



Divergent Energy Services Corp.

*Management's Discussion and Analysis
As at and for the years ended December 31, 2020 and 2019*

Dated: March 17, 2021

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, 2020 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 for the year ended December 31, 2020 and 2019 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 based on information available as of March 17, 2021 and was reviewed and approved by the Board of Directors on March 17, 2021.

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

Going Concern

The consolidated financial statements have been prepared on a going concern basis which assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business rather than through a process of forced liquidation. The consolidated 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 as a going concern in the normal course of operations. Such adjustments could be material.

At December 31, 2020, the Company had a working capital deficiency of \$3,851 and shareholders deficit of \$5,988. During 2020, the Company generated net income of \$129, used cash for operations of \$192 and approximately 90% of the Company's sales were attributable to one customer. During 2020, the Company accessed US government sponsored loans of \$403 to fund certain payroll and administrative expenses, \$253 is eligible to be forgiven in 2021. The Company fully addressed the working capital deficiency by way of a financial restructuring as outlined below which was completed subsequent to year end.

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

Financial restructuring

At December 31, 2020, the Company had debentures payable with a face value of \$4,516 (CAD \$5,750) which 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, \$3,387 (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, \$1,129 (CAD \$1,437), to December 31, 2025. The Debenture Conversion was subject to shareholder approval and TSX Venture Exchange ("TSXV") approval.

At the special meeting of shareholders held on December 28, 2020 shareholders approved the Debenture Conversion 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.

In January 2021, the Company received final approval from the TSXV and 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 Conversion and are subject to a four month hold period before being fully tradable.

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.

Impact of COVID-19

During the first quarter of 2020, the financial markets were negatively impacted by the coronavirus that causes the respiratory disease (COVID-19). The COVID-19 outbreak was declared a pandemic by the World Health Organization on March 12, 2020. At the end of March 2020, the Company was advised by a substantial majority of its client base that they had temporarily suspended operations related to the sales and service of submersible pumps which had a material impact on the financial resources of the Company. The Company resumed limited work on May 18, 2020, with activity slowly recovering following improvements in the price of natural gas and oil. Throughout the year, activity levels slowly recovered with a return to approximately pre-COVID levels by December 2020. 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.

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.

Description of Business

The Company's business consists of one operating segment namely Artificial Lift Systems and its products are currently sold exclusively in the US. The Company offers normal and customary trade terms to its customers, no significant part of which is of an extended nature. Special inventory requirements are not necessary, and customer merchandise return rights do not extend beyond normal warranty provisions. The market for the Company's products is highly competitive.

Artificial Lift Systems (“ALS”)

The ALS business provides electric submersible pumping products including the ongoing development of electromagnetic reciprocating submersible pump technology. Divergent currently services Wyoming and Colorado from its facility in Gillette, WY. There are two distinct product lines as follows:

- ***Electric Submersible Pump Systems (“ESP”)***

ESP products and services primarily target production operations in the oil and gas industry are designed to lift large volumes of fluid from both oil and gas wells.

- ***Linear Electromagnetic Submersible Pump (“Linear Pump”)***

The Linear Pump, currently in development stage, uses permanent magnet motor technology that duplicates conventional rod pump movement without rod strings or surface lifting equipment. The Linear Pump is installed similar to an ESP at the bottom of the well on production tubing with electric cable running to surface. Development of this product line has been placed on temporary hold since mid-2019 while the manufacturer of the system is performing its own ongoing tests.

Overall Performance

Divergent successfully navigated through one of the most challenging years in the Company's history. The COVID-19 pandemic and volatile price of oil and gas negatively impacted our customers' ability to conduct business at levels experienced during 2019 and the first quarter of 2020. While first quarter revenue and operating performance were consistent with 2019, significantly lower results were realized during the remainder of year with annual revenue experiencing a 47% year-over-year decline. The Company implemented steps to adjust to the lower level of operations including rolling back executive and director compensations by 12% and 33%, respectively, reducing field staff by 16%, accessing emergency government loans and working with secured and unsecured debt holders to extend repayment terms on outstanding obligations. The Company accessed \$403 of government assistance and successfully converted current liabilities totaling \$3,145 into long-term promissory notes with repayment extending up to 5 years. In addition, the Company worked diligently on restructuring debt and equity transactions totaling \$4,516 which was finalized and executed in January 2021. Had all these transactions completed on or before December 31, the Company would have had positive working capital at the end of 2020. December 2020 revenue returned to pre-COVID-19 levels and the Company's main customer is now settling the Company's receivables on approximately 30-day terms which is down from a high of in excess of 90 days experienced in early 2020. The Company exited 2020 in a stronger financial position compared to the first quarter of 2020.

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.

	2020	2019	2018
Revenue	\$4,332	\$8,178	\$7,535
Net income (loss)	129	(2,644)	1,250
Per share – basic and dilutive (cents per share)	0.01	(0.22)	0.10
Total assets	3,117	3,294	2,801
Total non-current financial liabilities	\$2,938	\$4,344	\$3,947

Overall analysis of financial operations

A significant majority of the Company's sales are generated from one customer which is focused on optimizing coal bed methane ("CBM") wells in the Powder River Basin. The level of activity with this customer has remained relatively consistent over the past three years up to March 31, 2020. Due to the negative impacts of the COVID-19 pandemic and downward pressure on oil pricing causing tension between major oil producing countries, our main customer significantly reduced its operating activities in early April. In addition to a price reduction for products and services during Q2 2020, lower than normal activity levels persisted until December 2020. During this period the Company maintained an ongoing focus on cost reduction and optimization. In addition, the Company reduced commitments to purchase new inventory, focusing instead on drawing down of inventories on hand and refurbishing certain equipment thereby extending the useful lives of equipment sold to customers. Through these initiatives, the Company was able to achieve gross margins of 25% in 2020 compared to 23% in 2019. As the Company exited 2020, the overall business environment was improving while oil and gas prices were trending up. December gross revenue was consistent with activity levels experienced prior to the COVID-19 pandemic.

Results of Operations

Revenue, costs of sales and gross profit

	2020	2019	Variance	
			\$	%
Revenue	\$4,332	\$8,178	(3,846)	(47)
Cost of sales	(3,247)	(6,313)	3,066	(49)
Provision for slow moving inventory	934	(1,325)	2,259	170
	(2,313)	(7,638)	5,325	70
Gross profit	\$2,019	\$540	1,479	273
Gross margin (excluding inventory provision) - %	25%	23%		

Revenue

The Company's revenue is reliant on industry activity in the areas it services, demand for its specific products, and market prices for oil and gas that dictate our customers' operating budgets. The prices for oil and gas are subject to global and domestic influence and cannot be reliably predicted. Our clients' operating budgets are adjusted throughout the year based on how the actual prices relate to their price assumptions. The demand for services is relatively consistent throughout the year as CBM production requires constant water pumping to maintain the value of the field, although activity levels may vary depending on severe weather or national holidays. Clients replace ESPs on an as needed basis and these replacements are contingent on client's internal budgets. The overall industry demand is not seasonal.

The 47 percent decline in 2020 revenue compared to 2019 is due to Divergent's customers drastically reducing their budget and business activity in response to the negative business environment that quickly emerged near the end of Q1 2020. Demand for artificial lift services was significantly curtailed commencing April of 2020 as clients cut or eliminate operating and capital budgets. By the fourth quarter, with the recovery in oil and gas prices and the impacts of the COVID-19 being more quantifiable, demand from oil clients started to emerge.

The amount of revenue and overall client mix in 2020 was generally consistent with 2019 with greater than approximately 90% of revenue attributable to one client during both years. A price increase secured in October 2019 for services provided to our main customers was rescinded in the second quarter of 2020 which negatively impacted the Company's margins for the remainder of 2020. A higher proportion of work was service in nature during 2020 which generates lower revenue but higher margins per job compared to full equipment replacement jobs. The expansion of our customer base in Wyoming and Colorado in 2019, where the majority of work from new clients involved deeper wells, requiring higher horsepower pumps and a higher level of technical services, led to higher revenues per job in 2019, was not continued in 2020.

Cost of Sales

The Company experienced marginally lower cost of goods sold as a percentage of sales during 2020 compared to the corresponding periods in 2019. Throughout 2020, the Company implemented measures to reduce fixed and variable costs, the result of which are expected to be fully realized throughout 2021 as the industry recovers and demand for our services returns. The Company continues to look at the cost structure of the Company's operations to identify activities and expenses which can be further streamlined.

Gross Profit and Margins

Despite the challenges with fluctuating natural gas prices, the Company remains confident in the long-term viability of the Powder River Basin CBM field and its ability to effectively service the client. In respect to oil client related activity where the Company normally achieves higher revenues per job and higher margins due to the nature of the work, the amount of business has been approximately 10% of total revenue in both 2020 and 2019 and therefore diversification did not have a significant impact on improving overall margins. Gross margin for 2020 was 25% (2019 was 23%).

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 COVID-19 pandemic and the 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 take the necessary steps to reduce the risk to the Company's operations.

General and administration

	2020	2019	Variance	
			\$	%
Salaries, benefits and employee costs	\$957	\$1,042	(85)	(8)
Severance	246	-	246	100
Director fees	46	68	(22)	(32)
Consultants and contractors	151	135	16	12
Office, insurance, warehouse and shop	407	481	(74)	(15)
Corporate and public company	26	46	(20)	(43)
Travel and accommodation	7	67	(60)	(90)
Professional, legal & advisory	214	301	(87)	(29)
	\$2,054	\$2,140	(86)	(4)

Overall, general and administration costs during 2020 were marginally lower compared to 2019.

Cost cutting initiatives commenced early in 2020 and included a reduction of executive and director compensation, a reduction in utilizing third party professional and advisory services, and elimination of business travel. Costs savings realized from these activities were more than offset by the severance obligations associated with the replacement of a member of the executive team. During the first quarter of 2020, several staff changes took place in the corporate office, including the replacement of the chief financial officer of the Company at a one-time settlement cost of \$246 (CAD \$330) plus statutory amounts under Alberta Law, resulting in one-time overlapping of activities during transitions and the one-time settlement of accumulated contractual payroll obligations. In addition, due to the lower levels of operational activity during 2020, a higher proportion of costs such as direct labor, field office, insurance, and warehouse and shop expenses remained in general and administration expense as opposed to be included in costs of goods sold.

During 2020, the Company spent additional time and costs working with the Alberta Securities Commission ("ASC") to revoke the failure-to-file cease trade order issued by the ASC on May 6, 2019 and with the TSXV on the reinstatement of trading of the Company's common shares which occurred on April 14, 2020.

Stock based compensation

No stock options were issued during 2020 or 2019. At December 31, 2020, 326,000 stock options were issued and outstanding at weighted average exercise price of CAD\$1.67 per share with 274,167 being exercisable at a weighted average price of \$1.73 per share. The current year option expense of \$10 is the allocation to the current year portion of the value determined by the Black-Scholes option pricing amortized over the vesting period which is three years from the date of the option grant.

Product development

The Company began its involvement with the Linear Pump in 2013, pursuing and achieving an exclusivity agreement with the manufacturer for development and distribution in North America. Following three years of testing and incremental improvements, all development activities relating to the Linear Pump were suspended temporarily in 2019 due to poor economic conditions across the oil industry and the inability of the Company to secure a testing partner. The opportunity to further test the technology remains available to the Company should sufficient capital be secured. The Company remains in regular communication with the manufacturer of the Linear Pump who began its own testing in 2019 which continued throughout 2020.

Finance income (expense)

	2020	2019
Interest expense on debentures	(\$445)	(\$433)
Accretion of debentures	(132)	(116)
Interest expense on related party loans	(1)	3
Interest expense on promissory notes	(101)	-
Gain on restructuring of accounts payable	652	-
Accretion of promissory notes	(55)	-
Interest expense on government loans	(2)	-
Accretion of government loans	(18)	-
Lease finance expense	(9)	(18)
Fair value adjustment on share issue	314	-
Foreign exchange loss	(191)	(662)
Net finance income (expense)	\$12	(\$1,226)

The secured debentures principal balance remained unchanged at CAD \$5,750 throughout 2020 and 2019 and attracts interest at 10% per annum. During 2020, the Company settled interest obligations for the period April 1, 2019 to December 31, 2020 with the issue of common shares.

During 2020, a total of \$3,145 of current liabilities was converted into long-term promissory notes with annual interest obligations ranging from 5% to 10%. At the time of entering into these debt instruments, the liabilities have been recognized at their fair value and accretion recorded to earnings.

A foreign exchange loss of \$191 was recorded in 2020 compared to a loss of \$662 in 2019. Foreign exchange (losses) gains relates to foreign currency translation of certain balances and inter-company amounts associated with the Company's wholly owned foreign subsidiaries pursuant to IAS 21. A substantial portion of these gains and losses is offset by the recording of \$91 in 2020 (2019 - \$424) of Other Comprehensive Income.

Capital spending

The Company does not have any active capital development projects ongoing and does not have any planned capital spending on development projects. During 2020, the Company acquired a vehicle at the end of its lease term for \$19.

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 (loss) disclosed in the Consolidated Statements of Net Income (Loss) and Comprehensive Income (Loss) to Adjusted EBITDA is set out in the following table:

	2020	2019
Net income (loss)	\$129	(\$2,644)
Finance (income) expense	(12)	1,226
Stock based compensation	10	37
Depreciation and amortization	320	408
Provision for slow moving inventory	(934)	1,325
Provision for Linear Pump inventory and accrued liabilities	-	(310)
Benefit on low interest government loans	(182)	-
Lease finance expense included in cost of sales	71	59
Adjusted EBITDA	(\$598)	(\$101)

Summary of Quarterly Results

Net loss per common share reflects the Share Consolidation on January 19, 2021 on a retrospective basis. The following table summarizes key financial and operating information prepared in accordance with IFRS for the three months ended:

	Revenue	Net income (loss)	Per share – basic and dilutive (cents)
2020 – Q4	\$1,447	\$889	\$0.05
2020 – Q3	743	(86)	-
2020 – Q2	378	(866)	(0.06)
2020 – Q1	1,764	192	0.02
2020	\$4,332	\$129	\$0.01
2019 – Q4	\$2,264	(\$1,704)	(\$0.15)
2019 – Q3	2,268	14	-
2019 – Q2	1,881	(535)	(0.04)
2019 – Q1	1,765	(419)	(0.03)
2019	\$8,178	(\$2,644)	(\$0.22)

A significant impact on net income (loss) resulted from the determination of the provision for slow moving and obsolete inventory. During 2020, the Company recorded provision reversal of \$934 compared to a provision of \$1,325 in 2019, resulting in a cumulative variation \$2,259 in this estimate.

Outstanding Share Data

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

On January 19, 2021 the Company's issued and outstanding common shares were consolidated on a basis of ten (10) pre-consolidation share for one (1) post-consolidation share. The Share Consolidation has been reflected on a retrospective basis in the 2020 Consolidated Financial Statements and this MD&A.

As at the date of this MD&A, the Company has 33,004,912 common shares issued and outstanding, 326,000 options and 3,450,000 warrants.

Liquidity and Capital Resources

The Company had cash balances of \$63 and \$249 as at December 31, 2020 and 2019, respectively.

Cash used in operating activities was \$192 in 2020 compared to cash generated from operations of \$325 during 2019. The changes in non-cash working capital items include a decrease in trade receivables of \$669, a decrease in inventories, prior to the current year provision for slow moving inventory, of \$304, an increase in prepaid expenses, deposits and advances of \$54, and a decrease in accounts payable and accrued liabilities of \$351. The Company has an accumulated deficit of \$29,248 at December 31, 2020. In 2020, the Company generated income of \$129 and had negative working capital at December 31, 2020 of \$3,851. Due to insufficient cash resources, during 2020 the Company continued to settle interest on the debentures with the issue of share capital.

During 2020, the Company initiated steps to substantially improve its financial condition and liquidity. The Company accessed US government funding sources which helped finance the impact of a reduction in revenue resulting from the COVID-19 pandemic and price war between major producing countries. The Company secured two US government financial aid packages during 2020 to fund payroll and office expenses in the Company's US operations: a) \$253 forgivable 2-year loan, 1.00% per annum was obtained during Q2 2020 and b) \$150, 30-year, 3.75% per annum long term secured loan was obtained during Q4 2020.

The Company converted a significant portion of current liabilities into long-term promissory notes. During Q3, 2020, a total of \$2,000 of currently liabilities owed to our main supplier was converted into a 4-year secured promissory note with a 10% interest charge per annum. During Q4 2020 the Company also executed two unsecured promissory notes converting \$1,145 of currently liabilities into long-term payables. These notes attract an interest rate of 5% per annum and are repayable between 4 and 5 years with no principal payments in 2021.

During the second half of 2020, the Company initiated a restructuring of the senior secured debentures having a face value of \$4,516 (CAD \$5,750) at December 31, 2020. In December 2020, the Debenture holders agreed to convert 75% of the debentures into common shares of the Company at a price of \$0.30 per share and extend the maturity date of the remaining 25% to December 31, 2025. The shareholders approved the debt conversion during a shareholder meeting held on December 28, 2020 and the TSXV approved the transactions on during January 2021. On a proforma basis, these debt related transactions would have reported in positive working capital of \$505.

Restructuring of these historical obligations has strengthened the Company's financial condition and provides an opportunity to take advantage of growth opportunities as they materialize.

Working capital analysis

Inventory

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

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

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

Total inventory on hand, before taking into account the accumulated provision was \$1,862 at December 31, 2020 which is \$319 lower than the \$2,181 on hand at December 31, 2019. During 2020, the Company was able to draw down on excess inventory it had acquired for CBM wells throughout 2019 and during Q1 2020. Due to the lower business activity, throughout 2020 the Company chose not to replenish certain inventory items until there is strong evidence that industry conditions improved and the excess quantities on hand are sold to customers. During December 2020, revenue for the month returned to pre-COVID-19 levels experienced during the first quarter of 2020. For the year ended December 31, 2020, the Company made an assessment of the expected use of on-hand inventory in the future which resulted in a provision for obsolescence reversal of \$934. This provision reversal compares to a \$1,325 provision taken in 2019 which reflected the negative operational outlook that existed at that time. The Company continues to make concerted efforts to draw down as much as possible from existing inventory on hand before committing to purchasing addition quantities.

Trade receivables

Ownership of the Company's main customer changed during 2019. As a result of this change, the new owner opted to initially extend the terms of payment up to in excess of 90 days. At the end of 2020 payment terms have been significantly reduced and were approximately 30-45 days as the customer has experienced significant improvements in pricing for its products during the second half of 2020. As industry conditions improve, the Company expects payment terms to remain at approximately 30 days thereby improving the Company's working capital.

Accounts payable

During the second half of 2020 and the first month of 2021, the Company worked with secured and unsecured debt holders to better match the settlement of the historical obligations with the Company's ability to repay the debts. This included converting \$3,145 of current liabilities into secured and unsecured promissory notes with principal repayments extending to 2024 and 2025.

Contractual obligations at December 31, 2020

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	\$1,401	\$-	\$-	\$1,401
Lease obligations	64	192	812	1,068
Debentures	-	4,516	-	4,516
Interest payable	14	76	-	90
Promissory notes	50	200	2,803	3,052
Government loans ⁽¹⁾	-	86	317	403
	\$1,529	\$5,070	\$3,932	\$10,531

(1) The Company received a \$253 2-year government loan which is forgivable if the funds were spent on approved expenditures set out in the loan agreement. The Company plans to apply for forgiveness of this loan in 2021 when the application process is opened by the government.

Transactions with Related Parties

The following transactions and year end 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.

	2020	2019
Debentures (carrying value)	\$1,043	\$990
Interest payable on debentures	-	80
Related party loans	-	92
Interest payable on related party loans	-	12

Certain directors and officers of the Company have provided debentures to the Company which are denominated in Canadian Dollars. The CAD \$5,750 face value of the debentures includes \$1,081 (CAD \$1,377) (2019 – \$1,060 (CAD \$1,377)) due to directors and officers of the Company. Interest on these debentures during the year was to \$107 (CAD \$143) (2019– \$104 (CAD \$138)) and interest payable at the end of the year was \$nil (CAD \$nil) (2019 – \$80 (CAD \$104)).

Subsequent to year end 75% of the debentures were converted to shares of the Company.

Key management personnel and director compensation comprised:

	2020	2019
Salaries and benefits	\$258	\$263
Accrued performance based compensation	112	-
Severance	246	-
Directors' fees	46	68
Stock based compensation	7	19
	\$669	\$350

During 2020, an executive officer departed the Company and a one-time severance of \$246 was accrued. At December 31, 2020, severance costs of \$140 (2019 - \$nil) are included in accounts payable and accrued liabilities.

Off-balance Sheet Arrangements

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

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

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, 2020. 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, 2020.

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

Financial Instrument and Other Instruments

Recognition and measurement

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

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

Cash	Fair value
Trade receivables	Amortized cost
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.

Director and Management Changes

During 2020, the following changes took place:

- Mr. Kenneth Bagan stepped down as Chairman of the Board of Directors but remains a board member as Lead Director;
- Mr. Cameron Barton was appointed Executive Chairman;
- Mr. Geoff Bury was appointed to the Board of Directors;
- Mr. Martin Hall did not stand for re-election as a director at the June 2020 annual general meeting; and
- Effective February 1, 2020, Mr. Lance Mierendorf was appointed Interim Chief Financial Officer, replacing Mr. Scott Hamilton who departed the Company.

OUTLOOK

The past year has been both challenging and transformational for the Company. The volatility of global markets and the energy industry itself underscored weaknesses in Company's balance sheet and its ability to weather a downturn. Compounding the sharp decline in activity, an accumulation of inventory prior to the downturn in 2020 led to the Company having excessive volumes of inventory on hand. The associated payables for this inventory placed the Company in a formidable working capital deficit. Beginning in Q2 2020, management began negotiating terms of repayment by converting current payables into long-term notes that were deemed serviceable and matched the Company's ability to meet the obligations in the future. In addition, a new supply change management agreement with our main supplier was executed in 2020 which fosters a higher level of oversight and improved communication. With the support of shareholders, debenture holders, unsecured creditors, and our core clients, the Company was transformed and is now positioned from a financial perspective to take full advantage of an improving market.

With our restructuring now complete, and with energy prices continuing to show resiliency, our client base has demonstrated an improvement to operating budgets that include the ongoing replacement of ESPs. As a result, we expect revenue from oil producing clients to become an increasing percentage of the company's revenue. Activity levels continue to improve and with this higher volume of work comes the opportunity for continued reduction of inventory down to efficient levels.

The Company remains disciplined in its cost structure, building cash reserves, settling historical obligations including the expectation to pay interest on its secured debentures in cash, thereby further improving our financial condition through 2021. The Company expects to take advantage of any US

government grant programs should they become available, however we do not anticipate any CAD government programs to become applicable to companies with exclusive international operations.

At the appropriate time, the Company plans to return to its mandate of evaluating growth opportunities through capturing technologies that align with our business plan, including revisiting the Linear Pump project that was suspended in 2019. In this regard the Company will explore any Governmental development support which may be available.

FORM 58-101F2 – CORPORATE GOVERNANCE DISCLOSURE – December 31, 2020

The information required pursuant to Form 58-101F2 – Corporate Governance Disclosure (Venture Issuers) for the financial year ended December 31, 2020 is set out in Schedule A attached hereto.

FORM 52-110F2 – AUDIT COMMITTEE DISCLOSURE BY VENTURE ISSUERS – December 31, 2020

The information required pursuant to Form 52-110F2 – Disclosure by Venture Issuers for Audit Committees for the financial year ended December 31, 2020 is set out in Schedule B attached hereto.

Corporate Information – as at March 17, 2021

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

Lance Mierendorf

Interim Chief Financial Officer and Interim

Corporate Secretary

(1) Member of the Audit Committee, Mr. Bury is Chairman

(2) Member of the Governance and Nominating Committee, Mr. Bagan is Chairman

(3) Member of the HR and Compensation Committee, Mr. Riecken is Chairman

(4) Member of the Health, Safety and Environment Committee, Mr. Luft is Chairman.

(5) Mr. Bagan is Lead Director

All members of the Board of Directors are independent with the exception of Mr. Berg and Mr. Barton.

CORPORATE OFFICE

Divergent Energy Services Corp.

2020, 715 5th Avenue SW

Calgary, Alberta T2P 2X6

Phone: 403.543.0060

Fax: 403.543.0069

Email: info@divergentenergyservices.com

BANK

HSBC

Calgary, Alberta, Canada

Wells Fargo

Gillette, Wyoming, USA

LEGAL COUNSEL

Burstall LLP

Calgary, Alberta, Canada

AUDITORS

MNP LLP

Calgary, Alberta, Canada

STOCK EXCHANGE

TSX Venture

Calgary, Alberta, Canada

TRANSFER AGENT AND REGISTRAR

Computershare

Calgary, Alberta, Canada

SCHEDULE A

FORM 58-101F2

CORPORATE GOVERNANCE DISCLOSURE FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2020

Set out below is the Corporate Governance Disclosure for Venture Issuers for Divergent Energy Services Corp. (the “Corporation”) for the financial year ended December 31, 2020.

DISCLOSURE OF CORPORATE GOVERNANCE PRACTICES

General

In accordance with the requirements of National Instrument 58-101 *Disclosure of Corporate Governance Practices*, the Corporation is required to give full and complete disclosure of its corporate governance practices. The Board and senior management of the Corporation regards good corporate governance as fundamental to the effective and efficient operation of the Corporation.

The Board has delegated primary responsibility for the development of certain governance practices and mechanisms to the Corporate Governance and Nominating Committee. The Corporate Governance and Nominating Committee's charter provides that the responsibilities of such committee include: (i) establishing and reviewing member characteristics for the Board; (ii) evaluating, identifying and recommending nominees to the Board; (iii) monitoring and reviewing the education and development of members of the Board; (iv) recommending directors to serve as committee members and chairs; (v) reviewing and developing corporate governance guidelines, policies and procedures for the Board; (vi) establishing and implementing evaluation processes for the Board; (vii) reviewing disclosure by the Corporation of matters within the committee's mandate; and (viii) reviewing and evaluating the committee's charter and efficacy.

The Board has devoted significant attention and resources to reviewing the Corporation's corporate governance practices and ensuring that the Corporation's system of corporate governance will meet applicable regulatory requirements on an ongoing basis. The Board adopted its Terms of Reference and a number of policies, including insider trading, disclosure and media and whistleblower policies, to assist the Corporation in maintaining a high standard of corporate governance. With input from the relevant committees, the Board also adopted the charters for its committees: the Audit Committee, the HR and Compensation Committee, the Corporate Governance and Nominating Committee and the Health, Safety and Environment Committee.

The Board and the Corporation have adopted Corporate Governance Guidelines (which set out the responsibilities of the Board as a whole, the structure of the Board, the responsibilities of directors and other matters related to the operations of the Board) and a Code of Conduct (which is applicable to all directors, officers, employees and consultants of the Corporation).

The Chairman of the Board works to ensure that the Board operates independently of management and that Board members have an independent leadership contact. The Chairman manages the affairs of the Board, with a view to ensuring that the Board functions effectively and meets its obligations and responsibilities. As the Board consists of a majority of independent directors, each of whom has experience in, and an understanding of the role and responsibilities of acting as a director, the independent directors believe that they collectively provide active and appropriate leadership amongst themselves with respect to stewardship of the Corporation.

Set out below is a description of certain corporate governance practices of the Corporation.

Board of Directors

The Board facilitates its exercise of independent supervision over the Corporation's management through regular meetings of the Board with members of the Corporation's management in attendance. The Chair of the Board and chairs of each of the committees of the Board regularly communicate with and oversee management's progress on key strategic, financial and

operational matters and report further to the other independent directors between meetings, if necessary. The Board regularly holds "in camera" sessions for independent directors during each Board meeting and most committee meetings to facilitate open and candid discussion amongst the independent directors. The independent directors may also schedule separate meetings as they see fit without members of management and non-independent directors present.

As at December 31, 2020, the Board consisted of six directors, being Ken Bagan, Ken Berg, Geoff Bury, Robert Riecken, Cameron Barton and Donald Luft. Cameron Barton is not considered independent pursuant to NI 52-110 by virtue of his position as Executive Chairman of the Corporation. Ken Berg is not considered independent pursuant to NI 52-110 by virtue of his position as President and CEO of the Corporation. The other four directors are considered independent pursuant to NI 52-110.

The Corporation and the Board recognize the significant commitment involved in being a member of the Board. The Corporate Governance Guidelines set out rules regarding limitations on the number of boards of other publicly traded companies on which a director may serve and the minimum number of Board meetings to be held annually by the Corporation.

The Board is responsible for considering and approving long-term strategic plans and operating budgets as recommended by management. The Board's consideration and approval is also required on any material contracts and business transactions, as well as all debt and equity financings. The Board encourages each of its directors to fully participate in meetings, to consult with other directors on any matters, to form a special *ad hoc* committee if required to investigate a matter in more detail and to seek legal advice on any matters concerning the Corporation, the cost of which is to be borne by the Corporation.

The Board delegates to management responsibility for meeting defined corporate objectives, implementing approved strategic and operating plans, carrying on the business of the Corporation in the ordinary course, evaluating new business opportunities and challenges, recruiting people and meeting all legal and regulatory requirements of the business.

Directorships

As at December 31, 2020, none of the directors serve on the board of directors of other reporting issuers in Canada (or the equivalent in a foreign jurisdiction).

Position Descriptions

The Board has developed formal written position descriptions for the Executive Chair of the Board, President and Chief Executive Officer and committee chairs. The Executive Chairman and the President and Chief Executive Officer, together with other senior management, are responsible for ensuring that the corporate objectives, developed annually with the Board, are met in order to enhance Shareholder value. The Executive Chair provides independent leadership to the Board, and facilitates the functioning of the Board independently of the Corporation's management and maintains and enhances the quality of the Corporation's corporate governance practices. The committee chairs ensure that committee charters are adhered to and mandates are executed and that they are communicating in a timely and effective manner to the Board.

Orientation and Continuing Education

Each director (new and existing) on the Board is/has been provided with a director's manual, which is reviewed by the Board at least annually and updated on a regular basis, as necessary. All directors are expected to review and be familiar with its contents. The director's manual contains the Board Terms of Reference, committee charters, Corporate Governance Guidelines, the Code of Conduct, position descriptions, other key corporate policies and relevant corporate and Board information.

The Board ensures that a new member is provided access to senior management to discuss the current business strategy, encourages new members to meet individually with the Chair and other directors to discuss historical information, and provides access to corporate records and historical meeting minutes as necessary.

Requests for continuing education are considered by the Corporate Governance and Nominating Committee and recommended to the Board for approval. The Corporation provides each director an allowance of up to \$2,000 per year per director to pay for relevant and appropriate director continuing education opportunities. During fiscal 2020, several directors independently participated in various industry and professional continuing education opportunities.

Throughout 2020, the Board held informal strategic sessions to consider and discuss strategic issues, the competitive environment, enterprise risks as well as short term and long term goals. The Board is committed to continuing to identify and take advantage of opportunities to increase directors' knowledge and understanding of the Corporation's business and to hold a strategic session at least annually.

The Board is briefed regularly on corporate governance developments, with assistance from the Corporation's legal counsel and other third party consultants.

Ethical Business Conduct

The Board has adopted a Code of Conduct (the "**Code**"), which has been filed on the Corporation's SEDAR profile at www.sedar.com, which sets out the purpose, scope and application of the Code and outlines general principles by which the Corporation is governed. The Code and the method of administering the Code, handling inquiries and complaints, investigating violations, and reporting to the Board on matters related to the Code has been communicated to directors, officers, employees and consultants.

The Board and the Audit Committee have established a Whistleblower Policy to encourage employees, consultants, officers and directors to raise concerns regarding any matters, including accounting, internal controls or auditing matters, on a confidential basis free from discrimination, retaliation or harassment. A report on the status of any matters arising from the Whistleblower Policy is given at each meeting of the Audit Committee by the Chair of the Audit Committee.

In addition, in order to ensure independent judgment in considering transactions/agreements in which a director/officer has a material interest, all related party transactions are approved by the independent directors and all payments under related party transactions are approved by the Audit Committee.

Nomination of Directors

The responsibility for identifying new candidates for Board nomination has been delegated to the Corporate Governance and Nominating Committee. The Corporate Governance and Nominating Committee is comprised of Mr. Bagan as Chair, Mr. Barton and Mr. Luft, all of whom, with the exception of Mr. Barton, are independent directors within the meaning of NI 52-110. If a vacancy occurs on the Board, or if additional members are deemed necessary, the Corporate Governance and Nominating Committee will, in consultation with the President and Chief Executive Officer, develop a skills matrix and identify candidates who satisfy the skills and characteristics criteria and the long-term plan for Board composition as established by such committee. The Corporate Governance and Nominating Committee will conduct due diligence on a potential candidate and if appropriate, will recommend such candidate to the Board for appointment.

In April 2020, the Corporate Governance and Nominating Committee conducted a process whereby each director's experience and background was reviewed and information regarding potential additional skills and experience considered important to the Corporation at its current size and stage of development were assessed. As recommended by the Corporate Governance and Nominating Committee, the Board determined that a Board consisting of six members was appropriate at this time.

Compensation

The HR and Compensation Committee consists of Mr. Riecken as Chair, Mr. Bagan and Mr. Bury, all of whom are independent directors within the meaning of NI 52-110. The HR and Compensation Committee recommends the compensation and benefits of the directors and executive officers of the Corporation to the Board and provides recommendations regarding the Corporation's overall general compensation structure, policies and programs.

Health, Safety and Environment

The Health, Safety and Environment Committee ("**HSE Committee**") consists of Mr. Luft as Chair, Mr. Riecken and Mr. Berg, the majority of whom are independent directors within the meaning of NI 52-110. The HSE Committee is responsible for reviewing, reporting and making recommendations to the Board on the development and implementation of the policies, standards and practices of the Corporation (and its controlled subsidiaries) with respect to health, safety and environment.

Other Board Committees

In addition to the Audit Committee, the HR and Compensation Committee, the Corporate Governance and Nominating Committee and the HSE Committee, the Board formed a Technical Advisory Committee that reports to the Board and consists of the Corporation's President and CEO and two outside independent technical experts. The mandate of the Technical Advisory Committee is to evaluate the Corporation's existing artificial lift technologies as well as to evaluate new technological advancements in artificial lift systems and processes.

Assessments

On an annual basis and in preparation for the nomination of directors at the annual meeting of Shareholders, the Board conducts an informal assessment of the composition of the Board and the committees. This assessment includes a review of the corporate policies as well as the Board and committee charters.

In February 2020, the Corporate Governance and Nominating Committee coordinated and the Board completed a formal annual evaluation process for fiscal 2019 to assess the effectiveness of the Board as a whole, including a general review of the committees of the Board and the contribution of individual directors. The results of the evaluation and recommendations relating thereto were discussed and considered by the Board in April 2020 and action items were addressed accordingly.

SCHEDULE B

FORM 52-110F2

DISCLOSURE BY VENTURE ISSUERS FOR AUDIT COMMITTEES FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2020

Set out below is the Disclosure by Venture Issuers for Audit Committees for Divergent Energy Services Corp. (the “**Corporation**”) for the financial year ended December 31, 2020.

AUDIT COMMITTEE INFORMATION

National Instrument 52-110 *Audit Committees* (“**NI 52-110**”) requires the Corporation, as a TSXV issuer, to disclose annually certain information concerning the constitution of its Audit Committee (the “**Audit Committee**”) and its relationship with its independent auditors, as set forth in the following discussion.

Audit Committee Charter

The Audit Committee is governed by an Audit Committee Charter, the text of which is attached hereto.

Composition of the Audit Committee

The Audit Committee consists of three individuals, all of whom are financially literate and each of whom is an independent director as determined in accordance with NI 52-110. The current members of the Audit Committee are Mr. Bury (Chair), Mr. Riecken and Mr. Bagan.

Relevant Education and Experience

The following relevant education and experience of the current members of the Audit Committee have been used in assessing their financial literacy:

Geoff Bury

Mr. Bury is a Chartered Professional Accountant (CPA, CA). He is the Executive Vice President of Maribo Resources Ltd. since 2012 and the President of Northern Petrochemical Corporation since June 2018. Mr. Bury was the Managing Director of Wentworth Resources Limited from 2010 to 2018. He is a member of the ICD.

Robert Riecken

Mr. Riecken, P.Eng was Vice President of North America Drilling and Completions with Repsol Oil & Gas Canada Inc. (formerly Talisman Energy) from July 2015 to July 2017. From October 2001 to May 2014, Mr. Riecken held various management positions at Devon Canada Corp., including being General Manager at the time of his departure. Mr. Riecken is an active member of APEGGA.

Kenneth Bagan

Mr. Bagan, LL.B., B.P.E. has been an independent businessman since 2011. He is a member of the ICD and has completed the ICD Director Education Program.

Audit Committee Oversight

At no time since the commencement of the Corporation's December 31, 2020 fiscal year was a recommendation of the Audit Committee to nominate or compensate an external auditor not adopted by the Board.

Reliance on Certain Exemptions

Since the commencement of the Corporation's December 31, 2018 fiscal year, it has not relied on the exemption in section 2.4 (*De Minimus Non-audit Services*) or an exemption granted under Part 8 (*Exemptions*) of NI 52-110.

Pre-Approval Policies and Procedures

The Audit Committee has adopted specific policies and procedures for the engagement of non-audit services as described in the Audit Committee Charter.

External Auditor Service Fees

The following table provides information about the fees billed to the Corporation, respectively, for professional services rendered by MNP LLP, Chartered Accountants during fiscal 2020 and 2019 and by KPMG LLP, Chartered Accountants, during fiscal 2019 (in US\$) and were paid or estimated to be payable for services in the year indicated:

Financial Year Ending	Audit Fees⁽¹⁾	Audit Related Fees⁽²⁾	Tax Fees⁽³⁾	All Other Fees⁽⁴⁾
2020 – MNP LLP	\$91,667	\$Nil	\$12,804	\$Nil
2019 – MNP LLP	\$66,211	\$Nil	\$Nil	\$Nil
2019 – KPMG LLP	\$117,622	\$Nil	\$17,411	\$Nil

Notes:

1. Fees paid for the audit of the annual financial statements and other regulatory audits and filings.
2. Fees paid for assurance and related services that are reasonably related to the performance of the audit or review of the Corporation's financial statements that are not disclosed in the "Audit Fees" column.
3. Fees paid for tax compliance, tax advice, tax planning and advisory services.
4. Fees paid for professional services other than those listed in the previous three columns.

Exemption

Pursuant to Section 6.1 of NI 52-110, the Corporation has relied on the exemption in Part 5 of NI 52-110 because it is a TSXV Issuer and, therefore, it is not required to file an annual information form.

**DIVERGENT ENERGY SERVICES CORP.
AUDIT COMMITTEE CHARTER**

**PART I
ESTABLISHMENT OF COMMITTEE**

1. Committee Purpose

The Audit Committee (the "**Committee**") is established by the board of directors (the "**Board**") of Divergent Energy Services Corp. (the "**Corporation**") primarily for the purpose of overseeing the accounting and financial reporting processes and the reviews and audits of the financial statements of the Corporation.

The Committee shall assist the Board in fulfilling its oversight responsibilities by monitoring, among other things:

- a) the quality and integrity of the financial statements and related disclosure of the Corporation;
- b) compliance by the Corporation with legal and regulatory requirements that could have a material effect upon the financial position of the Corporation which are not subject to the oversight of another committee of the Board or the Board as a whole;
- c) the auditor's qualifications and independence; and
- d) performance of the Corporation's auditor.

2. Composition of Committee

The Committee shall consist of as many members as the Board shall determine, but in any event not fewer than three directors, provided that all members of the Committee shall be determined by the Board to be independent and financially literate within the meaning of National Instrument 52-110 (Audit Committees) and the rules of any stock exchange or market on which the Corporation's shares are listed or posted for trading (collectively, "**Applicable Governance Rules**"), unless the Board determines that an exemption contained in National Instrument 52-110 (Audit Committees) is available and determines to rely thereon. In this Charter, the term "independent" includes the meanings given to similar terms by Applicable Governance Rules, including the terms "non-executive", "outside" and "unrelated" to the extent such terms are applicable under Applicable Governance Rules. No member of the Audit Committee shall have participated in the preparation of the financial statements of the Corporation or any current subsidiary of the Corporation at any time during the past three (3) years.

3. Appointment of Committee Members

The members of the Committee shall be appointed by the Board on the recommendation of the Corporate Governance and Nominating Committee. The members of the Committee shall be appointed following each annual meeting of shareholders and shall hold office until the next annual meeting, until they are removed by the Board or until their successors are earlier appointed, or until they cease to be directors of the Corporation.

**PART II
COMMITTEE PROCEDURE**

1. Vacancies

Where a vacancy occurs at any time in the membership of the Committee, it may be filled by the Board on the recommendation of the Corporate Governance and Nominating Committee and shall be filled by the Board if the membership of the Committee is fewer than three directors. The Board may remove and replace any member of the Committee.

2. Committee Chair

The Board shall appoint a chair (the "**Chair**") for the Committee. The Chair may be removed and replaced by the Board.

3. **Absence of Chair**

If the Chair is not present at any meeting of the Committee, one of the other members of the Committee present at the meeting shall be chosen by the Committee to preside at the meeting.

4. **Secretary of Committee**

The Committee shall appoint a Secretary who need not be a director of the Corporation.

5. **Regular Meetings**

The Chair, in consultation with the Committee members, shall determine the schedule and frequency of the Committee meetings, provided that the Committee shall meet at least quarterly. The Committee at any time may, and at each regularly scheduled Committee meeting shall, meet without management present and shall meet periodically with management and the auditor. The Committee shall also meet separately with the auditor at every regularly scheduled meeting of the Committee at which the auditor is present. The Committee shall record and maintain minutes of meetings.

6. **Special Meetings**

The Chair, any two members of the Committee, the auditor or the Chief Executive Officer of the Corporation may call a special meeting of the Committee.

7. **Quorum**

A majority of the members of the Committee, present in person or by telephone or other telecommunication device that permits all persons participating in the meeting to speak to each other, shall constitute a quorum.

8. **Notice of Meetings**

Notice of the time and place of every meeting shall be given in writing or by e-mail or facsimile communication to each member of the Committee at least 48 hours prior to the time fixed for such meeting; provided, however, that a member may, in any manner, waive notice of a meeting and attendance of a member at a meeting is a waiver of notice of the meeting, except where a member attends a meeting for the express purpose of objecting to the transaction of any business on the grounds that the meeting is not lawfully called.

9. **Agenda**

The Chair shall develop and set the Committee's agenda, in consultation with other members of the Committee, the Board and management of the Corporation. The agenda and information concerning the business to be conducted at each Committee meeting shall, to the extent practicable, be communicated to the members of the Committee sufficiently in advance of each meeting to permit meaningful review.

10. **Delegation**

Subject to subsection 2.d)(viii), the Committee shall have the power to delegate its authority and duties to subcommittees or individual members of the Committee as it deems appropriate.

11. **Access**

In discharging its oversight role, the Committee shall have full access to all books, records, facilities and personnel of the Corporation.

12. **Attendance of Others at a Meeting**

At the invitation of the Chair, one or more officers, directors or employees of the Corporation may, and if required by the Committee shall, attend a meeting of the Committee.

13. **Procedure, Records and Reporting**

The Committee shall fix its own procedure at meetings, keep records of its proceedings and report to the Board when the Committee may deem appropriate (but not later than the next meeting of the Board).

14. **Outside Consultants or Advisors**

The Committee, when it considers it necessary or advisable, may retain, at the Corporation's expense, outside consultants or advisors (including independent counsel) to assist or advise the Committee independently on any matter within its mandate. The Committee shall have the sole authority to retain or terminate such consultants or advisors, including the sole authority to approve the fees and other retention terms for such persons.

**PART III
MANDATE OF COMMITTEE**

1. **Appointment of the Corporation's Auditor**

Subject to confirmation by the auditor of its compliance with Canadian regulatory registration requirements, the Committee shall recommend to the Board the appointment of the auditor for the purpose of preparing or issuing any audit report or performing other audit, review or attest services for the Corporation, such appointment to be confirmed by the Corporation's shareholders at each annual meeting. The Committee shall also recommend to the Board the engagement letter with the auditor, the approval of fees to be paid to the auditor for audit services and shall pre-approve the retention of the auditor for any permitted non-audit service. The Committee shall also be directly responsible for overseeing the work of the auditor (including resolution of disagreements between management of the Corporation and the auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Corporation. The Committee shall communicate directly with the auditor. The auditor shall report directly to the Committee.

The Committee shall review the independence of the auditor including a written report from the auditor delineating all relationships between the auditor and the Corporation.

2. **Specific Mandates**

The Committee, to the extent required by applicable laws or rules, or otherwise considered by the Committee to be necessary or appropriate, shall:

a) **Oversight in Respect of Financial Disclosure**

- (i) review, discuss with management of the Corporation and the auditor, and recommend to the Board for approval:
 - A. the annual and interim financial statements;
 - B. the annual information form (if any);
 - C. the annual and interim management's discussion and analysis;
 - D. the portions of the management proxy circular, for any annual or special meeting of shareholders, containing significant financial information respecting the Corporation;
 - E. all financial statements included in prospectuses or other offering documents;
 - F. any significant financial information contained in all prospectuses and all documents which may be incorporated by reference in a prospectus;
 - G. any significant financial information respecting the Corporation contained in a material change report or a business acquisition report;

- H. each press release which contains significant financial information respecting the Corporation (including, without limitation, annual and interim earnings press releases) or contains earnings guidance, prior to public dissemination thereof;
 - (ii) review and discuss with management of the Corporation:
 - A. financial information and earnings guidance provided to analysts and rating agencies; provided, however, that such discussion may be done generally (consisting of discussing the types of information to be disclosed and the types of presentations to be made), and the Committee need not discuss in advance each instance in which the Corporation may provide earnings guidance or presentations to rating agencies;
 - (iii) review with management and the auditor the scope of the audit;
 - (iv) review with management of the Corporation and the auditor major issues regarding accounting principles and practices as well as the adequacy of internal controls and procedures for financial reporting and management information systems and inquire of management and the auditor about significant risks and exposures to the Corporation that could significantly affect the Corporation's financial statements;
 - (v) review with management of the Corporation and the auditor the effect of regulatory and accounting initiatives as well as off-balance sheet transactions on the Corporation's financial statements;
 - (vi) review with management of the Corporation, the auditor and, if necessary, legal counsel, any litigation, claim or contingency, including tax assessments, that could have a material effect upon the financial position of the Corporation, and the manner in which these matters have been disclosed in the financial statements;
 - (vii) review disclosures by the Corporation's Chief Executive Officer and Chief Financial Officer with respect to any required certification for the Corporation's financial statements by such individuals; and
 - (viii) discuss with management the Corporation's material financial risk exposures and the steps management has taken to monitor and control such exposures, including any financial risk assessment and financial risk management policies.
- b) **Oversight in Respect of Legal and Regulatory Matters**
- (i) review, if necessary, with legal counsel, the Corporation's compliance policies, legal matters and any material reports or inquiries received from regulators or governmental agencies that could have a material effect upon the financial position of the Corporation and which are not subject to the oversight of another committee of the Board or the Board as a whole.
- c) **Oversight in Respect of the Chief Financial Officer**
- (i) consult with the Chief Executive Officer on the appointment, replacement, reassignment or dismissal of the Chief Financial Officer of the Corporation; and
 - (ii) ensure the Chief Financial Officer has access to the Committee Chair, the Chairman of the Board and the Chief Executive Officer, and the Committee shall meet separately with the Chief Financial Officer to review any problems or difficulties they may have encountered in the performance of their responsibilities and the Committee Chair shall report to the Board on such meetings.
- d) **Oversight in Respect of the Auditor**
- (i) meet with the auditor prior to the annual audit to review the planning and staffing of the audit;

- (ii) review annually the auditor's formal written statement of independence delineating all relationships between itself and the Corporation and review all such relationships;
 - (iii) receive confirmation from the auditor as to its standing as a "participating audit firm" and its compliance with any restrictions or sanctions imposed by the Canadian Public Accountability Board as those concepts are set forth in National Instrument 52-108 of the Canadian Securities Administrators;
 - (iv) review and evaluate the auditor, including the lead partner of the auditor team and confirm compliance by the auditors with laws and regulations relating to audit partner rotation;
 - (v) meet separately with the auditor to review with them any problems or difficulties they may have encountered and specifically:
 - A. any difficulties which were encountered in the course of the audit work, including any restrictions on the scope of activities or access to required information, and any disagreements with management of the Corporation; and
 - B. any changes required in the planned scope of the audit;
 and report to the Board on such meetings;
 - (vi) review the engagement reports of the auditor on unaudited financial statements of the Corporation;
 - (vii) review and approve the Corporation's hiring policies regarding partners, employees, former partners and former employees of the Corporation's present and former auditor; and
 - (viii) pre-approve all audit services and delegate to one or more designated members of the Committee the authority to grant pre-approvals; provided that the decision of any member to whom authority is delegated to pre-approve an activity shall be presented to the Committee at the first scheduled meeting following such decision, and provided further that, if the Committee approves an audit service within the scope of the engagement of the auditor, such audit service shall be deemed to have been pre-approved for purposes of this section.
- e) **Oversight in Respect of Certain Policies**
- (i) establish procedures for: (a) the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters; and (b) the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters; and
 - (ii) periodically review the Corporation's public disclosure policy.

3. **Self-Evaluation**

The Committee shall conduct an annual performance self-evaluation and shall report to the Board the results of the self-evaluation.

4. **Non-Exhaustive List**

The foregoing list of duties is not exhaustive, and the Committee may, in addition, perform such other functions as may be necessary or appropriate for the performance of its oversight responsibilities.

5. **Review of Committee's Charter**

The Committee shall assess the adequacy of this Charter on an annual basis and recommend any changes to the Board.

6. **Oversight Function**

While the Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Committee to plan or conduct audits or to determine that the Corporation's financial statements are complete and accurate or are in accordance with IFRS. These are the responsibilities of management of the Corporation and the auditor. The Committee and its Chair are members of the Board, appointed to the Committee to provide broad oversight of the financial risk and control related activities of the Corporation, and are specifically not accountable nor responsible for the day-to-day operation or performance of such activities. The role of all Committee members is to oversee the process, not to certify or guarantee the accuracy or completeness of the external audit of the Corporation's financial information or public disclosure.