



Divergent Energy Services Corp.

*Management's Discussion and Analysis
As at and for the years ended December 31, 2022 and 2021*

Dated: March 14, 2023

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, 2022 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, 2022 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 14, 2023 and was reviewed and approved by the Board of Directors on March 14, 2023.

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

Despite recent volatility in commodity prices Divergent remains well positioned to take advantage of the activity which continues to pick up in the Northern US states. Strong oil prices are creating opportunities for the Company which are being pursued while being mindful of ongoing constraints in supply chain and limited working capital. The softening of natural gas prices in the first quarter of 2023 has not yet led to any material reduction in activity levels and given that the Freeport LNG facility has resumed production after being off-line for eight months, it is expected that gas prices may stabilize and strengthen over the long term which further supports the field activity of our customers.

Revenue in 2022 increased significantly over the prior year as customers demonstrated an urgency to return wells to production in efforts to increase their revenues as the industry benefited from the strength of oil and natural

gas prices. Similarly, overall operating performance improved in 2022 compared to last year due to strong industry activity and post-COVID pricing recovery.

The significant inflationary pressures that emerged in late 2021 affected virtually all inputs for the Company as the products ordered after that time began to arrive throughout 2022. In the second half of 2022 the company experienced the full effect of those cost increases, which negatively impacted gross margins. Prior to the end of 2022, the Company was able to increase pricing to recover most of these cost increases. There is no guarantee that any future cost increases can likewise be recovered.

2022 Highlights

- \$12,506 of revenue for the year is a 50% increase over the prior year.
- Adjusted EBITDA of \$1,094 in 2022 is an increase of 43% over the prior year.
- \$3,036 of revenue in the fourth quarter of 2022, despite significant activity interruptions due to severe winter storms in the Company's operating region.
- Adjusted EBITDA of \$143 in the fourth quarter of 2022 represents the ninth consecutive quarter of positive adjusted EBITDA.

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.

	2022	2021	2020
Revenue	\$12,506	\$8,362	\$4,332
Income (loss) from operations	710	397	(65)
Net income (loss)	561	2,462	129
Per share – basic and dilutive (cents per share)	0.02	0.08	0.01
Adjusted EBITDA	1,094	767	(598)
Total assets	3,112	2,967	3,117
Total non-current financial liabilities	\$2,715	\$3,094	\$2,938
Total shares outstanding	33,004,912	33,004,912	18,629,912

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 job activity from this customer increased in 2022 to levels above all previous years since the Company was awarded the contract in 2017. Late in the year the Company renewed its exclusive electric submersible pumping contract with this CBM client for a further 5 years until 2027. There continues to be competition within our operating region that has limited pricing levels on products and services. The Company continues to focus on refurbishing certain products thereby extending their useful lives and increasing value to customers.

OUTLOOK

Divergent's overall outlook for services for 2023 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 elimination of the remaining COVID-19 restrictions throughout the world all point to continued strong commodity pricing into 2024. 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 2023.

Customers continue to demonstrate an urgency in returning wells to production and overall demand for services is increasing. Despite the current low prices for natural gas, the demand for CBM services is expected to remain relatively consistent throughout the year as the reservoir requires constant de-watering to maintain the integrity and value of the field. 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 consistent with that experienced during the previous year, with limiting factors being supply chain, service rig availability, labour and unseasonable or severe weather.

While the cost of sales in the second half of 2022 were negatively impacted by inflationary price increases to parts, components and logistics, the Company was successful in working with its customer base to recover most of these cost increases. There is no guarantee that all future cost increases can likewise be recovered.

The positive oil price 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

	2022	2021	Variance	
			\$	%
Revenue	<u>\$12,506</u>	<u>\$8,362</u>	\$4,144	50
Cost of sales	(9,900)	(6,466)	(3,434)	53
(Provision) reversal of provision for slow moving inventory	(40)	181	(221)	-122
	<u>(9,940)</u>	<u>(6,285)</u>	(3,655)	58
Gross profit	<u>\$2,566</u>	<u>\$2,077</u>	489	24
Gross margin (excluding inventory provision) - %	<u>21%</u>	<u>23%</u>		

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 CBM services is relatively consistent throughout the year as production requires constant water pumping to maintain the integrity and value of the field. 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 2022 exceeded 2021 by 50% due to increased demand for services as a result of higher oil and gas prices. Prices per job remained consistent year over year, as the Company was unable to pass on cost increases until late in the fourth quarter.

The overall customer mix in 2022 was generally consistent with 2021 with approximately 90% of revenue attributable to one customer during both years. The Company's oil customers in Wyoming and Colorado started to increase their operating budgets to increase production in 2022 in response to the increase in oil prices. It is anticipated this will continue through 2023.

Cost of Sales

Total cost of sales as a percentage of sales were higher during the 2022 compared to 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, led the company to choose to ship certain key parts by more expensive air freight versus ocean freight and to source parts from alternative suppliers to meet customer demand for services. As air freight costs are approximately three times higher than ocean freight costs, use of air freight reduces gross profits when compared to traditional ocean freight charges. During 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 2022 as product shipments began to be received and consumed in operations. During the second quarter of 2022, the cost increases were partially offset by a higher-than-average rate of refurbished product being available for use. However, by the third

quarter of 2022, all inventory on hand was at the higher costs, and the percentage of refurbished product 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 has taken steps to increase its refurbishment capacity.

Gross Profit

Gross Profit in 2022 was higher than 2021 by \$489 due to the above noted increase in revenue year over year. However, while gross profit increased in 2022, gross profit as a percentage of revenue was lower in 2022 than 2021 despite the increase in revenue between the periods. Gross profit as a percentage of revenue, excluding inventory provisions, was 21% in 2022 compared to 23% for 2021. This is attributed to significant inflationary pressures which increased product costs through the second half of the year. The volume of business outside of CBM was above expectations in 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

	2022	2021	Variance	
			\$	%
Salaries, benefits and employee costs	\$946	\$888	58	7
Director fees	65	57	8	14
Consultants and contractors	195	191	4	2
Office, insurance, warehouse and shop	346	292	54	18
Corporate and public company	22	57	(35)	-61
Travel and accommodation	40	12	28	233
Professional, legal & advisory	178	105	73	70
Business development	10	37	(27)	-73
	\$1,802	\$1,639	\$163	10

General and administration costs during 2022 were higher compared to 2021 by \$163. Salaries, benefits and employee costs increased \$58 over the prior year due to increases in salaries of existing employees. Office, insurance, warehouse and shop increased \$54 over 2021 due to increased insurance costs in the period arising from the year-over-year increase in revenue. Corporate and public company costs were \$35 lower than 2021 due to 2021 having costs related to the restructuring and stock consolidation. Travel and accommodation were up \$28 in 2022 due to COVID restrictions lifting and travel between head office and Gillette, WY, resuming post COVID. Professional, legal and advisory increased \$72 in the period due to increases in tax filing fees and other legal advisory fees. Business development costs were \$27 lower than the previous year due to less consulting fees being charged.

Finance income (expense)

	2022	2021
Gain on disposal of assets	\$-	\$9
Interest expense on debentures	(111)	(134)
Accretion of debentures	(94)	(209)
Gain on restructuring of debentures	-	418
Interest expense on promissory notes	(216)	(241)
Accretion of promissory notes	(166)	(174)
Gain on restructuring of note payable	-	16
Interest expense on government loans	(6)	(7)
Accretion of government loans	(4)	(3)
Lease finance expense	(8)	(8)
Fair value adjustment on share issue	-	2,157
Foreign exchange loss	456	15
Net finance income (expense)	(\$149)	\$1,839

A foreign exchange loss of \$456 was recorded in 2022 compared to a loss of \$15 in 2021. Foreign exchange losses relate 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 losses are offset by recording a \$411 gain in 2022 (2021 - \$27 loss) in 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 projects ongoing and does not have any significant planned capital spending during 2023. In 2022, the Company spent \$77 on the buyout of leased vehicles and new shop equipment.

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:

	2022	2021
Net income	\$561	\$2,462
Finance (income) expense	149	(1,839)
Share-based compensation	44	31
Depreciation and amortization	208	212
Provision (reversal of provision) for slow moving inventory	40	(181)
Lease finance expense included in cost of sales	92	82
Adjusted EBITDA	\$1,094	\$767

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 2022, share-based compensation of \$44 (2021- \$31) 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.

	2022		2021	
	Number of options	Weighted average exercise price (CAD \$)	Number of options	Weighted average exercise price (CAD \$)
Continuity of share-based options				
Balance, beginning of year	2,777,000	\$0.22	326,000	\$1.67
Granted	575,000	0.12	2,500,000	0.075
Expired	(144,000)	0.09	(49,000)	0.02
Balance, end of year	3,208,000	\$0.14	2,777,000	\$0.22

The number of options exercisable at December 31, 2022 is 3,208,000 (December 31, 2021 – 2,777,000) at a weighted average exercise price of CAD \$0.14 (December 31, 2021 – CAD \$0.22). The weighted average remaining term for exercisable options is 3.19 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. The grants were valued using the Black-Scholes model with the following assumptions:

Expected volatility	104%
Expected forfeiture	15%
Risk-free rate	2.2%
Expected stock option life	5 years

The Company granted 2,500,000 options on May 17, 2021 with a weighted average exercise price of CAD \$0.075. The 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:

	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021
Revenue	\$3,036	\$3,712	\$3,142	\$2,616	\$2,465	\$2,185	\$1,991	\$1,721
Net income (loss)	(422)	578	393	11	(41)	564	(308)	2,247
Net income (loss) per share								
Basic – per share	(\$0.01)	\$0.02	\$0.01	\$-	(\$0.01)	\$0.02	(\$0.01)	\$0.08
Diluted – per share	(\$0.01)	\$0.02	\$0.01	\$-	(\$0.01)	\$0.02	(\$0.01)	\$0.08
Adjusted EBITDA ⁽¹⁾	\$143	\$221	\$359	\$371	\$165	\$534	\$6	\$62

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 nil 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 21, 2023, these warrants expired.

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 expired December 31, 2021.

LIQUIDITY AND CAPITAL RESOURCES

The Company had cash balances of \$556 and \$607 as at December 31, 2022 and 2021, respectively.

Cash generated from operating activities in 2022 was \$925 compared to \$1,354 during 2021. The changes in non-cash working capital items include an increase in prepaid expenses, deposits and advances of \$30, an increase in trade receivables of \$237, a decrease in inventories of \$9, and an increase in accounts payable and accrued liabilities of \$128.

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

The Company has an accumulated deficit of \$26,225 at December 31, 2022 and has experienced a history of losses. In 2022, the Company generated income of \$561 and had positive working capital at December 31, 2022 of \$161. 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, 2022 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, 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 \$1,061 at the December 31, 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. During 2022, the Company made payment of debenture interest in cash, as in the previous year.

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 currently take 75 -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 2022, the value of inventory on hand, before provisions, increased from \$1,131 at December 31, 2021 to \$1,140 at December 31, 2022. The increased level of activity during the year and a focus on utilizing inventory on hand led to the slight increase. The provision for slow moving inventory increased to \$460, from \$420 at December 31, 2021.

Trade receivables

Throughout 2022 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 and the Company's main customer maintained its payment terms at effectively 45 days. Despite short-term volatility in industry conditions, 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 matched 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, 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	\$1,426	\$125	\$15	\$1,566
Lease obligations	44	124	257	425
Debentures	-	-	702	702
Interest payable	13	36	83	132
Promissory notes	114	343	1,726	2,183
Government loans	-	-	30	30
	\$1,597	\$628	\$2,813	\$5,038

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, 2022, the CAD \$1,437 face value of the debentures includes \$271 (CAD \$344) (December 31, 2021 - \$271 (CAD \$344)) due to directors and officers of the Company. Interest on these debentures during the year was \$27 (CAD \$34) (2021- \$32 (CAD \$40)) and interest payable at the end of the year was \$nil (CAD \$nil) (2021 - \$nil (CAD \$nil)).

	2022	2021
Debentures (carrying value)	\$168	\$157
Interest payable on related party loans	\$-	\$-

Key management personnel and director compensation comprised:

	2022	2021
Salaries and benefits	\$415	\$291
Accrued performance based compensation	111	118
Directors' fees	62	57
Share-based compensation	26	1
	\$614	\$467

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, 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, 2022.

Refer to Note 23 of the 2022 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

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