



Divergent Energy Services Corp.

Management's Discussion and Analysis

As at and for the three and nine months ended September 30, 2022 and 2021

Dated: November 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 three and nine months ended September 30, 2022 and has 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 audited annual December 31, 2021 consolidated financial statements, which 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 ("US") 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 November 15, 2022 and was reviewed and approved by the Board of Directors on November 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.

Divergent, through its subsidiary Extreme Pump Solutions, provides electric submersible pumping products and services primarily targeting production operations in the oil and gas industry. The pumps are designed to lift large volumes of fluid from oil, gas and water wells. Divergent currently services Wyoming and Colorado from its facility in Gillette, WY.

EXECUTIVE SUMMARY

Divergent remains well positioned to take advantage of the activity which continues to pick up in the Northern US states. Strong oil and gas prices are creating opportunities for the Company which we are pursuing while being mindful of ongoing constraints in supply chain and limited working capital.

Quarterly revenue continues to increase, with the third quarter of 2022 being significantly higher than the prior eight quarters. Customers are demonstrating an urgency to return wells to production in efforts to increase their revenues as the industry benefits from the strength of oil and natural gas prices. Overall operating performance improved in the first three quarters of 2022 compared to the same period in the prior year, due to higher industry activity and post-COVID pricing recovery, leading to increased revenue per job.

Significant inflationary pressures that emerged in late 2021 have begun to affect virtually all inputs as the shipment of goods ordered after that time began to arrive in Q2 2022. The third quarter of 2022 experienced the full effect of those cost increases, and these cost levels are expected to continue for the foreseeable future, which has negatively impacted third quarter gross margins. The Company is actively working with customers to pass

these cost increases along. There is no guarantee that all of these cost increases can be passed along in the near term.

2022 Third Quarter Highlights

- The Company posted its ninth consecutive quarter of revenue growth earning \$3.7 million of revenue in the third quarter of 2022.
- Adjusted EBTIDA of \$221 thousand in the third quarter of 2022 represents the eighth consecutive quarter of positive adjusted EBITDA.
- Divergent’s balance sheet continues to strengthen with positive working capital of \$353 thousand.

Selected Financial Information

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

	Q3 2022	Q3 2021	Q3 2020
Revenue	\$3,712	\$2,185	\$743
Net income (loss)	578	564	(86)
Adjusted EBITDA	221	534	(130)
Per share – basic and dilutive (cents per share)	\$0.01	\$0.02	\$0.00
Total assets	3,193	2,712	2,046
Total non-current financial liabilities	2,815	3,001	5,946
Total shares outstanding	33,004,912	33,004,912	17,180,570

Overall analysis of financial operations

A significant majority of the Company’s sales are generated from one customer which is focused on producing natural gas from coal bed methane (“CBM”) wells in Wyoming. In collaboration with this customer, the Company employs an ESG strategy of refurbishing and reusing certain product components thereby extending the useful lives of its products. The amount of equipment that can be refurbished fluctuates from quarter to quarter depending on the condition of the equipment pulled from each well. The level of activity with this CBM customer increased during the most recent three quarters in response to strong natural gas prices. Other than the short-term negative market impacts of COVID-19 felt in 2020, activity levels both before and after this pandemic have been relatively consistent.

OUTLOOK

Divergent’s overall outlook for services for the remainder of 2022 remains positive. Global demand for energy remains strong as the world's major economies continue to rely on petroleum products in everyday life. Macroeconomic factors including continued inflationary pressures, escalation of geopolitical tension, and the lifting of COVID-19 restrictions all point to continued strong commodity pricing through 2022 and into 2023. At these commodity price levels we anticipate generally robust oilfield service activity levels as our customers remain very positive on their current capital spending plans for the remainder of 2022 and into 2023.

Customers continue to demonstrate an urgency in returning wells to production and overall demand for services is increasing. While Divergent is working to increase its market share, it is constrained by supply chain delays and staffing availability. Attracting and retaining additional personnel continues to be a challenge across the industry making it much more difficult than in past upturns to supply additional crews. The Company's customer base has indicated that it intends to continue their workover programs for the next 12 months at a pace which may exceed that experienced during the previous three quarters, with limiting factors being supply chain, service rig availability and labour.

While the cost of sales in the third quarter of 2022 were negatively impacted by inflationary increases to parts, components and logistics, the Company is actively working with customers to pass these cost increases along. There is no guarantee that all of these cost increases can be passed along in the near term.

The positive commodity pricing trends the industry is currently experiencing is in part caused by a structural shortfall in supply which will be difficult for the industry to overcome for some time. As a result, the demand for energy services and the ability for the sector to improve over the next few years is seen as highly likely. In this environment the Company intends 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

	Three months ended		Variance	
	September 30,		\$	%
	2022	2021		
Revenue	\$3,712	\$2,185	1,527	70
Cost of sales	(3,149)	(1,557)	(1,592)	102
Provision for slow moving inventory	-	21	(21)	-100
	(3,149)	(1,536)	(1,613)	105
Gross profit	\$563	\$649	(86)	-13
Gross margin (excluding inventory provision) %	15%	30%		

	Nine months ended		Variance	
	September 30,		\$	%
	2022	2021		
Revenue	\$9,470	\$5,879	3,591	61
Cost of sales	(7,518)	(4,518)	(3,000)	66
Provision for slow moving inventory	-	181	(181)	-100
	(7,518)	(4,337)	(3,181)	73
Gross profit	\$1,952	\$1,542	\$410	27
Gross margin (excluding inventory provision) %	21%	27%		

Revenue

Revenues in the third quarter of 2022 exceeded that of the third quarter 2021 by 61% due to higher activity levels and post-COVID pricing recovery. The Company's revenues are more reliant on its customers' production activities versus drilling activities and presently customers are allocating more of their capital to increasing production from existing wells versus drilling new wells.

The overall client mix in the third quarter of 2022 was generally consistent with the third quarter of 2021 with approximately 90% of revenue attributable to one client during both years. The Company's customer base in Wyoming and Colorado have begun increasing their operating budgets to increase production in response to the increase in oil and gas prices, which led to increased job counts in the third quarter of 2022 for the Company. It is anticipated that this strong demand will continue throughout the remainder of 2022 and into 2023.

The demand for services within the CBM sector is relatively consistent throughout the year as production requires constant water pumping to relieve pressure across the field. Customers replace ESPs on an as needed basis and these replacements are contingent on a customer's internal budgets. The overall industry demand is not seasonal.

Cost of Sales

Total cost of sales as a percentage of sales were higher during the third quarter of 2022 compared to the third quarter of 2021, mostly attributable to significant inflationary pressures which have affected virtually all input costs in the quarter. The supply chain issues that arose in 2020 due to COVID-19 and which continue to be experienced globally, has led the company to choose to ship certain key parts by air freight versus ocean freight and to source parts from alternative suppliers to meet customer demand for services. As air freight costs reduce gross profits when compared to traditional ocean freight charges, the Company continues to work with suppliers to implement and refine initiatives to reduce both fixed and variable costs and ensure the supply chain is streamlined and efficient. During the last half of 2021, the Company saw both increased pricing from core suppliers and less competitive pricing from alternative suppliers. The impact of these cost increases was experienced in the second quarter of 2022 as product shipments from China began to be received in the US and consumed in operations. These cost increases were partially offset in the second quarter of 2022 by a higher-than-average rate of refurbished motors being available for use. However, in the third quarter of 2022 all inventory on hand was at the higher costs, and the percentage of refurbished motors used was low due to job counts exceeding the Company's capacity to refurbish equipment. This resulted in the higher cost of sales per pump sold. The Company is taking steps to increase its refurbishment capacity.

Gross Profit and Margins

Gross Profit and gross margins were lower in the third quarter of 2022 than in the first and second quarters of 2022 despite an increase in revenue between the periods. Gross margin excluding inventory provisions was 15% in the third quarter of 2022 compared to 29% for the third quarter of 2021. This can be attributed to significant inflationary pressures which have affected virtually all input costs in the quarter. The volume of business outside of CBM was above expectations in the third quarter of 2022 as the Company expanded its customer base. The Company remains confident in the long-term viability of the oil and gas basins within its service region. These basins have significant future development opportunities that the Company is well positioned to address.

General and administration

	Three months ended September 30,		Variance	
	2022	2021	\$	%
Salaries, benefits and employee costs	\$200	\$230	(30)	-13
Director fees	18	9	9	100
Consultants and contractors	60	31	29	94
Office, insurance, warehouse and shop	81	29	52	180
Corporate and public company	6	5	1	20
Travel and accommodation	4	3	1	33
Professional, legal & advisory	40	40	-	-
Business development	10	23	(13)	-57
	\$419	\$371	49	13

	Nine months ended September 30,		Variance	
	2022	2021	\$	%
Salaries, benefits and employee costs	\$619	\$654	(35)	-5
Director fees	47	38	9	23
Consultants and contractors	154	138	16	11
Office, insurance, warehouse and shop	256	206	50	24
Corporate and public company	21	56	(35)	-62
Travel and accommodation	22	5	17	338
Professional, legal & advisory	87	93	(6)	-6
Business development	10	23	(13)	-57
	\$1,216	\$1,214	3	-

Total general and administration costs for the three and nine months ended September 30, 2022 were higher compared to the same period in 2021. Salaries, benefits and employee costs decreased for the three and nine months ended September 30, 2022 as compared to the three and nine months ended September 30, 2021 with the reduction in staff and streamlining of operations. Consultants and contractors costs increased for the three and nine months ended September 30, 2022 as compared to the three and nine months ended September 30, 2021 with the signing of a new consultant in July 2022, along with increased IT contractor costs. Office, insurance, warehouse and shop costs were up significantly period over period due to the increase in insurance rates in 2022 over 2021, along with higher travel and accommodation expenses in 2022 as COVID-19 related travel restrictions were sufficiently reduced in late 2021, allowing executive management to resume regular visits to Wyoming. Corporate and public company costs were significantly less for the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021 due to the share consolidation and related fees incurred with that transaction in the first quarter of 2021.

Finance income (expense)

	Three months ended September 30,		Variance	
	2022	2021	\$	%
Interest expense on debentures	(28)	(28)	-	-
Accretion on debentures	(24)	(19)	(5)	26
Interest on promissory notes	(53)	(60)	7	-11
Accretion of promissory notes	(41)	(44)	3	-7
Forgiveness of PPP	-	226	(226)	-100
Interest expense on government loans	(1)	(1)	-	-
Accretion of government loans	(1)	3	(4)	-133
Lease finance expense	(1)	(2)	1	-50
Foreign exchange gain	594	225	369	164
Net finance income	\$445	\$300	145	48

	Nine months ended September 30,		Variance	
	2022	2021	\$	%
Interest expense on debentures	(84)	(105)	21	-20
Accretion on debentures	(70)	(187)	117	-63
Gain on restructuring debentures	-	418	(418)	-100
Gain on sale of assets	-	9	(9)	-100
Interest on promissory notes	(164)	(183)	19	-10
Accretion of promissory notes	(124)	(129)	5	-4
Forgiveness of PPP	-	226	(226)	-100
Interest expense on government loans	(4)	(5)	1	-16
Accretion of government loans	(3)	(9)	6	-67
Lease finance expense	(6)	(6)	-	-
Fair value adjustment on share issue	-	2,157	2,157	-100
Foreign exchange gain (loss)	744	(3)	747	-24900
Net finance (expense) income	\$289	\$2,183	(1,894)	-87

For the three and nine months ended September 30, 2022, a foreign exchange gain of \$594 and \$774 respectively was recorded compared to a gain and loss of \$225 and \$3 respectively for the three and nine months ended September 30, 2021. Foreign exchange losses relate to foreign currency translation of certain balances and intercompany 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 losses of \$559 and \$700 respectively for the three and nine months ended September 30, 2022 (three and nine months ended September 30, 2021 – losses of \$218 and \$32) of other comprehensive income (loss).

Commitments, events, risks and uncertainties

As of the date of issuing this MD&A, the oil and gas market continues to deal with the supply chain disruptions, 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 these risks 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 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 Income disclosed in the Consolidated Statements of Net Income and Comprehensive Income to Adjusted EBITDA is set out in the following table:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2022	2021	2022	2021
Net Income (loss)	\$578	\$564	\$983	\$2,503
Finance income (expense)	(445)	(74)	(289)	(1,957)
Share-based compensation	10	12	35	19
Depreciation and amortization	52	53	153	159
Provision for slow moving inventory	-	(21)	-	(181)
Lease finance expense included in COS	26	-	69	59
Adjusted EBITDA	\$221	\$534	\$951	\$602

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. For the three and nine months ended September 30, 2022 share-based compensation of \$10 and \$35 respectively (for the three and nine months ended September 30, 2021 - \$12 and \$19 respectively) was recognized in the statement of net income (loss) and comprehensive income 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 of the unaudited condensed consolidated interim financial statements.

	Number of options	Weighted average exercise price (CAD \$)
Continuity of share-based options		
Balance, December 31, 2021	2,777,000	\$0.22
Granted – March 23, 2022	575,000	0.12
Expired	(144,000)	0.09
Balance, end of year	3,208,000	\$0.14

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 of the unaudited condensed consolidated interim financial statements.

The number of options exercisable at September 30, 2022 is 737,900 (December 31, 2021 – 244,000) at a weighted average exercise price of CAD \$0.53 (December 31, 2021 – CAD \$1.75). The weighted average remaining term for exercisable options is 3.20 years (December 31, 2021 – 0.58 years).

The Company granted 575,000 options on March 23, 2022, with a weighted average exercise price of CAD \$0.12 and 2,500,000 options on May 17, 2021 with a weighted average exercise price of CAD \$0.075. Both grants were valued using the Black-Scholes model with the following assumptions:

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:

	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020
Revenue	\$3,712	\$3,142	\$2,616	\$2,465	\$2,185	\$1,991	\$1,721	\$1,447
Net income (loss)	578	393	11	(41)	564	(308)	2,247	889
Net income (loss) per share								
Basic – per share	\$0.01	\$0.01	\$-	(\$0.01)	\$0.02	(\$0.01)	\$0.08	\$0.05
Diluted – per share	\$0.01	\$0.01	\$-	(\$0.01)	\$0.02	(\$0.01)	\$0.08	\$0.05
Adjusted EBITDA ⁽¹⁾	\$221	\$359	\$371	\$165	\$534	\$6	\$62	\$13

(1) Certain prior quarters adjusted for classification change

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, 3,208,000 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) which expired December 31, 2021.

LIQUIDITY AND CAPITAL RESOURCES

The Company had cash balances of \$665 as at September 30, 2022 and \$607 as at December 31, 2021.

Cash generated from operating activities for the three and nine months ended September 30, 2022 was \$424 and \$586 respectively (three and nine months ended September 30, 2021 - \$223 and \$932 respectively). The changes in non-cash working capital items for the three and nine months ended September 30, 2022 include an increase in prepaid expenses, deposits and advances of \$71 and \$22 respectively, a decrease in trade receivables of \$404 and \$311 respectively, an increase in inventories of \$66 and \$157 respectively, an increase in accounts payable and accrued liabilities of \$33 and \$24 respectively, and a decrease in interest payable of \$12 and \$38 respectively.

During the first three quarters of 2022, the Company's primary customer maintained payment terms on sales invoices at approximately 45 days.

The Company has an accumulated deficit of \$25,803 at September 30, 2022. For the three and nine months ended September 30, 2022, the Company generated net income of \$578 and \$983 respectively and had positive working capital at September 30, 2022 of \$353. The Company is in compliance with all of the requirements 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 September 30, 2022, the Company has Canadian Dollar denominated debentures outstanding of CAD \$1,437 (December 31, 2021 – CAD \$1,437) with an equivalent face value of \$1,048 at the September 30, 2022 exchange rate (December 31, 2021 - \$1,134). 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. In 2021 and the first half of 2022, the Company made payment of debenture interest in cash.

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 a minimum of 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 a minimum of 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).

The value of inventory on hand, before provisions, decreased from \$1,131 at December 31, 2021 to \$974 at September 30, 2022. The increased level of activity during Q3 and a focus on utilizing inventory on hand led to the decrease. The provision for slow moving inventory has remained consistent, with \$420 being provided for at both September 30, 2022 and December 31, 2021.

Trade receivables

Throughout the first three quarters of 2022, the Company's main customer maintained its payment terms at effectively 45 days and the Company expects payment terms to remain at approximately 45 days for the remainder of 2022, which is consistent with the year ended December 31, 2021. 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 matched its terms of payments with its main supplier of CBM equipment to coincide with collection of the Company's receivables.

CONTRACTUAL OBLIGATIONS AT SEPTEMBER 30, 2022

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	\$1,232	\$194	\$36	\$1,462
Lease obligations	41	130	297	468
Debentures	-	-	670	670
Interest payable	14	36	95	145
Promissory notes	100	302	1,819	2,221
Government loans	-	-	29	29
	\$1,387	\$662	\$2,946	\$4,995

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 September 30, 2022, the CAD \$1,437 (December 31, 2021 – CAD \$1,437) face value of the debentures includes \$251 (CAD \$344) (December 31, 2021 – \$271 (CAD \$344)) due to directors and officers of the Company. Interest accrues at 10% per annum. All interest expense incurred during the first quarter of 2022 was paid during the quarter. At September 30, 2022, accounts payable and accrued liabilities includes \$nil (December 31, 2021 - \$126) owing to directors and officers of the Company relating to accrued compensation.

	Q3 2022	Q3 2021
Debentures (carrying value)	\$160	\$151
Interest payable on related party loans	\$-	\$-

CONTINGENCIES

From time to time, the Company is subject to legal proceedings, contractual obligations, 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.

The Impact of COVID-19

The extent to which COVID-19 impacts the overall future business environment and the resulting impact 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.

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, 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 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 period ended September 30, 2022. 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.

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 August 10, 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

DS Advocats 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