Divestco

Management's Discussion & Analysis

For the Three Months and Year Ended
December 31, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

This management discussion and analysis ("MD&A") is dated April 26, 2017, and should be read in conjunction with the audited consolidated financial statements and notes of Divestco Inc. ("Divestco" or the "Company") as at and for the years ended December 31, 2016 and December 13, 2015. All financial information in this MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB'') and is reported in Canadian dollars unless otherwise specified.

DIVESTCO'S BUSINESS

Divestco is an exploration services company that provides a comprehensive and integrated portfolio of data, software, and services to the oil and gas industry. Through continued commitment to align and bundle products and services to generate value for customers, Divestco has created an unparalleled set of integrated solutions and unique benefits for the marketplace. Divestco's breadth of data, software and services offers customers the ability to access and analyze the information required to make business decisions and to optimize their success in the upstream oil and gas industry. Divestco is headquartered in Calgary, Alberta, Canada and trades on the TSX Venture Exchange under the symbol "DVT".

Divestco operates under four business segments: Software and Data, Services, Seismic Data and Corporate and Other.

- Software and Data: Offers the market a complete geophysical and geological software suite designed with a thorough understanding of the workflows and requirements of oil and gas professionals; as well as a full suite of exploration datasets and a library of comprehensive well log data. Software and data together provide complete solutions and have become an indispensable resource for geologists, geophysicists and engineers.

- Services: Offers geomatics services including data integrity validation, mapping, database hosting, and advisory support and consultation as well as seismic processing services, including data quality assurance, processing and data management services for geophysical and geological information.

- Seismic Data: Focused on providing the oil and natural gas industry with quick, reliable access to cost-effective, high-resolution seismic data. This includes brokering and licensing existing seismic data between data owners and licensees, managing existing seismic data for the purpose of brokering sales, and creating new seismic data inventories through recording multi-client services. The seismic brokerage division is the largest of its kind in Canada.

- Corporate and Other: Responsible for setting Divestco's overall strategic objectives and providing finance and accounting, sales and marketing, human resources (HR) and information technology (IT) services to the Company's operating segments.

GOING CONCERN

The consolidated financial statements have been prepared on a going concern basis. The going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. As at December 31, 2016, the Company had a working capital deficiency of $3.9 million (December 31, 2015: $2.1 million deficiency), excluding deferred revenue of $1.7 million (December 31, 2015: $1.3 million). In addition, the Company has contractual obligations, including $2.6 million of operating lease payments which are due within the next 12 months (see "Off Balance Sheet Arrangements" section to this MD&A). Subsequent to the end of 2016, the Company obtained a $6 million term loan with a $5 million initial draw which was used to repay the $3.2 million bridge loan (see "Capital Resources" section to this MD&A) and for working capital purposes. The new loan matures on September 15, 2020.

The Company's ability to continue as a going concern is dependent upon the Company's ability to obtain additional sources of capital, complete asset dispositions, or finding other strategic alternatives to settle its liabilities, fund its operations, and meet its commitments until it is in a position to generate sufficient net future cash flows and profitability. The Company believes that it will be able to meet its cash flow requirements over at least the next 12 months using actions and events described above; however, the outcome of these along with the Company's ability to discharge its liabilities, fund its operations and meet its commitments, cannot be predicted at this time. As a result of the uncertainty of completing the above transactions, there is material uncertainty that may cast significant doubt as to the ability of the Company to continue as a going concern. These consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern and, therefore, be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying consolidated financial statements.

FORWARD-LOOKING INFORMATION

Divestco's MD&A and consolidated financial statements contain forward-looking information related to the Company's capital expenditures, projected growth, view and outlook towards future oil and gas prices and market conditions, and demand for its products and services. Statements that contain words such as "could", "should", "can", "anticipate", "expect", "believe", "will", "may" and similar expressions and statements relating to matters that are not historical facts, constitute "forward-looking information" within the meaning applicable in Canadian securities legislation. Although management of the Company believes that the expectations reflected in such forward-looking information are reasonable, there can be no assurance that such expectations will prove to have been correct because, should one or more of the risks materialize, or should the assumptions underlying forward-looking statements or forward-looking information prove incorrect, actual results may vary materially from those described in this MD&A as intended, planned, anticipated, believed, estimated or expected. Readers should not place undue reliance on forward-looking statements or forward-looking information. All of the forward-looking statements and forward-looking information of the Company contained in this MD&A are expressly qualified, in their entirety, by this cautionary statement.

This MD&A contains forward-looking statements pertaining to the following:

- The Company's ability to keep debt and liquidity at acceptable levels, improve/maintain its working capital position and achieve profitability
- Availability of external and internal funding for future operations
- Relative future competitive position of the Company
- Nature and timing of growth
- Oil and natural gas production levels
- Planned capital expenditure programs
- Supply and demand for oil and natural gas
- Future demand for products/services
- Commodity prices
- Impact of Canadian federal and provincial governmental regulation on the Company
- Expected levels of operating costs, finance costs and other costs and expenses
- Future ability to execute acquisitions and dispositions of assets or businesses
- Expectations regarding the Company's ability to raise capital and to add seismic data through new seismic shoots and acquisition of existing seismic data
- Treatment under tax laws
- New accounting pronouncements

These forward-looking statements are based upon assumptions including:

- Future prices for crude oil and natural gas
- Future interest rates and future availability of debt and equity financing will be at levels and costs that allow the Company to manage, operate and finance its business and develop its software products and various oil and gas datasets, including its seismic data library, and meet its future obligations
- Regulatory framework in respect of royalties, taxes and environmental matters applicable to the Company and its customers will not become so onerous on both the Company and its customers as to preclude the Company and its customers from viably managing, operating and financing its business and the development of its software and data
- Ability of the Company to continue to be able to identify, attract, and employ qualified staff and to obtain the outside expertise, as well as specialized and other equipment it requires to manage, operate, and finance its business and develop its properties

These forward-looking statements are subject to numerous risks and uncertainties, certain of which are beyond the Company's control, including:

- General economic, market and business conditions
- Volatility in market prices for crude oil and natural gas
- Ability of Divestco's clients to explore for, develop and produce oil and gas
- Availability of financing and capital
- Fluctuations in interest rates
- Demand for the Company's product and services
- Weather and climate conditions which cause seasonal cyclicality in our business
- Competitive actions by other companies
- Availability of skilled labour
- Ability to obtain regulatory approvals in a timely manner
- Adverse conditions in the debt and equity markets
- Government actions, including changes in environment and other regulations

NON-GAAP MEASURES

The Company's consolidated financial statements have been prepared in accordance with IFRS. Certain measures in this document do not have any standardized meaning as prescribed by IFRS and are considered non-GAAP measures. While these measures may not be comparable to similar measures presented by other issuers, they are described and presented in this MD&A to provide shareholders and other stakeholders with additional information regarding the Company's results, liquidity, and its ability to generate funds to finance its operations.

These measures include:

Earnings before interest, taxes, depreciation and amortization ("EBITDA")

Divestco uses EBITDA as a key measure to evaluate the performance of its segments and divisions, as well as the Company overall, with the closest IFRS measure being net income or net loss. EBITDA is a measure commonly reported and widely used by investors as an indicator of the Company's operating performance and ability to incur and service debt, and as a valuation metric. The Company believes EBITDA assists investors in comparing the Company's performance on a consistent before tax basis, without regard to finance costs and non-cash depreciation and amortization, which can vary significantly depending upon accounting methods or non-operating factors such as historical cost.

The following is a reconciliation of EBITDA with net income (loss):

	Three months ended Dec 31		Year ended December 31	
(Thousands)	**2016**	2015	**2016**	2015
Net Income (Loss)	**$ 3,297**	$ (3,366)	**$ (1,937)**	$ (5,729)
Impairment of Intangible Asssets	**-**	1,222	**-**	1,222
Finance Costs	**236**	334	**1,305**	1,181
Depreciation and Amortization	**1,627**	1,438	**6,377**	11,403
EBITDA	**$ 5,160**	$ (372)	**$ 5,745**	$ 8,077

Funded debt and funded debt to equity

Funded debt is a measure of Divestco's long-term debt position and includes long-term debt obligations (bridge loan, shareholder loans, debentures and finance leases). Funded debt to equity is funded debt divided by shareholders' equity (as reported on the Company's consolidated statement of financial position). The ratio indicates what proportion of equity and debt the Company is using to finance its assets and is used by the Company to determine an appropriate capital structure.

The calculation is as follows:

	Balance at December 31	
	2016	**2015**
Components of funded debt to equity ratio:		
Current portion of long-term debt obligations	**$ 3,550**	$ 1,042
Long-term debt obligations	**6,163**	8,633
Total funded debt	**9,713**	9,675
Shareholders' equity	**$ 13,077**	$ 14,729
Funded debt to equity ratio	**0.74**	0.66

Adjusted Working capital

Adjusted working capital is calculated as current assets minus current liabilities (excluding deferred revenue). Adjusted working capital provides a measure that can be used to gauge Divestco's ability to meet its current obligations.

OVERALL PERFORMANCE AND OPERATIONAL RESULTS

Summary Financial Results (Thousands, Except Per Share Amounts)	Three months ended December 31				Year ended December 31			
	2016	2015	*$ Change*	*% Change*	**2016**	2015	*$ Change*	*% Change*
Revenue	**$ 7,679**	$ 2,863	*$ 4,816*	*168%*	**$ 15,966**	$ 18,314	*$ (2,348)*	*-13%*
Operating Expenses [1]	**2,501**	3,256	*(755)*	*-23%*	**10,141**	15,754	*(5,613)*	*-36%*
Other Loss (Income)	**18**	(21)	*39*	*N/A*	**80**	(5,517)	*5,597*	*N/A*
EBITDA [2]	**5,160**	(372)	*5,532*	*N/A*	**5,745**	8,077	*(2,332)*	*-29%*
Finance Costs	**236**	334	*(98)*	*-29%*	**1,305**	1,181	*124*	*10%*
Depreciation and Amortization	**1,627**	1,438	*189*	*13%*	**6,377**	11,403	*(5,026)*	*-44%*
Impairment of Intangibles	**-**	1,222	*(1,222)*	*-100%*	**-**	1,222	*(1,222)*	*-100%*
Net Income (Loss)	**$ 3,297**	$ (3,366)	*$ 6,663*	*N/A*	**$ (1,937)**	$ (5,729)	*$ 3,792*	*N/A*
Per Share - Basic and Diluted	**0.05**	(0.05)	*0.10*	*N/A*	**(0.03)**	(0.09)	*0.06*	*N/A*
Funds from (used in) Operations	**$ 4,136**	$ (382)	*$ 4,518*	*N/A*	**$ 4,703**	$ 2,648	*$ 2,055*	*78%*
Per Share - Basic and Diluted	**0.06**	(0.01)	*0.07*	*N/A*	**0.07**	0.04	*0.03*	*75%*
Class A Shares Outstanding	**66,884**	67,208	*N/A*	*N/A*	**66,884**	67,208	*N/A*	*N/A*
Weighted Average Shares Outstanding Basic and Diluted	**67,150**	67,126	*N/A*	*N/A*	**67,217**	67,117	*N/A*	*N/A*

[1] *Includes salaries and benefits, G&A and shared-based payments but excludes depreciation and amortization and other loss (income)*
[2] *See the "Non GAAP Measures" section*

Q4 2016 vs. Q4 2015

Divestco generated revenue of $7.7 million in Q4 2016 compared to $2.9 million in Q4 2015, an increase of $4.8 million (168%) which was mainly due to the Company's Seismic Data segment with the commencement of a new seismic survey and strong data library sales. This was partially offset by lower Services and Software & Data revenue as result of reduced capital spending by clients caused by low commodity prices. Revenue in the Seismic Data segment ($6.3 million) increased by $5.7 million (891%). Revenue in the Software & Data segment ($0.8 million) decreased by $0.3 million (25%) and revenue in the Services segment ($0.6 million) decreased by $0.5 million (47%).

Operating expenses decreased by $0.8 million (23%) to $2.5 million in Q4 2016 from $3.3 million in Q4 2015. Salaries declined by $0.7 million (38%) due to reduced staffing levels and the austerity measures put in place in response to the economic conditions in 2015 and 2016. G&A expenses declined by $27,000 (2%) due to a decrease in discretionary expenses, stock-based compensation, as well as software licences and contractor fees offset by an increase in bad debts.

Finance costs decreased by $98,000 (29%) to $236,000 in Q4 2016 from $334,000 in Q4 2015.

Depreciation and amortization was $1.6 million in Q4 2016 compared to $1.4 million in Q4 2015, an increase of $0.2 million (13%).

There was no impairment charge in Q4 2016 compared to $1.2 million in Q4 2015.

Year Ended December 31, 2016 vs. Year Ended December 31, 2015

Divestco generated revenue of $16 million during 2016 compared to $18.3 million in 2015, a decrease of $2.3 million (13%). Lower Services and Software & Data revenue was partially offset by higher Seismic Data revenue. Revenue in the Seismic Data segment ($9.3 million) increased by $3.1 million (51%) due to higher data library sales partially offset by slight lower seismic participation revenue; there were three surveys completed in Q1 2015 and a new survey commenced in Q4 2016. Revenue in the Services segment ($2.6 million) decreased by $4.2 million (62%) mainly due to a reduction in activity levels caused by low commodity. Revenue in the Software & Data segment ($4.1 million) decreased by $1.3 million (24%) mainly due to the sale of the land software assets in Q1 2015 and reduced industry activity. Seismic brokerage revenue decreased due to lower activity levels.

Operating expenses decreased by $5.7 million (36%) to $10.1 million in 2016 from $15.8 million in 2015. Salaries declined by $3.8 million (41%) due to reduced staffing levels and the austerity measures put in place in response to current economic conditions. G&A expenses declined by $1.9 million (27%) due to a decrease in discretionary expenses as well as software licences and contractor fees.

Finance costs increased by $0.1 million (10%) to $1.3 million in 2016 from $1.2 million in 2015 mainly related to repayment of a $4.5 million bridge loan in March 2015. The Company then a secured a new bridge loan in September 2015. Thus, debt levels were higher during 2016 compared to 2015.

Depreciation and amortization decreased by $5 million (44%) to $6.4 million from $11.4 million in 2015 mainly due to the addition of new seismic data in 2015. No new surveys in were completed in 2016; however, a survey commenced in Q4 2016 and was completed in Q1 2017.

There was no impairment charge in 2016 compared to $1.2 million impairment charge in 2015.

Business Seasonality

Although the Company's Software & Data segment has relatively constant recurring revenue throughout the year from its license and subscription sales, some of the Company's other segments experience revenue fluctuations due to seasonal influences in oil and gas industry activities.

Seismic data acquisitions are usually completed in the winter season when the ground is frozen allowing access by heavy equipment with minimal surface disruption. This affects the timing of revenue recognition in the Seismic Data segment. Additionally, the Services segment normally exhibits a noticeable reduction in sales in the spring and summer months and an increase in sales during the fall and winter months when under normal circumstances, significant drilling and exploration activities are underway in North America. To the extent possible, Divestco minimizes these fluctuations by performing specific types of contract work appropriate for lower-activity months.

Financial Position

As at December 31, 2016, Divestco had a working capital deficiency of $3.9 million (December 31, 2015: $2.1 million deficiency), excluding deferred revenue of $1.7 million (December 31, 2015: $1.3 million). The increase in the working capital deficit from the end of 2015 was due to the reclassification of the Company's bridge loan to current at December 31, 2016. The bridge loan was repaid in March 2017 with the proceeds of a new term loan with the balance being used for working capital purposes.

	Balance at December 31		
Financial Position (Thousands)	**2016**	**2015**	**2014**
Total Assets	**$ 35,524**	$ 31,462	$ 50,868
Adjusted Working Capital (Deficit) (1)	**(3,872)**	(2,062)	(10,723)
Long-Term Financial Liabilities (2)	**10,548**	10,600	12,941

(1) *See the "Non GAAP Measures" section.*
(2) *Includes the current and long-term portions of debt obligations, sublease loss provision, deferred rent obligations, tenant inducements and grant liability.*

SELECTED ANNUAL INFORMATION

	2016	2015	2014
Revenue	**$ 15,966**	$ 18,314	$ 36,120
EBITDA (1)	**5,745**	8,077	13,273
Net Income (Loss)	**(1,937)**	(5,729)	2,507
Net Income (Loss) Per Share - Basic and Diluted	**(0.03)**	(0.09)	0.04
Funds from Operations (1)	**4,703**	2,648	13,181
Funds from Operations Per Share - Basic and Diluted (1)	**0.07**	0.04	0.20
Total Assets	**35,524**	31,462	50,868
Adjusted Working Capital Deficit (1)	**(3,872)**	(2,062)	(10,723)
Long-Term Financial Liabilities (2)	**10,548**	10,600	12,941
Shareholders' Equity	**13,077**	14,729	20,438
Class A Shares Outstanding	**66,884**	67,208	67,096
Weighted Average Shares Outstanding - Basic and Diluted	**67,217**	67,117	67,081

1) *See the "Non GAAP Measures" section.*
2) *Includes long-term debt obligations (both current and long-term portions), sublease loss provision (both current and long-term portions), deferred rent obligations and grant liability (both current and long-term portions). Excludes tenant inducements of $0.6 million (December 31, 2015: $0.7 million; December 31, 2014: $0.8 million).*

Due to the dramatic fall in oil prices since the latter part of 2014 and persistently low natural gas prices, Divestco generated significantly less revenue in 2016 and 2015 compared to 2014. The largest impact of this industry down-turn was on the Company's domestic seismic-related services including geomatics, processing, seismic acquisition and seismic brokerage and to a lesser extent on software revenues. International revenue partially offset the fall in domestic revenue.

There was significant seismic data revenue in 2014 and while the Company completed three seismic surveys in Q1 2015, no other seismic was acquired in 2015. Seismic data revenues improved in 2016 compared to 2015 due to strong data library sales. To the contrary, the Company's software and data segment fared better over 2014, 2015 and 2016 excluding the effect of the sale of Divestco's land software assets. Services segment revenues were significantly lower in 2015 and 2016 compared to 2014.

As a result of falling activity levels, Divestco implemented several salary austerity measures commencing in Q1 2015 and continuing throughout 2016 leading to significantly reduced operating expenses compared to 2014 which improved funds from operations from 2015 to 2016.

Furthermore, the net loss for 2015 includes an accounting gain of $5.4 million from the disposal of Divestco's land software assets and an impairment charge of $1.2 million. However, amortization was significantly higher in 2015 than 2016.

SELECTED QUARTERLY INFORMATION

	2016				2015			
(Thousands, Except Per Share Amounts)	**Q4**	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Revenue	**$ 7,679**	**$ 2,015**	**$ 3,135**	**$ 3,137**	$ 2,863	$ 3,110	$ 2,936	$ 9,405
EBITDA [(1)]	**5,160**	**(424)**	**616**	**393**	(372)	(76)	(1,153)	9,678
Income (loss) before Income Taxes	**3,297**	**(2,426)**	**(1,414)**	**(1,394)**	(3,366)	(1,837)	(2,760)	2,234
Net Income (Loss)	**3,297**	**(2,426)**	**(1,414)**	**(1,394)**	(3,366)	(1,837)	(2,760)	2,234
Per Share - Basic and Diluted	**0.05**	**(0.04)**	**(0.02)**	**(0.02)**	(0.05)	(0.03)	(0.04)	0.03
Funds from (used in) Operations [(1)]	**4,136**	**(453)**	**623**	**397**	(382)	42	(1,124)	4,112
Per Share - Basic and Diluted	**0.06**	**(0.01)**	**0.01**	**0.01**	(0.01)	0.00	(0.02)	0.06

[(1)] *See the "Non GAAP Measures" section*

The variances in the quarterly results illustrated in the table above are primarily a result of changing industry factors affecting oil and gas producers' exploration activities, upon which our business model is based. In turn, the producers' primary activity drivers are crude oil and natural gas commodity pricing and general economic and industry labour conditions, which have fluctuated in these reporting periods.

Commodity prices remained significantly lower in 2016 and 2015 as compared to 2014 which directly contributed to weaker financial results from Q1 2015 to Q3 2016. This mainly affected demand in the Company's Services and Seismic Data segments. Within the Services segment, demand for domestic services (geomatics and processing) were the most impacted. Partially offsetting this were the completion of some large international projects. Within the Seismic data segment, demand for newly shot seismic data was most impacted. No new surveys were completed after Q1 2015 as compared to the commencement of four seismic surveys in Q4 2014; one survey was completed in Q4 2014 and three surveys were completed in Q1 2015 (revenue is recognized on a percentage of completion basis). Partially offsetting this were some significant data license sales in 2016 especially in Q4 2016 in addition to the commencement of a new seismic survey in the same quarter.

In addition, the Company implemented several salary austerity measures starting in Q1 2015 which continued throughout 2016. EBITDA in Q1 2015 also includes an accounting gain of $5.4 million recognized on the sale of the Company's land software assets. There was an impairment charge of $1.2 million in Q4 2015 leading to a higher net loss.

The variance in quarterly results is also influenced by seasonality. Typically, the first and fourth quarters are the busiest for the Company when drilling activities are at their peak in western Canada. Road bans severely restrict field activity in the second quarter and seismic field work can be limited in summer months for agricultural reasons.

OUTLOOK

There has been an improvement in West Texas Intermediate oil prices from a low of US$27/barrel in February 2016 to US$50/barrel currently and rig utilization has improved from 12.5% in July 2016 to 23% in March 2017. However, commodity prices and rig utilization remain significantly lower than 2014 levels which forced most North American oil and gas producers to keep their capital spending to historically low levels. Access to capital also remains challenging for the industry. Due to significantly lower activity levels, Divestco reduced its operating expenses by over 50% since 2014. Most of the austerity measures are expected to remain in place for the remainder of 2017 or until a change in activity levels is realized.

LIQUIDITY

Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments are recognized on the statement of financial position when the Company becomes a party to the instrument's contractual obligations. The Company's financial assets include cash and cash equivalents, trade and other receivables and its financial liabilities primarily comprise accounts payables and debt.

Fair Value

The fair values of cash and cash equivalents, accounts receivable and accounts payable approximate their carrying amount largely due to the short-term maturities of these instruments. The fair value of the term debt instruments approximates their carrying amount which has been measured at amortized cost using the effective interest rate method.

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company is exposed to credit risk in connection with the collection of its revenues and on the cash received. The Company controls its credit risk by assessing each customer's creditworthiness prior to transacting, subsequently monitoring and making efforts to collect its outstanding accounts receivable and investing cash balances in chartered Canadian banks.

Divestco's business is tied primarily to the oil and gas exploration and production industry. The demand and price for services and products offered by Divestco depends on the activity levels for oil and gas producers, which are determined by commodity prices, supply and demand for oil and natural gas, access to credit and capital markets, and to a lesser extent, government regulation (including regulation of environmental matters and material changes in taxation policies).

The Company has a wide customer base in the energy sector ranging from large multinational public entities to small private companies. As at December 31, 2016, 62% (December 31, 2015: 17%) of the Company's consolidated accounts receivables were due from two customers (December 31, 2015: one customer). These receivables have been collected subsequently. Currently there are no significant economic dependencies on any other particular customers. The carrying amount of account receivables and cash represents the maximum credit exposure.

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient funds to meet its liabilities when due, under both normal and stressed conditions.

The Company had a net loss of $1.9 million for 2016, and as at December 31, 2016 had a working capital deficiency of $3.9 million, excluding deferred revenue of $1.7 million. In addition, Divestco has future operating lease commitments of $2.6 million over the next 12 months (see the "Contractual Obligations" section of this MD&A). In March 2017, the Company secured a new term loan of $6 million and used the proceeds to repay a $3.2 million bridge loan and as a working capital injection. The loan matures on September 15, 2020. Under the terms of the new loan, the Company has $3.1 million in cash which is restricted by the lender until September 30, 2017. See "Bridge Loan" under the "Capital Resources" section to this MD&A for further discussion.

While management believes that the Company's funds from operations will provide the capital to continue to operate in the short-term, it is dependent upon future financial performance that is subject to financial, business, and other risk factors, including elements beyond the Company's control. As a response to the sharp decline in oil prices and persistently low natural gas prices since Q3 2014, the Company sold a portion of its assets, implemented several salary austerity measures and reduced discretionary spending commencing in Q1 2015. In addition, management is currently in discussions with several interested parties with the intention of focusing on the international market, raising capital, selling additional non-strategic assets and other strategic alternatives. All discussions are preliminary and there is no assurance that any transaction will proceed (see the "Going Concern" section of the MD&A).

Adjusted Working Capital

As at December 31, 2016, Divestco had a working capital deficiency of $3.9 million (December 31, 2015: $2.1 million deficiency), excluding deferred revenue of $1.7 million (December 31, 2015: $1.3 million). The increase in the working capital deficit from the end of 2015 was primarily due to the reclassification of the Company's bridge loan from long-term to current at December 31, 2016. The loan was repaid in March 2017 (see "Bridge Loan" under the "Capital Resources" section to this MD&A).

Funded Debt to Equity

Divestco had a funded debt to equity ratio of 0.74:1 as at December 31, 2016 (December 31, 2015: 0.66:1). While debt levels remained virtually unchanged, equity decreased due to the net loss in 2016. The Company's previous practice was to utilize an appropriate mix of debt and equity to finance its current capital expenditures and growth initiatives. The current strategy of the Board of Directors and management is to try to operate the Company with the lowest possible debt load in reaction to the volatility of the industry while maintaining a lower cost structure. This is to ensure adequate financial flexibility to meet the financial obligations, both current and long-term and as part of the Company's effort to maintain a healthy statement of financial position. The Company's strategy is to maintain a funded debt to equity ratio of less than 1:1. Management continues to search for additional sources of capital and revenue to reduce debt and increase earnings.

Contractual Obligations

Below is a summary of Divestco's contractual obligations as at December 31, 2016, including principal and interest:

(Thousands)	Carrying amount	Contractual cash flows	<1 year	1-2 years	2-5 years	Thereafter	Total
Accounts Payable and Accued Liabilties	9,552	9,552	9,552	-	-	-	**$ 9,552**
Debt Obligations (1)	9,609	13,075	4,241	1,397	6,536	901	**13,075**
Finance Lease Obligations	104	111	88	20	3	-	**111**
Other Liabilities (2)	222	255	-	102	153	-	**255**
Operating Leases (3)	N/A	26,439	2,648	2,749	9,370	11,672	**26,439**
Total	**$ 19,487**	**$ 49,432**	**$ 16,529**	**$ 4,268**	**$ 16,062**	**$ 12,573**	**$ 49,432**

(1) Includes bridge loan, shareholder loans and debentures but excludes finance lease obligations
(2) Includes grant liability
(3) See "Off Balance Sheet Arrangements" section

Selected Cash Flow Items

(Thousands)	Year ended December 31 2016	2015
Operating Activities		
Funds from Operations	**$ 4,703**	$ 2,648
Changes in Non-Cash Working Capital Balances	**253**	4,660
Changes in Long-Term Prepaid Expense	**272**	(272)
Interest Paid	**(1,142)**	(1,044)
Income Taxes Refunded	**136**	68
Cash From Operating Activities	**4,222**	6,060
Financing Activities		
Repayment of Long-Term Debt Obligations	**(113)**	(5,529)
Proceeds from Long-Term Debt Obligations	**-**	3,500
Government grant received	**202**	51
Proceeds from sale of shares	**283**	-
Deferred Finance Costs	**-**	(205)
Cash From (Used in) Financing Activities	**372**	(2,183)
Investing Activities		
Additions to Intangible Assets	**(70)**	(13,397)
Participation Surveys in Progress	**(2,751)**	9,011
Additions to Property, Plant and Equipment	**(18)**	(52)
Payments Towards Sublease Loss Provision	**(326)**	(355)
Advances from Equity-Accounted Investees	**(46)**	(64)
Proceeds on Sale of Property and Equipment	**-**	6,144
Deferred Development Costs	**(499)**	(833)
Changes in Non-Cash Working Capital Balances	**1,374**	(7,858)
Cash Used in Investing Activities	**(2,336)**	(7,404)
Change in Cash	**$ 2,258**	$ (3,527)

Operating Activities

During 2016, funds from operations were $4.7 million ($0.07/share – basic and diluted), compared with to $2.6 million ($0.04/share (basic and diluted)) for 2015, an increase of $2.1 million (78%). This was mainly due to lower operating costs.

Financing Activities

During 2016, Divestco repaid $113,000 in finance leases, received $202,000 in government grant instalments and received $283,000 from the sale of shares received from a sunset clause related to a 2010 plan of arrangement. During the same period in 2015, the Company repaid $5.5 million in debt with the proceeds from an asset sale and secured a $3.2 million bridge loan.

<u>Investing Activities</u>

During 2016, Divestco commenced a seismic survey which was completed in Q1 2017. The Company reduced a portion of its other liabilities and incurred $0.4 million in deferred development costs. During 2015, the Company sold its land software assets for net proceeds of $6.1 million, incurred $13.4 million in additions to intangible assets related to the completion of three seismic surveys and incurred $0.7 million in deferred development costs. The $9 million change in surveys in progress in 2015 was related to the three new surveys that commenced in Q4 2014 and were completed in Q1 2015.

CAPITAL RESOURCES

Share capital

Divestco's Class A common shares are listed on the TSX-V and trade under the symbol DVT. The Company is authorized to issue an unlimited number of voting Class A common shares.

The following table summarizes the Company's outstanding equity instruments:

	Balance as at		
(Thousands)	**Apr 26, 2017**	**Dec 31, 2016**	**Dec 31, 2015**
Class A shares			
Outstanding	66,884	**66,884**	67,208
Weighted Average Outstanding			
Basic – YTD	N/A	**67,217**	67,117
Diluted – YTD (1)	N/A	**67,217**	67,117
Stock Options			
Outstanding	1,010	**1,010**	2,910
Exercise Price Range	$0.21 to $0.25	**$0.21 to $0.25**	$0.17 to $0.25
Warrants(2)			
Outstanding	2,675	**-**	-
Exercise Price	$0.05	**-**	-

(1) Basic net (loss) per share is computed using the weighted-average number of Class A Shares outstanding during 2016, being 67,217,000 (December 31, 2015 – 67,117,000). In computing diluted net loss per share, no shares were added to the weighted average number of Class A Shares outstanding for 2016 as the stock options were out of the money and there was a net loss for the period. In computing diluted net loss per share, no shares were added to the weighted average number of Class A Shares outstanding for 2015 as the stock options were out of the money and there was a net loss for the period.

(2) Warrants were issued in the conjunction with the closing of a new term loan facility on March 21, 2017.

Bridge Loan

As at December 31, 2016, the Company had a short-term secured bridge loan for $3.2 million which was repaid on March 21, 2017 with the proceeds of a new term loan. The loan bore interest at 17% per annum and was secured by a general security agreement over all present and after acquired personal property of the Company.

The bridge lender maintained a $0.8 million interest reserve sufficient to satisfy all interest costs for the term of loan and a default reserve of $0.1 million which was applied to the repayment. These amounts were recorded in prepaid expenses in the statement of financial position and the interest reserve was amortized over the term of loan.

Term Loan – Subsequent to December 31, 2016

On March 21, 2017, the Company entered into a secured loan with a new lender for $6.0 million with an initial draw of $5.0 million with an interest rate of 17% per year compounded monthly in arrears until maturity. The loan is interest only for the first year. Principal and interest repayments commence on April 1, 2018. Proceeds of the loan were used to repay a $3.2 million bridge loan with the balance being used for working capital purposes. The term loan ranks senior to the Company's other indebtedness and is secured by a general security agreement over all present and after acquired personal property of the Company. In addition, $3.1 million of cash is restricted by the lender until September 30, 2017 as it relates to certain accounts payables.

The Company also issued the lender 2,675,344 share purchase warrants exercisable for the same number of Class A shares at a price of $0.05 per share. The warrants are exercisable until the maturity of the Loan subject to a holding period which expires on July 18, 2017, notwithstanding early prepayment.

Shareholder Loans

As at December 31, 2016, the Company had $5.5 million in shareholder loans. $5.2 million of the shareholder loans bear interest at rate of 12% per annum, are secured by way of registered security pursuant to the *Personal Property Security Act (Alberta)* and subordinated to the Company's senior lender. Principal payments on the secured portion of the shareholder loans have been postponed until the senior loan is repaid. The remaining $0.3 million of the shareholder loans bearing interest at 12% which were unsecured and due on demand, were repaid in January 2017.

Debentures

The debentures bear interest of 8% per annum. Principal payments are calculated at 50% of net revenues generated by certain of the Company's seismic data (the "Seismic Data"), multiplied by $1.2 million (debenture proceeds raised) divided by $5 million. The balance of the revenue is retained by the Company. Net revenues equal 90% of the gross revenues generated by the Seismic Data. The Seismic Data is comprised of the seismic surveys acquired by the Corporation prior to July 1, 2012. As at December 31, 2016, there was $0.7 million in principal payments owing to the debenture holders based on revenues generated by the Seismic Data up to and including December 31, 2016.

Upon full repayment of the principal amount of the debentures and all accrued interest, the royalty interest becomes effective and will be paid as a royalty indefinitely. Royalty payments are to be calculated at 25% of the net revenues generated by the Seismic Data multiplied by $1.2 million divided by $5 million. The balance of the revenue is retained by the Company.

The principal amount of the debentures and accrued interest, but not the royalty interest, is secured against the Seismic Data by way of a registered security interest pursuant to the *Personal Property Security Act (Alberta)* but is subordinated to the Company's senior debt. This security interest ranks pari passu with the security interest for the shareholder loans. Principal payments have been postponed until the senior loans are repaid.

OFF-BALANCE SHEET ARRANGEMENTS

The Company's main office lease has a term of 15 years expiring in 2025. Excluding subleases, the commitment is approximately $161,000 per month for 2017 (including operating costs and property taxes). The annual square foot rate increases in 2018, 2020 and 2023. The Company also leases approximately 15,000 square feet of office space in another location with the lease expiring in 2025. The monthly commitment is approximately $71,000 per month for 2017 (including operating costs and property taxes). The annual square foot rate increases in 2018, 2020 and 2022. A portion of the current space is subleased on a month-to-month basis. Sublease payments totalling $11,700 per month are expected to be received for 2017.

Summary of non-cancellable building lease (net of any subleases) commitments until expiry:

	Balance at December 31	
	2016	**2015**
Less than one year	**$ 2,648**	$ 2,808
Between one and five years	**12,119**	11,438
More than five years	**11,672**	14,862
	$ 26,439	$ 29,108

CONTINGENCIES

Notwithstanding management's belief in the merit of the Company's tax filing positions, it is possible that the final outcome of any audits by taxation authorities may differ from estimates and assumptions used in determining the Company's consolidated tax provision and accruals, which could result in a material effect on the consolidated income tax provision and net income (loss) for the period in which determinations are made. Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. In particular, the tax treatment of seismic data is largely based on Canada Revenue Agency's ("CRA") policy which is subject to change at any time. The Company is currently deducting certain seismic data costs over a period of 4 years. This approach is consistent with CRA's administrative policy; however, CRA may change the existing policy. Differences arising between the actual results and the assumptions made, or future changes to such assumptions, could result in material adjustments to the Company's income tax calculations, carry-forward balances or consolidated net income (loss) in the period a change is communicated.

RELATED PARTY TRANSACTIONS

Loans from directors and shareholders

As at December 31, 2016, the Company had $5.2 million in secured loans from two directors, $0.3 million in unsecured loans from a director and $0.7 million of the debentures was subscribed for by three directors who are also shareholders (see the "Capital Resources" section of the MD&A). Subsequent to December 31, 2016, the $0.3 million of unsecured shareholder loans were repaid.

Key management personnel and director transactions

Directors and officers of the Company control 36% percent of the voting shares of the Company. A director controls 13% and the CEO (also a director) controls 13%.

A number of key management personnel and Board members, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities. The aggregate value of transactions and outstanding balances related to key management personnel and entities over which they have control or significant influence were as follows:

		Transaction value for the year ended December 31		**Balance due from (to) the related party as at Dec 31**	**Balance due from (to) the related party as at Dec 31**
Entity	**Transaction**	**2016**	**2015**	**2016**	**2015**
Director	Consulting fees and commissions[(1)]	**$ 2**	$ -	**$ (182)**	$ (184)
Affiliate (Company owns 1/3)	Software and data license fees net of expense reimbursements [(2)]	**299**	186	**(208)**	(332)

(1) The Company pays seismic consulting fees to a company controlled by a director for the purposes of acquiring seismic data. The Company also pays this company commissions for providing seismic brokerage services. The contract terms were made on terms equivalent to those that prevail in arm's length transactions.

(2) The Company pays the affiliate for access to well data and charges the affiliate for certain corporate support services.

ADOPTION OF NEW IFRS STANDARDS AND INTERPRETATIONS

The Company has adopted the following new standards, along with any consequential amendments, effective January 1, 2016. These changes were made in accordance with the applicable transitional provisions:

IAS 16 Property Plant and Equipment and *IAS 38 Intangible Assets*, have been amended to (i) clarify that the use of a revenue-based depreciation and amortization method is not appropriate, and (ii) provide a rebuttable presumption that amortization of an intangible asset based on revenue generated by using the asset is inappropriate. The amendments to IAS 16 and IAS 38 were effective for annual periods beginning on or after January 1, 2016. The adoption of this standard had no material impact on the consolidated financial statements.

FUTURE ACCOUNTING POLICY CHANGES

The following are new standards, interpretations, amendments and improvements to existing standards that were issued by the IASB or International Financial Reporting Interpretations Committee ("IFRIC") that are not yet effective for the year ended December 31, 2016, and have not been applied in preparing these consolidated financial statements:

IFRS 15 Revenue from Contracts with Customers was released on May 28, 2014, 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 purchasers. Disclosure requirements have also been expanded.

The new standard is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The standard may be applied retrospectively or using a modified retrospective approach. The Company is currently evaluating the impact of adopting IFRS 15 on the consolidated financial statements.

IFRS 9 Financial Instruments was issued by the IASB in July 2014, to replace *IAS 39 Financial Instruments: Recognition and Measurement*. IFRS 9 is effective for years beginning on or after January 1, 2018. The Company has yet to evaluate the impact of adopting this new standard.

IFRS 16 Leases was issued by the IASB on January 2016, to replaces *IAS 17 Leases.* For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if the entity is also applying *IFRS 15 Revenue from Contracts with Customers.* The Company has yet to evaluate the impact of adopting this new standard.

USE OF ESTIMATES AND JUDGEMENTS

This MD&A of the Company's financial condition and results of operations is based on the financial statements which are prepared in accordance with IFRS. The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Further details of the nature of these estimates and assumptions may be found in the relevant notes to the consolidated financial statements as at and for the year ended December 31, 2016.

Additional information is available on the Company's website at www.divestco.com and all other previous public filings are available through SEDAR at www.sedar.com.