Divergent Energy Services Corp.

Management Discussion and Analysis
As at September 30, 2018 and for the three and nine month periods ended September 30, 2018 and 2017

(Amounts are in USD $000's, except share data)

Dated: November 22, 2018

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INTRODUCTION

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 September 30, 2018, contains information current to and is dated November 22, 2018. It should be read in conjunction with the Unaudited Condensed Consolidated Interim Financial Statements for the three and nine month periods ended September 30, 2018 ("Q3 2018") and the 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 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 Q3 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.

The following MD&A for the Corporation has been prepared by management as of November 22, 2018, and is a review of the financial condition and results of operations of the Corporation. This MD&A and Q3 2018 Unaudited Condensed Consolidated Interim Financial Statements were reviewed by the Audit Committee of the Corporation's Board of Directors on November 22, 2018, and approved by the Corporation's Board of Directors on November 22, 2018.

This MD&A has been prepared in accordance with the requirements of National Instrument 51-102 and covers the period from January 1, 2018, to September 30, 2018, 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.

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 Pumps ("Linear Pump")**

  The Linear Pump uses permanent magnet motor technology that duplicates conventional rod pump movement without rod strings or surface lifting equipment. All moving parts are contained within the submersible pump housing, eliminating rod and tubing wear, making the Linear Pump ideal for placement into horizontal wellbores. The Linear Pump is installed similar to an ESP at the bottom of the well on production tubing with electric cable running to 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.

QUARTERLY CONDENSED CONSOLIDATED FINANCIAL RESULTS

Selected Financial Information:

	Three Months Ended September 30 2018	2017	Nine Months Ended September 30 2018	2017
Revenue – continuing operations	$1,659	$1,778	$5,610	$6,081
Loss from continuing operations	(288)	(1,127)	(396)	(2,565)
Loss from discontinued operations	(92)	(4)	(408)	(171)
Net loss for the period	(380)	(1,131)	(804)	(2,736)
Total assets	3,098	3,062	3,098	3,062
Total liabilities	9,080	8,860	9,080	8,860
Shareholders' deficiency	(5,982)	(5,798)	(5,982)	(5,798)
Loss per share basic and diluted – continuing operations	(0.00)	(0.01)	(0.00)	(0.02)
Loss per share basic and diluted – discontinued operations	(0.00)	(0.00)	(0.00)	(0.00)
Loss per share – basic and diluted	($0.00)	($0.01)	($0.00)	($0.02)

QUARTER OVERVIEW

CONTINUING OPERATIONS

For the three month period ended September 30, 2018:

- Adjusted EBITDA of ($129) as compared to ($939) in Q3 2017.
- G&A increased 3% from the previous period of Q3 2017.

For the nine month period ended September 30, 2018:

- Adjusted EBITDA of $86 as compared to a loss of ($2,025) in Q3 2017.
- G&A decreased 5% from the previous period of Q3 2017.

RESULTS FROM OPERATING OPERATIONS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30,

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	**2017**	**2018**	**2017**
Revenue	$ 1,659	$ 1,778	$ 5,610	$ 6,081
Cost of sales	1,088	1,282	3,838	4,336
Gross profit	571	496	1,772	1,745
General and administrative	674	654	2,029	2,153
Stock based compensation	19	38	71	149
	(693)	(692)	(2,100)	(2,302)
Results from operations	($122)	($196)	$(328)	($557)
Net loss	($380)	($1,131)	($804)	($2,736)
Adjusted EBITDA	($129)	($939)	$86	($2,025)

REVENUE, COST OF SALES AND GROSS PROFIT

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	**2017**	**2018**	**2017**
Revenue	$ 1,659	$ 1,778	$ 5,610	$ 6,081
Cost of sales	1,088	1,282	3,838	4,336
Gross profit	$ 571	$ 496	$ 1,772	$ 1,745
Gross profit %	34%	28%	32%	29%

For the three and nine month periods ended September 30, 2018,

- Activity levels in the quarter were significantly lower than forecasted. A large majority of the wells in the Powder River Basin are operated by one client who had reduced their budget for submersible pumps for the quarter while they focused on other operating and capital expenditures.
- Gross margins increased by 6% and 3%, for the three and nine month periods ended September 30, 2018 compared to the same periods in 2017 as the Corporation continues to benefit from the three-year contract awarded in October 2017.

General and administrative expenses ("G&A")

	2018	**2017**	**% Change**
For the three months ended March 31,	$674	$801	(16%)
For the three months ended June 30,	681	699	(3%)
For the three months ended September 30,	674	654	3%
For the nine months ended September 30,	$2,029	$2,153	(6%)

G&A expenses were in line with activity levels and management maintains a focus on cost reductions that do not hinder the operational and safety aspects of the Corporation.

Stock based compensation

	2018	2017	% Change
For the three months ended March 31,	$29	$42	(31%)
For the three months ended June 30,	23	69	(67%)
For the three months ended September 30,	19	38	(50%)
For the nine months ended September 30,	$71	$149	(52%)

Stock based compensation has decreased for the three and nine months periods ended September 30, 2018 compared to those periods of 2017 due to reduction of grants offered in the past year and due to the reduction in volatility in the stock price as included in by the Black-Scholes model.

Product development costs

	2018	2017	% Change
For the three months ended March 31,	$4	$206	(98%)
For the three months ended June 30,	-	26	N/A
For the three months ended September 30,	-	49	N/A
For the nine months ended September 30,	$4	$281	(99%)

The Corporation did not incur any product development costs related to the Linear Pump for the three months ended September 30, 2018.

Net Finance Expense

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Foreign exchange loss (gain)	$24	$721	($305)	$1,241
Interest expense	116	115	346	360
Accretion expense	26	46	76	128
Net finance expense (income)	$166	$882	$117	$1,729

During the three month period ended September 30, 2018 the Corporation recorded a loss on foreign exchange of $25 compared to a loss of $721 in Q3 2017 primarily due to the movement in the rate of the Canadian dollar against the US Dollar.

The interest expense contained in the Net finance expense (income) is substantially composed of the Debenture interest which has been paid in common shares as set out below:

Interest Expense Paid in Common Shares of the Corporation

2018	Common shares Issued	Interest expense
For the three months ended March 31,	1,720,639	$110
For the three months ended June 30,	1,522,847	108
For the three months ended September 30,	2,112,704	113
For the nine months ended September 30,	5,356,190	$331

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,	1,294,027	111
For the nine months ended September 30,	3,029,002	$332

Income Tax Expense

The Corporation's current income tax expense and deferred income tax expense was $Nil and $Nil for the three and nine month periods ended September 30, 2018. The Corporation has non-capital losses for income tax purposes of $6,218 which expire in 2028 through 2035.

DISCONTINUED OPERATIONS

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

	Three Months Ended September 30, 2018	**2017**	**Nine Months Ended September 30, 2018**	**2017**
Selling, general and administrative	$-	$4	$-	$131
Amortization	-	-	-	1
Stock based compensation	-	-	-	10
Loss from discontinued operations before income taxes	-	(4)	-	(142)
Income tax expense – current taxes	92	-	408	(29)
Loss from discontinued operations	**($92)**	**($4)**	**($408)**	**($171)**

Income tax expense

The Corporation has recorded $1,586 (2017 - $1,179) of liabilities related to the discontinued operations of its Mexican subsidiary. The Mexican subsidiary was legally dissolved on February 19, 2018.

The Corporation's income taxes for the three and nine month periods ended September 30, 2018 were $92 and $408 which relate to possible additional net liabilities upon dissolution of the Mexico subsidiary. Divergent has taken certain tax positions in its Mexican tax filings using its best estimate based on a qualitative assessment of all relevant factors. These filings are subject to audit and potential reassessment. Accordingly, actual amounts realized may differ from that estimated and recorded by management.

The filings become statute barred after 5 years and this will occur in Q1 2019 ($556) and Q2 2023 ($1,030).

Cash flows from discontinued operations

	Nine Months Ended September 30, 2018	**2017**
Cash from (used in) operating activities	$-	$185
Cash generated from (used in) investing activities	-	-
Cash flows from discontinued operations	**$-**	**$185**

RELATED PARTY TRANSACTIONS

The following transactions were in the normal course of operations and entered into and recorded at the agreed amounts as follows:

Certain officers and directors participated in the Corporation's Debenture issue, currently holding CAD $2,390, and as a result interest was paid through the issue of common shares to a certain officer and directors amounting to $34, $35 and $35 for the three, six and nine month periods ended September 30, 2018 (for the three, six and nine month periods ended September 30, 2017, $11, $23, and $23 respectively).

Officers and directors advanced the Corporation CAD $195, of which CAD $5 was repaid and CAD $70 was converted into common shares of the private placement. The remaining advances of CAD $120 is included in accounts payables and accrued liabilities. The advances are due on demand and bear interest at 10%. Interest of CAD $17 is included in accounts payable and accrued liabilities.

SUMMARY OF QUARTERLY RESULTS (UNAUDITED)

USD	Q3-2018	Q2-2018	Q1-2018	Q4-2017
Revenue – continuing operations	$1,659	$2,021	$1,930	$2,101
Income (loss) for the period – continuing operations	(288)	(154)	73	816
Loss for the period - discontinued operations	(92)	-	(316)	(179)
Net loss for the period	(380)	(154)	(243)	(637)
Comprehensive loss per share – basic and diluted	($0.00)	($0.00)	($0.00)	($0.02)

USD	Q3-2017	Q2-2017	Q1-2017	Q4-2016
Revenue – continuing operations	$1,778	$2,140	$2,163	$2,796
Loss for the period – continuing operations	(1,127)	(856)	(582)	(1,047)
Loss for the period – discontinued operations	(4)	(87)	(80)	(603)
Net loss for the period	(1,131)	(943)	(662)	(1,650)
Comprehensive loss per share - basic and diluted	($0.01)	($0.01)	($0.01)	($0.02)

OUTLOOK

ONGOING OPERATIONS

The outlook for the remainder of 2018 and into 2019 includes a stable level of activity from the existing customer base that produces coal bed methane from the Powder River Basin ("PRB") and an increase in sales from oil producing clients in the PRB. Growth in the oil side of the business is directly linked to the amount of inventory kept on hand. We are gradually increasing the number of available sizes of motors and pumps, working diligently within our means as these items have long delivery times and the vendors require payment in advance. Historic data indicates that the amount of inventory required to hit a revenue target is roughly one-third of that revenue target (in dollars). We are also working with a number of private pump companies in the United States (that face similar inventory restrictions) to access each other's surplus inventory. Over time, most pump companies accumulate some amount of surplus equipment as clients' needs change, and the ability to share this surplus with other companies can mutually increase sales and generates cash flow.

PRODUCT DEVELOPMENT

The challenges faced in getting Linear Pumps installed is a reflection of the state of the industry, the record-setting discounts on Canadian oil, and the risk aversion within the Canadian oil producers. Divergent remains committed to the technology, however the headwinds in the Canadian energy industry are revealing an ever increasing difficulty in getting clients to approve an install. Management is shifting its focus to the United States and is pursuing opportunities in the Southern USA.

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.

As previously stated in the Q2 2018 Outlook, there has been a change in overseas suppliers which is not expected to hinder any upcoming installation. The new supplier will be focused on being able to produce a fifth-generation motor complete with a sensor package to automate pump rates and maximize wellbore performance. Prior to entering into any agreement with Divergent, the supplier has indicated they would like to conduct a test of the newest motor design for a period of several months in order to validate their product. After the test period the parties will meet and discuss the nature and structure of any agreement for Divergent to commercialize the product in North America.

STRATEGY TO MOVE FORWARD

The Corporation recognizes that the above noted challenges with 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 company 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 and make determinations on whether Divergent can capture the intellectual property. The commercialization of the Linear Pump remains a primary focus as the product is complementary to our existing electric submersible pump 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 $64 and $549 as at September 30, 2018 and December 31, 2017 respectively.

Cash used in operating activities was $449 for the nine months ended Q3 2018. The changes in non-cash working capital items includes an increase in trade receivables of $285, an increase in inventories of $7, an increase in prepaid expenses of $102, an increase in accounts payable of $121 and an increase of liabilities relating to discontinued operations of $408.

The unaudited condensed consolidated interim financial statements have been prepared on a going concern basis. The going concern basis of presentation assumes that the Corporation will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. The unaudited condensed consolidated interim financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis were not appropriate for these financial statements, then adjustments would be necessary to the classification and carrying amounts of the assets and liabilities and the reported revenues and expenses.

The material uncertainties that 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 $30,179 at September 30, 2018. The Corporation has experienced a history of net losses and using cash in its operations. The Corporation has negative working capital at September 30, 2018, of $2,363. In addition, the Corporation has accounts payable in excess of a year old amounting to $1,000 and obligations relating to its discontinued operations totaling $1,586. There is material uncertainty as to whether the Corporation will be able to repay these obligations and future obligations without obtaining additional future debt or equity financings.

During the year ended December 31, 2017 the Corporation's Debentures, amounting to CAD $5,750 were extended to the maturity date of 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.

In addition, the Corporation has economic dependence on a single customer in the United States which comprises approximately 83% of accounts receivable at September 30, 2018 (December 31, 2017 - 90%) and revenue of $1,380 (2017 - $1,512) and $4,849 (2017 - $5,439) for the three and nine months ended September 30, 2018 and 2017, respectively. The Corporation has tax liabilities associated with its discontinued Mexican operations. These tax filings and liabilities are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, actual amounts realized may differ from that estimated and recorded by management.

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.

FINANCIAL INSTRUMENTS

Commitments

Long-Term Debt (including Debentures)

The Corporation has debentures outstanding with a principle amount of CAD $5,750, bear interest at 10% per annum and are secured by all of the Corporation's assets. On November 1, 2017, the Corporation requested and was granted an extension of the maturity date for the outstanding debentures by the registered holders and the maturity dates of the debentures were extended by four years to December 31, 2021. The terms of the extension agreement included the issue on January 1, 2018 of 5,750,000 warrants, exercisable at CAD $0.13 and expiring December 31, 2021. The gain on modification is a result of the application of IFRS 9 which reduces the value of the debenture and increases the accretion in future periods.

Lease Commitments

As at September 30, 2018, the Corporation had the following commitments outstanding in relation to its operating lease commitments:

Year (In 000's)	**Total**
2018	$61
2019	346
2020	319
2021	200
2022	36
Total	$962

Summary of Share Capital

As at September 30, 2018, the Corporation had 114,258,362 common shares issued and outstanding with stated share capital value of $17,747. 5,750,000 warrants and 7,615,000 stock options, of which 4,443,332 are exercisable, were outstanding at September 30, 2018. As at November 22, 2018, the common shares outstanding are 114,258,362.

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 has experienced significant credit risk in Mexico and has ceased any future operations as a result.

Account receivables

The Corporation'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 92 percent (Q3 2017: 89 percent) of ESP sales are attributable to one counterparty.

The Corporation has established allowances for impairment of trade receivables in 2018 - $Nil (2017 - $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 risk 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. In addition please see the Cash and Liquidity section on Page 9.

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 financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing returns. The Corporation is dependent upon a small number of large well-established organizations for its business. The level of market risk to which the Corporation is exposed is dependent 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 Corporation is subject to legal proceedings, assessments and claims in the ordinary course of business. At this time, in the opinion of management, none of these matters are reasonably expected to have a material adverse effect on the Corporation's financial position.

Capital Management

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

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

The Corporation's existing debt agreements do not require maintenance of any financial covenants. There were no changes to the Corporation's approach to capital management during the six month period ended September 30, 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
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
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 was adopted on 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 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
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.
In Q1 2018, the Corporation did not identify any recognition or measurement effect of the initial adoption of IFRS 9. In the current quarter, the Corporation determined that the modification of the terms of the debentures in the fourth quarter of 2017 (Note 5), while not resulting in an extinguishment of debt under IFRS 9, did result in a gain of $305 which should have been reflected as an IFRS 9 initial adoption adjustment to the opening deficit (a decrease) at January 1, 2018. The associated immaterial adjustment to increase accretion (within finance expense) of $5 and $6 for the three months ended March 31, 2018 and June 30, 2018, respectively, is reflected in the current quarter.

OFF BALANCE SHEET ARRANGEMENTS

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

RECONCILIATION OF NET LOSS TO ADJUSTED EBITDA

	3 Months Ended September 30, 2018	**2017**	**9 Months Ended September 30, 2018**	**2017**
Net loss from continuing operations	($288)	($1,127)	($396)	($2,565)
Interest	116	115	331	332
Amortization	17	27	75	80
Accretion	26	46	76	128
	($129)	($939)	$86	($2,025)

Forward-looking Statements

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

be correct and such forward-looking statements included in this MD&A should not be unduly relied upon. These statements speak only as of the date of this MD&A. The Corporation does not intend, and does not assume any obligation, to update these forward-looking statements, whether as a result of new information, future events or otherwise, except as required under applicable securities laws. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

Corporate Information

DIRECTORS AND OFFICERS

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

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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