



**Divergent Energy Services Corp.**

**Amended**

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: December 20, 2019**

**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**

## **INTRODUCTION**

This 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 September 30, 2018. It should be read in conjunction with the Restated 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](http://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 Q3 2018 Restated Unaudited Condensed Consolidated Interim Financial Statements; both can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

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

This MD&A and Q3 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 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.

**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**

**GOING CONCERN**

As the restated financial statements for the third quarter of 2018 are being filed on December 20, 2019, this section includes additional information regarding the going concern. At September 30, 2018 the Corporation has a working capital deficiency of \$776 and an accumulated deficit of \$27,053. During the three and nine month periods ended September 30, 2018, the Corporation generated losses from continuing operations of \$1,226 and \$249, respectively. The Corporation used cash in operations of \$449. Approximately 83% and 86% (Q2 2017 - 85% and 89%) of sales are attributable to one customer for the three and nine month periods ended September 30, 2018, respectively. Included in accounts payable and accrued liabilities are amounts due to related parties totaling CAD \$120 which are due on December 31, 2019 (see Note 15). 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 (SEE NOTES 1 AND 2)**

USD	Q3-2018 (restated)	Q2-2018 (restated)	Q1-2018 (restated)	Q4-2017 (restated)
Revenue – continuing operations	\$1,659	\$2,021	\$1,930	\$2,101
Income (loss) for the period – continuing operations	(1,226)	357	648	70
Income (loss) for the period - discontinued operations	-	-	1,179	(209)
Net Income (loss) for the period	(1,226)	357	1,827	(139)
Comprehensive loss per share – basic and diluted	(\$0.01)	(\$0.00)	\$0.02	(\$0.00)

USD	Q3-2017 (restated)	Q2-2017 (restated)	Q1-2017 (restated)	Q4-2016
Revenue – continuing operations	\$1,778	\$2,140	\$2,163	\$2,796
Loss for the period – continuing operations	(848)	(1,218)	(908)	(1,047)
Loss for the period – discontinued operations	(4)	(87)	(2,555)	(603)
Net loss for the period	(852)	(1,305)	(3,463)	(1,650)
Comprehensive loss per share - basic and diluted	(\$0.01)	(\$0.01)	(\$0.04)	(\$0.02)

**Note 1**

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

**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**

determined that any liabilities associated with COTS Mexico, including income and withholding taxes owed, if any, were eliminated upon liquidation.

At the end of third quarter of 2018, the Corporation recorded \$1,586 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 \$92 and \$408 for the three and nine month periods ended September 30, 2018, respectively, and recorded an income tax recovery of \$1,179 previously accrued as shown in the table below.

**Note 2**

During the course of the year-end audit of the Corporation's consolidated financial statements, the Corporation identified prior period errors in The Corporation is restating its consolidated statement of financial position as at September 30, 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 and nine month periods ended September 30, 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 and nine month periods ended September 30, 2018 and 2017, as well as the impact of the consolidated statement of financial position as at September 30, 2018 and December 31, 2017.

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

<b><i>Restated three months ended September 30, 2017</i></b>	As previously reported	2017 Adjustments	As restated
<b>STATEMENT OF INCOME AND COMPREHENSIVE INCOME</b>			
Net finance expense	(\$882)	\$279	(\$603)
Loss from continuing operations before income taxes	(1,127)	279	(848)
Loss from continuing operations	(1,127)	279	(848)
Net (loss)	(1,131)	279	(852)
Other comprehensive income (loss)	515	(279)	236
Continuing operations - basic and dilutive loss per share	(0.01)	(0.00)	(0.01)
Net income (loss) – basic and dilutive	(0.01)	(0.00)	(0.00)

<b><i>Restated nine months ended September 30, 2017</i></b>	As previously reported	2017 Adjustments	As restated
<b>STATEMENT OF INCOME AND COMPREHENSIVE INCOME</b>			
Net finance expense	(\$1,729)	(\$409)	(\$2,138)
Loss from continuing operations before income taxes	(2,565)	(409)	(2,974)
Loss from continuing operations	(2,565)	(409)	(2,974)
Loss from discontinued operations, net of tax	(171)	(2,475)	(2,646)
Net (loss)	(2,736)	(2,884)	(5,619)
Other comprehensive income (loss)	913	409	1,322
Continuing operations - basic and dilutive loss per share	(0.02)	(0.00)	(0.03)
Loss from discontinued operations, net of tax	(0.00)	(0.02)	(0.02)
Net income (loss) – basic and dilutive	(0.02)	(0.02)	(0.05)

**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**

**STATEMENT OF CASH FLOWS**

Net loss from continuing operations	(\$2,565)	(\$409)	(\$2,974)
Foreign exchange	1,037	409	1,446

<b>As at September 30, 2018</b>	Previously reported	2018 Adjustments	As restated
<b>Consolidated statement of financial position and equity</b>			
Liabilities associated with discontinued operations	\$1,586	(\$1,586)	\$Nil
Accumulated other comprehensive income (loss)	574	(1,539)	(965)
Deficit	(\$30,179)	\$3,126	(\$27,053)

<b>Restated three months ended September 30, 2018</b>	As previously reported	2018 Adjustments	As restated
<b>CONSOLIDATED STATEMENT OF NET LOSS AND COMPREHENSIVE LOSS</b>			
Net finance income (expense)	(\$166)	(\$938)	(\$1,104)
Income (loss) from continuing operations before income taxes	(288)	(938)	(1,226)
Income (loss) from continuing operations	(288)	(938)	(1,226)
Income (loss) from discontinued operations, net of tax (Note 1)	(92)	92	-
Net income (loss)	(380)	(846)	(1,226)
Other comprehensive income (loss)	(48)	938	890
Continuing operations - basic and dilutive loss per share	(0.00)	(0.01)	(0.01)
Loss from discontinued operations, net of tax	0.00	(0.00)	(0.00)
Net income (loss) – basic and dilutive	(0.00)	(0.01)	(0.01)

<b>Restated nine months ended September 30, 2018</b>	As previously reported	2018 Adjustments	As restated
<b>CONSOLIDATED STATEMENT OF NET LOSS AND COMPREHENSIVE LOSS</b>			
Net finance income (expense)	(\$117)	\$147	\$30
Income (loss) from continuing operations before income taxes	(449)	147	(302)
Income (loss) from continuing operations	(396)	147	(249)
Income (loss) from discontinued operations, net of tax (Note 1)	(408)	1,587	1,179
Net income (loss)	(804)	1,734	930
Other comprehensive income (loss)	(137)	(147)	(284)
Continuing operations - basic and dilutive loss per share	(0.00)	0.00	0.00
Loss from discontinued operations, net of tax	0.00	0.01	0.01
Net income (loss) – basic and dilutive	(0.00)	0.01	0.01
<b>STATEMENT OF CASH FLOWS</b>			
Net income (loss) from continuing operations	(\$396)	\$147	(\$249)
Foreign exchange (gain) loss	(333)	(147)	(480)

**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**

**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 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	(1,266)	(848)	(249)	(2,974)
Income (loss) from discontinued operations	-	(4)	1,179	(2,646)
Net income (loss) for the period	(1,266)	(852)	930	(5,620)
Total assets	3,098	3,062	3,098	3,062
Total liabilities	7,493	8,860	7,493	8,860
Shareholders' deficiency	(4,395)	(5,798)	(4,395)	(5,798)
Loss per share basic and diluted – continuing operations	(0.01)	(0.02)	(0.00)	(0.03)
Income (loss) per share basic and diluted – discontinued operations	0.00	(0.00)	0.01	(0.02)
Income (loss) per share – basic and diluted	(\$0.01)	(\$0.02)	0.01	(\$0.05)

**QUARTER OVERVIEW**

**CONTINUING OPERATIONS**

**For the three month period ended September 30, 2018:**

- Adjusted EBITDA of (\$1,069) as compared to (\$660) 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 \$180 as compared to a loss of (\$2,434) in Q3 2017.
- G&A decreased 5% from the previous period of Q3 2017.

**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**

**RESULTS FROM 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 income (loss) from continuing operations	(\$1,226)	(\$848)	(\$249)	(\$2,974)
Adjusted EBITDA	(\$1,069)	(\$660)	\$180	(\$2,434)

**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.

**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**

**Stock based compensation**

	<b>2018</b>	<b>2017</b>	<b>% Change</b>
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**

	<b>2018</b>	<b>2017</b>	<b>% Change</b>
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**

	<b>Three months ended September 30,</b>		<b>Nine months ended September 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Foreign exchange loss (gain)	\$962	\$442	(\$450)	\$1,650
Interest expense – directors and officers advances and bank charges	3	6	13	28
Interest expense - debentures	113	109	331	332
Accretion expense	26	46	76	128
Net finance expense (income)	\$1,104	\$603	(\$30)	\$2,138

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 and six month periods ended September 30, 2018 the Corporation recorded a loss on foreign exchange of \$962 and gain of \$450 compared to a loss of \$442 and a loss of \$1,650 in Q3 2017 respectively, primarily due to the aforementioned.

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:

**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**

**Interest Expense Paid in Common Shares of the Corporation**

<b>2018</b>	<b>Common shares Issued</b>	<b>Interest expense</b>
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

  

<b>2017</b>	<b>Common shares Issued</b>	<b>Interest expense</b>
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**

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 Q1 2017. Please refer to Note 1 – Income (Loss) from Discontinued Operations. The operating results of COTS Mexico are presented below as discontinued operations.

	<b>Three Months Ended September 30, 2018</b>	<b>2017</b>	<b>Nine Months Ended September 30, 2018</b>	<b>2017</b>
Selling, general and administrative	\$-	\$4	\$-	\$131
Amortization	-	-	-	1
Stock based compensation	-	-	-	10
Foreign exchange	-	-	-	2,475
Loss from discontinued operations before income taxes	-	(4)	-	(2,617)
Income tax recovery (expense) – current taxes	-	-	1,179	(29)
<b>Income (loss) from discontinued operations</b>	<b>\$-</b>	<b>(\$4)</b>	<b>\$1,179</b>	<b>(\$2,646)</b>

**Cash flows from discontinued operations**

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

**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**

**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 from 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 therefore 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 \$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 and an increase in accounts payable of \$120.

Please refer to Going Concern.

**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**

**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.

The Company is currently not in compliance with respect to the debentures. As a result, the debenture holders have the right to demand immediate payment of all amounts owing.

**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 2018, the common shares outstanding are 114,258,362.

**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, mature on December 31, 2018 and bear interest at 10%. Interest of CAD \$17 is included in accounts payable and accrued liabilities.

**SUBSEQUENT EVENTS**

**Non-compliance with debenture covenants**

As the restated financial statements for the third 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 section above.

**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**

**RECONCILIATION OF NET LOSS FROM CONTINUING OPERATIONS TO ADJUSTED EBITDA**

**RESTATE INFORMATION**

	<b>3 Months Ended September 30, 2018</b>	<b>2017</b>	<b>9 Months Ended September 30, 2018</b>	<b>2017</b>
Net loss from continuing operations	(\$1,226)	(\$848)	(\$302)	(\$2,974)
Taxes	-	-	(53)	-
Interest	114	115	331	332
Amortization	17	27	75	80
Accretion	26	46	76	128
	(\$1,069)	(\$660)	\$161	(\$2,434)

**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 12.

**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.

**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**

**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

**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**

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.

**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

### CORPORATE OFFICE

**Divergent Energy Services Corp.**

1500, 715 - 5<sup>th</sup> Avenue SW

Calgary, Alberta T2P 2X6

Phone: 403.543.0060

Fax: 403.543.0069

Email: [info@divergentenergyservices.com](mailto:info@divergentenergyservices.com)

### BANK

**HSBC**

Calgary, Alberta

### LEGAL COUNSEL

**Burstall LLP**

Calgary, Alberta

### AUDITORS

**KPMG LLP**

Calgary, Alberta

### STOCK EXCHANGE

**TSX Venture**

Calgary, Alberta

### TRANSFER AGENT AND REGISTRAR

**Computershare**

Calgary, Alberta