Divergent Energy Services Corp.

Amended

Management Discussion and Analysis

As at March 31, 2018 and for the three month periods ending March 31, 2018 and 2017

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

Dated: December 20, 2019

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INTRODUCTION

The Amended 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 March 31, 2018. It should be read in conjunction with the Restated Unaudited Condensed Consolidated Interim Financial Statements for the three month period ended March 31, 2018 ("Q1 2018") and the Restated Audited Consolidated Financial Statements dated December 31, 2017, and notes thereto as well as 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.

The Corporation's Restated 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 Q1 2018 Unaudited Condensed Consolidated Interim Financial Statements; both can be found on SEDAR at 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 Q1 2018 Restated Unaudited Condensed Consolidated Interim Financial Statements were reviewed by the Audit Committee of the Corporation's Board of Directors and approved by the Corporation's Board on December 20, 2019. The following MD&A for the Corporation has been prepared by management 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.

CORPORATE PROFILE

Divergent is a publicly traded entity on the 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.

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 which is not expected to occur within fiscal 2018.

GOING CONCERN

As the restated financial statements for the first quarter of 2018 are being filed on December 20, 2019, this section includes additional information regarding the going concern. At March 31, 2018 the Corporation has a working capital deficiency of $550 and an accumulated deficit of $26,461. During the period ended March 31, 2018 the Corporation generated income from continuing operations of $648 and used cash in operations of $205. During Q1 2018 approximately 96% (Q1 2017 - 90%) of sales are attributable to one customer. Included in accounts payable and accrued liabilities are amounts due to related parties totaling CAD $120 which are due on December 31, 2019. The Corporation does not have sufficient cash or other resources available to meet its obligations and commitments in a timely manner. On May 3, 2019, the Corporation announced that it was delayed in filing its annual financial statements for the year ended December 31, 2018, the related management's discussion and analysis (MD&A") and certificates of its chief executive officer and chief financial officer with the Alberta Securities Commission ("ASC") beyond the deadline of April 30, 2019. In connection with this delay, on May 6, 2019, the Corporation received from the ASC a cease trade order ("CTO") for the Corporation's failure to file the above noted materials prior to the filing deadline. Further, the Corporation has not filed its 2019 interim financial statements, MD&A and certifications on the required filing deadlines. The Corporation is unable to raise additional financing to fund operations while the CTO is in place.

The CTO has prevented the Corporation from issuing common shares to settle interest obligations on the debentures for the three month periods ended June 30, 2019 and September 30, 2019 which has resulted in the Corporation becoming non-compliant with provisions of the indenture agreements. Currently, the debenture holders have the right to demand immediate repayment of all outstanding amounts. There is no assurance that the Corporation will be able to meet its interest payment obligation under the debentures or obtain a sufficient number of waivers from the debenture holders relating to all unpaid interest. The Corporation is seeking waivers from its debenture holders covering all outstanding interest currently due and payable, plus interest which will become due and payable on December 31, 2019. If approved, the waiver would allow the Corporation to pay all outstanding interest owing to debenture holders by the issuance of shares on or before March 31, 2020.

As a result of the foregoing, there exist material uncertainties that cast significant doubt on the Corporation's ability to continue as a going concern.

Additional financing is required in order for the Corporation to meet its current obligations. 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 Corporation's obligations as they become due. There is no assurance the Corporation will be able to obtain adequate financing in the future or that such financing will be on terms acceptable to the Corporation.

SUMMARY OF QUARTERLY RESULTS (UNAUDITED)

SEE NOTES 1 AND 2

USD	Q1-2018 (restated)	Q4-2017 (restated)	Q3-2017 (restated)	Q2-2017 (restated)
Revenue – Continuing operations	$1,930	$2,101	$1,778	$2,140
Income (loss) for the period – Continuing operations	648	70	(848)	(1,218)
Income (loss) for the period – Discontinued operations	1,179	(209)	(4)	(87)
Net earnings (loss) for the period	1,827	(139)	(852)	(1,305)
Comprehensive income (loss) per share (basic and diluted)	0.02	($0.00)	($0.01)	($0.01)

USD	Q1-2017 (restated)	Q4-2016	Q3-2016	Q2-2016
Revenue – Continuing operations	$2,163	$2,796	$3,969	$2,640
Loss for the period – Continuing operations	(908)	(1,047)	(94)	(371)
Loss for the period – Discontinued operations	(2,555)	(603)	(70)	(172)
Net loss for the period	(3,463)	(1,650)	(164)	(543)
Comprehensive loss per share (basic and diluted)	($0.04)	($0.02)	($0.00)	($0.01)

Note 1

INCOME (LOSS) FROM DISCONTINUED OPERATIONS - MEXICO SUBSIDIARY

The Corporation had conducted its operations in Mexico primarily through its wholly owned subsidiary, COTS Mexico. During the year ended December 31, 2016 the Corporation commenced winding down the operations of COTS Mexico and in fiscal 2017 a liquidator was engaged to commence the process of the liquidation of the entity. During the three months ended March 31, 2018 COTS Mexico was liquidated and it was determined that any liabilities associated with COTS Mexico, including income and withholding taxes owed, were eliminated upon liquidation.

During the first quarter of 2018, the Corporation recorded $1,494 in respect of an estimated withholding tax payable arising on the dissolution of COTS Mexico on February 1, 2018. It was subsequently determined that any tax liabilities of COTS Mexico were eliminated upon liquidation. Accordingly the Corporation reversed a tax provision of $315 and recorded an income tax recovery of $1,179 previously accrued as shown in the table below.

Note 2

RESTATEMENT

The Corporation is restating its consolidated statement of financial position as at March 31, 2018, December 31, 2017 and January 1, 2017 and its consolidated statement of net income (loss) and comprehensive income (loss), statement of equity and statement of cash flows for the three month periods ended March 31, 2018 and 2017.

In the course of preparing the Corporation's consolidated financial statements for the year ended December 31, 2018, errors were identified with respect to the foreign currency translation of certain balances and inter-company amounts associated with the Corporation's wholly owned foreign subsidiaries. The Corporation analyzed all prior periods commencing with the fiscal 2011 period. For periods prior to 2011, sufficient information was no longer available. The following tables present the impact of the restatement adjustments on the Corporation's previously reported consolidated financial statements for the three month periods ended March 31, 2018 and 2017, as well as the impact of the consolidated statement of financial position as at January 1, 2017, December 31, 2017 and March 31, 2018.

Restated December 31, 2017	As previously reported	Opening 2016 Adjustment	2017 Adjustment	As restated
STATEMENT OF FINANCIAL POSITION				
Accumulated other comprehensive income	$711	($5,022)	$3,630	($681)
Deficit	(29,680)	5,022	(3,630)	(28,288)

Restated March 31, 2017	As previously reported	Adjustments	As restated
STATEMENT OF INCOME AND COMPREHENSIVE INCOME			
Net finance expense	($189)	($326)	($515)
Loss from continuing operations before income taxes	(582)	(326)	(908)
Loss from continuing operations	(582)	(326)	(908)
Loss from discontinued operations, net of tax	(80)	(2,475)	(2,555)
Net income (loss)	(662)	(2,801)	(3,463)
Other comprehensive income (loss)	70	326	(396)
Continuing operations - basic and dilutive loss per share	(0.01)	(0.00)	(0.01)
Loss from discontinued operations –basic and dilutive loss per share	(0.00)	(0.02)	(0.02)
Net income (loss) – basic and dilutive	(0.01)	(0.02)	(0.03)
STATEMENT OF CASH FLOWS			
Net loss from continuing operations	($582)	($326)	($908)
Foreign exchange	(25)	326	(301)

Restated March 31, 2018	As previously reported	2018 Adjustments	As restated
STATEMENT OF FINANCIAL POSITION			
Liabilities associated with discontinued operations	$1,494	($1,494)	$-
Accumulated other comprehensive income	666	(1,967)	(1,301)
Deficit	(29,923)	3,462	(26,461)
STATEMENT OF INCOME AND COMPREHENSIVE INCOME			
Finance income (expense)	57	575	632
Income (loss) from continuing operations before income taxes	20	575	595
Income (loss) from continuing operations	73	575	648
Income (loss) from discontinued operations, net of tax (Note 1)	(315)	1,494	1,179
Net income (loss)	(242)	2,069	1,827
Other comprehensive income (loss)	(45)	(575)	(620)
Continuing operations - basic and dilutive loss per share	(0.00)	0.00	0.01
Discontinued operations - basic and dilutive income (loss) per share	(0.00)	0.01	0.01
Net income (loss) – basic and dilutive	(0.00)	0.02	0.02
STATEMENT OF CASH FLOWS			
Net income (loss) from continuing operations	$73	$575	$648
Foreign exchange (gain) loss	(199)	(575)	(774)

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.

QUARTERLY CONDENSED CONSOLIDATED FINANCIAL RESULTS

Selected Financial Information

	Restated (See Note 1)	Restated (See Note 2)
For the three months ended March 31,	**2018**	**2017**
Revenue – from continuing operations	$1,930	$2,163
Income (loss) from continuing operations	648	(908)
Income (loss) from discontinued operations	1,179	(2,555)
Net income (loss) for the period	1,827	(3,463)
Total assets	3,035	2,990
Total liabilities	7,437	8,423
Shareholders' deficiency	(4,402)	(5,433)
Income (loss) per share basic and diluted - from continuing operations	0.01	(0.01)
Income (loss) per share basic and diluted – from discontinued operations	0.01	(0.03)
Net loss per share – basic and diluted	0.02	(0.04)

QUARTER OVERVIEW

CONTINUING OPERATIONS

- The Corporation recorded adjusted EBITDA of $742 for Q1 2018
- Results from operating activities improved 82% for the three months ended March 31, 2018 compared to the previous period of Q1 2017
- General and administrative expenses decreased 22% for the three months ended March 31, 2018 as compared to Q1 2017 as management continues its mandate to control costs and streamline processes

RESULTS FROM OPERATING ACTIVITIES

THREE MONTHS ENDED MARCH 31,

	2018	**2017**	% Change
Revenue	$1,930	$2,163	(11%)
Cost of sales	1,260	1,441	(13%)
Gross profit	670	722	(7%)
General and administrative expense	674	869	(22%)
Stock based compensation	29	41	(29%)
	(703)	(910)	(23%)
Results from operating activities	($33)	($188)	(82%)
Adjusted EBITDA	$742	($735)	(3%)

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 the gross profit percentage.

REVENUE, COST OF SALES AND GROSS PROFIT

ALS

	Three Months Ended March 31,	
	2018	**2017**
Sales	$1,930	$ 2,163
Cost of sales	1,260	1,441
Gross profit	$ 670	$ 722
Gross profit %	35%	33%

For the three months ended March 31, 2018,

- Activity during the first quarter was hampered by repeated winter storms that restricted access to many well sites. The number of pumps installed was approximately 20% less than expected.
- The decrease in pricing was expected and built into the pricing model of the multi-year contract signed in the Q4 2017.

General and administrative expenses

	2018	**2017**	% Change
For the three months ended March 31,	$674	$869	(22%)

General and administrative ("G&A") expenses were in line with activity levels. Reductions were implemented where available and in areas that would not hinder the Corporation's ability to operate safely and respond quickly to an upswing in demand. The Corporation expects G&A to continue to drop as a percentage of sales as the business grows. The significant decreases were as follows:

a) Vehicle costs decreased $60 due to newness of fleet and associated repairs and maintenance.

b) Training costs decreased $20 as the average experience level with field personnel increased.

c) Professional fees decreased $50 due to a continued effort by management to use internal resources.

Product development

	2018	**2017**	% Change
For the three months ended March 31,	$4	$205	(98%)

The Corporation incurred minimal product development costs related to the Linear Pump for the three months ended March 31, 2018. Although costs related to testing are expected to reduce over time as the Linear Pump approaches commercial viability we foresee additional costs exceeding the amount for Q1 2018 for the remaining three quarters of 2018.

Stock based compensation

	2018	**2017**	% Change
For the three months ended March 31,	$29	$41	(29%)

The reduction of the Stock based compensation expense by 29% is substantially due to the reduction in head count in the current period of Q1 2018 compared to Q1 2017, and that additional stock options were issued after Q1 2018.

Net Finance Income (Expense)

	2018	2017
Foreign exchange income (loss)	$760	($368)
Interest expense – directors and officers advances and bank charges	(6)	-
Interest expense –debentures	(110)	(106)
Accretion expense	(12)	(41)
Net finance income (expense)	$632	($515)

In fiscal 2015, 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.

During the three month period ended March 31, 2018 the Corporation recorded a gain on foreign exchange of $760 compared to a loss of $368 in Q1 2017 primarily due to the aforementioned.

The debenture interest of CAD $142 for Q1 2018 (CAD $142 - Q1 2017) was paid in common shares of the Corporation; Q1 2018 – 1,720,639 common shares and Q1 2018 – 891,708 common shares.

Income Tax Recovery

The Corporation recovered $53 (2017 - $Nil) of deferred income taxes with respect to the issue of warrants for the three month period ended March 31, 2018. The recovery was related to the deferred taxes for the issue of the 5,750,000 warrants for the debenture extension to December 31, 2021. The Corporation has non-capital losses for income tax purposes which expire from 2025 and 2036 and have not been recognized in the financial statements.

Discontinued Operations

As COTS Mexico had ceased all operations and was effectively abandoned upon the engagement of the liquidator in fiscal 2017, the Corporation transferred the associated accumulated other comprehensive loss associated with COTS Mexico totaling $2,475 from accumulated other comprehensive loss to foreign exchange loss within the loss from discontinued operations during the year ended December 31, 2017. Please refer to Note 1 – Income (Loss) from Discontinued Operations.

The operating results of COTS Mexico are presented below as discontinued operations.

	2018	2017
Selling, general and administrative expenses	$-	$46
Stock based compensation	-	5
Foreign exchange		2,475
	-	(2,526)
Loss from discontinued operations before income taxes	-	(2,526)
Income tax expense		
Current income taxes (recovery)	(1,179)	29
	1,179	(29)
Income (loss) from discontinued operations, net of tax	$1,179	($2,555)

Cash flows from discontinued operations	**2018**	**2017**
Cash from operating activities	$-	$210
Cash flows from discontinued operations	$-	$210

OUTLOOK

CORPORATE

The Corporation's top priority is to address all of the issues with the ASC to allow for the removal of the cease trade order issued by the ASC on May 6, 2019. Removal of the CTO can only take place following the filing with the TSX Venture Exchange of the 2018 consolidated financial statements and management discussion & analysis. The Corporation will engage fully with the ASC following this filing and address any concerns that would impact the timely removal of the CTO. Management does not anticipate the CTO to be lifted prior to the end of 2019 and will keep shareholders updated on the progress.

The Corporation is currently seeking a waiver form its debenture holders covering all outstanding interest currently due and payable, including interest which will become due and payable on December 31, 2019.

Immediately following the removal of the CTO, the Company plans to pay the outstanding unpaid liability for interest expense on its debentures by way of issuing common stock of the Corporation (as permitted by the Indenture).

OPERATIONS

Activity levels across the USA continue to be high, with demand for artificial lift services generally outstripping supply. The recent slowdown in drilling activity has not resulted in a reduction in demand for ESP products because the sector predominantly works on existing wells. The Company is focused on expanding its customer base across Wyoming and Colorado, both of which have favorable market conditions. We are encouraged by our early opportunities and we are currently evaluating ways to grow the Company, meet demand, and increase market share.
Coal Bed Methane ("CBM") – in late 2017 the Company announced it entered into a three-year contract with the single largest CBM producer in the Powder River Basin. The producer is focused on maintaining gas production in a mature asset base. Although the Company does not expect a volume increase in this business, we have recently concluded negotiations for a 13% price increase, and we do expect the business level to remain stable.

PRODUCT DEVELOPMENT

Prior to the end of 2018, all Linear Pump assets were shipped to the United States. On June 6, 2019, one system was installed in a test well facility in the southern US. The pump was successfully started and operated as expected. There were some changes to the computer code that were unexpected and are required in order to monitor and operate the pump 24 hours per day in an indoor environment. These changes are expected to take some time and incur costs, and while the Linear Pump remains a strong part of our vision for the future, the current focus is to direct our resources to the existing opportunities on the conventional side of our business.

STRATEGY TO MOVE FORWARD

The Corporation recognizes that the change in scope in testing the Linear Pump may be prolonged and therefor steps must be taken to deliver value within the products and services that are within our control.
Key Strategies:

- Position the Corporation to take advantage of the near-term upswing in PRB activity.
- Explore synergies with other companies to leverage products and services together to increase sales.
- Seek opportunities to expand into other basins of high activity.

The Corporation's vision is to be a premier supplier of submersible pumping products that increase production while reducing costs and carbon footprint. Divergent's Technical Advisory Committee continues to evaluate emerging artificial lift technologies that will differentiate Divergent within a competitive and growing market.

Cash and Liquidity

The Corporation had cash balances of $326 and $549 as at March 31, 2018 and December 31, 2017 respectively.

Cash used in operating activities was $205 in Q1 2018. The changes in non-cash working capital items includes a decrease in trade receivables and advances of $41, an increase in inventories of $56, an increase in prepaid expenses of $18, a decrease in accounts payable of $205.

Please refer to Going Concern.

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 March 31, 2018, the Corporation had the following commitments outstanding in relation to its debenture debt:

(In 000's)	**Total**
Total due in 2021	$4,280

Lease Commitments

As at March 31, 2018, the Corporation had the following commitments outstanding in relation to its operating lease commitments:

Year (In 000's)	**Total**
2018	$267
2019	314
2020	287
2021	165
Total	$1,033

SUMMARY OF SHARE CAPITAL

As at March 31, 2018, the Corporation had 110,622,807 common shares issued and outstanding with stated share capital value of $17,526. 6,026,000 warrants and 6,785,000 stock options, of which 4,454,999 are exercisable, were outstanding at March 31, 2018.

RELATED PARTIES

The following transactions were in the normal course of operations and entered into with the same terms as non-related parties and are recorded at their agreed to exchange amounts which reflect fair values:

a) The 10% debenture of CAD $5,750 includes CAD $1,423 from directors and officers of the Corporation. Interest paid to directors and officers for Q1 2018 amounts to CAD $35 (2017 – CAD $3).

b) Officers and directors advanced the Corporation CAD $195, of which CAD $70 was converted into common shares of a private placement and repaid CAD $5. The remaining advances of CAD $120 is included in accounts payables and accrued liabilities. The advances are due on demand, mature on December 31, 2019 and bear interest at 10%. Interest of CAD $4 is included in accounts payable and accrued liabilities.

SUBSEQUENT EVENTS

Non-compliance with debenture covenants

As the restated financial statements for the first quarter of 2018 are being filed on December 20, 2019, this section includes additional information regarding the subsequent events.

The Corporation became non-compliant with covenants of the indenture agreements effective November 16, 2019. This event is described in the going concern and cash and liquidity sections above.

OFF BALANCE SHEET ARRANGEMENTS

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

Income (loss) from continuing operations and Adjusted EBITDA Reconciliation

USD	Restated Q1-2018	Restated Q1 -2017
Income (loss) continuing operations	$648	($908)
Taxes	(53)	-
Interest	110	106
Amortization and depreciation	25	26
Accretion of debenture	12	41
Adjusted EBITDA	$742	($735)

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.

Trade receivables

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.

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 the CDN dollar. 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'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 three month period ended March 31, 2018. 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, 2017.

Leases –To be adopted in 2019
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 from Contracts with Customers (IFRS 15) – Adopted January 1, 2018
In May 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 and is effective for annual periods beginning on or after January 1, 2018. The Corporation recognizes revenue when it transfers control of the product or services to a customer which is on delivery and installation of the product at the customer site. Pricing is based on agreed contracted rates, and collectability is reasonably assured. The Corporation's revenue transactions do not contain financing components and payments are typically due within 30 days of revenue recognition. 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.

Financial Instruments (IFRS 9) – Adopted January 1, 2018
The Corporation adopted IFRS 9, which replaced IAS 39 – Financial Instruments: Recognition and Measurement, in its financial statements beginning January 1, 2018. IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities, however it eliminates the previous IAS 39 categories for financial assets held to maturity, loans and receivables and assets available for sale. Under IFRS 9 there are three principle classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income ("FVOCI") and fair value through profit and loss ("FVRPL"). The classification of financial assets under IFRS 9 is based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification. IFRS replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under

IFRS 9, credit losses are recognized earlier than under IAS 39. The adoption of IFRS 9 did not have a material impact on the Corporation's financial statements.

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. Some of these assumptions include: the ability of the Corporation to obtain extension waivers from its Debenture Holders, the lifting of the CTO, and the resumption of the trading of its common shares on the TSX-V in a timely manner. 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

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

(1) Member of the Audit Committee
(2) Member of the Governance and Nominating Committee
(3) Member of the Compensation Committee
(4) Member of the Health, Safety and Environment Committee

CORPORATE OFFICE

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TSX Venture
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TRANSFER AGENT AND REGISTRAR
Computershare
Calgary, Alberta