



Divergent Energy Services Corp.

Management Discussion and Analysis
As at March 31, 2019 and for the three month periods ending March 31, 2019 and 2018

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

Dated: December 30, 2019

Divergent Energy Services Corp.

Management Discussion and Analysis

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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 March 31, 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 month period ended March 31, 2019 ("Q1 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 Q1 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.

This MD&A and Q1 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. 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 has been prepared in accordance with the requirements of National Instrument 51-102 and covers the period from January 1, 2019, to March 31, 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

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 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.

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GOING CONCERN

As the financial statements are being filed on December 30, 2019, they include additional information regarding the going concern up to that date. At March 31, 2019 the Corporation has a working capital deficiency of \$1,340 and an accumulated deficit of \$27,152. During the period ended March 31, 2019 the Corporation generated a loss from continuing operations of \$419 and cash from operations of \$123. During Q1 2019 approximately 90% (Q1 2018 - 96%) of sales are attributable to one customer. 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 (NOTES 1 AND 2 – SEE BELOW)

USD	Q1-2019	Q4-2018	Q3-2018 (Restated)	Q2-2018 (Restated)
Revenue – Continuing operations	\$1,765	\$1,925	\$1,659	\$2,021
Income (loss) for the period – Continuing operations	(419)	292	(1,226)	357
Income (loss) for the period – Discontinued operations	-	-	-	-
Net income (loss) for the period	(419)	292	(1,226)	357
Comprehensive income (loss) per share (basic and diluted)	(0.00)	\$0.00	(\$0.01)	\$0.00

USD	Q1-2018 (Restated)	Q4-2017 (Restated)	Q3-2017 (Restated)	Q2-2017 (Restated)
Revenue – Continuing operations	\$1,930	\$2,101	\$1,778	\$2,140
Income (loss) for the period – Continuing operations	648	70	(848)	(1,218)
Income (loss) for the period – Discontinued operations	1,179	(209)	(4)	(87)
Net income (loss) for the period	1,827	(139)	(852)	(1,305)
Comprehensive income (loss) per share (basic and diluted)	0.02	\$0.00	(\$0.01)	(\$0.01)

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RESTATEMENT

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

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 in the period ending Q1 2018.

Note 2

The Corporation restated its consolidated statement of financial position as at March 31, 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 month period ended March 31, 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 month period ended March 31, 2018, as well as the impact of the consolidated statement of financial position as at January 1, 2017, December 31, 2017 and March 31, 2018.

<i>Restated March 31, 2018</i>	As previously reported	2018 Adjustments	As restated
STATEMENT OF INCOME AND COMPREHENSIVE INCOME			
Finance income	57	575	632
Income from continuing operations before income taxes	20	575	595
Income from continuing operations	73	575	648
Income (loss) from discontinued operations, net of tax (Note 1)	(315)	1,494	1,179
Net income (loss)	(242)	2,069	1,827
Other comprehensive loss	(45)	(575)	(620)
Continuing operations - basic and dilutive income (loss) per share	(0.00)	0.01	0.01
Discontinued operations - basic and dilutive income (loss) per share	(0.00)	0.01	0.01
Net income (loss) – basic and dilutive	(0.00)	0.02	0.02

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.

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QUARTERLY CONDENSED CONSOLIDATED FINANCIAL RESULTS

Selected Financial Information

	2019	Restated 2018
For the three months ended March 31,		
Revenue – from continuing operations	\$1,765	\$1,930
(Loss) income from continuing operations	(419)	648
Income from discontinued operations	-	1,179
Net income (loss) for the period	(419)	1,827
Total assets	3,903	3,035
Total liabilities	8,509	7,437
Shareholders' deficiency	(4,606)	(4,402)
Income (loss) per share basic and diluted - from continuing operations	(0.00)	0.01
Income per share basic and diluted – from discontinued operations	0.00	0.01
Net income (loss) per share – basic and diluted	(0.00)	0.02

QUARTER OVERVIEW

CONTINUING OPERATIONS

- The Corporation recorded adjusted EBITDA loss of (\$231) for Q1 2019
- Results from operating activities increased 245% for the three months ended March 31, 2019 compared to the previous period of Q1 2018
- General and administrative expenses decreased 33% for the three months ended March 31, 2019 as compared to Q1 2018 as management continues its mandate to control costs and streamline processes

RESULTS FROM OPERATING ACTIVITIES

THREE MONTHS ENDED MARCH 31,

	2019	2018	% Change
Revenue	\$1,765	\$1,930	(9%)
Cost of sales	1,250	1,260	(1%)
Gross profit	515	670	(23%)
General and administrative expense	450	674	(33%)
Stock based compensation	17	29	(41%)
	(468)	(703)	(33%)
Results from operating activities	\$48	(\$33)	245%
Adjusted EBITDA	(\$231)	\$742	(131%)

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REVENUE, COST OF SALES AND GROSS PROFIT

	Three Months Ended March 31,	
	2018	2018
Sales	\$1,765	\$1,930
Cost of sales	1,250	1,260
Gross profit	\$ 515	\$ 670
Gross profit %	29%	35%

For the three months ended March 31, 2019,

- Activity continues to be reduced from our largest and most active coal bed methane client that put its assets up for sale in April 2018, and as a result lowered its operating budget. Timing of the sale remains uncertain and the Corporation expects to maintain its market share and be able to participate in any increase in activity after the sale. Activity for the quarter was also hampered by seasonal winter storms that restricted access to many well sites.

General and administrative expenses

	2019	2018	% Change
For the three months ended March 31,	\$450	\$674	(33%)

General and administrative (“G&A”) expenses were reduced where available and in areas that would not hinder the Corporation’s ability to operate safely and respond quickly to the needs of our clients. The Corporation expects G&A to continue to drop as a percentage of sales as the business grows. The significant decreases were as follows:

- Vehicle costs decreased \$60 due to newness of fleet and associated repairs and maintenance.
- Training costs decreased \$20 as the average experience level with field personnel increased.

Stock based compensation

	2019	2018	% Change
For the three months ended March 31,	\$17	\$29	(41%)

The reduction of the Stock based compensation expense by 41% is substantially due to the reduction in head count in the current period of Q1 2019 compared to Q1 2018, and that additional stock options were issued after Q1 2019.

Net Finance (Expense) Income

	2019	2018
Foreign exchange income (loss)	(\$323)	\$760
Interest expense – directors and officers advance and bank charges	(9)	(6)
Interest expense - debenture	(106)	(110)
Accretion expense - debenture	(28)	(12)
Net finance (expense) income	(\$466)	\$632

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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 month period ended March 31, 2019 the Corporation recorded a loss on foreign exchange of \$323 and gain of \$760 in Q1 2018 primarily due to the aforementioned.

The debenture interest of CAD \$142 for Q1 2019 (CAD \$142 - Q1 2018) was paid in common shares of the Corporation; Q1 2019 – 2,835,614 common shares and Q1 2018 – 1,720,639 common shares.

Income Tax Recovery

The Corporation recovered \$NIL in 2019 and \$53 of deferred income taxes with respect to the issue of warrants for the three month period ended March 31, 2018. The recovery was related to the deferred taxes for the issue of the 5,750,000 warrants for the debenture extension to December 31, 2021. The Corporation has non-capital losses for income tax purposes which expire from 2025 and 2036 and 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, the Corporation recorded an income tax recovery of \$1,179.

	2019	2018
Selling, general and administrative expenses	\$-	\$-
Stock based compensation	-	-
	-	-
Loss from discontinued operations before income taxes	-	-
Income tax expense		
Income tax recovery	-	1,179
	-	1,179
Loss from discontinued operations, net of tax	\$-	\$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.

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).

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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 \$300 and \$292 as at March 31, 2019 and December 31, 2018 respectively.

Cash from operating activities was \$123 in Q1 2019. The changes in non-cash working capital items includes an increase in trade receivables and advances of \$78, an increase in inventories of \$240, an increase in prepaid expenses of \$44 and an increase in accounts payable of \$390.

Refer to Going Concern Section.

SUMMARY OF SHARE CAPITAL

As at March 31, 2019, the Corporation had 110,622,807 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 5,046,666 are exercisable, were outstanding at March 31, 2018. As at December 30, 2019, the common shares outstanding are 120,062,605.

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 2018 amounts to CAD \$35 (2017 – 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 CAD \$5 was repaid. 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.

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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.

Income (loss) from continuing operations and Adjusted EBITDA Reconciliation

USD	Q1-2019	Q1-2018 (Restated)
Income (loss) continuing operations	(\$419)	\$648
Taxes	-	(53)
Interest	106	110
Amortization and depreciation	54	25
Accretion of debenture	28	12
Adjusted EBITDA	(\$231)	\$742

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.

Trade receivables

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.

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Currency Risk

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

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

Interest Rate Risk

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

Contingencies

From time to time, the 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'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 three 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 quantitative 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 its incremental borrowing rate as its discount rate.

In measuring the lease obligations, the Corporation used an 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:

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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
Payments during the period	115
Discounted amount at March 31, 2019	822
Less current lease obligations	225
Long-term lease obligations at March 31, 2019	\$597

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

- (1) Member of the Audit Committee
- (2) Member of the Governance and Nominating Committee
- (3) Member of the Compensation Committee
- (4) Member of the Health, Safety and Environment Committee

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HSBC

Calgary, Alberta

LAWYERS

Burstall LLP

Calgary, Alberta

AUDITORS

KPMG LLP

Calgary, Alberta

STOCK EXCHANGE

TSX Venture

Calgary, Alberta

TRANSFER AGENT AND REGISTRAR

Computershare

Calgary, Alberta