DIVERGENT ENERGY SERVICES

Divergent Energy Services Corp.

Management's Discussion and Analysis

For the three and nine month periods ended September 30, 2020

Dated: November 12, 2020

Divergent Energy Services Corp.

The following is Management's Discussion & Analysis ("MD&A") of the financial condition and results of Divergent Energy Services Corp. ("Divergent" or the "Company") for the three and nine months ended September 30, 2020 and has been prepared in accordance with International Accounting Standards ("IAS") 34 "Interim Financial Reporting". The Company's significant accounting policies under International Financial Reporting Standards ("IFRS") are included in Note 4 to the audited annual 2019 consolidated financial statements, with the addition of policies as noted in the Q3 2020 Unaudited Interim Condensed Consolidated Financial Statements; both can be found on SEDAR at www.sedar.com. Unless otherwise noted, all financial information contained in this MD&A is expressed in thousands (000's) of United States Dollars. This MD&A is based on information available as of November 12, 2020 and was reviewed and approved by the Board of Directors on November 12, 2020.

Divergent was incorporated under the Business Corporations Act on October 21, 1996 in the province of Alberta and is a publicly traded entity on the TSX Venture Exchange (TSX-V) under the symbol "DVG". The Company's head office is Suite 2020, 715 – 5 avenue SW, Calgary, Alberta, T2P 2X6.

Going Concern

The interim condensed consolidated financial statements have been prepared on a going concern basis which assumes that the Company 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 rather than through a process of forced liquidation.

At September 30, 2020 the Company had a working capital deficiency of $1,430 and shareholders' deficit of $6,928. During the third quarter of 2020, the Company incurred a net loss of $86, generated cash from operations of $28 and approximately 95% of the Company's sales were attributable to one customer. At September 30, 2020, the Company has debentures payable of $4,123 (CAD $5,750) which mature on December 31, 2021. During 2020, given the limited cash resources on hand, the Company elected to settle interest obligations on the debentures with Company common shares. At September 30, 2020 the Company does not have sufficient cash or other resources available and does not generate income sufficient to meet its obligations and commitments in a timely manner.

Additional financing, a restructuring of existing secured and unsecured obligations, an increase in revenue or a combination is required for the Company to meet its existing obligations. The Company's management and Board of Directors continue to seek alternative debt and equity financings to fund additional projects and operations in North America and to provide for the repayment of the Company's obligations as they become due. There is no assurance the Company will be able to obtain adequate financing in the future or that such financing will be sufficient and on terms acceptable to the Company.

These circumstances and material uncertainties cast significant doubt on the Company's ability to continue as a going concern. These consolidated financial statements do not reflect adjustments in the carrying values of the assets and liabilities, expenses and the statement of financial position that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

Impact of COVID-19

During the first quarter of 2020, the financial markets were negatively impacted by the coronavirus that causes a respiratory disease (COVID-19). The COVID-19 outbreak was declared a pandemic by the World Health Organization on March 12, 2020. At the end of March 2020, the Company was advised by a substantial majority of its client base that they had temporarily suspended operations related to the sales and service of submersible pumps which had a material impact on the financial resources of the Company. The Company resumed limited work on May 18, 2020, with activity slowly recovering following improvements in the price of natural gas and oil. It is not possible to estimate if prices will continue to improve or remain at the present levels for an extended period of time which could have a negative impact on the level of our customer activity. Should prices not continue to improve, this could have a significant adverse impact on the Company's financial results. The extent to which COVID-19 may impact Divergent's results are highly uncertain and cannot be predicted. COVID-19 may impact the measurement of fair value for certain financial statement items, however, whether an adjustment is required depends on the timing of the impact to an item's fair value. The Company tests its non-financial assets for recoverability whenever events or changes in circumstances indicate that a non-financial asset's carrying amount may not be recoverable.

Forward-looking Statements

Certain statements contained in this MD&A constitute "forward-looking statements" or "forward-looking information" within the meaning of the applicable securities legislation (collectively, "forward-looking statements"). These statements relate to management's expectations about future events, results of operations and the Company's future performance (both operational and financial) and business prospects. All statements other than statements of historical fact are forward-looking statements. Forward-looking statements can be identified by words such as: "anticipate," "intend," "contemplate," "continue," "propose," "predict," "plan," "goal," "seek," "believe," "project," "forecast," "pursue," "potential," "objective," "estimate," "expect," "strategy," "future," "likely," "might," "may," "shall," "should," "could," "will," "capable," and similar references to future periods. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. 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. Unless otherwise indicated, these statements speak only as of the date of this MD&A. In addition, this MD&A may contain forward-looking statements and forward-looking information attributed to third-party industry sources.

In particular, this MD&A contains the following forward-looking statements pertaining to, without limitation, the following: the Company's future business operations and activities and the timing thereof; the future liquidity and financial capacity of the Company; and its ability to fund its working capital and corporate development opportunities.

With respect to the forward-looking statements contained in this MD&A, the Company has made assumptions regarding: the ability to raise capital; the continued availability of capital; the ability to obtain financing on acceptable terms; Divergent's ability to successfully execute its plans and intentions including its ability to identify and acquire or participate in future business opportunities.

The Company believes 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, or incorporated by reference into, this MD&A should not be unduly relied upon. These statements speak only as of the date of this MD&A. The actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors. For a detailed discussion of the risk factors, please see heading "Risks and Uncertainties". Readers are cautioned that the list of risk factors are not exhaustive. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement. The forward-looking statements contained in this document speak only as of the date of this document and the Company does not assume any obligation to publicly update or revise them to reflect new events or circumstances, except as may be required pursuant to applicable securities laws.

Description of Business

The Company's business consists of one operating segment namely Artificial Lift Systems and its products are currently sold exclusively in the US. The Company 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 Company's products is highly competitive.

Artificial Lift Systems ("ALS")

The ALS segment provides electric submersible pumping products including the ongoing development of electromagnetic reciprocating submersible pump technology. Divergent currently services the Northern Mountain States in the United States, specifically Wyoming and Colorado, from its facility in Gillette, WY. 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 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 and are specially designed for abrasion resistance in tough pumping applications and can move viscous fluids at high flow rates. This product line has limited applications in the Company's current service region and therefore does not contribute materially to revenues.

- **Linear Electromagnetic Submersible Pump ("Linear Pump")**
  The Linear Pump uses permanent magnet motor technology that duplicates conventional rod pump movement without rod strings or surface lifting equipment. The Linear Pump is installed similar to an ESP at the bottom of the well on production tubing with electric cable running to surface. Development of this product line has been placed on hold since late 2018 with spending ceasing by mid-2019.

Overall Performance

Revenues during the third quarter of 2020 of $743 were 97% higher than the prior quarter and 67% lower compared to Q3 2019. In response to negative market conditions in the oil and gas industry that starting in Q1 2020, all of the Company's customers significantly curtailed activities early in the second quarter. By the end of the second quarter of 2020, client demand for Divergent's services had returned but remained significantly below the levels experienced in the first quarter of 2020 and 2019. Services provided to the Company's coal bed methane ("CBM") clients accounted for approximately 95% of sales during Q3 2020. Third quarter gross profit margins, excluding the impact of provisions for slow moving inventory, of 19% was generally consistent with the first half of 2020 but was lower than the gross profit margin of 23% realized in Q3 2019. Significantly lower sales revenue during Q3 2020 resulted in a large proportion of shop and field payroll being captured in general and administrative expenses. During the third quarter of 2020, the Company reported a loss from operating activities of $86 compared to net income of $14 in Q3 2019.

The global events described in the going concern note have negatively impacted demand for Divergent's services in the immediate term. During the second quarter of 2020, the Company was successful in accessing the Paycheck Protection Program ("PPP Loan") in the United States, which provided funding for 100% of wages, benefits, rent and utilities for an eight-week period extending into the third quarter of 2020 and totaled $253. The Company exited Q3 2020 with a reduced complement of US-based employees as compared to Q3 2019 and remains properly staffed to meet the anticipated level of demand during the remainder of 2020.

The Company has been exploring opportunities to finance the growth of the Company's operation, with a key focus on the specific inventory needed for growth in geographic areas adjacent to its current service area. The Company's current working capital deficiency does not allow it to finance this inventory directly, therefore some form of financing or new supply chain arrangement will be required for growth.

The Company successfully managed its cash resources and working capital during the quarter with support from its secured and unsecured creditors.

Selected information for the third quarter and at quarter end

The following table provides a summary of the Company's financial results for the quarter ended September 30. For more detailed information, refer to the Company's interim condensed consolidated financial statements.

	Q3 2020	**Q3 2019**	**Q3 2018**
Revenue	**743**	2,268	1,659
Net (Loss) income	**(86)**	14	(1,226)
Per share – basic and dilutive (cents per share)	**(0.00)**	0.00	(0.01)
Total assets	**2,046**	3,294	4,985
Total non-current financial liabilities	**5,945**	4,344	387

Overall analysis of financial operations

The global events described in the going concern note led to a substantial reduction in demand for the Company's services as oil and gas companies significantly curtailed their capital spending. Third quarter 2020 revenue was 67% below the same quarter in the prior year. The Company continues to work closely with secured and unsecured creditors and its main customer to successfully manage working capital during the period of financial stress experienced by the Company.

Results of Operations

Revenue, cost of sales and gross profit for the three months ended September 30

			Variance	
	2020	**2019**	**$**	**%**
Revenue	**743**	2,268	(1,525)	(67)
Cost of sales	**(599)**	(1,742)	1,183	68
Gross profit (excluding inventory provision)	**144**	526	(382)	(73)
Gross margin (excluding inventory provision)	**19%**	23%		

Revenue

The Company's revenue is reliant on industry activity in the areas it services, demand for its specific products, and market prices for oil and gas that dictate our customer's operating budgets. The prices our customers receive for oil and gas are subject to global and domestic influence and cannot be reliably predicted. Our clients' operating budgets are adjusted throughout the year based on how the actual prices relate to their price assumptions. Clients replace existing ESPs on an as needed basis, install new ESPs when drilling new wells or bringing suspended wells back on production, and the overall industry demand is not typically seasonal.

The amount of revenue and overall client mix in Q3 2020 was generally consistent with Q2 2020 with greater than 90% of revenue attributable to one client. During Q3 2019, 85% of Divergent's revenue was attributable to one client. The Company exited 2019 having achieved its highest level of revenue diversification and an ongoing ability to demonstrate its technical and service excellence which, at times, exceeded the ability to meet demand. The majority of new work from new clients in 2019 involved deeper wells, requiring higher horsepower pumps and a higher level of technical services, leading to higher revenues per job. The improved financial performance experienced in the fourth quarter of 2019 have not been replicated during the first nine months of 2020 due to the challenging industry conditions described previously. The impact of the COVID-19 Pandemic and waning oil and gas prices during 2020 effectively eliminated the gains the Company achieved throughout 2019.

Cost of Sales

The Company experienced higher cost of goods sold as a percentage of sales during Q3 2020 compared to the corresponding periods in 2019 due primarily to downward pressure on pricing, as well as an increase in the allocation of operating costs specifically attributable to cost of goods sold which had previously been categorized within general and administrative costs. Throughout 2020, the Company has implemented measures to reduce fixed and variable costs, the result of which are expected to be realized throughout the remainder of 2020 and into 2021.

Gross Profit and Margins

The operating budget of the Company's largest customer was significantly lower in Q3 2020 compared to Q3 2019 due to low natural gas prices experienced for the customer's gas sales during 2020. Despite the challenges with fluctuating natural gas prices, we remain confident in the long-term viability of the CBM field and in our ability to effectively service the client. In respect to oil client activity where the Company normally achieves higher revenues per job and higher margins due to the nature of the work, the amount of business has been reduced to approximately 5% of total revenue in Q3 2020 as compared to approximately 15% in Q3 2019 and therefore diversification did not have a significant impact on improving overall margins.

Gross margin for Q3 2020 was 19% (Q3 2019 was 23%). The reduced margins in 2020 are partially due to downward pressure on pricing and an increase in the allocation of operating costs into cost of goods sold which had previously been within general and administration. The Company continues to look at the cost structure of the Company's operations to identify activities and expenses which can be further streamlined.

Commitments, events, risks and uncertainties

As of the date of issuing this Management Discussion and Analysis the natural gas markets in the regions where the Company operates have experienced improvements while oil markets continue to be negatively impacted by the global events described in the going concern note. The Company remains committed to finding ways to continue as a going concern and minimize the impact of these events and remain a viable growing company.

General and administration

	Three months ended September 30,		**Variance**	
	2020	**2019**	**$**	**%**
Salaries, benefits and employee costs	**202**	212	(10)	(5)
Director fees	**9**	17	(8)	(47)
Consultants and contractors	**14**	41	(27)	(65)
Office, insurance, warehouse and shop	**155**	89	66	74
Corporate and public company	**7**	3	4	157
Travel and accommodation	**1**	13	(12)	(94)
Professional, legal & advisory	**29**	97	(68)	(70)
	416	472	(56)	(12)

Overall, general and administration costs during the third quarter were 12% lower compared the Q3 2019. As a result of a significant decrease in revenue, a higher proportion of costs such as direct labor, field office, insurance, and warehouse and shop expenses remained in general and administration expense as opposed to be in included in costs of goods sold. These unallocated costs were largely funded through working capital. Cost cutting initiatives that commenced early in 2020 are starting to be realized in 2020 results and include a reduction of executive, a reduction and deferral of director compensation, reduction in third party consulting, and elimination of business travel. During Q3 2019, the Company incurred higher than normal professional, legal and advisory expenses in conjunction with the cease trade order issued during that was in place during the second half of 2019.

	Nine months ended September 30,		Variance	
	2020	**2019**	**$**	**%**
Salaries, benefits and employee costs	**639**	597	42	7
Severance and termination obligations	**264**	-	264	-
Director fees	**37**	51	(14)	(27)
Consultants and contractors	**76**	100	(24)	(24)
Office, insurance, warehouse and shop	**305**	402	(97)	(24)
Corporate and public company	**23**	17	6	35
Travel and accommodation	**6**	58	(52)	(90)
Professional, legal & advisory	**128**	308	(181)	(59)
	1,478	1,533	(55)	(4)

During the first quarter of 2020, several staff changes took place in the corporate office, including the replacement of the chief financial officer of the Company at a one-time settlement cost of $264 (CAD $330) plus statutory amounts under Alberta Law, resulting in one-time overlapping of activities during transitions and the one-time settlement of accumulated contractual payroll obligations. In addition, during the first quarter of 2020 the Company spent additional time and costs working with the Alberta Securities Commission ("ASC") to revoke the failure-to-file cease trade order issued by the ASC on May 6, 2019 and with the TSXV on the reinstatement of trading of the Company's common shares which occurred on April 14, 2020.

Finance (expense) income

	Three months ended September 30,	
	2020	**2019**
Interest on debentures	**(108)**	(106)
Interest on promissory note	**(50)**	-
Interest on related party loans	**(1)**	(7)
Accretion of debentures	**(34)**	(30)
Accretion on promissory note	**267**	-
Lease finance expense	**(2)**	-
Foreign exchange (loss) gain	**(219)**	174
	(147)	31

Debentures remained unchanged at CAD $5,750 and attract interest at 10% per annum. During Q3 2020, interest expense of $108 was settled by way of issuing common shares of the Company.

On September 28, 2020, the Company and its primary inventory supplier entered into an agreement to convert an accounts payable amount of $2,000 into a long-term, subordinated secured promissory note. The promissory note has a 4-year term, an interest rate of 10% per annum, and quarterly payments. A total of $50 of interest expense was incurred during Q3 2020. On the date the loan was executed, the carrying value for accounting purposes was determined resulting in a charge to finance income of $267.

Realized and unrealized foreign exchange loss from operating activities of $219 was recorded in Q3 2020 compared to a gain of $174 in Q3 2019. Foreign exchange gains and losses relate primarily to foreign currency translation of certain balances and inter-company amounts associated with the Company's wholly owned foreign subsidiaries pursuant to IAS 21. The fluctuation in the value of the US dollar compared to the Canadian dollar during Q3 2020, impacted the extent of the calculation of unrealized foreign exchange. A substantial portion of these gains and losses is offset by the recording of $121 of Other Comprehensive Income during Q3 2020 and $111 of Other Comprehensive Loss during Q3 2019.

Lease finance expense is associated with office and equipment leases which are not fully utilized in the shop and field operations of the Company.

Capital spending

The Company does not have any active capital development projects ongoing and does not have any planned capital spending on development projects during 2020.

Outstanding Share Data

The Company is authorized to issue an unlimited number of voting common shares.

On May 1, 2020, the Company settled interest obligations, plus late penalty interest, on debentures for the period April 1, 2019 to March 31, 2020 by the issue of 23,862,475 common shares at a price of CAD $0.025 per share which was the equivalent fair market value on that date.

On June 30, 2020, the Company settled interest obligations on debentures for the period April 1, 2020 to June 30, 2020 by the issue of 14,335,621 common shares at a price of CAD $0.010 per share which was the equivalent fair market value on the date the Company announced the election to satisfy the interest obligation.

On September 30, 2020, the Company settled interest obligations on debentures for the period July 1, 2020 to September 30, 2020 by the issue of 13,545,000 common shares at a price of CAD $0.0107 per share which was the equivalent fair market value on the date the Company announced the election to satisfy the interest obligation.

As at the date of this MD&A, the Company has 171,805,697 common shares issued and outstanding, 3,510,000 options and 5,750,000 warrants.

Adjusted EBITDA

The Company monitors earnings before interest, taxes, depreciation and amortization ("EBITDA") as a measure of cash flow available to the Company to grow the business. EBITDA is adjusted to eliminate one-time non-cash items included in earnings. EBITDA is a non-GAAP / Non-IFRS measure. A reconciliation of net loss disclosed in the Condensed Consolidated Statements of Net Loss and Comprehensive Loss to Adjusted EBITDA is set out in the following table:

	Three months ended September 30,		**nine months ended September 30**	
	2020	**2019**	**2020**	**2019**
Net loss	**(86)**	14	**(760)**	(1,195)
Interest on debentures	**108**	106	**334**	324
Interest on promissory note	**50**	-	**50**	-
Interest on related party loans	**1**	7	**1**	13
Lease finance expense	**18**	-	**56**	-
Depreciation and amortization	**81**	59	**251**	171
Accretion of debentures	**34**	30	**97**	86
Accretion of promissory note	**(267)**	-	**(267)**	-
Reversal of provision for slow moving inventory	**(289)**		**(94)**	-
Unrealized foreign exchange loss (gain)	**159**	(130)	**(294)**	469
Adjusted EBITDA	**(191)**	86	**(626)**	(132)

Summary of Quarterly Results

The following table summarizes key financial and operating information prepared in accordance with IFRS for the three months ended:

	Revenue	**(Loss) income from continuing operations**	**Per share – basic and dilutive (cents per share)**	**Net (loss) income**	**Per share – basic and dilutive (cents per share)**
2020 – Q3	743	(86)	-	(86)	-
2020 – Q2	378	(866)	(0.01)	(866)	(0.01)
2020 – Q1	1,764	192	-	192	-
2020	2,885	(760)	(0.01)	(760)	(0.01)
2019 – Q4	2,264	(1,736)	(0.02)	(1,736)	(0.02)
2019 – Q3	2,268	14	-	14	-
2019 – Q2	1,881	(535)	-	(535)	-
2019 – Q1	1,765	(387)	-	(387)	-
2019	8,178	(2,644)	(0.02)	(2,644)	(0.02)

2018 – Q4	1,925	292	-	292	-
2018 – Q3	1,659	(1,226)	(0.01)	(1,226)	(0.01)
2018 – Q2	2,021	357	-	357	-
2018 – Q1	1,930	648[1]	0.01	1,827[1]	0.02
2018	7,535	71	-	1,250	0.01

[1]Net loss is generally consistent with the loss from continuing operations with the exception of Q1 2018 when the Company recorded income from discontinued operations of $1,179 resulting from the elimination of estimated accrued tax liabilities which were extinguished at the time of dissolution of the Mexican subsidiary.

During Q1 2020, Q4 2019 and Q4 2018, the Company took provisions of $195, $1,325 and $225, respectively, resulting from an analysis of slow moving inventory which was considered to be unusable in the short term as a result of changes in customer requirements. During Q3 2020, the Company reversed an inventory provision of $289 as it was able to slow use moving inventory.

<u>Liquidity and Capital Resources</u>

The Company had cash balances of $17 and $249 as at September 30, 2020 and December 31, 2019, respectively.

Cash generated from operating activities was $28 during Q3 2020 compared to cash generated from operations of $5 during Q3 2019. The changes in non-cash working capital items during Q3 2020 include a decrease in trade receivables of $368, a decrease in inventories $288, an increase in prepaid expenses, deposits and advances of $45, and a decrease in accounts payable and accrued liabilities of $436.

During the third quarter 2020, the Company's main customer improved its payment terms of sales invoices from Divergent from 105 days to approximately 90 days thereby allowing the Company to generate cash from the accelerated collection of receivables. The additional cash was used to settle current accounts payable.

On May 3, 2020, the Company executed an unsecured loan agreement with Wells Fargo under the US government sponsored PPP Loan. The Company obtained a forgivable loan amount of $253 with an interest rate 1% per annum payable at the end of the term of the loan. The loan matures on May 3, 2022. Repayment of the PPP Loan commences on March 1, 2021 with monthly principal payments of $11. At maturity, the remaining unpaid principal plus accrued interest is due and payable. Certain provisions of the PPP Loan allow the Company to apply to have the loan forgiven in whole or part. Conditions to forgiveness require employees and compensation levels to be maintained and funds are to be spent on payroll costs, rental payments and utilities payments with not more than 25% of the loan forgiveness amount attributable to non-payroll costs. The Company has complied with all the provisions of the loan agreement and will apply to have the full amount of the loan forgiven prior to commencing with the monthly principal repayments.

On September 28, 2020, the Company and its primary inventory supplier entered into an agreement to convert an accounts payable amount of $2,000 into a long-term, subordinated secured promissory note. The promissory note has a 4-year term, an interest rate of 10% per annum, and quarterly payments commencing. The conversion of the current obligations into a long-term note improves the Company's working capital position and allows for the repayment of principal and interest to better align with the Company's ability to pay.

The Company has an accumulated deficit of $30,137 at September 30, 2020 and has experienced a history of losses. During Q3, 2020, the Company incurred a net loss of $86 and has negative working capital at September 30, 2020 of $1,430. The Company is in compliance with all the covenants of the indenture agreements relating to the debentures at the date of this MD&A.

The holders of the debenture have cooperated with a number of amendments to the terms of the indenture which have allowed the Company time to continue its efforts to grow and generate sufficient cash flow to pay the interest and the principal. The Company has not yet been able to generate sufficient cash to pay the interest in cash and has therefore been electing to satisfy the interest payments with shares of the Company in accordance with the terms of the indenture.

The debenture was extended in 2017 with an expiry date of December 31, 2021 and the Company discloses this liability in its going concern note and the uncertainty of being able to generate sufficient cash to meet this obligation. On November 30, 2020, the Company announced a financial restructuring plan for the debentures. See Outlook section for further discussion regarding the restricting initiatives.

Working capital analysis

Inventory

The Company sells goods and services to two distinctly different customers groups:

a) CBM clients. The Company's main customer has CBM gas wells so a majority of the inventory on hand, at any given time, is for ultimate delivery/sale to this customer and is suited to their wells. The CBM inventory is primarily supplied by one vendor who warehouses product in sufficient quantities to meet the Company's objectives, and who works closely with the Company's local management to identify monthly replenishment orders, which come from overseas with order times of 90 -120 days.

b) Oil and gas clients. The Company's expansion strategy targets new non-CBM focused customers operating in geographic areas within and adjacent to the current service area. Product requirements vary from well to well and from basin to basin. The Company has a limited range of inventory for this type of work as compared to its CBM inventory. Opportunities are accepted or declined based whether the Company has access to the specific product required. ESP products used in oil and gas are typically manufactured overseas and require 90 – 120 days for delivery, and since this type of work is awarded with minimal notice, the Company would decline work if it did not have the product inventory or could not source it from competitors (noting it is not unusual in the industry for products to move between competitors at a premium).

Prior to an inventory provision, the inventory balance decreased to $2,061 at September 30, 2020 from $2,181 at December 31, 2019. During Q3 2020, the Company was able to draw down on excess inventory it had acquired for CBM wells during Q1 2020. At each quarter, the Company evaluates inventory on hand and estimates how much will be in the near term and longer term. During 2019, had accumulated a provision of $1,535 and took a further provision of $195 for slow moving inventory during Q1, 2020. During Q3, a reversal of $289 of the accumulated provision was recorded and reflected the Company's efforts to draw down as much as possible from existing inventory on hand before committing to purchasing addition quantities.

Trade receivables

Ownership of the Company's main customer changed during 2019. As a result of this change, the new owner opted to initially extend the terms of payment to 60 days and then, during Q2 2020 to 105 days. At the end of Q3, 2020 payment terms have decreased to 90 days. The Company has had to correspondingly increase its payment terms to various creditors to coincide with the time Divergent gets paid for a majority of its revenue. All invoiced revenue is not in dispute and the Company is confident payments will continue to be made over an extended period of time with minimal risk of loss. As industry conditions improve, the Company expects payment terms to also shorten thus improving the Company's working capital.

Accounts payable

The Company agreed to terms with its major equipment supplier to extend repayment terms on $2,000 of current liabilities. The Company and the supplier executed a subordinated secured promissory note with a four-year term and an interest rate of 10%. Principal and interest payments are due on a quarterly basis. The Company continues to have positive engagements with unsecured creditors to ensure obligations are settled in a reasonable and timely manner.

Contractual obligations at September 30, 2020

	Less than three months	Three months to one year	Beyond one year	Total
Accounts payable and accrued liabilities	2,411	91	30	2,532
Lease obligations	41	121	103	265
Related party loans	15	-	-	15
Government loan	-	72	181	253
Promissory note – carrying value	65	130	1,538	1,733
Interest payable	53	-	-	53
Debentures – carrying value (1)	-	-	4,123	4,123
	2,585	414	5,975	8,974

(1) See Outlook section for further discussion on the debentures.

Transactions with Related Parties

Transactions and balances with related parties were in the normal course of operations and measured at fair value. Related parties include members of the board of directors and executive management.

Certain directors and officers of the Company have provided debentures and unsecured loans to the Company which are denominated in Canadian Dollars. Interest on debentures accrues at 10% per annum.

	Carrying Value	Face Value (1)	Face Value (CAD $)
Debentures payable to related parties at December 31, 2019	990	1,060	1,377
Accretion	**23**	-	-
Effect of movements in exchange rates	**(26)**	**(28)**	**-**
Debentures payable to related parties at September 30, 2020	**987**	**1,032**	**1,377**

(1) The US Dollar value of the Canadian Dollar denominated loan converted at the period end foreign exchange rate.

Related party loans at December 31, 2019	92
Repayments	**(37)**
Reclassified to accounts payable	**(35)**
Effect of movements in exchange rates	**(5)**
Related party loans at September 30, 2020	**15**

Interest on related party loans accrues at 5% per annum. At September 30, 2020, $3 of accrued interest is included in interest payable (December 31, 2019 - $12).

Off-balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements.

Contingencies

From time to time, the Company is subject to legal proceedings, assessments and claims in the ordinary course of business. At this time, in the opinion of management, there are no ongoing matters.

Business Risks

Divergent faces several risks that could cause our actual results to differ materially from those disclosed in this MD&A (See note regarding "Forward-Looking Statements"). Investors and the public should carefully consider our business risks, other uncertainties and potential events as well as the inherent uncertainty of forward-looking statements when making investment decisions with respect to Divergent. Additional risks and uncertainties not presently known to the Company or that it currently deems immaterial may also adversely affect the Company's business and operations.

Capital Management

The Company's objective when managing its capital is to strike a balance between maintaining investor, creditor and market confidence while sustaining future development of the Company. Capital, which the Company defines as its share capital and debt, whereby debt includes current and long-term portions of secured and unsecured borrowed funds, including debentures.

The Company has identified the need for additional equity financing however it has not been successful in raising additional new capital. The Company's existing debt agreements do not require maintenance of any financial ratios. There were no changes to the Company's approach to capital management during the three months ended September 30, 2020. The Company is not subjected to any internally or externally imposed capital requirements.

Critical Accounting Policies and Estimates

The Company 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 Company'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 Company's financial reporting results are discussed in the Company's consolidated financial statements for the year ended December 31, 2019. Specifically, refer to Note 21 of the 2019 consolidated financial statements for a detail analysis of risks.

Financial Instrument and Other Instruments

Recognition and measurement

Financial instruments are any contract that gives rise to a financial asset of one party and a financial liability or equity instrument of another party. Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial instruments are recognized initially at fair value, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The following table lists the Company's financial instruments and its category of method of measurement subsequent to initial recognition:

Cash	Fair value
Trade receivables	Amortized cost
Inventories	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Related party loans	Amortized cost
Lease liability obligations	Amortized cost
Debentures	Amortized cost

Impairment

Financial assets classified as measured at amortized cost reflect the Company's assessment of expected credit losses ("ECL"). ECL's are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. Expectations reflect historical credit losses, adjusted for forward looking factors.

The impairment methodology applied depends on whether there has been a significant increase in credit risk since initial recognition of the asset. If there has not been a significant increase in credit risk, the ECL provision is based on expectations for the next twelve months. If there has been a significant increase in credit risk, the provision is based on expectations for the remaining lifetime of the asset.

Director and Management Changes during 2020

Effective February 1, 2020, Mr. Lance Mierendorf was appointed Interim Chief Financial Officer, replacing Mr. Scott Hamilton who departed the Company.

Effective March 18, 2020:

- Mr. Ken Bagan stepped down as Chairman of the Board of Directors but will remain a board member as Lead Director;
- Mr. Cameron Barton was appointed Executive Chairman; and
- Mr. Geoff Bury was appointed to the Board of Directors.

Mr. Martin Hall did not stand for re-election as Director at the June 2020 Annual General Meeting.

OUTLOOK

The Company exited the third quarter operating at under 50% capacity but is positioned to take full advantage of any upswing in business activity as the business environment recovers from the significant downturn that started in Q1 2020. Natural gas markets have shown signs of improvement and the Company is expecting pump sales to continue, in the immediate term, with some potential growth should gas prices translate into increased customer operating and capital budgets. In addition to CBM work, the Company performed a small number of oil-related jobs and sees a potential for more oil clients to slowly resume working on their wells as we progress throughout the remainder of 2020.

During 2020, the Company took steps to access USA government loans to help fund working capital. In May 2020, the Company executed a $253, 2-year, unsecured government loan which the Company expects to be forgiven before the first repayment is due. In October 2020, the Company successfully obtained a $150, senior secured loan repayable over a period of 30 years. During the remainder of 2020, the Company plans to make fundamental changes to its financial structure.

On October 1, 2020, the Company announced plans to strengthen its balance sheet in order to attract new capital for emerging opportunities in the United States as well as allow for the settlement of obligations coinciding with estimated future cash flows. The first step in strengthening the balance sheet involved converting current liabilities owing to the Company's main inventory supplier of $2,000 into a long-term secured promissory note. The second and more significant event which was announced on November 2, 2020 is a proposed plan to convert CAD $4,313, representing 75% of the outstanding principal amount of the Debentures, into Common Shares of the Company at a proposed CAD $0.03 per share and extend the maturity date to December 31, 2025 of CAD $1,437, representing the remaining 25% of the outstanding principal amount of the Debentures. The Company plans to issue warrants priced at a proposed CAD $0.03 for a term of two years as consideration for the extension of the remaining debenture balance. In addition, the Company plans a 10:1 share consolidation. These transactions are subject to approval by the debenture holders, shareholders and the TSX Venture Exchange and are expected to be considered at or in conjunction with a scheduled December 28, 2020 Special Meeting of the shareholders. The Board is confident that the restructuring proposal is fair to all parties and will receive the required approval of all stakeholders.

In addition, the Company plans to seek additional sources of financing to take advantage of future growth opportunities that could materialize in the United States in 2021 and 2022. The quantum of the financing is not yet known but the Company has included optionality within its restructuring proposal to potentially raise, up to $3,500 in the form of equity, debt, equity, joint venture or a combination of these.

The Company is positioning itself to emerge from the severe industry downtown of 2020 with a much improved balance sheet, manageable short term obligations, streamlined operation and an ability to quickly and effectively capture growth in the gas and oil sector and an emerging produced water reclamation market in 2021.

Corporate Information – at November 12, 2020

DIRECTORS AND OFFICERS

Ken Bagan (1) (2) (5)
Director

Cam Barton (2) (3)
Executive Chairman of the Board

Don Luft (2)(4)
Director

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

Geoff Bury (1) (3)
Director

Ken Berg (4)
Chief Executive Officer
President, Director

Lance Mierendorf
Interim Chief Financial Officer and Interim Corporate Secretary

(1) Member of the Audit Committee, Mr. Bury is Chairman
(2) Member of the Governance and Nominating Committee, Mr. Bagan is Chairman
(3) Member of the HR and Compensation Committee, Mr. Riecken is Chairman
(4) Member of the Health, Safety and Environment Committee, Mr. Luft is Chairman.
(5) Mr. Bagan is Lead Director

All members of the Board of Directors are independent except for Mr. Berg and Mr. Barton.

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