# Divergent Energy Services Corp.

*Management's Discussion and Analysis*
*As at and for the years ended December 31, 2021 and 2020*

*Dated: March 15, 2022*

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 year ended December 31, 2021 and has been prepared in accordance with the requirements of National Instrument 51-102. This MD&A should be read in conjunction with the audited consolidated financial statements as at and for the years ended December 31, 2021 and 2020 which is available on SEDAR at www.sedar.com. The consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and the interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") that were in effect at January 1, 2020. Unless otherwise noted, all financial information is expressed in thousands (000's) of United States Dollars.

This MD&A is management's assessment of the Company's operations and financial results, as well as management's view of future prospects. These assessments and views are based on certain assumptions related to future events which are uncertain. Statements related to assessments and views which are not statements of historical fact are considered to be forward-looking statements. For a discussion of the on the risks and uncertainties related to such information please refer to the "Forward-Looking Statements" at the end of this MD&A.

This MD&A is based on information available as of March 15, 2022 and was reviewed and approved by the Board of Directors on March 15, 2022.

## OVERVIEW AND CORPORATE PROFILE

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.

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") and Electric Submersible Pump Systems ("ESP")

ALS provides electric submersible pumping products including the ongoing development of electromagnetic reciprocating submersible pump technology. ESP products and services primarily target production operations in the oil and gas industry and are designed to lift large volumes of fluid from both oil and gas wells. Divergent currently services Wyoming and Colorado from its facility in Gillette, WY.

### Going Concern

These 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 December 31, 2021, the Company had working capital of $306 and shareholders deficit of $2,120. During 2021, the Company generated net income of $2,462, generated cash from operations of $1,352 and approximately 93% of the Company's sales were attributable to one customer. During 2021, the Company had $226 of its pay check protection loan forgiven. The Company fully addressed its prior working capital deficiency by way of a financial restructuring in the first quarter of 2021. Despite these improvements in the Company's financial position, the Company continues to be economically reliant on one customer for approximately 93% of its revenue.

These circumstances and material uncertainties, along with the continued supply chain issues and a global economic crisis, casts 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***

The extent to which COVID-19 continues to impact the general business environment and the potential impact this has on 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.

## EXECUTIVE SUMMARY

Divergent successfully completed its financial restructuring early in the first quarter of 2021, bringing the Company back to positive working capital at the end of the first quarter. 2021 saw an improvement in working capital largely driven by the forgiveness of the Paycheck Protection Program loan. Quarterly revenue continues to be better than the prior year as our customers have benefited from improved prices for oil and natural gas, and the return to standard business operations following a year of Covid restrictions, both of which have allowed them to bring more wells back into production. While overall operating performance continued to improve throughout the year, increases in supply chain costs related to products and shipping are causing volatility in margins and management continues to work with clients and suppliers to manage these challenges.

***Selected Annual Financial Information***

The following table provides a brief summary of the Company's financial results. For more detailed information, refer to the Company's consolidated financial statements.

| | **2021** | **2020** | **2019** |
|---|---|---|---|
| Revenue | **$8,362** | $4,332 | $8,178 |
| Income (loss) from operations | **397** | (65) | (1,688) |
| Net income (loss) | **2,462** | 129 | (2,644) |
| Adjusted EBITDA | **767** | (598) | 411 |
| Per share – basic and dilutive (cents per share) | **0.08** | 0.01 | (0.02) |
| Total assets | **2,967** | 3,117 | 3,294 |
| Total non-current financial liabilities | **$3,094** | $2,938 | $4,344 |
| Total shares outstanding | **33,004,912** | 18,629,912 | 12,006,260 |

***Overall analysis of financial operations***

A significant majority of the Company's sales are generated from one customer which is focused on producing renewable natural gas from coal bed methane ("CBM") wells in the Powder River Basin. The level of activity with this customer increased in the third and fourth quarters to levels above all previous quarters since the Company was awarded the contract in 2017. Other than the short-term impacts felt in 2020, activity levels had been relatively consistent prior to the impacts of COVID, which negatively affected the price of natural gas and the economics of their wells during most of 2020. There continues to be significant competition creating pricing pressures on products and services, and additionally there are supply chain cost increases that cannot be passed on to the customer. The Company continues to focus on drawing down inventories on hand and refurbishing certain products thereby extending the useful lives of products sold to customers.

**OUTLOOK**

The continuing strength of oil and gas commodity prices, which have demonstrated a strong recovery since the onset of COVID, should increase submersible pump sales across the United States for at least the next 12 months as customers are expected to optimize production using commodity price hedges to ensure revenue certainty. The amount of work available for the Company over the next twelve months is also dependent on how each client makes its internal decisions for the allocation of its capital, be it improving its balance sheet by way of paying down debt or increasing production through investment in field operations.

The Company's largest client has indicated that, based on its commodity price assumptions, it intends to continue its CBM workover program for the next 12 months at a pace similar to that experienced during the second half of 2021, barring interruptions due to weather or supply chain. While drilling rig counts are recovering in Wyoming, they remain roughly sixty percent lower than pre-COVID rig counts. Our customer base in Wyoming that relies on ESPs to produce their wells have not yet begun to significantly increase drilling or making new investments in their field operations despite their improved balance sheet positions.

The Company continues to seek and evaluate strategic growth opportunities to both diversify its product offerings and drive continuous margin improvements.

**OPERATING RESULTS:**

***Revenue, costs of sales and gross profit***

| | | | Variance | |
|---|---|---|---|---|
| | **2021** | **2020** | **$** | **%** |
| Revenue | **$8,362** | **$4,332** | 4,030 | 93 |
| Cost of sales | **(6,466)** | **(3,247)** | (3,219) | 99 |
| Provision for slow moving inventory | **181** | **934** | 753 | -81 |
| | **(6,285)** | **(2,313)** | (3,972) | 172 |
| Gross profit | **$2,077** | **$2,019** | 58 | 3 |
| Gross margin (excluding inventory provision) - % | **23%** | 25% | | |

***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 customers’ operating budgets. The prices 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. The demand for services is relatively consistent throughout the year as CBM production requires constant water pumping to maintain the value of the field, although activity levels may vary depending on severe weather or national holidays. Clients replace ESPs on an as needed basis and these replacements are contingent on client’s internal budgets. The overall industry demand is not seasonal.

Revenues in 2021 exceeded 2020 by 93% due to 2020 activity levels being dramatically impacted by the onset of the COVID pandemic and its negative affect on the business environment, as prices per job remained consistent year over year.

The overall client mix in 2021 was generally consistent with 2020 with approximately 93% of revenue attributable to one client during both years. The Company’s oil customers in Wyoming and Colorado started to increase their operating budgets to increase production late in Q4 2021 in response to the increase in oil prices. It is anticipated this will continue through 2022.

***Cost of Sales***

The Company experienced slightly higher cost of goods sold as a percentage of sales during 2021 compared to 2020, mostly attributable to higher raw materials and shipping costs. The logistics and supply chain issues that have arisen due to COVID are being experienced globally and have meant that the Company has had to source from alternative suppliers to meet customer demand for services. During the last two quarters of 2021, the Company was experiencing both increased pricing from core suppliers and less competitive pricing from alternative suppliers. The Company also continues to implement and refine initiatives to reduce both fixed and variable costs and ensure its structure is streamlined and efficient.

***Gross Profit and Margins***

Despite historic challenges with fluctuating commodity prices, the Company remains confident in the long-term viability of the oil and gas basins within its service region, and its ability to effectively service its clients. In respect to oil clients’ activity, where the Company normally achieves higher revenues per job and higher margins due to the nature of the work, the volume of business was below expectations in 2021 as many of the customers within the Company’s operating region remained cautious about expenditures despite strong oil prices.

Gross profit during 2021 was increased by a $181 reversal of a previous provision for slow moving and obsolete inventory, as the Company utilized such inventory in its 2021 operations. Excluding this inventory provision, and a change in cost allocations in 2020 which resulted in certain costs previously categorized as general and administration being categorized as costs of goods sold, the gross margin for 2021 was 23% (2020 was 25%).

***General and administration***

| | | | Variance | |
|---|---|---|---|---|
| | **2021** | **2020** | **$** | **%** |
| Salaries, benefits and employee costs | **$888** | $957 | (69) | (7) |
| Severance | **-** | 246 | (246) | -100 |
| Director fees | **57** | 46 | 11 | 25 |
| Consultants and contractors | **191** | 151 | 40 | 26 |
| Office, insurance, warehouse and shop | **292** | 407 | (115) | (28) |
| Corporate and public company | **57** | 26 | 31 | 118 |
| Travel and accommodation | **12** | 7 | 5 | 69 |
| Professional, legal & advisory | **105** | 214 | (109) | (51) |
| Business development | **37** | - | 37 | 100 |
| | **$1,639** | $2,054 | (415) | -20 |

General and administration costs during 2021 were lower compared to 2020 by $415. Cost cutting initiatives commenced early in 2020 and included a reduction of executive and director compensation, a reduction in utilizing third party professional and advisory services, and elimination of business travel. Costs savings realized from these activities were more than offset by the severance obligations associated with the replacement of a member of the executive team. 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 $246 (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, due to the lower levels of operational activity during 2020, 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 being included in costs of goods sold.

During 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 income (expense)***

| | **2021** | 2020 |
|---|---|---|
| Gain on disposal of assets | **$9** | $- |
| Interest expense on debentures | **(134)** | (445) |
| Accretion of debentures | **(209)** | (132) |
| Gain on restructuring of debentures | **418** | - |
| Interest expense on related party loans | **-** | (1) |
| Interest expense on promissory notes | **(241)** | (101) |
| Accretion of promissory notes | **(174)** | (55) |
| Gain on restructuring of accounts payable | **-** | 652 |
| Gain on restructuring of note payable | **16** | - |
| Interest expense on government loans | **(7)** | (2) |
| Accretion of government loans | **(3)** | (18) |
| Lease finance expense | **(8)** | (9) |
| Fair value adjustment on share issue | **2,157** | 314 |
| Foreign exchange loss | **15** | (191) |
| Net finance income (expense) | **$1,839** | $12 |

A foreign exchange loss of $15 was recorded in 2021 compared to a loss of $191 in 2020. Foreign exchange (losses) gains relates to foreign currency translation of certain balances and inter-company amounts associated with the Company's wholly owned foreign subsidiaries pursuant to IAS 21. A substantial portion of these gains and losses is offset by the recording of $27 in 2021 (2020 - $91) of Other Comprehensive Income.

***Commitments, events, risks and uncertainties***

As of the date of issuing this MD&A, the oil and gas market continues to deal with the uncertainty of the COVID-19 pandemic, and global political instability resulting in possible impacts on the general business environment such as international trade, transportation, movement of people and goods, and cost of doing business. The Company continues to monitor the impact of the COVID-19 pandemic and global political instability, to take the necessary steps to reduce the risk to the Company's operations.

***Capital spending***

The Company does not have any active capital development projects ongoing and does not have any significant planned capital spending on development projects during 2022.

### *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 a non-GAAP / Non-IFRS measure and is adjusted to eliminate non-cash items included in earnings. A reconciliation of net (loss) income disclosed in the Consolidated Statements of Net Income (Loss) and Comprehensive Income (Loss) to Adjusted EBITDA is set out in the following table:

| | 2021 | 2020 |
|---|---|---|
| Net income | **$2,462** | **$129** |
| | | |
| Finance (income) expense | **(1,839)** | **(12)** |
| Share-based compensation | **31** | **10** |
| Depreciation and amortization | **212** | **320** |
| Provision for slow moving inventory | **(181)** | **(934)** |
| Benefit on low interest government loans | **-** | **(182)** |
| Lease finance expense included in cost of sales | **82** | **71** |
| Adjusted EBITDA | **$767** | **($598)** |

### *Share-based compensation*

The Company has an established share-based compensation plan to allow certain officers, directors, employees and consultants to acquire common shares of the Company. A total of 10% of the Company's shares outstanding are reserved for the issue of share-based options pursuant to the plan. During 2021, share-based compensation of $31 (2020 - $10) was recognized in the statement of net income (loss) and comprehensive income (loss) with a corresponding amount in contributed surplus. Share-based options are issued in CAD $.

All outstanding and exercisable options, as well as the weighted average exercise prices, in the following table reflect the Share Consolidation as described in Note 2.

| | | 2021 | | 2020 |
|---|---|---|---|---|
| Continuity of share-based options | Number of options | Weighted average exercise price (CAD $) | Number of options | Weighted average exercise price (CAD $) |
| Balance, beginning of year | 326,000 | $1.67 | 513,500 | $1.98 |
| Cancelled | - | - | (119,000) | 2.43 |
| Forfeited | - | - | (18,500) | 1.53 |
| Granted | 2,500,000 | 0.075 | - | - |
| Expired | (49,000) | 0.02 | (50,000) | 3.30 |
| Balance, end of year | **2,777,000** | **$0.22** | 326,000 | $1.67 |

All outstanding and exercisable options, as well as the weighted average exercise prices, in the following table reflect the Share Consolidation as described in Note 2.

The number of options exercisable at December 31, 2021 is 244,000 (December 31, 2020 – 274,167) at a weighted average exercise price of CAD $1.75 (December 31, 2020 – CAD $1.73). The weighted average remaining term for exercisable options is 0.58 years (December 31, 2020 – 1.42 years).

The Company granted 2,500,000 options on May 17, 2021 valued using the Black-Scholes model with the following assumptions:

| | |
|---|---|
| Weighted average exercise price | $0.0457 (CAD $0.075) |
| Expected volatility | 85% |
| Expected forfeiture | 15% |
| Risk-free rate | 0.79% |
| Expected stock option life | 5 years |

**SUMMARY OF QUARTERLY RESULTS**

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

| | **Q4 2021** | **Q3 2021** | **Q2 2021** | **Q1 2021** | **Q4 2020** | **Q3 2020** | **Q2 2020** | **Q1 2020** |
|---|---|---|---|---|---|---|---|---|
| Revenue | **$2,465** | $2,185 | $1,991 | $1,721 | $1,447 | $743 | $378 | $1,764 |
| Net income (loss) | **(41)** | 564 | (308) | 2,247 | 889 | (86) | (866) | 192 |
| Net income (loss) per share | | | | | | | | |
| Basic – per share | **($0.01)** | $0.02 | ($0.01) | $0.08 | $0.05 | $- | ($0.06) | $0.02 |
| Diluted – per share | **($0.01)** | $0.02 | ($0.01) | $0.08 | $0.05 | $- | ($0.06) | $0.02 |
| Adjusted EBITDA(1) | **$165** | $534 | $6 | $62 | $13 | ($130) | ($217) | ($264) |

(1) Prior quarters adjusted for classification change

A significant impact to net income (loss) results from the determination of the provision for slow moving and obsolete inventory. During 2021, the Company recorded a provision reversal of $181 compared to a provision of $934 in 2020.

**OUTSTANDING SECURITIES**

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

At the special meeting of shareholders held on December 28, 2020, shareholders approved the Debenture Settlement and approved consolidation of the common shares of the Company on the basis of one (1) post-consolidation share for up to every ten (10) pre-consolidation shares outstanding (“Share Consolidation”). Approval of these transactions were subject to final approval by the TSXV which was received January 19, 2021. The Company’s common shares commenced trading on the exchange on a post-consolidation basis at the open of the market on January 19, 2021.

Following the Share Consolidation, the total number of issued and outstanding common shares was 18,629,912. An additional 14,375,000 (post-consolidation) common shares were issued on January 20, 2021 on the Debenture Settlement which were subject to a four month hold period before being fully tradable.

As at the date of this MD&A, the Company has 33,004,912 common shares issued and outstanding, 2,777,000 options and 2,875,000 warrants.

***Warrants***
On January 21, 2021, the Company issued 2,875,000 post-consolidation common share purchase warrants, exercisable at CAD $0.30 (post-consolidation) and expiring January 21, 2023. Utilizing the Black Scholes valuation model, the additional value calculated and attributed to these newly issued share purchase warrants was $99 (CAD $125).

On January 1, 2018, the Company issued 575,000 (5,750,000 pre-consolidation) common share purchase warrants, exercisable at CAD $1.30 (post-consolidation) and expiring December 31, 2021.

**LIQUIDITY AND CAPTITAL RESOURCES**

The Company had cash balances of $607 and $63 as at December 31, 2021 and 2020, respectively.

Cash generated from operating activities in 2021 was $1,352 compared to cash used in operations of $192 during 2020. The changes in non-cash working capital items include an increase in prepaid expenses, deposits and advances of $27, a decrease in trade receivables of $98, a decrease in inventories, prior to the current year provision for slow moving inventory, of $550, an increase in accounts payable and accrued liabilities of $37, an increase in interest payable of $92.

During 2021, the Company's primary customer maintained payment terms on sales invoices at approximately 45 days.

The Company has an accumulated deficit of $26,786 at December 31, 2021 and has experienced a history of losses. In 2021, the Company generated income of $2,462 and had positive working capital at December 31, 2021 of $306. The Company is in compliance with all of the covenants of the indenture agreements relating to the debentures at the date of this MD&A.

At December 31, 2020, the Company had debentures payable with a face value of $4,516 (CAD $5,750) which were to mature on December 31, 2021. On December 11, 2020, the Company received approval from the debenture holders to convert 75% of the principal amount outstanding, CAD $4,313, into common shares of the Company on a one-time pro-rata basis at the price of CAD $0.30 (post-consolidation) per common share (the "Debenture Conversion") and extend the maturity date of the remaining 25% of the principal amount outstanding, $1,143 (CAD $1,437), to December 31, 2025. On January 19, 2021 the Company received TSXV approval, and the Debenture Conversion took place on January 20, 2021.

On January 19, 2021, the Company received approval from the TSXV to issue 14,375,000 (post-consolidation) common shares on the conversion of the CAD $4,313 face value of debentures into common stock of the Company at a price of CAD $0.30 (post-consolidation). The Debenture Settlement took place on January 20, 2021.

On January 20, 2021, the Company executed the 5th supplemental indenture agreement extending the maturity date of $1,129 (CAD $1,437) of the debentures from December 31, 2021 to December 31, 2025. As consideration for the extending the maturity date of the debentures, the Company issued two (2) warrants, each having an exercise price of CAD $0.30 (post-consolidation) and a term of two (2) years, for every dollar value of the principal amount of the debentures being extended resulting in the issue of 2,875,000 new warrants.

At December 31, 2021, the Company has Canadian Dollar denominated debentures outstanding of CAD $1,437 (December 31, 2020 – CAD $5,750) with an equivalent face value of $1,134 at the December 31, 2021 exchange rate (December 31, 2020 - $4,536). The debentures bear interest at 10% per annum, are secured by a trust indenture and a general security agreement over all of the assets of the Company and mature on December 31, 2025. Pursuant to the second supplemental indenture, the Company has the option to pay the debenture interest in either cash or common shares up to and including at the maturity of the debentures on December 31, 2025.

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. During the last nine months of 2021, the Company made payment of debenture interest in cash. During the prior year, the Company elected to satisfy the interest payments with shares of the Corporation in accordance with the terms of the indenture.

## WORKING CAPITAL ANALYSIS

### *Inventory*

The Company sells goods and services to two distinctly different customer 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. This vendor works closely with the Company's local management to identify monthly replenishment orders, which take 90 -120 days to source from overseas.

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).

During 2021, the value of inventory on hand, before provisions, decreased from $1,862 at December 31, 2020 to $1,131 at December 31, 2021. The provision for slow moving inventory was reduced by $181 during the year to $420 from $601 at December 31, 2020. The increased level of activity during the quarter and a focus on utilizing inventory on hand led to the decrease.

### *Trade receivables*

At the end of 2020 payment terms were significantly improved (reduced) to approximately 30-45 days as customers have experienced significant improvements in pricing for their oil and natural gas. Throughout 2021 the main customer maintained its payment terms at effectively 45 days. As industry conditions improve, the Company expects payment terms to remain at approximately 45 days. 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.

### *Accounts payable*

The Company has extended its terms of payments with its main supplier of CBM equipment to coincide with collection of the Company's receivables.

## CONTRACTUAL OBLIGATIONS AT DECEMBER 31, 2021

The following is a maturity analysis of the Company's undiscounted financial obligation:

| | Less than three months | Three months to one year | Beyond one year | Total |
|---|---|---|---|---|
| Accounts payable and accrued liabilities | **$1,438** | **$-** | **$-** | **$1,438** |
| Lease obligations | **42** | **114** | **353** | **509** |
| Debentures | **-** | **-** | **654** | **654** |
| Interest payable | **13** | **40** | **130** | **183** |
| Promissory notes | **54** | **162** | **2,061** | **2,277** |
| Government loans | **-** | **-** | **26** | **26** |
| | **$1,547** | **$316** | **$3,224** | **$5,087** |

## OFF-BALANCE SHEET ARRANGEMENTS

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

## RELATED PARTY TRANSACTIONS

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 to the Company which are denominated in Canadian Dollars. At December 31, 2021, the CAD $1,437 face value of the debentures includes $271 (CAD $344) (December 31, 2020 - $1,082 [CAD $1,377]) due to directors and officers of the Company. Interest on these debentures during the year was $32 (CAD $40) (2020– $107 (CAD $143)) and interest payable at the end of the year was $nil (CAD $nil) (2020 – $nil (CAD $nil)).

| | 2021 | 2020 |
|---|---|---|
| Debentures (carrying value) | **$157** | $1,043 |
| Interest payable on related party loans | **$-** | $- |

Key management personnel and director compensation comprised:

| | 2021 | 2020 |
|---|---|---|
| Salaries and benefits | **$291** | $258 |
| Accrued performance based compensation | **118** | 112 |
| Severance | **-** | 246 |
| Directors' fees | **57** | 46 |
| Share-based compensation | **1** | 7 |
| | **$467** | $669 |

During 2020, an executive officer departed the Company and a one-time severance of $246 was accrued. At December 31, 2021, severance costs of $nil (2020 - $140) are included in accounts payable and accrued liabilities.

## 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, there are no ongoing matters.

## BUSINESS RISKS AND UNCERTAINTIES

Divergent faces a number of 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 Group defines as its share capital and debt, is monitored on a basis of the debt-to-capitalization ratio. For the purposes of this calculation, debt includes current and long-term portions of borrowed funds, including debentures. The Group's objective when managing its capital is to strike a balance between maintaining investor, creditor and market confidence while sustaining future development of the Group.

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 year ended December 31, 2021. The Company is not subjected to any internally or externally imposed capital requirements.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company prepares its consolidated financial statements in accordance with IFRS. In preparing its consolidated 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 consolidated 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, 2021.

Refer to Note 25 of the 2020 consolidated financial statements for a detail analysis of risks.

## FINANCIAL 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 |
| Accounts payable and accrued liabilities | Amortized cost |
| Related party loans | Amortized cost |
| Lease obligations | Amortized cost |
| Promissory notes | Amortized cost |
| Government loans | 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.

**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"). The 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. The 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, the 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. The 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.

*Corporate Information – as at March 15, 2022*

**DIRECTORS AND OFFICERS**

Kenneth Bagan (1) (2) (3) (5)
Director

Cameron Barton (2)
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

Ken Olson
Chief Financial Officer

(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 with the exception of Mr. Berg and Mr. Barton.

**CORPORATE OFFICE**

Divergent Energy Services Corp.
2020, 715 5th Avenue SW
Calgary, Alberta T2P 2X6
Phone: 403.543.0060
Fax: 403.543.0069
Email: info@divergentenergyservices.com

**BANK**

HSBC
Calgary, Alberta, Canada
Wells Fargo
Gillette, Wyoming, USA

**LEGAL COUNSEL**

Burstall LLP
Calgary, Alberta, Canada

**AUDITORS**

MNP LLP
Calgary, Alberta, Canada

**STOCK EXCHANGE**

TSX Venture
Calgary, Alberta, Canada

**TRANSFER AGENT AND REGISTRAR**

Computershare
Calgary, Alberta, Canada