the three and twelve month periods ended December 31, 2017 compared to those periods of 2016 due to forfeiture of options in the current year and due to the reduction in volatility in the stock price which impacts option fair value.

NET FINANCE EXPENSE (INCOME)

	Three months ended December 31,		Twelve months ended December 31,	
	2017	2016	2017	2016
Foreign exchange loss (gain)	($1,133)	$50	$127	$458
Interest expense	187	111	533	457
Accretion expense	51	41	173	163
Net finance expense (income)	($895)	$202	$833	$1,078

For fiscal 2017 and 2016, management determined that there was a need to change the accounting for the advances to the subsidiaries and treat those advances as loans that would be repatriated. As such the foreign exchange gains and losses of those advances are recorded in the Statement of Consolidated Loss. If management had accounted for the US subsidiaries as net investments the gains and losses relative to those advances from the parent to the subsidiaries would be attributed to accumulated other comprehensive income in the Consolidated Statement of Equity.

The movement of the Canadian Dollar relative to the US Dollar for the three month period ended December 31, 2017 resulted in a gain on foreign exchange of $1,133, comparatively for the three months ended December 31, 2016 there was a loss of $50 during the three months ended December 31, 2016.

For the year ended December 31, 2017, there was a foreign exchange loss of $127 compared to a foreign exchange loss of $458 in 2016 due principally due to foreign exchange rates on the intercompany investments.

The interest expense for the three month and twelve month period ended December 31, 2017 of $187 and $533 and for the comparative period of $111 and $457, respectively, was paid to our debenture holders by the issue of common shares as follows:

2017	Common shares Issued	Interest expense
For the three months ended March 31,	891,703	$111
For the three months ended June 30,	843,272	110
For the three months ended September 30,	1,294,031	111
For the three months ended December 31,	1,811,642	116
For the year ended December 31,	4,840,648	$448

2016	Common shares Issued	Interest expense
For the three months ended March 31,	512,021	$111
For the three months ended June 30,	623,293	110
For the three months ended September 30,	935,044	110
For the three months ended December 31,	762,792	108
For the year ended December 31,	2,833,150	$439

INCOME TAX EXPENSE

CONTINUING OPERATIONS

The Corporation's income taxes for the year ended December 31, 2017 amounted $Nil in current income tax expense and $Nil for deferred income tax expense. The Corporation has non-capital losses for income tax purposes which expire from 2028 and 2037 and have not been recognized in the financial statements.

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 Project management and financing division. The Mexican subsidiary was effectively dissolved December 31, 2017. The operating results of the Project management and financing segment are presented below as discontinued operations, and it should be noted that the comparative results from operations has been restated to show the discontinued operations separately from continuing operations.

	2017	**2016**
Revenue	$-	$-
Cost of sales	-	-
Gross profit	-	-
Selling, general and administrative expenses	150	131
Amortization	2	7
Provision for bad debts on advances	125	1,286
Loss on disposal of assets	3	73
Stock based compensation	10	34
Foreign exchange losses	-	57
	290	1,588
Loss from discontinued operations before income taxes	(290)	(1,588)
Income tax recovery (expense)	(90)	(102)
Income (loss) from discontinued operations	($380)	($1,690)
Cash flows from (used in) discontinued operations		
Cash (used in) from operating activities	$30	($127)
Cash generated from investing activities	-	1
Cash flows used in discontinued operations	$30	($126)

The Corporation loaned a total of $1,914 to an unrelated Mexican business partner during fiscal 2011 through 2014. Management determined that the long-term loan receivable from the unrelated Mexican business partner would not be settled due to the current business volumes and accordingly the remaining outstanding balance of the loan due to the Corporation was provided for during the years ended 2016 and 2017 which amounted to $1,286 and $125, respectively. No interest revenue was recorded for the year ended December 31, 2016 or 2017.

PROPERTY AND EQUIPMENT

The Corporation sold property which included the land and building located in Gillette, Wyoming for net proceeds of $403, on July 11, 2016. The related mortgage balance of $64 was paid out in full. The net book value of the land and building at December 31, 2015 was $393.
The Corporation has leased larger premises in Gillette, Wyoming, at a cost of $13.5 per month.

SUMMARY OF QUARTERLY RESULTS

USD	Q4-2017	Q3-2017	Q2-2017	Q1-2017
Revenue – Continuing operations	$2,101	$1,778	$2,140	$2,163
Revenue – Discontinued operations	-	-	-	-
Income (loss) for the period – Continuing operations	816	(1,127)	(856)	(582)
Loss for the period – Discontinued operations	(179)	(4)	(87)	(80)
Net earnings (loss) for the period	637	(1,131)	(943)	(662)
Comprehensive loss per share	($0.02)	($0.01)	($0.01)	($0.01)

USD	Q4-2016	Q3-2016	Q2-2016	Q1-2016
Revenue – Continuing operations	$2,796	$3,969	$2,640	$2,119
Revenue – Discontinued operations	-	-	-	-
Loss for the period – Continuing operations	(1,047)	(94)	(371)	(1,367)
Loss for the period – Discontinued operations	(603)	(70)	(172)	(834)
Net loss for the period	(1,650)	(164)	(543)	(2,201)
Comprehensive loss per share	($0.02)	($0.00)	($0.01)	($0.02)

OUTLOOK
CONTINUING OPERATIONS

The Powder River Basin ("PRB") in Wyoming is expected to provide a strong base of activity from the methane-based market. We anticipate that existing contracts are of sufficient value to support the entire Corporation and that the activity levels will remain stable throughout 2018.

Following on the heals of the step change in Q4 2017, we intend to aggressively pursue expansion opportunities from the oil-based market with clients that we have established relationships with. Several oil producing basins across Wyoming can be serviced from our existing Gillette WY facility. In addition to Wyoming, initial servicing of the oil basins in northern Colorado (within which a prolific shale play resides) can be done from Gillette until a more central facility is required. The northern states of the US are experiencing a resurgence in drilling activity that has already translated into higher demand for artificial lift products. The US remains the Corporation's key focus region for growth over Canada due to the US's favorable economic environment and recent predictions that the US will account for 80% of the increased demand for oil over the next 5 years.

PRODUCT DEVELOPMENT

The Technical Advisory Committee was established by the Board of Directors of Divergent to provide expertise and advice on the Corporation's existing artificial lift technologies and evaluate new artificial lift technologies identified as potential interest to Divergent. Since its inception the Committee has provided valuable input that has been incorporated into the upcoming Linear Pump test in Canada. The timeline to get back into a well and continue testing has been lengthened by weak oil pricing and reduced operating budgets within the industry. Although oil prices have risen globally, prices for Canadian crude remain weak and it is expected that Canadian producers may continue to demonstrate risk aversion to testing new technology until they return to profitability. Divergent's focus for expansion and ongoing testing has included a more intense focus on the United States due to its oil industry demonstrating more resilience than Canada's.

The agreement that provides Divergent with the exclusive rights to deploy the technology continues to be reviewed. Divergent is seeking an ownership interest in the intellectual property of the Linear Pump rather than act solely as the exclusive distributor.

We are currently discussing installations with a number of clients, including our partner from previous tests, and anticipate at least one installation in the second quarter of 2018.. The next round of testing will be focused on delivering results of extending operating time and proving out the cost reduction benefits of the pump:

- Reduced power consumption using a high efficiency electromagnetic motor vs surface lifting equipment (pump jack). Data from the 2016 and 2017 tests have been analyzed and calculations indicate potential savings of up to 33%.
- Operating cost reductions through reduced service rig interventions to repair worn and broken sucker rods.
- Capital cost reductions through reduced tubing wear caused by the reciprocating motion of the sucker rods.
- 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.

Pricing on the Linear Pump system is competitive to most rod pumping applications and the Corporation has numerous incentive plans for early adopters that don't place the full burden of the test on the client.

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 $549 and $100 as at December 31, 2017 and 2016, respectively.

Cash used in operating activities was $725 in 2017 and comparatively $1,567 for the year ended December 31, 2016, 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 $403, a decrease in inventories of $488, a decrease in prepaid expenses of $84, a decrease in accounts payable $148.

The decrease in accounts payable and accrued liabilities includes $1,200 of trade payables which are in excess of 1 year old.

The audited consolidated 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 audited consolidated 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 audited consolidated 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 may cast significant doubt on the Corporation's ability to continue as a going concern are set forth below.

The Corporation has an accumulated deficit of $29,680 at December 31, 2017. The Corporation has experienced a history of net losses which continued during the year ended December 31, 2017 resulting in the recognition by the Corporation of a loss from continuing operations of $1,749.

The Corporation has negative working capital at December 31, 2017 of $1,744. In addition, the Corporation has accounts payable in excess of a year old amounting to $1,200. There is material uncertainty as to whether the Corporation will be able to repay these obligations without obtaining additional future debt or equity financings.

The Corporation's Debentures, amounting to CAD $5,750 were extended to the maturity date to December 31, 2021 in exchange for 5,750,000 common share purchase warrants with an exercise price of CAD $0.13 expiring on December 31, 2021 which were issued on January 1, 2018.

The Corporation's management and Board of Directors continue to seek alternative debt and equity financings in order to fund additional projects and operations in North America and to provide for the repayment of the debentures.

In Q2 2017 the Corporation issued common shares through a non-brokered private placement raising gross aggregate proceeds of CAD $750. The Corporation has identified the need for additional equity financing however it has not been successful in raising additional new capital.

The Corporation's management and Board of Directors continue to seek alternative debt and equity financings in order to fund additional projects and operations in North America and to provide for the repayment of the debentures.

FINANCIAL INSTRUMENTS

COMMITTMENTS

Long-term debt

As at December 31, 2017, the Corporation had the following commitments outstanding in relation to its equipment and debenture debt:

Year (In 000's)	**Total**
2018	$4
2019	-
2020	-
2021	4,580
Total	$4,584

The Corporation's debentures mature on December 31, 2021 and have a face value of CAD $5,750. The Corporation will pay interest of CAD $575 per year on the outstanding debentures.

Lease Commitments

As at December 31, 2017, the Corporation had the following operating lease commitments:

Year (In 000's)	**Total**
2018	346
2019	300
2020	273
2021	172
Total	$1,091

SUMMARY OF SHARE CAPITAL

As at December 31, 2017, the Corporation had 108,902,172 common shares issued and outstanding with stated share capital value of $17,416. 276,000 warrants and 6,785,000 stock options are also outstanding at December 31, 2017. As at March 22, 2018, the common shares outstanding are 108,902,172, warrants of 6,026,000 and stock options of 6,785,000.

RELATED PARTIES

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:

(A) The 10% debenture of CAD $5,750 included CAD $1,423 from directors and officers of the Corporation. Interest paid to directors and officers in the year ended 2017 amount to CAD $142 (2016 – CAD $ 13).

(B) Officers and directors advanced the Corporation CAD $195, of which CAD $70 was converted into common shares. The remaining advances of CAD $125 are included in accounts payables and accrued liabilities. The advances are due on demand and bear interest at 10%. Interest of CAD $9 is included in accounts payable and accrued liabilities.

(C) In addition to their salaries, the Group also provides non-cash, stock based compensation to executive officers. Directors also participate in the Corporation's stock option program.

Key management personnel compensation comprised:

	2017	2016
Wages and commissions	$476	$542
Commissions	149	166
Directors' fees	47	59
Stock based compensation	145	267
Total	$817	$1,034

SUBSEQUENT EVENT

The Corporation dissolved its Mexican subsidiary on February 19, 2018. All the remaining assets were disposed of and the intercompany loans from the Corporation and its sister companies were attributed to contributed surplus of the Mexican subsidiary prior to its dissolution which has created a tax liability of $955.

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. The Corporation previously experienced significant credit risk in Mexico and has ceased any future operations as a result. Prior to the end of Q1 2017, the Corporation collected $229 from its Mexican operation and does not have any other receivables outstanding in Mexico.

Trade receivables and advances

The accounts receivable include a customer of the Artificial Lift Systems segment which represents 86% at December 31, 2017 (2016 – 95%).

As at December 31, 2017 approximately 89% (2016: 95%) of the Artificial Lift Systems segment sales are attributable to one customer.

The Group established allowances for impairment of trade receivables and advances during 2017 of $126 (2016 - $1,298) which are included in discontinued operations.

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. See Note 1 in the consolidated financial statements with respect to the conditions that currently exist that may cast significant doubt on the Corporation's ability to continue as a going concern. In addition please see the Cash and Liquidity section on Pages 10 and 11.

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 and 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 Group 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 result in a material adverse effect on the Group'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 new capital.

The Corporation's existing debt agreements do not require maintenance of any financial ratios. There were no changes to the Corporation's approach to capital management during the year ended December 31, 2017. The Corporation is not subjected to any internally or externally imposed capital requirements.

Critical Accounting Policies and Estimates

The Corporation prepares its 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, 2017.

A number of new accounting standards, amendments to accounting standards and interpretations are effective for annual periods beginning on or after January 1, 2018 and have not been applied in preparing the Consolidated Financial Statements for the year ended December 31, 2016. The standards applicable to the Corporation are as follows and will be adopted on their respective effective dates:

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 and there have been no material differences identified as part of the Corporation's assessments. Management does not expect any changes when IFRS 15 is adopted.

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 has assessed the impact of adopting IFRS 9 on the Consolidated Financial Statements and there have been no material differences identified as part of the Corporation's assessments. Management does not expect any changes when IFRS 9 is adopted.

OFF BALANCE SHEET ARRANGEMENTS

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

Net income (loss) and Adjusted EBITDA Reconciliation

USD	Q4-2017	Q4-2016	YE-2017	YE-2016
Net income (loss)	$608	($2,504)	($2,129)	($4,558)
Interest	187	111	533	457
Amortization and depreciation	23	20	105	119
Accretion of debenture	51	41	173	163
Adjusted EBITDA	$869	($2,332)	($1,664)	($3,819)

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.

DIVERGENT
ENERGY SERVICES

Corporate Information

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 Mr. Berg

CORPORATE OFFICE

Divergent Energy Services Corp.
1500, 715 5th Avenue SW
Calgary, Alberta T2P 2X6
Phone: 403.543.0060
Fax: 403.543.0069
Email: info@divergentenergyservices.com

BANK
HSBC
Calgary, Alberta

LEGAL COUNSEL
Burstall Winger Zammit LLP
Calgary, Alberta

AUDITORS
KPMG LLP
Calgary, Alberta

STOCK EXCHANGE
TSX Venture
Calgary, Alberta

TRANSFER AGENT AND REGISTRAR
Computershare
Calgary, Alberta