Divergent Energy Services Corp.

Management Discussion and Analysis
As at and for the years ended December 31, 2018 and 2017

Dated: December 20, 2019

INTRODUCTION

This Management's Discussion & Analysis ("MD&A") of the financial condition and results of operations of Divergent Energy Services Corp. and its consolidated subsidiaries (the "Corporation" or "Divergent") for the years ended December 31, 2018 and 2017, contains information current to and is dated December 20, 2019. It should be read in conjunction with the audited annual consolidated financial statements and notes thereto and other information which is available on SEDAR at www.sedar.com. All amounts contained herein are in thousands (000's) of United States Dollars unless otherwise indicated.

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

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 and annual consolidated financial statements were approved by the Board of Directors on December 20, 2019.

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 December 31, 2018, unless otherwise noted.

CORPORATE PROFILE

Divergent is a publicly traded entity on the TSX 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 exclusively in 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.

Divergent's Mexican subsidiary was dissolved February 1, 2018.

SUMMARY DESCRIPTION OF BUSINESS

Artificial Lift Systems ("ALS")

The ALS division provides electric submersible pumping products including the ongoing development of an electromagnetic reciprocating submersible pump technology. Divergent currently services Wyoming and Colorado from its facility in Gillette, WY, which generates 100% of the revenue for the division. There are three distinct product lines as follows:

- **Electric Submersible Pump Systems ("ESP")**

  ESP products and services primarily target production operations in the oil and gas industry. ESP products are designed to lift large volumes of fluid from both oil and gas wells.

- **Electric Submersible Progressing Cavity Pump Systems ("ESPCP")**

  ESPCP products and services primarily target production operations in the oil and gas industry. Divergent pioneered the introduction of ESPCP's to the Powder River Basin. ESPCPs are specially designed for abrasion resistance in tough pumping applications and able to move viscous fluids at high flow rates.

- **Linear Electromagnetic Submersible Pump ("Linear Pump")**

  The Linear Pump, currently in development, 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.

Project Management and Financing ("PMF")

The PMF division formerly operated in Mexico through the Corporation's previous 100% owned subsidiary CDN Oilfield Technologies & Solutions, S. de R.L. de C.V. ("COTS Mexico"). The division provided working capital for oilfield construction and infrastructure projects from which it generated financing fees. Management discontinued the operations in Mexico effective December 31, 2016. The entity was legally dissolved on February 1, 2018.

GOING CONCERN

These consolidated financial statements have been prepared on a going concern basis. The going concern basis of presentation assumes that the Corporation will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

At December 31, 2018 the Corporation has a working capital deficiency of $1,128 and an accumulated deficit of $26,733. During the year ended December 31, 2018 the Corporation generated income from continuing operations of $71 and used cash in operations of $189. During the year ended December 31, 2018 approximately 93% (2017 - 95%) of sales are attributable to one customer. Included in accounts payable and accrued liabilities are amounts due to related parties totaling $87 which are due on December 31, 2019. The Corporation does not have sufficient cash or other resources available to meet its obligations and commitments in a timely manner. On May 3, 2019, the Corporation announced that it was delayed in filing its annual financial statements for the year ended December 31, 2018, the related management's discussion and analysis 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 also 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.

The consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis were not appropriate for these consolidated financial statements, then adjustments would be necessary to the classification and carrying amounts of the assets and liabilities and the reported revenues and expenses.

SUMMARY OF QUARTERLY RESULTS (RESTATED – NOTE 2)

USD	Q1-2018 Restated	Q2-2018 Restated	Q3-2018 Restated	Q4-2018	Full Year 2018
Revenue – continuing operations	$1,930	$2,021	$1,659	$1,925	$7,535
Income (loss) from continuing operations	648	357	(1,226)	292	71
Income from discontinued operations (Note 1)	1,179	-	-	-	1,179
Net income (loss) for the period	1,827	357	(1,226)	292	1,250
Net earnings (loss) per share (cents per share)	$0.02	$0.00	($0.01)	$0.00	$0.01

USD	Q1-2017 Restated	Q2-2017 Restated	Q3-2017 Restated	Q4-2017 Restated	Full Year 2017 Restated
Revenue – continuing operations	$2,163	$2,140	$1,778	$2,101	$8,182
Income (loss) from continuing operations	(908)	(1,218)	(848)	70	(2,904)
Loss from discontinued operations	(2,555)	(87)	(4)	(209)	(2,855)
Net loss for the period	(3,463)	(1,305)	(852)	(139)	(5,759)
Net (loss) earnings per share (cents per share)	($0.04)	($0.01)	($0.01)	$0.00	($0.06)

Variance analysis:
Overall revenue declined by $647 or 8% in 2018 compared to 2017 due primarily to a lower level of industry activity. During the third quarter of both 2018 and 2017 sales are generally lower compared to other quarters as the demand for the Corporation's equipment and services are impacted by historically lower activity of customers due to in part to annual vacations.

Exchange fluctuations in the USD to CAD exchange rate have a significant impact on Income (loss) from continuing operations. Excluding the impact of unrealized foreign exchange, the loss from continuing operations during 2018 was $808 compared to a loss of $1,681 in 2017.

Note 1

INCOME FROM DISCONTINUED OPERATIONS - MEXICO SUBSIDIARY

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

At December 31, 2017, the Corporation had recorded $1,179 as an estimate of corporate income taxes payable, withholding taxes payable, and accumulated interest and inflation adjustments relating to COTS Mexico. These estimated liabilities were not paid by the Corporation at the time of liquidation of COTS Mexico due to the filing positions that had been taken for 2012 and 2013. These liabilities were eliminated on the date of liquidation. The Corporation's Mexican legal counsel has provided its opinion that DVG does not have any remaining liabilities with respect to COTS Mexico. Previously reported tax liabilities relating to discontinued operations of $1,494, $1,493 and $1,586 for Q1 2018, Q2 2018 and Q3 2018, respectively, have been restated to $nil for each of these periods.

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

Note 2

RESTATEMENT

The Corporation is restating its consolidated statement of financial position as at 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 year ended December 31, 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 year ended December 31, 2017, as well as the impact of the consolidated statement of financial position as at January 1, 2017.

Restated 2017	**As previously reported**	**Opening 2016 Adjustment**	**2017 Adjustment**	**As restated**
STATEMENT OF FINANCIAL POSITION				
Accumulated other comprehensive income (loss)	$711	($5,022)	$3,630	($681)
Deficit	(29,680)	5,022	(3,630)	(28,288)
STATEMENT OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)				
Finance expense	(833)		(1,155)	(1,988)
Loss from continuing operations before income taxes	(1,749)	-	(1,155)	(2,904)
Loss from continuing operations	(1,749)	-	(1,155)	(2,904)
Loss from discontinued operations, net of tax	(380)	-	(2,475)	(2,855)
Net loss	(2,129)	-	(3,630)	(5,759)
Other comprehensive income	68	-	3,630	3,698
Continuing operations - basic and dilutive loss per share	(0.02)	-	(0.01)	(0.03)
Discontinued operations - basic and dilutive loss per share	-	-	(0.03)	(0.03)
Net income loss – basic and dilutive	(0.02)	-	(0.04)	(0.06)
STATEMENT OF CASH FLOWS				
Net loss from continuing operations	(1,749)	-	(1,155)	(2,904)
Foreign exchange	$120	-	$1,155	$1,275

The error had the following impact on the consolidated statement of financial position as at January 1, 2017:

Restated January 1, 2017	**As previously reported**	**Adjustment**	**As restated**
STATEMENT OF FINANCIAL POSITION			
Accumulated other comprehensive income (loss)	$643	($5,022)	($4,379)
Deficit	(27,551)	5,022	(22,529)

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.

ANNUAL CONDENSED CONSOLIDATED FINANCIAL RESULTS

Selected Financial Information

		Note 1	**Note 2**
For the year ended December 31,	**2018**	**2017**	**2016**
Revenue - continuing operations	$7,535	$8,182	$11,524
Results from operating activities	(710)	(588)	(1,402)
Income (loss) from continuing operations	71	(2,904)	(3,280)
Income (loss) from discontinued operations	1,179	(2,855)	(1,690)
Net income (loss)	1,250	(5,759)	(4,970)
Total assets	2,801	3,232	3,900
Long-term debt (including current portion and debentures)	3,979	4,584	4,137
Shareholders' deficiency **(Note 2)**	(4,546)	(5,889)	(4,993)
Income (loss) per share – continuing operations - basic and diluted	$0.00	($0.03)	($0.03)
Income (loss) per share – discontinued operations - basic and diluted	$0.01	($0.03)	($0.02)
Net income (loss) per share – basic and diluted	$0.01	($0.06)	($0.05)
Cash dividends	Nil	Nil	Nil

Note 1
The 2017 Financial Statements were restated for the correction of an error – see Note 2 Page 5 of this MD&A

Note 2
The January 1, 2017 Shareholders deficiency has been restated to correct period errors in the application of its accounting policy related to the determination of other comprehensive income since this policy was adopted on the Corporation's transition to IFRS in 2011. The impact of this restatement was limited to a reclassification between Accumulated Other Comprehensive Income and Deficit within the Shareholders' deficiency. The 2016 loss from continuing operations and net loss were adjusted to reflect a restatement resulting in the change in the other comprehensive income of $412.

2018 PERFORMANCE OVERVIEW

CONTINUING OPERATIONS

- The Corporation recorded adjusted EBITDA of $521 and $688 for the three and twelve months ended December 31, 2018.
- Gross profit margins increased to 30% for the year ended December 31, 2018 compared to 29% for the year ended December 31, 2017.
- General and administrative expenses decreased 3% for the year ended December 31, 2018, as compared to the fiscal 2017, as cost control measures were employed to reduce variable expenses.

RESULTS FROM OPERATING ACTIVITIES

THREE MONTHS ENDED DECEMBER 31,

	2018	Note 1 2017	% Change
Revenue	$1,925	$2,101	(8)
Cost of sales	1,645	1,505	9
Gross profit	280	596	(53)
General and administrative expense	645	595	8
Stock based compensation	18	31	(42)
	663	626	6
Results from operating activities	($383)	($30)	(1,173)
Income from continuing operations	$292	$70	317
Adjusted EBITDA	$521	$331	57

Note 1

The 2017 Financial Statements were restated for the correction of an error – – see Note 2 Page 5 of this MD&A

REVENUE, COST OF SALES AND GROSS PROFIT

	Three Months Ended December 31,		Year Ended December 31,	
	2018	2017	2018	2017
Sales	$ 1,925	$ 2,101	$ 7,535	$ 8,182
Cost of sales	1,645	1,505	5,482	5,841
Gross profit	$ 280	$ 596	$ 2,053	$ 2,341
Gross profit %	15%	28%	27%	29%

For the three months ended December 31, 2018,

- Gross Profit was reduced in Q4 2018 due to using less refurbished product and more new product as there was lower than anticipated used product on hand during the quarter. The net effect reduced gross profit but improved cash flow as the new equipment had been paid for in 2017 and was considered surplus inventory. The use of refurbished product remains a key cost-driver strategy within the three-year contract signed in Q4 2017 with the Corporation's largest client.

- Activity continues to be reduced from our largest and most active coalbed methane client that put itself up for sale in April 2018, and as a result lowered its operating budget. Activity for the quarter was also hampered by seasonal winter storms that restricted access to many well sites.

- A provision of $225 was recorded during the quarter to account for slow moving and obsolete inventory. Excluding this inventory provision, the gross profit margin was 26% during Q4 2018 and 30% during calendar year 2018.

For the twelve months ended December 31, 2018,

- Gross profit margins were in line with expectations and one percent higher than the previous year despite a negative effect from the introduction of US tariffs on imported steel product. The tariffs are generally being passed on to customers without mark-up.
- Revenues were expected to decrease as part of the pricing model implemented in Q4 2017 that focuses on the responsible refurbishment of used pumps to decrease the client's operating costs while giving the Corporation the ability to maintain or increase gross profit.

GENERAL AND ADMINISTRATIVE EXPENSES

	2018	2017	% Change
For the three months ended March 31,	$674	$800	(16)
For the three months ended June 30,	681	699	(3)
For the three months ended September 30,	674	654	3
For the three months ended December 31,	645	596	8
For the twelve months ended December 31,	$2,674	$2,749	(3)

- For the three months ended December 31, 2018, general and administrative expenses increased 8% from the comparative period of 2017. The significant variances in costs were:
- Professional fees increased to $74 from $3 which reflects the work required for compatibility with accounting standards in the current period of Q4 2018 relative to Q4 2017.
- Salaries and wages decreased $31 in Q4 2018 in comparison to Q4 2017 due to lower activity levels requiring fewer staff as well as a reduction in bonuses earned for the period.
- For the twelve months ended December 31, 2018, general and administrative expenses decreased 3% from the comparative period of 2017. The most significant variances in costs were as follows:
- Insurance costs declined by $30 for the year ended December 31, 2018 from 2017 as a result of historic claim free periods.
- Salaries and wages decreased $61 for the year ended December 31, 2018 from 2017 from a reduction in headcount in Canada and the US, and a reduction in bonuses earned in the US.

PRODUCT DEVELOPMENT COSTS

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.

	2018	2017	% Change
For the three months ended March 31,	$4	$206	(98)
For the three months ended June 30,	-	26	(-)
For the three months ended September 30,	-	49	(-)
For the three months ended December 31,	5	46	(89)
For the year ended December 31,	$9	$327	(97)

The Corporation did not incur any significant product development costs related to the Linear Pump for the twelve months ended December 31, 2018.

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 three months ended December 31,	18	31	(42)
For the year ended December 31,	$89	$180	(51)

INCOME TAX EXPENSE

CONTINUING OPERATIONS

The Corporation’s income taxes for the year ended December 31, 2018 amounted $Nil (2017 - $Nil) of current income tax expense and $53 (2017 - $Nil) of deferred income tax expense. The Corporation has gross non-capital losses for income tax purposes of $8,660 (2017 - $8,375) which expire from 2029 and 2038 and have not been recognized in the financial statements.

NET FINANCE (INCOME) EXPENSE

	Three months ended December 31, 2018	Three months ended December 31, 2017 Note 1	Twelve months ended December 31, 2018	Twelve months ended December 31, 2017 Note 1
Interest expense on debentures	$106	$112	$437	$448
Interest expense on director and officer advances and bank charges	2	4	23	85
Foreign exchange (gain) loss	(877)	(318)	(1,294)	1,282
Accretion expense	69	51	104	173
Net finance (income) expense	($700)	($151)	($730)	$1,988

Note 1

The 2017 Financial Statements were restated for the correction of an error – see Note 2 Page 5 of this MD&A

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 interest expense for the three month and twelve month period ended December 31, 2018 of $106 and $437 and for the comparative period of $112 and $448, respectively, was paid to our debenture holders by the issue of common shares as follows:

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	109
For the three months ended September 30,	2,112,704	112
For the three months ended December 31,	2,968,629	106
For the year ended December 31,	8,324,819	$437

2017	Common shares Issued	Interest expense
For the three months ended March 31,	891,703	$115
For the three months ended June 30,	843,272	110
For the three months ended September 30,	1,294,031	111
For the three months ended December 31,	1,811,642	112
For the year ended December 31,	4,840,648	$448

DISCONTINUED OPERATIONS

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 year ended December 31, 2018 COTS Mexico was liquidated and it was determined that any liabilities associated with COTS Mexico, including income and withholdings taxes owed were eliminated upon liquidation.

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

The discontinued operations of COTS Mexico are presented below.

	2018	2017 Note 1
Selling, general and administrative expenses	$-	$150
Amortization	-	2
Provision for bad debts on advances	-	125
Loss on disposal of assets	-	3
Stock based compensation	-	10
Foreign exchange	-	2,475
	-	2,765
Loss from discontinued operations before income taxes	-	(2,765)
Income tax recovery (expense)	1,179	(90)
Income (loss) from discontinued operations	$1,179	($2,855)
Cash (used in) from operating activities	$-	$30
Cash generated from investing activities	-	
Cash flows used in discontinued operations	$-	$30

Note 1

The 2017 Financial Statements were restated for the correction of an error – see Note 2 Page 5 of this MD&A

OUTLOOK

Corporate

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

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

Immediately following the removal of the CTO, the Company plans to settle the outstanding unpaid liability for interest expense on its debentures by way of issuing common stock of the Corporation.

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 moving forward

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

Key Strategies:

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

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

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CASH AND LIQUIDITY

The Corporation had cash balances of $292 and $549 as at December 31, 2018 and 2017, respectively.

Cash used in operating activities was $189 in 2018 and compared to cash generated from operations of $46 during 2017. The changes in non-cash working capital items includes a decrease in trade receivables of $29, a decrease in inventories of $263, an increase in prepaid expenses of $24, an increase in accounts payable $10 and decrease of liabilities associated with discontinued operations of $1,179.

The Corporation has an accumulated deficit of $26,733 at December 31, 2018. The Corporation has experienced a history of losses. In 2018, the Corporation generated small profit by generating income from continuing operations of $71. The Corporation has negative working capital at December 31, 2018 of $1,128. The Company is not in compliance with all of the covenants of the indenture agreements relating to the debentures with effect from November 16, 2019 as the Corporation has not settled or paid the interest obligations for the three months ended June 30, 2019 and September 30, 2019. As such, the debenture holders have the right to demand immediate repayment of all outstanding amounts. The Corporation plans to settle all outstanding interest obligations of the indentures through the issuance of common shares of the Company once the Alberta Securities Exchange imposed Cease Trade Order is lifted. There is a material uncertainty as to whether the Corporation will be able to repay these obligations without obtaining additional future debt or equity financings.

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

FINANCIAL INSTRUMENTS

COMMITMENTS

Lease Commitments

As at December 31, 2018, the Corporation had the following operating lease commitments:

Year	Total
2019	$381
2020	357
2021	231
2022	36
2023 and thereafter	33
Total	$1,038

SUMMARY OF SHARE CAPITAL

As at December 31, 2018, the Corporation had 117,226,991 common shares issued and outstanding with stated share capital value of $17,853. 5,750,000 share purchase warrants and 7,960,000 stock options are outstanding at December 31, 2018.

RELATED PARTIES

The following transactions were in the normal course of operations and are recorded at their agreed upon amounts.

a. Certain directors and officers of the Corporation have provided debentures to the Corporation which are denominated in Canadian Dollars. The CAD $5,750 face value of the debentures includes CAD $1,423 (2017 – CAD $1,423) due to directors and officers of the Corporation. Interest paid on these debentures during the year was $110 (CAD $142) (2017 – $60 (CAD $78)).

b. At December 31, 2018, officers and directors have advances to the Corporation outstanding of $87 (CAD $120) (2017 - $87 (CAD $120) which are included in accounts payables and accrued liabilities. The advances are due on demand and bear interest at 10%. Interest of $10 (CAD $13) (2017 – $7 (CAD $9)) is included in accounts payable and accrued liabilities.

c. During 2017, certain directors and officers of the Corporation converted advances made to the Corporation of $51 (CAD $70) into common shares of the private placement.

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

Key management personnel compensation comprised:

	2018	2017
Wages and commissions	$266	$316
Directors' fees	73	65
Stock based compensation	63	128
Total	$402	$509

OFF BALANCE SHEET ARRANGEMENTS

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

Net income (loss) and Adjusted EBITDA Reconciliation

	Q4-2018	Restated Q4-2017	YE-2018	Restated YE-2017
Income (loss) from continuing operations	$292	$70	$71	($2,904)
Taxes	-	-	(53)	-
Interest	106	187	437	533
Amortization and depreciation	54	23	129	102
Accretion of debenture	69	51	104	173
Adjusted EBITDA	$521	$331	$688	($2,096)

RISKS AND UNCERTAINTIES - FINANCIAL RISK MANAGEMENT

Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the Corporation's risk management framework including developing and monitoring the Corporation's risk management policies. The Corporation's risk management policies are established to identify and analyze the risks faced by the Corporation, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Corporation's activities.

Credit Risk

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Corporation's receivables from customers. The Corporation previously experienced significant credit risk in Mexico and has ceased any future operations as a result. Prior to the end of Q1 2017, the Corporation collected $229 from its Mexican operation and does not have any other receivables outstanding in Mexico.

Trade receivables

During the year ended December 31, 2018 approximately 93% (2017 - 95%) of sales are attributable to one customer. The accounts receivable include a customer which represents 85% at December 31, 2018 (2017 – 89%).

The Group established allowances for impairment of trade receivables during 2018 of $Nil (2017 - $125) which was included in discontinued operations.

Liquidity risk

Liquidity risk is the risk that the Corporation may encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Corporation's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Corporation's reputation. See discussion on the Corporation's cash and liquidity above. See Note 1 in the consolidated financial statements with respect to the conditions that currently exist that may cast significant doubt on the Corporation's ability to continue as a going concern (See Going Concern Section). In addition please see the Cash and Liquidity section.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Corporation's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. The level of market risk to which the Corporation is exposed to, depends on market conditions, expectations of future price or market rate movements and the composition of the Corporation's financial assets and liabilities. The Corporation regularly monitors market risk exposure, tolerances and control processes in order to manage the exposure related to changes in market risk to stay within acceptable market risk limits.

Currency Risk

The Corporation is exposed to currency risk on sales and purchases that are denominated in a currency other than the respective functional currencies of Corporation entities, primarily the US dollar and CDN dollar. The Corporation does not hedge its foreign currency transactions but does endeavor to contract its business to US dollar equivalency.

Interest on borrowings is denominated in the currency of the borrowing. Generally, borrowings are denominated in Canadian dollars.

Interest Rate Risk

Interest rate risk arises from changes in market interest rates that may affect the fair value or future cash flows from the Corporation's financial assets or liabilities. The Corporation is exposed to interest rate risk on certain debt instruments and short term investments to the extent of changes in the underlying market interest rates. Cash flow exposure to interest rate risk is minimal at this time as substantially all of the Corporation's borrowings bear interest at fixed rates.

Contingencies

From time to time, the Group is subject to legal proceedings, assessments and claims in the ordinary course of business. At this time, in the opinion of management, none of these matters are reasonably expected to result in a material adverse effect on the Group's financial position.

Capital Management

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

The Corporation has identified the need for additional equity financing however it has not been successful in raising additional new capital. The Corporation's existing debt agreements do not require maintenance of any financial ratios. There were no changes to the Corporation's approach to capital management during the year ended December 31, 2018. The Corporation is not subjected to any internally or externally imposed capital requirements.

Critical Accounting Policies and Estimates

The Corporation prepares its consolidated financial statements in accordance with IFRS. In preparing its financial statements, management is required to make various estimates and judgments in determining the reported amounts of assets and liabilities, revenues and expenses, as well as the disclosure of commitments and contingencies. Management bases its estimates and judgments on its own experience and various other assumptions believed to be reasonable at the time and under the circumstances in existence when the financial statements were prepared. Anticipating future events cannot be done with certainty; therefore, these estimates may change as new events occur, more experience is acquired or the Corporation's operating environment changes. More detailed information regarding the accounting estimates believed by management to require the most difficult, subjective or complex judgments and which are material to the Corporation's financial reporting results are discussed in the Corporation's financial statements for the year ended December 31, 2018.

New accounting standards, amendments to accounting standards and interpretations are effective for annual periods beginning on or after January 1, 2019 and have not been applied in preparing the Consolidated Financial Statements for the year ended December 31, 2018. The standard applicable to the Corporation are as follows and will be adopted on their respective effective date:

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's initial assessment is a right of use asset of approximately $915 will be recognized with offsetting current and long-term liabilities of approximately $340 and $575, respectively. The Corporation will recognize these adjustments using the modified retrospective approach. These initial estimates are subject to refinement as the Corporation finalizes its analysis of the appropriate discount rates and lease terms.

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 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 Company to obtain extension waivers from its debenture holders, the lifting of the CTO, and the resumption of trading of its common shares on the TSXV 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.

DIVERGENT ENERGY SERVICES

Corporate Information

DIRECTORS AND OFFICERS

Ken Bagan (2) (3)
Chairman of the Board

Cam Barton (1) (2) (3)
Director

Don Luft (4)
Director

Martin Hall (1) (2)
Director

Rob Riecken (1) (3) (4)
Director

Ken Berg (4)
Chief Executive Officer
President, Director

Scott Hamilton
Chief Financial Officer

(1) Member of the Audit Committee, Mr. Hall is Chair.
(2) Member of the Governance and Nominating Committee, Mr. Barton is Chair.
(3) Member of the HR and Compensation Committee, Mr. Riecken is Chair.
(4) Member of the Health, Safety and Environment Committee, Mr. Luft is Chair.

All members of the Board of Directors are independent with the exception of Mr. Berg.

CORPORATE OFFICE

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AUDITORS
KPMG LLP
Calgary, Alberta

STOCK EXCHANGE
TSX Venture
Calgary, Alberta

TRANSFER AGENT AND REGISTRAR
Computershare
Calgary, Alberta