



Divergent Energy Services Corp.

Management's Discussion and Analysis

As at and for the three and nine months ended September 30, 2023 and 2022

Dated: November 28, 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 three and nine months ended September 30, 2023 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 3 to the audited annual December 31, 2022 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 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 28, 2023 and was reviewed and approved by the Board of Directors on November 28, 2023.

OVERVIEW AND CORPORATE PROFILE

Divergent was incorporated under the Canadian Business Corporations Act on October 21, 1996 in the province of Alberta, Canada 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, Canada, T2P 2X6.

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

GOING CONCERN

These unaudited condensed consolidated interim 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. These unaudited condensed consolidated interim financial statements do not reflect adjustments in the carrying values of the assets and liabilities, revenues, expenses and financial position that would be necessary if the Company were unable to realize its assets and settle its liabilities and commitments as a going concern in the normal course of operations. Such adjustments could be material.

At September 30, 2023, the Company had a positive working capital of \$36 and shareholders' deficit of \$1,924. During the three and nine months ended September 30, 2023 the Company generated a net income of \$122 and \$13 respectively, and used cash from operations of \$31 and generated cash from operations of \$96 for the three and nine months ended September 30, 2023, respectively. Approximately 80% of the Company's sales are attributable to one customer which according to the public record, the customer is undergoing a restructuring process. These circumstances and material industry uncertainties cast significant doubt on the Company's ability to continue as a going concern.

EXECUTIVE SUMMARY

In the first quarter of 2023, demand for services was strong, however activity levels in the second and third quarter of 2023 were significantly reduced as the Company's largest gas-focused customer reduced their field activities in response to lower natural gas prices, temporary offtake limitations, and the customers' internal restructuring.

Prior to the end of 2022, the Company was able to increase pricing across its customer base and recover most of the significant inflationary cost increases that had negatively impacted gross margins in the second half of 2022. These stronger margins helped to offset the reduced second and third quarter activity in 2023.

Relatively steady oil prices are creating opportunities for the Company which are being pursued while being mindful of ongoing long lead times in the supply chain and limited working capital. In the third quarter of 2023, the Company had solid revenue from oil focused customers, despite third quarter revenue from oil being lower than the record second quarter 2023 revenue from this segment. In response to this steady work from oil customers in 2023, the Company took possession of a new piece of oilfield equipment that it had ordered in the second quarter. This equipment will help to meet this increasing demand.

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 2023	Q3 2022	Q3 2021
Revenue	\$1,828	\$3,712	\$2,185
Income from operations	63	133	264
Net income	122	578	564
Per share – basic and dilutive (cents per share)	-	\$0.01	\$0.02
Adjusted EBITDA	155	221	534
Total assets	3,636	3,193	2,712
Total non-current financial liabilities	2,499	2,815	3,001
Total shares outstanding	33,004,912	33,004,912	33,004,912

Overall analysis of financial operations

A significant majority of the Company's sales have been generated from one customer which is focused on producing 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 2022, the Company renewed its exclusive Electric Submersible Pump ("ESP") contract with this CBM client for a further 5 years until 2027. During the second quarter of 2023, this customer significantly reduced their field activity levels in response to reduced natural gas prices and the temporary shutdown of two of their primary offtake pipelines for repairs and recertification. This customer continued to limit their field activities in the third quarter while they focused on a restructuring and potential sale process. The Company continues to focus on its innovative refurbishment program which has delivered significant savings to our CBM client and provides Divergent with a strong competitive position in the market.

OUTLOOK

Global demand for oil remains constant as the world's major economies continue to rely on petroleum products in everyday life. Macroeconomic factors including continued inflationary pressures, extended voluntary production cuts by Saudi Arabia, ongoing geopolitical tensions creating concerns for security of supply, and record low North American oil inventory storage levels all point to continued strong oil pricing well into 2024. At these price levels the Company anticipates fairly consistent oilfield service activity levels as customers remain very positive on their current spending plans for 2023 and start to build budgets for 2024. The Company continues to add new oil customers and as such, a capital investment in oilfield equipment was made in the third quarter of 2023 to increase the Company's capacity to support a growing customer base.

While natural gas prices trended down and flattened out through the first quarter of 2023, the Company's primary customer remained busy through the first quarter of 2023. However, during the second quarter of 2023, this same customer significantly reduced their activity levels, in part due to lower gas prices, but primarily due to two of their primary offtake pipelines being taken offline for repairs and recertification, which resulted in reduced revenue for the quarter. The repairs and recertification were completed mid-way through the third quarter of 2023. The Company anticipates continued base level activity throughout the fourth quarters of 2023 while the customer works through a restructuring and sale process, the results of which are unknown. Market analysts are reporting that gas prices should remain flat in the fourth quarter of 2023 and into 2024 due to reduced gas-targeted drilling over the past year and increasing LNG exports.

Overall, the demand for energy services and the ability for the sector to improve over the next few years is seen as highly likely. The structural shortfall in global energy supply will be difficult for the industry to overcome for some time. 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. However, in the near term, the Company will need to work through the challenges associated with the low activity levels of its largest customer as it works through its restructuring and sales process.

OPERATING RESULTS:

Revenue, costs of sales and gross profit

	Three months ended September 30,		Variance	
	2023	2022	\$	%
Revenue	<u>\$1,828</u>	<u>\$3,712</u>	<u>(1,884)</u>	<u>(51)</u>
Cost of sales	<u>(1,422)</u>	<u>(3,149)</u>	<u>1,727</u>	<u>55</u>
Provision for slow moving inventory	<u>146</u>	<u>-</u>	<u>146</u>	<u>100</u>
	<u>(1,276)</u>	<u>(3,149)</u>	<u>1,873</u>	<u>59%</u>
Gross profit	<u>\$552</u>	<u>\$563</u>	<u>(11)</u>	<u>(2%)</u>
Gross margin (excluding inventory provision) %	<u>22%</u>	<u>15%</u>		

	Nine months ended September 30,		Variance	
	2023	2022	\$	%
Revenue	\$6,810	\$9,470	(2,660)	(28)
Cost of sales	(5,121)	(7,518)	2,397	32
Provision for slow moving inventory	346	-	346	100
	(4,775)	(7,518)	2,743	36
Gross profit	\$2,035	\$1,952	83	4
Gross margin (excluding inventory provision) %	25%	21%		

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 its customers' operating budgets. The prices for oil and gas are subject to global and domestic influence and cannot be reliably predicted. The Company's clients' operating budgets are adjusted throughout the year based on how the actual prices relate to their price assumptions. Apart from the reductions in Q2 2023 previously explained, the demand for CBM services is typically 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 Q3 2023 were less than revenues in Q3 2022 by 51% due to the Company's primary customer reducing activity levels in response to both lower natural gas prices and the temporary shut down of two of its primary offtake pipelines for repairs and recertification. Although the pipeline resumed transmission of gas mid-way through the third quarter of 2023, the customer has not yet resumed their previous activity levels.

The overall customer mix in the first nine months of 2023 has changed significantly as compared to historical periods. For the three and nine months ended September 30, 2023, the revenue attributable to one customer during the period was approximately 78% and 80%, respectively, (for the three and nine months ended September 30, 2022 - 88% and 89%, respectively). Outside of this primary customer, the Company has grown its customer base for the three and nine months ended September 30, 2023, by \$44 and \$397 or 12% and 43% over the same periods in the prior year. Customers in Wyoming and Colorado continue to work to maintain production in response to current oil prices.

Cost of Sales

Total cost of sales as a percentage of sales moderately increased throughout Q3 2023 compared to Q3 2022 primarily due to fixed costs at the field level that could not be reduced despite the change in activity levels. This increase was partially offset by the elimination of airfreight charges that were seen throughout 2022. Suppliers were able to catch up on outstanding orders in the first nine months of 2023 and the Company has been able to avoid incurring airfreight costs in 2023.

During 2022, the Company saw both increased pricing from both core suppliers and alternative suppliers. The impact of these cost increases was primarily experienced in the later half of 2022 as product shipments began to be received and consumed in operations, and by the third quarter of 2022 all inventory on hand was at the higher

costs. In 2022 the percentage of refurbished product used was low due to job counts exceeding the Company's capacity to refurbish equipment, however in the first nine months of 2023 refurbishment rates returned to historic levels which helped to moderate the cost of sales.

Gross Profit

Gross profit in Q3 2023 was lower than Q3 2022 by \$11 or 2% primarily due to a decrease in activity over the same period last year due to the customer offtake pipeline shut-down and lower natural gas prices. Gross profit as a percentage of revenue, excluding inventory provisions, was 22% in Q3 2023 compared to 15% for Q3 2022. Although the Company's average price per job increased quarter over quarter, some of these gains in gross margin were offset by fixed costs that could not be reduced. In addition, a provision reversal was made for slow moving inventory of \$146 in Q3 2023 as inventory which had previously been provided for was now being used.

General and administration

	Three months ended September 30,		Variance	
	2023	2022	\$	%
Salaries, benefits and employee costs	\$281	\$200	81	41
Director fees	13	18	(5)	(28)
Consultants and contractors	33	60	(27)	(45)
Office, insurance, warehouse and shop	86	81	5	6
Corporate and public company	6	6	-	-
Travel and accommodation	4	4	-	-
Professional, legal & advisory	45	40	5	13
Business development	14	10	4	40
	\$482	\$419	63	15

	Nine months ended September 30,		Variance	
	2023	2022	\$	%
Salaries, benefits and employee costs	\$1,036	\$619	417	67
Director fees	48	47	1	2
Consultants and contractors	120	154	(34)	(22)
Office, insurance, warehouse and shop	270	256	14	5
Corporate and public company	20	21	(1)	(5)
Travel and accommodation	10	22	(12)	(54)
Professional, legal & advisory	85	87	(2)	(2)
Business development	54	10	44	440
	\$1,643	\$1,216	427	35

General and administration costs for the three and nine months ended September 30, 2023 were higher compared to the same periods in 2022 by \$63 and \$427, respectively. Salaries, benefits and employee costs for the three and nine months ended September 30, 2023 increased \$81 and \$417, respectively, from the same periods in 2022. These increases were primarily a result of reclassifying two employees from cost of sales to general and administration expense, and to a lesser degree from increases in salaries of existing employees, the accrual of bonuses, and changes to the allocations of field employees being used for shop activities during slower periods. Consultants and contractors for the three and nine months ended September 30, 2023 were \$27 and \$34 lower, respectively, than the same periods in 2022 due to a reduction in the consulting fees being paid to one

consultant. Office, insurance, warehouse and shop for the three and nine months ended September 30, 2023 were \$5 and \$14 higher, respectively, compared to the same periods in 2022 due to increases in insurance rates over prior periods. Travel and accommodation for the three months ended September 30, 2023 is flat compared to Q3 2022 and for the nine months ended September 30, 2023 is down \$12 compared to the same periods in 2022 due to reduced travel in response to reduced job counts. Business development costs for the three and nine months ended September 30, 2023 were \$4 and \$44 higher, respectively, compared to prior periods in 2022 due to expenses being incurred for supplies.

Finance income (expense)

	Three months ended September 30,		Variance	
	2023	2022	\$	%
Interest expense on debentures	(\$27)	(\$28)	1	4
Accretion on debentures	(27)	(24)	(3)	(13)
Interest on promissory notes	(48)	(53)	5	(10)
Accretion of promissory notes	(36)	(41)	5	12
Interest expense on government loans	(2)	(1)	(1)	(100)
Accretion of government loans	(1)	(1)	-	-
Lease finance expense	(2)	(1)	(1)	(100)
Foreign exchange gain	202	594	(392)	(66)
Net finance (expense) income	\$59	\$445	(386)	(87)

	Nine months ended September 30,		Variance	
	2023	2022	\$	%
Interest expense on debentures	(\$80)	(\$84)	4	5
Accretion on debentures	(77)	(70)	(7)	(10)
Interest on promissory notes	(128)	(164)	36	22
Accretion of promissory notes	(113)	(124)	11	9
Interest expense on government loans	(5)	(4)	(1)	(25)
Accretion of government loans	(3)	(3)	-	-
Lease finance expense	(6)	(6)	-	-
Foreign exchange gain	61	744	(683)	(92)
Net finance (expense) income	(\$351)	\$289	(640)	(222)

Interest on promissory notes for the three and nine months ended September 30, 2023 was \$5 and \$36 lower than the three and nine months ended September 30, 2022 due to the Q2 2023 renegotiation of the payments and interest on the promissory notes. For the three and nine months ended September 30, 2023, a foreign exchange gain of \$202 and \$61, respectively, was recorded compared to a gain of \$594 and \$744, respectively, for the three and nine months ended September 30, 2022. 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 a loss of \$177 and \$34, respectively, for the three and nine months ended September 30, 2023 and losses of \$559 and \$700, respectively, for the three and nine months ended September 30, 2022 of other comprehensive income (loss).

Commitments, events, risks and uncertainties

As of the date of issuing this MD&A, the Company continues to deal with uncertainty resulting from volatile natural gas prices, 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 low natural gas prices and global political instability, to take the necessary steps to reduce the risk to the Company's operations.

Capital spending

The Company did not have any significant planned capital spending during 2023. In Q3 2023, the Company acquired additional equipment for \$81 to expand its capacity to service oil-related ESP demand. Total expenditures in 2023 are expected to be less than \$100.

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 September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Net Income (loss)	\$122	\$578	\$12	\$983
Finance income (expense)	(59)	(445)	351	(289)
Share-based compensation	5	10	23	35
Depreciation and amortization	60	52	169	153
Lease finance expense included in COS	27	26	75	69
Adjusted EBITDA	155	\$221	\$630	\$951

Share-based compensation

The Company has established a stock option 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 stock options pursuant to the stock option plan. For the three and nine months ended September 30, 2023, share-based compensation of \$5 and \$23 respectively (for the three and nine months ended September 30, 2022 - \$10 and \$35 respectively) was recognized in the condensed consolidated interim statement of net income and comprehensive income with a corresponding amount in contributed surplus. Stock options are issued in CAD \$.

Continuity of stock options	Number of options	Weighted average exercise price (CAD \$)
Balance, December 31, 2022	3,208,000	\$0.14
Granted	200,000	\$0.075
Expired	(40,000)	\$0.85
Expired	(70,500)	\$1.55
Balance, September 30, 2023	3,297,500	\$0.09

The number of options exercisable at September 30, 2023 is 1,991,333 (December 31, 2022 – 1,102,333) at a weighted average exercise price of CAD \$0.16 (December 31, 2022 – CAD \$0.42). The weighted average remaining term for exercisable options is 2.76 years (December 31, 2022 – 3.51 years).

The Company granted 200,000 options on May 15, 2023 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	74%
Expected forfeiture	15%
Risk-free rate	2.99%
Expected stock option life	5 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:

	Q3 2023	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2021	Q 2021
Revenue	\$1,828	\$1,879	\$3,103	\$3,036	\$3,712	\$3,142	\$2,616	\$2,465
Net income (loss)	122	(278)	\$168	(422)	578	393	11	(41)
Net income (loss) per share								
Basic – per share	\$-	(\$0.01)	\$0.01	(\$0.01)	\$0.02	\$0.01	\$-	(\$0.01)
Diluted – per share	\$-	(\$0.01)	\$0.01	(\$0.01)	\$0.02	\$0.01	\$-	(\$0.01)
Adjusted EBITDA ⁽¹⁾	\$155	\$67	\$408	\$103	\$221	\$359	\$371	\$165

(1) Prior quarters adjusted for classification change

OUTSTANDING SECURITIES

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

As at the date of this MD&A, the Company has 33,004,912 common shares issued and outstanding, 3,297,500 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). 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.

LIQUIDITY AND CAPITAL RESOURCES

The Company had cash balances of \$157 as at September 30, 2023 and \$556 as at December 31, 2022.

Cash used from operating activities for the three months ended September 30, 2023 was \$30 and the cash generated from operating activities for the nine months ended September 30, 2023 was \$98 (three and nine months ended September 30, 2022 – cash generated from operating activities \$424 and \$763, respectively). The changes in non-cash working capital items for the three and nine months ended September 30, 2023 include; prepaid expenses, deposits and advances a decrease of \$19 and \$7, respectively; a decrease in trade receivables of \$273 and \$943, respectively; an increase in inventories of \$nil and \$284, respectively; and an increase in accounts payable and accrued liabilities of \$280 and \$466, respectively.

During the first quarter of 2023, the Company's primary customer maintained payment terms on sales invoices at approximately 30-45 days. During the second and third quarters of 2023, this same customer extended their payments to approximately 90 days in response to their own cash management strategy in response to the temporary shutdown of their primary offtake pipeline which required repairs and recertification and their restructuring efforts. It is expected that this customer will resume payment terms of 30-45 days sometime in 2024 upon the successful completion of their restructuring and potential sale to a new shareholder group.

The Company has an accumulated deficit of \$26,213 at September 30, 2023. For the three and nine months ended September 30, 2023, the Company generated net income of \$122 and \$12, respectively, and had positive working

capital at September 30, 2023 of \$35. 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 September 30, 2023, the Company has Canadian Dollar denominated debentures outstanding of CAD \$1,546 (December 31, 2021 – CAD \$1,437) equivalent to a face value of \$1,127 at the September 30, 2023 exchange rate (December 31, 2022 - \$1,061). The debentures bear interest at 10% per annum, are secured by a trust indenture and a general security agreement over 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. During the first half of 2023, the Company elected to pay the interest obligations in cash.

On July 26, 2023, the Company issued a secured debenture of \$81 to a related party. The debenture bears interest at 9% per annum and allows the holder to register security against a specific piece of equipment. The debenture matures on December 31, 2026 and the interest is calculated and compounded monthly. Interest is payable quarterly in cash in arrears on March 31, September 30, September 30, and December 31 during the term of the debenture.

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 products 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 75 – 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).

For the three and nine months ended September 30, 2023 a provision reversal of \$146 and \$346, respectively (September 30, 2022 – provision of \$nil and \$nil respectively) was recorded to adjust the carrying amount of inventories to their estimated net realizable value. The cumulative provision included in inventories at September 30, 2023 is \$nil (December 31, 2022 - \$460).

Trade receivables

In the second quarter of 2023 the Company experienced an extension in payments from its primary customer from the usual 30-45 days to approximately 90 days. This was due to the customer experiencing tight cash flows due to their primary offtake pipeline being taken offline for repairs and recertification. It is expected that the customer will return only after completing their internal restructuring and sale process. In the quarter, it was determined that all trade receivables were deemed collectible so no provision for any expected loss was recorded. All invoiced revenue is not in dispute and the Company is confident payments will continue to be made over an extended period 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. As collections from the Company's primary customer have been delayed, the Company has likewise delayed payments to all of its suppliers.

CONTRACTUAL OBLIGATIONS AT SEPTEMBER 30, 2023

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	\$1,626	\$376	\$30	\$2,032
Lease obligations	39	105	151	295
Debentures	-	-	849	849
Interest payable	-	67	147	214
Promissory notes	-	672	1,466	2,138
Government loans	-	-	33	33
	\$1,665	\$1,220	\$2,676	\$5,561

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, 2023, the CAD \$1,546 (December 31, 2022 – CAD \$1,437) face value of the debentures includes \$331 (CAD \$453) (December 31, 2022 – \$271 (CAD \$344)) due to directors and officers of the Company. Interest accrues at 10% per annum. All interest expense incurred during the first half of 2023 were paid during the quarters.

On July 26, 2023, the Company issued a secured debenture of \$81 to a related party. The debenture bears interest at 9% per annum and allows the holder to register security against a specific piece of equipment. The debenture matures on December 31, 2026 and the interest is calculated and compounded monthly. Interest is payable quarterly in cash in arrears on March 31, September 30, September 30, and December 31 during the term of the debenture.

	Q3 2023	Q3 2022
Debentures (carrying value)	\$264	\$160
Interest payable on related party loans	\$-	\$-

CONTINGENCIES

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

BUSINESS RISKS AND UNCERTAINTIES

Divergent faces a number of risks that could cause its 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 the business risks, other uncertainties and potential events as well as the inherent uncertainty of forward-looking statements when making investment decisions with respect to Divergent. Additional risks and uncertainties not presently known to the Company or that it currently deems immaterial may also adversely affect the Company’s business and operations.

CAPITAL MANAGEMENT

The Company’s objective when managing its capital is to strike a balance between maintaining investor, creditor and market confidence while sustaining future development of the Company. Capital, which the Company defines as its share capital and debt, 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, 2023. 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.

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 9, 2023

DIRECTORS AND OFFICERS

Kenneth Bagan (1) (2) (4)
Director

Cameron Barton (1) (2)
Executive Chairman of the Board

Rob Riecken (2) (3)
Director

Geoff Bury(1) (3)
Director

Ken Berg (3)
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 Compensation Committee, Mr. Bagan is Chairman
- (3) Member of the Health, Safety and Environment Committee, Mr. Riecken is Chairman
- (4) 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

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BANK

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

LEGAL COUNSEL

DS Lawyers Canada LLP
Calgary, Alberta, Canada

AUDITORS

MNP LLP
Calgary, Alberta, Canada

STOCK EXCHANGE

TSX Venture
Calgary, Alberta, Canada

TRANSFER AGENT AND REGISTRAR

Odyssey Trust
Calgary, Alberta, Canada