Divergent Energy Services Corp.

Condensed Consolidated Interim Financial Statements

As at March 31, 2017 and for the three month periods ended March 31, 2017 and 2016

(Unaudited)

Divergent Energy Services Corp.

Condensed Consolidated Statement of Financial Position

As at March 31, 2017 and December 31, 2016

(Unaudited)

In United States Dollars, (000`s)	Note	**March 31, 2017**	**December 31, 2016**
ASSETS			
Current assets			
Cash and cash equivalents		$104	$100
Trade receivables and advances		557	1,320
Inventories		1,684	1,868
Prepaid expenses and deposits		196	226
		2,541	3,514
Property and equipment		449	386
Total assets		$2,990	$3,900
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		$3,088	$3,669
Income taxes payable		1,129	1,087
Debentures	5	4,189	4,116
Current portion of long-term debt	6	15	17
		8,421	8,889
Long-term debt	6	2	4
Total liabilities		8,423	8,893
Equity (deficit)			
Share capital	7	16,557	16,451
Warrants	8	383	383
Contributed surplus		5,127	5,081
Accumulated other comprehensive income		713	643
Deficit		(28,213)	(27,551)
		(5,433)	(4,993)
Total liabilities and equity		$2,990	$3,900

Going concern	2
Contingencies	12
Subsequent event	18

Approved by the Board of Directors

Signed “Ken Bagan” Chairman   Signed “Ken Berg”, Director

The accompanying notes are an integral part of the condensed consolidated interim financial statements.

Condensed Consolidated Statement of Net Loss and Comprehensive Loss
Three months ended March 31, 2017 and 2016
(Unaudited)

CONTINUING OPERATIONS

		Three months ended March 31,	
In United States Dollars, (000`s)	**Note**	**2017**	**2016**
Revenue		$2,163	$2,119
Cost of sales		(1,441)	(1,678)
Gross profit		722	441
Selling, general and administrative expenses		869	723
Product development		205	178
Stock based compensation	9	41	46
Net finance expense	10	189	829
		1,304	1,776
Loss from continuing operations before income taxes		(582)	(1,335)
Income tax expense		-	-
Loss from continuing operations		(582)	(1,335)
Income (loss) from discontinued operations, net of tax	17	(80)	(864)
Net loss		(662)	(2,199)
Other comprehensive income		70	407
Total comprehensive loss for the period		($592)	($1,792)
Loss per share:	11		
Continuing operations - Basic and diluted		($0.01)	($0.02)
Discontinued operations - Basic and diluted		($0.00)	($0.01)
Net loss - Basic and diluted		($0.01)	($0.03)

The accompanying notes are an integral part of the condensed consolidated interim financial statements.

Condensed Consolidated Statement of Equity
Three months ended March 31, 2017 and 2016
(Unaudited)

In United States Dollars, (000`s)	Share capital	Warrants	Contributed surplus	Accumulated other comprehensive income	Deficit	Total equity
Balance January 1, 2016	$15,955	$415	$4,750	$303	($22,953)	($1,530)
Common shares issued (net of costs)(Note 7 (c))	127	-	-	-	-	127
Common shares cancelled (Note7(a))	(130)	-	(28)	-	-	(158)
Common shares issued for debenture interest (Note 7(b))	110	-	-	-	-	110
Warrants expired	-	(70)	70	-	-	-
Stock based compensation	-	-	58	-	-	58
Net loss for the period	-	-	-	-	(2,199)	(2,199)
Other comprehensive income	-	-	-	407	-	407
Balance at March 31, 2016	$16,062	$345	$4,850	$710	($25,152)	($3,185)

In United States Dollars, (000`s)	Share capital	Warrants	Contributed surplus	Accumulated other comprehensive income	Deficit	Total equity
Balance January 1, 2017	$16,451	$383	$5,081	$643	($27,551)	($4,993)
Common shares issued for debenture interest (Note 7(b))	106	-	-	-	-	106
Stock based compensation (Note 9)	-	-	46	-	-	46
Net loss for the period	-	-	-	-	(662)	(662)
Other comprehensive income	-	-	-	70	-	70
Balance at March 31, 2017	$16,557	$383	$5,127	$713	($28,213)	($5,433)

The accompanying notes are an integral part of the condensed consolidated interim financial statements

Condensed Consolidated Statement of Cash Flows

Three months ended March 31, 2017 and 2016
(Unaudited)

		Three months ended March 31,	
In United States Dollars, (000`s)	Note	2017	2016
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES			
Net loss from continuing operations		($582)	($1,335)
Items not affecting cash:			
Amortization		26	22
Stock based compensation		46	58
Debenture interest paid in common shares		106	110
Accretion on debentures	5	41	39
Unrealized foreign exchange (gain) loss		(25)	461
		(388)	(645)
Changes in non-cash working capital	13	278	616
Cash used in operating activities		(110)	(29)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES			
Repayment of long-term debt	6	(4)	(32)
Proceeds from issue of common shares (net of costs)		-	127
Cash (used in) from financing activities		(4)	95
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES			
Property, plant and equipment additions, net		(89)	(46)
Cash used in investing activities		(89)	(46)
CASH FLOWS FROM DISCONTINUED OPERATIONS (Note 17)		210	2
Effect of exchange rate fluctuations on cash		(3)	(19)
Change in cash and cash equivalents		4	3
Cash and cash equivalents, beginning of period		100	77
Cash and cash equivalents, end of period		$104	$80

The accompanying notes are an integral part of the condensed consolidated interim financial statements.

1. REPORTING ENTITY

Divergent Energy Services Corp. (the "Corporation"), is a Canadian Corporation with a registered office located at 1500, 715 – 5 Avenue SW, Calgary, AB, T2P 2X6. The condensed consolidated interim financial statements of the Corporation as at and for the three month period ended March 31, 2017, comprise the Corporation and its wholly owned subsidiaries (referred to as the "Group"). These condensed consolidated interim financial statements include the accounts of the Corporation and its wholly-owned subsidiaries. The Group is in the business of providing artificial lift products and services to its clients in the oil and gas industry throughout North America.

2. GOING CONCERN

These condensed consolidated interim financial statements have been prepared on a going concern basis. The going concern basis of presentation assumes that the Corporation 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.

The material uncertainties that may cast significant doubt on the Corporation's ability to continue as a going concern are set forth below.

The Corporation's debentures, amounting to CAD $5,750, mature December 31, 2017. There is uncertainty as to whether the Corporation will be able to repay these obligations without obtaining additional debt or equity financings.

The Corporation has $104 in cash at March 31, 2017, a working capital deficit of $5,880 and expects to generate negative cash flow from operations until the end of Q2 2017 in the amount of approximately $500. The Corporation will require, in addition to the previously mentioned $500, $500 for the deployment of the commercial version of the Linear Electromagnetic Submersible Pump.

The Corporation's management and Board of Directors continue to seek alternatives of debt and equity financings in order to fund additional projects and operations in North America and to provide for the ultimate repayment of the debentures.

The unaudited condensed consolidated interim financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis were not appropriate for these financial statements, then adjustments would be necessary to the classification and carrying amounts of the assets and liabilities and the reported revenues and expenses to reflect a liquidation basis of accounting.

3. BASIS OF PRESENTATION

A. Statement of Compliance

These condensed consolidated interim financial statements are prepared in accordance with IAS 34 – Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"). Accordingly these condensed consolidated interim financial statements do not include all of the information and footnotes required by the International Financial Reporting Standards ("IFRS") for complete financial statements and should be read in conjunction with the December 31, 2016 audited annual consolidated financial statements.

The condensed consolidated interim financial statements were authorized for issue by the Board on May 17, 2017.

B. Presentation Currency

These unaudited condensed consolidated interim financial statements are presented in US dollars ("USD").

C. Use of Estimates and Judgments

The preparation of the condensed consolidated interim financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended December 31, 2016.

(All figures in '000's of US dollars except number of shares and per share data, unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and methods of determination of fair values were set out in Note 3 of the Group's annual consolidated financial statements for the year ended December 31, 2016, and have been applied consistently to the periods presented in these interim condensed consolidated financial statements. As a result, these financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2016.

In addition, the following accounting standards and amendments have been issued but not yet adopted:

Leases

On January 13, 2016, the IASB issued IFRS 16, "*Leases*" ("IFRS 16"), which requires entities to recognize lease assets and lease obligations on the balance sheet. For lessees, IFRS 16 removes the classification of leases as either operating leases or finance leases, effectively treating all leases as finance leases. Certain short-term leases (less than 12 months) and leases of low-value assets are exempt from the requirements, and may continue to be treated as operating leases. IFRS 16 is effective for years beginning on or after January 1, 2019, with early adoption permitted. The Corporation is currently evaluating the impact of adopting IFRS 16 on the consolidated financial statements.

Revenue

On May 28, 2014, the IASB issued IFRS 15, "*Revenue From Contracts With Customers*" ("IFRS 15") replacing IAS 11, "Construction Contracts", IAS 18, "Revenue" and several revenue-related interpretations. IFRS 15 establishes a single revenue recognition framework that applies to contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. Disclosure requirements have also been expanded. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The standard may be applied retrospectively or using a modified retrospective approach. The Corporation has assessed the impact of adopting IFRS 15 on the Consolidated Financial Statements, however since there have been no material differences identified as part of the Corporation's preliminary assessments, management does not expect any changes when IFRS 15 is adopted.

Financial Instruments

On July 24, 2014, the IASB issued the final version of IFRS 9, "*Financial Instruments*" ("IFRS 9") to replace IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"). IFRS 9 introduces a single approach to determine whether a financial asset is measured at amortized cost or fair value and replaces the multiple rules in IAS 39. The approach is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. For financial liabilities, IFRS 9 retains most of the IAS 39 requirements; however, where the fair value option is applied to financial liabilities, the change in fair value resulting from an entity's own credit risk is recorded in accumulated other comprehensive Income rather than net earnings, unless this creates an accounting mismatch. In addition, a new expected credit loss model for calculating impairment on financial assets replaces the incurred loss impairment model used in IAS 39. The new model will result in more timely recognition of expected credit losses. IFRS 9 is effective for years beginning on or after January 1, 2018. Early adoption is permitted. The Corporation is currently assessing the impact of adopting IFRS 9 on the consolidated financial statements.

5. DEBENTURES

	Principle	Debt portion	Warrant portion	Common shares issued as transaction costs
10% debentures payable at January 1, 2016	$5,234	$3,836	$467	$21
Accretion	-	163	-	-
Effect of movements in exchange rates	-	117	-	-
10% debentures payable at December 31, 2016	5,234	4,116	467	21
Accretion	-	41	-	-
Effect of movements in exchange rates	-	32	-	-
10% debentures payable at March 31, 2017	$5,234	$4,189	$467	$21

(All figures in '000's of US dollars except number of shares and per share data, unless otherwise stated)

6. LONG-TERM DEBT

	Interest Rate	Maturing	March 31, 2017	December 31, 2016
Truck loans	4.15% to 5.00%	2017 and 2018	$17	$21
Less: current portion			(15)	(17)
Long-term debt			$2	$4

Pursuant to the truck loans between the Group's US subsidiary and a US bank, the obligations are secured by vehicles having a net book value of $14 (December 31, 2016 - $17).

7. SHARE CAPITAL

Authorized

Unlimited common shares

Unlimited preferred shares, issuable in series, with rights and limitations to be set prior to issue.

Issued

	Number of Shares	**Amount**
Balance at January 1, 2016	96,325,459	$15,955
Shares returned in exchange for inventory (Note 7(a))	(1,000,000)	(130)
Shares issued - debenture interest (Note 7(b))	2,833,150	439
Shares issued - private placement (net of costs) (Note 7(c))	902,915	187
Balance at December 31, 2016	99,061,524	16,451
Shares issued - debenture interest (Note 7(b))	891,703	106
Balance at March 31, 2017	99,953,227	$16,557

a) Effective January 22, 2016 the Corporation commenced the closure of its operations in Kalama, Washington, USA of its wholly owned subsidiary Karlington. The managers of Karlington entered into a termination and release agreement with management. Pursuant to the terms of the agreement, Karlington disposed of all outstanding inventory to Karlington management in exchange for 1,000,000 common shares of the Corporation that were previously held by them.

b) Pursuant to the second supplemental indenture of the debentures (Note 5) the Corporation 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, 2017. For the period ended March 31, 2017, the Corporation elected to pay the interest in common shares of 891,703 amounting to CAD $142. For fiscal 2016 the Corporation paid the debenture interest with 2,833,150 common shares amounting to CAD $575.

c) On March 18, 2016 the Corporation completed the first tranche of a non-brokered private placement of 619,730 common shares at a price of CAD $0.27 per common share for aggregate gross proceeds of CAD $167. Divergent paid commissions and finder's fees to qualified non-related parties of 6% of $50,000 of the gross proceeds which amounted to CAD $3.

(All figures in '000's of US dollars except number of shares and per share data, unless otherwise stated)

8. WARRANTS

	Number of warrants	Amount
Balance at December 31, 2015	7,725,000	$415
Warrants expired	(1,975,000)	(70)
Extension to maturity date of warrants (net of deferred tax of $2)	-	38
Balance at December 31, 2016 and March 31, 2017	5,750,000	$383

At March 31, 2017, the weighted average exercise price of the warrants is $0.22.

Warrants outstanding at March 31, 2017		
Expiry	Exercise Price (CAD $)	Number of Warrants
December 31, 2017	0.20	2,875,000
December 31, 2017	0.24	2,875,000
		5,750,000

9. STOCK BASED COMPENSATION

The Corporation has established a stock option plan to allow certain officers, directors, employees and consultants to acquire common shares of the Corporation. A total of 10% of the Corporation's shares outstanding are reserved for the issue of stock options pursuant to the stock option plan. For the period ending March 31, 2017, $46 (Q1 2016 -$58) of stock based compensation was recognized in the statement of net loss and comprehensive loss with a corresponding amount in contributed surplus.

Continuity of stock options at March 31,	2017		2016	
	Number of options	Weighted average exercise price (CAD $)	Number of options	Weighted average exercise price (CAD $)
Balance – beginning of period	7,175,000	$0.34	6,200,000	$0.35
Issued	1,530,000	$0.16	-	-
Balance – end of period	8,705,000	$0.31	6,200,000	$0.35

The number of options exercisable at March 31, 2017, is 3,099,998 (2016 – 1,733,333) at a weighted average exercised price of CAD $0.35.

10. NET FINANCE EXPENSE

	Three months ended March 31, 2017	Three months ended March 31, 2016
Foreign exchange loss	($42)	($680)
Interest expense	(106)	(110)
Accretion expense	(41)	(39)
Net finance expense	($189)	($829)

11. NET LOSS PER SHARE

Basic and diluted loss per share have been calculated based on net loss divided by the weighted average number of common shares outstanding for the period ended March 31, 2017, of 99,071,432 (2016 – 95,629,957). All outstanding options and warrants are anti-dilutive for the period and comparative period, with the exception to discontinued operations for the three month period ended March 31, 2017 to which fully diluted weighted average of equity instruments was 113,526,432 (2016 – N/A).

(All figures in '000's of US dollars except number of shares and per share data, unless otherwise stated)

12. CONTINGENCIES

From time to time, the Corporation is subject to legal proceedings, assessments and claims in the ordinary course of business. At this time, in the opinion of management, none of these matters are reasonably expected to result in a material adverse effect on the Corporation's financial position.

In addition, the Mexican Tax authorities challenged certain deductions taken in the 2011 taxation year that they believe should have been deferred until the taxation year ending December 31, 2012. The potential result of this assessment was an additional $750 in taxes owed for fiscal 2011 and a further $730 in assessed penalties and interest. Management has successfully appealed this reassessment, based on the fact the Mexican Tax authorities had missed their deadline for filing this reassessment.

Management has been advised by external legal and taxation experts that it is "more likely than not" that the Corporation will win their appeal to have the tax reassessment dismissed. Accordingly, management has not recognized any liability in respect to this tax reassessment.

13. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended March 31,	
	2017	**2016**
Trade receivables and advances	$534	$158
Inventory	225	(32)
Prepaid expenses and deposits	28	26
Accounts payable and accrued liabilities	(509)	464
Changes to non-cash working capital	$278	$616

14. COMMITMENTS

The Group has entered into operating leases for the use of premises and vehicles. Minimum annual operating lease payments are summarized for the years as follows:

	2017	2018	2019	2020	2021	2022	Total
Premises and office equipment	$186	$255	$255	$255	$170	$9	$1,130
Vehicles	84	63	18	-	-	-	165
	$270	$318	$273	$255	$170	$9	$1,295

15. RELATED PARTIES

During the three month period ended March 31, 2017, debenture interest was paid to an officer and a director amounting to 20,160 common shares of the Corporation approximately CAD $3 (Q1 2016 – 11,581 common shares approximating CAD $3).

(All figures in '000's of US dollars except number of shares and per share data, unless otherwise stated)

16. OPERATING SEGMENTS

Management regards the Group's activities as being conducted in reportable business segments organized according to the products and services they provide and which aggregate into two business units that offer different products and services, in addition to the Corporate office. The activities are located in separate geographic markets as well.

Artificial lift sales and service

The Group supplies and services a wide variety of electric submersible pumps and artificial lift support products wherever product needs to be lifted to the surface. These operations are geographically located within the United States.

Project management and financing

The Group previously facilitated project financing and project management with contractors in delivering oilfield infrastructure in Mexico.

During the year ended December 31, 2015, management made the strategic decision to focus the Group's resources into the Artificial lift sales and service operating segment. Accordingly, no further capital was invested in the Project management and financing segment and the Corporation has discontinued its Mexican operations as of December 31, 2016 and has collected on all the remaining projects.

Three months ended March 31, 2017	Artificial Lift Systems	Project management and financing (Discontinued operations)	Corporate	Total
Revenue	$2,163	$-	$ -	$2,163
Net earnings (loss)	183	(80)	(765)	(662)
Amortization	25	-	1	26
Capital expenditures	89	-	-	89
Total assets	$2,724	$11	$255	$2,990

Three months ended March 31, 2016	Artificial Lift Systems	Project management and financing (Discontinued operations)	Corporate	Total
Revenue	$2,119	$-	$ -	$2,119
Net earnings (loss)	(134)	(864)	(1201)	(2,199)
Amortization	17	4	1	22
Capital expenditures	44	-	2	46
Total assets	$3,718	$1,068	$111	$4,897

The accounts receivable include a customer of the Artificial Lift Systems segment which amounts to 57 percent at March 31, 2017 (Q1 2016 – 43 percent).

Approximately 91 percent (Q1 2016: 98 percent) of Artificial Lift Systems segment sales are attributable to one customer at March 31, 2017. The Group has established allowances for impairment of trade receivables and advances in 2017 - $Nil (2016 - $762 which is included in discontinued operations (Note17)).

(All figures in '000's of US dollars except number of shares and per share data, unless otherwise stated)

17. DISCONTINUED OPERATIONS

The Corporation's management commenced the winding down of operations in Mexico in December 2015, and during the fiscal year 2016 closed the Project management and financing division. The operating results of the Project management and financing segment are presented below as discontinued operations, and it should be noted that the comparative results from operations have been restated to show the discontinued operations separately from continuing operations.

	2017	2016
Selling, general and administrative expenses	46	47
Amortization	-	4
Stock based compensation	5	12
Allowance for doubtful accounts		762
Foreign exchange gain	-	10
	(51)	835
Income (loss) from discontinued operations before income taxes	(51)	(835)
Income tax expense		
Current income taxes	29	29
	(29)	(29)
Income (loss) from discontinued operations, net of tax	$(80)	($864)

The Corporation's income taxes for the periods ended March 31, 2017 and 2016 was $29 which relate to interest and penalties in Mexico.

Cash flows from (used in) discontinued operations	**2017**	**2016**
Cash (used in) from operating activities	$210	($46)
Cash generated from investing activities	-	48
Cash flows (used in) from discontinued operations	$210	$2

18. SUBSEQUENT EVENT

On May 10, 2017, the Corporation received CAD $175,000 from its directors and officers in exchange for notes payable, bearing interest at 10% per annum. No collateral is held against the notes, and the amount, along with interest is repayable December 31, 2017.