Divergent Energy Services Corp.

Management Discussion and Analysis
As at June 30, 2019 and for the three and six month periods ending June 30, 2019 and 2018

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

Dated: December 30, 2019

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INTRODUCTION

Management's Discussion & Analysis ("MD&A") of the financial condition and results of operations of Divergent Energy Services Corp. ("the Corporation") for the period ended June 30, 2019, contains information current to and is dated December 30, 2019. It should be read in conjunction with the Unaudited Condensed Consolidated Interim Financial Statements for the three and six month periods ended June 30, 2019 ("Q2 2019") and the Audited Consolidated Financial Statements dated December 31, 2018, and notes thereto as well as other information which is available on SEDAR at www.sedar.com. All amounts contained herein are in thousands (000's) of United States Dollars unless otherwise indicated.

The Corporation's Unaudited Condensed Consolidated Interim Financial Statements have been prepared in accordance with International Accounting Standards ("IAS") 34 "Interim Financial Reporting". The Corporation's significant accounting policies under International Financial Reporting Standards ("IFRS") are included in Note 4 to the annual financial statements, with the addition of policies as noted in the Q2 2019 Unaudited Condensed Consolidated Interim Financial Statements; both can be found on SEDAR at www.sedar.com.

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

The following MD&A for the Corporation has been prepared by management as of December 30, 2019, and is a review of the financial condition and results of operations of the Corporation. This MD&A and Q2 2019 Unaudited Condensed Consolidated Interim Financial Statements were reviewed by the Audit Committee of the Corporation's Board of Directors on December 30, 2019, and approved by the Corporation's Board on December 30, 2019.

This MD&A has been prepared in accordance with the requirements of National Instrument 51-102 and covers the period from January 1, 2019, to June 30, 2019, unless otherwise noted.

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 into the USA. The Corporation offers normal and customary trade terms to its customers, no significant part of which is of an extended nature. Special inventory requirements are not necessary, and customer merchandise return rights do not extend beyond normal warranty provisions. The market for the Corporation's products is highly competitive.

SUMMARY DESCRIPTION OF BUSINESS

Artificial Lift Systems ("ALS")

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

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

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

- **Electric Submersible Progressing Cavity Pump Systems ("ESPCP")**
  ESPCP products and services primarily target production operations in the oil and gas industry. Divergent pioneered the introduction of ESPCP's to the Powder River Basin. ESPCPs are specially designed for abrasion resistance in tough pumping applications and able to move viscous fluids at high flow rates.

- **Linear Electromagnetic Submersible Pump ("Linear Pump")**
  The Linear Pump, currently under 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.

GOING CONCERN

As the financial statements are being filed on December 30, 2019, they include additional information regarding the going concern. At June 30, 2019 the Corporation has a working capital deficiency of $6,057 and an accumulated deficit of $27,964. During the three and six month period ended June 30, 2019, the Corporation generated losses from continuing operations of $535 and $1,231, respectively. The Corporation generated cash from operations of $44. During Q2 2019 approximately 80% and 86% (Q2 2018 - 80% and 88%) of sales are attributable to one customer for the three and six month periods ended June 30, 2019, respectively. Included in accounts payable and accrued liabilities are amounts due to related parties totaling CAD $120 which are due on December 31, 2020. 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. As of December 30, 2019, the filing date, the Corporation has received waivers from its debenture holders covering all outstanding interest currently due and payable, plus interest which will become due and payable on December 30, 2019 which allows the Corporation to pay all outstanding interest owing to debenture holders by the issue of the Corporation's common shares on or before March 31, 2020. Accordingly, the Corporation is currently compliant with the provisions of the debenture indenture.

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

Additional financing is required in order for the Corporation to meet its current obligations. The Corporation's management and Board of Directors continue to seek alternative debt and equity financings in order to fund additional projects and operations in North America and to provide for the repayment of the Corporation's obligations as they become due. There is no assurance the Corporation will be able to obtain adequate financing in the future or that such financing will be on terms acceptable to the Corporation.

SUMMARY OF QUARTERLY RESULTS (UNAUDITED)
SEE NOTES BELOW

USD	Q2-2019	Q1-2019	Q4-2018	Restated Q3-2018
Revenue – continuing operations	$1,881	$1,765	$1,925	$1,659
Income (loss) for the period – Continuing operations	(535)	(419)	292	(1,226)
Income (Loss) for the period - Discontinued operations	-	-	-	-
Net income (loss) for the period	(535)	(419)	292	(1,226)
Comprehensive income (loss) per share – basic and diluted	($0.00)	(0.00)	$0.00	($0.01)

SEE NOTES BELOW	Restated	Restated	Restated	Restated
USD	Q2-2018	Q1-2018	Q4-2017	Q3-2017
Revenues – continuing operations	$2,021	$1,930	$2,101	$1,778
Income (loss) for the period – Continuing operations	357	648	70	(848)
Income (loss) for the period – Discontinued operations	-	1,179	(209)	(4)
Net income (loss) for the period	357	1,827	(139)	(852)
Comprehensive income (loss) per share (basic and diluted)	$0.00	0.02	($0.00)	($0.01)

RESTATEMENT
Note 1

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

Note 2

The Corporation restated its consolidated statement of financial position as at June 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 six month periods ended June 30, 2018.

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, the 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 six month periods ended June 30, 2018, as well as the impact of the consolidated statement of financial position as at January 1, 2017, December 31, 2017 and June 30, 2018.

Restated three months ended June 30, 2018	**As previously reported**	**Adjustments**	**As restated**
CONSOLIDATED STATEMENT OF NET LOSS AND COMPREHENSIVE LOSS			
Net finance income	$19	$511	$530
Income (loss) from continuing operations before income taxes	(154)	511	357
Income (loss) from continuing operations	(154)	511	357
Income (loss) from discontinued operations, net of tax (Note 1)	-	-	-
Net income (loss)	(154)	511	357
Other comprehensive loss	(44)	(511)	(555)
Continuing operations - basic and dilutive loss per share	(0.00)	0.00	0.00
Income (loss) from discontinued operations, net of tax	0.00	0.00	0.00
Net income (loss) – basic and dilutive	(0.00)	0.00	0.00

Restated six months ended June 30, 2018	**As previously reported**	**Adjustments**	**As restated**
CONSOLIDATED STATEMENT OF NET LOSS AND COMPREHENSIVE LOSS			
Net finance income	$76	$1,086	$1,162
Income (loss) from continuing operations before income taxes	(134)	1,086	952
Income (loss) from continuing operations	(81)	1,086	1,005
Income (loss) from discontinued operations, net of tax (Note 1)	(315)	1,494	1,179
Net income (loss)	(397)	2,580	2,183
Other comprehensive income (loss)	(89)	(1,086)	(1,175)
Continuing operations - basic and dilutive loss per share	(0.00)	0.01	0.01
Income from discontinued operations, net of tax	0.00	0.01	0.01
Net income (loss) – basic and dilutive	(0.00)	0.02	0.02
STATEMENT OF CASH FLOWS			
Income (loss) from continuing operations	($81)	$1,086	$1,005
Foreign exchange gain	(295)	(1,086)	(1,381)

NON GAAP MEASURES

In this MD&A, we refer to financial measures that do not have any standardized meaning as prescribed by General Accepted Accounting Principles ("GAAP"). These non-GAAP financial measures are relevant to an understanding of the financial statements and are not presented elsewhere in the financial statements. These measures have been described and presented in order to provide shareholders and potential investors with additional measures for analyzing our ability to generate funds to finance our operations and information regarding our liquidity. Users are cautioned that non-GAAP financial measures presented by the Corporation may not be comparable with measures provided by other entities. Below are the non-GAAP measures that Divergent uses.

Adjusted EBITDA means earnings before interest, taxes, depreciation, amortization and accretion. EBITDA is not a recognized measure under GAAP. Management believes that in addition to net earnings, EBITDA is a useful supplemental measure as it provides an indication of the results of the Corporation's business prior to consideration to how the activities are financed, amortized or how the results may be taxed in various jurisdictions.

Readers should be cautioned, however, EBITDA should not be construed as an alternative to net earnings determined in accordance with GAAP as an indicator of Divergent's performance. Divergent's method of calculating EBITDA may differ from other organizations and, accordingly, EBITDA may not be comparable to measures by other organizations.

QUARTERLY CONDENSED CONSOLIDATED FINANCIAL RESULTS

Selected Financial Information

Restated See Notes 1 and 2 (above)

	Three Months Ended June 30, 2019	Restated 2018	Six Months Ended June 30, 2019	Restated 2018
Revenue – continuing operations	$1,881	$2,021	$3,646	$3,951
Income (loss) from continuing operations	(535)	357	(1,231)	1,005
Income from discontinued operations	-	-	-	1,179
Net income (loss) for the period	(535)	357	(1,231)	2,184
Total assets	4,003	2,960	4,003	2,960
Total liabilities	9,215	7,429	9,215	7,429
Shareholders' deficiency	(5,212)	(4,469)	(5,212)	(4,469)
Income(loss) per share basic and diluted – continuing operations	(0.00)	0.00	(0.01)	0.01
Income per share basic and diluted – discontinued operations	0.00	0.00	0.00	0.01
Income (loss) per share – basic and diluted	(0.00)	0.00	(0.01)	0.02

QUARTER OVERVIEW

CONTINUING OPERATIONS

For the three month period ended June 30, 2019:

- The Corporation recorded Adjusted EBITDA loss of ($337) as compared to positive Adjusted EBITDA of $513 in Q2 2018.
- G&A decreased 33% from the previous period of Q2 2018.

For the six month period ended June 30, 2019:

- The Corporation recorded Adjusted EBITDA loss of ($845) as compared to positive Adjusted EBITDA of $1,263 in Q2 2018.
- G&A decreased 11% from the previous period of Q2 2018.

RESULTS FROM OPERATING OPERATIONS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30,

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	**2018**	**2019**	**2018**
Revenue	$1,881	$2,021	$3,646	$3,951
Cost of sales	1,432	1,490	2,682	2,750
Gross profit	449	531	964	1,201
General and administrative	755	681	1,205	1,355
Stock based compensation	8	23	25	52
	(763)	(704)	(1,230)	(1,407)
Results from operations	($314)	($173)	($266)	($206)
Adjusted EBITDA	($337)	$513	($845)	$1,263

REVENUE, COST OF SALES AND GROSS PROFIT

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	**2018**	**2019**	**2018**
Revenue	$1,881	$ 2,021	$ 3,646	$ 3,951
Cost of sales	1,432	1,490	2,682	2,750
Gross profit	$449	$531	$964	$1,201
Gross profit %	24%	26%	26%	30%

For the three and six month periods ended June 30, 2019,

- Activity levels in April and May were better than expected given historic issues with spring storms in Wyoming. June's job count was negatively impacted by our largest client having a portion of their monthly operating budget directed to expenses not related to replacing ESP's.

General and administrative expenses ("G&A")

	2019	**2018**	**% Change**
For the three months ended March 31,	$450	$674	(33%)
For the three months ended June 30,	755	681	11%
For the six months ended June 30,	$1,205	$1,355	(11%)

The Corporation achieved significant G&A expense reductions in a number of key areas including compensation and rent. These reductions were offset by increased professional fees of $125 relating to the 2018 year end audit.

Stock based compensation

	2019	2018	% Change
For the three months ended March 31,	$17	$29	(41%)
For the three months ended June 30,	8	23	(65%)
For the six months ended June 30,	$25	$52	(52%)

Stock based compensation has decreased for the three and six months periods ended June 30, 2019 compared to those periods of 2018 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

	2019	2018	% Change
For the three months ended March 31,	$1	$4	(75%)
For the three months ended June 30,	49	-	N/A
For the six months ended June 30,	$50	$4	1,150%

The Corporation incurred minimal product development costs related to the Linear Pump for the three months ended June 30, 2019. Although costs related to testing are expected to reduce over time as the Linear Pump approaches commercial viability we foresee additional costs exceeding the amount for Q3 2019 for the remainder of 2019.

Net Finance Expense

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Foreign exchange (loss) gain	($32)	$661	($630)	$1,412
Interest expense – directors and officers advances and bank charges	(6)	(6)	(11)	(9)
Interest expense – debentures	(106)	(114)	(218)	(218)
Accretion expense	(28)	(11)	(56)	(23)
Net finance (expense) income	($172)	$530	($915)	$1,162

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 period ended June 30, 2019 the Corporation recorded a loss on foreign exchange of $32 and loss of $630 in comparison to a gain of $661 and a gain $1,412 for the comparative periods respectively, primarily due to the aforementioned.

Income Tax Expense

The Corporation's current income tax expense and deferred income tax expense was $Nil and $Nil for the three and six month periods ended June 30, 2018. The Corporation has non-capital losses for income tax purposes of $5,084 which expire in 2028 through 2035. Those non-capital losses have not been recognized in the financial statements.

DISCONTINUED OPERATIONS

The Corporation had conducted its operations in Mexico primarily through its wholly owned subsidiary, COTS Mexico. On February 1, 2018 COTS Mexico was liquidated and it was determined that any liabilities associated with COTS Mexico, including income and withholding taxes owed were eliminated upon liquidation. Accordingly an income tax recovery of $1,179 was recorded.

	Three Months Ended June 30, 2019	Restated 2018	Six Months Ended June 30, 2019	Restated 2018
Selling, general and administrative	$-	$-	$-	$-
Stock based compensation	-	-	-	-
Loss from discontinued operations before income taxes	-	-	-	-
Income tax expense – recovery	-	-	-	1,179
Income from discontinued operations	**$-**	**$-**	**$-**	**$1,179**

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 was successful in receiving 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 therefor steps must be taken to deliver value within the products and services that are within our control.
Key Strategies:
• Position the Corporation to take advantage of the near-term upswing in PRB activity.
• Explore synergies with other companies to leverage products and services together to increase sales.
• Seek opportunities to expand into other basins of high activity.
The Corporation's vision is to be a premier supplier of submersible pumping products that increase production while reducing costs and carbon footprint. Divergent's Technical Advisory Committee continues to evaluate emerging artificial lift technologies that will differentiate Divergent within a competitive and growing market.

CASH AND LIQUIDITY

The Corporation had cash balances of $118 and $292 as at June 30, 2019 and December 31, 2018 respectively.

Cash from operating activities was $44 for the six months ended Q2 2019. The changes in non-cash working capital items includes an increase in trade receivables of $271, an increase in inventories of $338, a decrease in prepaid expenses of $5, an increase in accounts payable and accrued liabilities of $1,002.

Refer to the Going Concern section.

RELATED PARTIES

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

a) The 10% debenture of CAD $5,750 includes CAD $1,423 from directors and officers of the Corporation. Interest paid to directors and officers for Q1 2019 amounts to CAD $35 (2018 – CAD $3).

b) Officers and directors advanced the Corporation CAD $195, of which CAD $70 was converted into common shares of a private placement and repayment of CAD $5. The remaining advances of CAD $120 is included in accounts payables and accrued liabilities. The advances are due on demand, mature December 31, 2020 and bear interest at 10%. Interest of CAD $4 is included in accounts payable and accrued liabilities.

SUBSEQUENT EVENTS

Compliance with debenture covenants

As these financial statements are being filed on December 30, 2019, they include information related to the Corporation becoming compliant with covenants of the indenture agreements effective December 30, 2019. This event is described in the Going Concern section above.

FINANCIAL INSTRUMENTS

Interest Rate Risk

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

Commitments

Long-Term Debt

As at June 30, 2018, the Corporation had debentures of CAD $5,750 outstanding and maturing on December 31, 2021.

Lease Commitments

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

Year (In 000's)	**Total**
2019	$188
2020	365
2021	241
2022	43
2023	33
Total	$870

SUMMARY OF SHARE CAPITAL

As at June 30, 2019, the Corporation had 120,062,605 common shares issued and outstanding with stated share capital value of $17,962. 5,750,000 warrants and 7,960,000 stock options, of which 5,881,666 are exercisable, were outstanding at June 30, 2019. As at December 30, 2019, the common shares outstanding are 120,062,605.

RECONCILIATION OF LOSS OF CONTINUING OPERATIONS TO ADJUSTED EBITDA

	3 Months Ended June 30, 2019	**3 Months Ended June 30, 2018**	**6 Months Ended June 30,**	**6 Months Ended June 30, 2018**
Net loss from continuing operations	**($535)**	**$357**	**($1,231)**	**$1,005**
Taxes	-	-	-	(53)
Interest	112	120	218	230
Depreciation	58	25	112	58
Accretion	28	11	56	23
	($337)	**$513**	**($845)**	**$1,263**

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.

Accounts receivable

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk, particularly in the current economic circumstances. Approximately 91 percent (Q1 2016: 98 percent) of ESP sales are attributable to one counterparty.

The Group has established allowances for impairment of trade receivables in 2019 - $Nil (2018 - $Nil).

Liquidity Risk

Liquidity risk is the risk that the Corporation may encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Corporation's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Corporation's reputation. See discussion on the Corporation's cash and liquidity above.

Market Risk

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

Currency Risk

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

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

Interest Rate Risk

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

Contingencies

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

Capital Management

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

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

The Corporation's existing debt agreements do not require maintenance of any financial covenants. There were no changes to the Corporation's approach to capital management during the six month period ended June 30, 2019. 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, 2018.

On January 1, 2019 the Corporation adopted IFRS 16, which introduces a comprehensive model to identify, recognize, measure, and present lease arrangements. The Corporation adopted IFRS 16 using the modified retrospective approach. Under this approach, the comparative information has not been restated and the reclassification and adjustments arising from the new leasing rules are recognized in the opening statement of financial position on January 1, 2019. The details of the accounting policy changes and the quantative impact of these changes are described below.

If a contract is assessed to contain a lease, the Corporation recognizes a lease liability with a corresponding right-of-use ("ROU") asset on the date at which the leased asset is available for use by the Corporation. The lease liability is initially measured at the present value of the lease payments outstanding at the commencement date discounted using the interest rate implicit in the lease. If the implicit interest rate cannot be determined, the Corporation's incremental borrowing rate is used, being the rate it would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment. Generally, the Corporation uses is incremental borrowing rate as its discount rate.

In measuring the lease obligations, the Corporation used and incremental borrowing rate as at January 1, 2019 to discount the lease payment of 5%.

The ROU is depreciated using the straight-line method from the recognition date to the earlier of the end of the useful life of the asset or the end of the lease term.

Upon initial adoption of IFRS 16, the Corporation recognized $937 of ROU assets and an equal amount of lease obligations with no adjustment required to the Corporation's deficit, which is summarized as follows:

Operating lease commitments at December 31, 2018	**$881**
Discounted amount at January 1, 2019	780
Finance lease obligations at December 31, 2018	157
Total lease obligations at January 1, 2019	**937**
Additional lease commitments	57
Payments during the period	(191)
Discounted amount at June 30, 2019	803
Less current lease obligations	**(347)**
Long-term lease obligations at June 30, 2019	**$456**

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

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 Ken Berg

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LAWYERS
Burstall LLP
Calgary, Alberta

AUDITORS
KPMG LLP
Calgary, Alberta

STOCK EXCHANGE
TSX Venture
Calgary, Alberta

TRANSFER AGENT AND REGISTRAR
Computershare
Calgary, Alberta