Divergent Energy Services Corp.

Condensed Consolidated Interim Financial Statements

As at June 30, 2017 and for the three and six months periods ended June 30, 2017 and 2016

(Unaudited)

Condensed Consolidated Statement of Financial Position

As at June 30, 2017 and December 31, 2016
(Unaudited)

In United States Dollars, (000`s)	Note	**June 30, 2017**	**December 31, 2016**
ASSETS			
Current assets			
Cash and cash equivalents		$850	$100
Accounts receivable		678	1,320
Inventories		1,557	1,868
Prepaid expenses and deposits		106	226
		3,191	3,514
Property and equipment		436	386
		$3,627	$3,900
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		$3,463	$3,690
Income taxes payable		1,149	1,087
Debentures	5	4,343	4,116
		8,955	8,893
Shareholders' deficit			
Share capital	6	17,184	16,451
Warrants	7	403	383
Contributed surplus		5,202	5,081
Accumulated other comprehensive income		1,040	643
Deficit		(29,157)	(27,551)
		(5,328)	(4,993)
		$3,627	$3,900

Going concern 2

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

Approved by the Board of Directors

Signed "Ken Bagan" Chairman Signed "Ken Berg", Director

Condensed Consolidated Statement of Net Loss and Comprehensive Loss
Three and six months periods ended June 30, 2017 and 2016
(Unaudited)

In United States Dollars, (000`s)	Note	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
Continuing operations					
Revenue		$2,140	$2,640	$4,303	$4,759
Cost of sales		1,545	2,071	3,054	3,800
Gross profit		595	569	1,249	959
Selling, general and administrative expenses		699	587	1,500	1,332
Stock based compensation	8	69	112	110	158
		(768)	(699)	(1,610)	(1,490)
Results from operating activities		(173)	(130)	(361)	(531)
Product development		26	43	232	221
Net finance expense	9	657	143	846	847
		(683)	(186)	(1,078)	(1,068)
Net loss from continuing operations		(856)	(316)	(1,439)	(1,599)
Loss from discontinued operations, net of tax		(87)	(229)	(167)	(1,147)
Net loss		(943)	(545)	(1,606)	(2,746)
Other comprehensive income (loss)		327	(115)	397	292
Total comprehensive loss for the period		($616)	($660)	($1,209)	($2,454)
Net loss per share:	10				
Continuing operations - Basic and diluted		($0.01)	($0.01)	($0.01)	($0.02)
Discontinued operations - Basic and diluted		($0.00)	($0.00)	($0.00)	($0.01)
Net loss - Basic and diluted		($0.01)	($0.01)	($0.01)	($0.03)

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

Condensed Consolidated Statement of Equity

Six months ended June 30, 2017 and 2016
(Unaudited)

In United States Dollars, (000`s)	Share capital	Warrants	Contributed surplus	Accumulated other comprehensive income	Deficit	Total deficit
Balance January 1, 2016	$15,955	$415	$4,750	$303	($22,953)	($1,530)
Common shares cancelled (Note 6(a))	(130)	-	(28)	-	-	(158)
Stock based compensation	-	-	182	-	-	182
Private placement of common shares (net of issue costs) (Note 6(c))	187	-	-	-	-	187
Debenture interest paid with common shares (Note 6 (b))	221	-	-	-	-	221
Warrants expired	-	(70)	70	-	-	-
Net loss for the period	-	-	-	-	(2,746)	(2,746)
Other comprehensive Income	-	-	-	292	-	292
Balance at June 30, 2016	$16,233	$345	$4,974	$595	($25,699)	($3,552)

In United States Dollars, (000`s)	Share capital	Warrants	Contributed surplus	Accumulated other comprehensive income	Deficit	Total deficit
Balance January 1, 2017	$16,451	$383	$5,081	$643	($27,551)	($4,993)
Debenture interest paid with common shares (Note 6 (b))	216	-	-	-	-	216
Stock based compensation	-	-	121	-	-	121
Private placement of common shares (net of issue costs) (Note 6 (d))	517	20	-	-	-	537
Net loss for the period	-	-	-	-	(1,606)	(1,606)
Other comprehensive income	-	-	-	397	-	397
Balance at June 30, 2017	$17,184	$403	$5,202	$1,040	($29,157)	($5,328)

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

Condensed Consolidated Statement of Cash Flows

Six months ended June 30, 2017 and 2016
(Unaudited)

		Six months ended June 30,	
In United States Dollars, (000`s)	**Note**	**2017**	**2016**
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES			
Net loss from continuing operations		($1,439)	($1,588)
Items not affecting cash:			
Amortization		53	54
Gain on sale of assets		(2)	-
Stock based compensation		120	158
Debenture interest paid in common shares		216	221
Accretion on debentures	5	82	160
Allowance for trade receivables		-	8
Unrealized foreign exchange		343	580
		(627)	(407)
Changes in non-cash working capital	11	758	231
Cash from (used in) operating activities		131	(176)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES			
Proceeds from private placement issue of common shares (net of costs)	6	537	187
Repayment of long-term debt		(9)	(61)
Proceeds from promissory note		-	60
Cash from financing activities		528	186
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES			
Property, plant and equipment additions, net		(101)	11
Cash From (used in) investing activities		(101)	11
CASH FLOWS FROM (USED IN) DISCONTINUED OPERATIONS		185	(14)
Effect of exchange rate fluctuations on cash		7	(4)
Change in cash and cash equivalents		750	(3)
Cash and cash equivalents, beginning of period		100	77
Cash and cash equivalents, end of period		$850	$74

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 and six month periods ended June 30, 2017, comprise the Corporation and its wholly owned subsidiaries (referred to as the "Group"). 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 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 Corporation will not be able to repay these obligations without obtaining additional debt, equity financings or renegotiating terms with the debenture holders.

The Corporation has $850 in cash at June 30, 2017 and a working capital deficit of $5,764. The Corporation expects to spend $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 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 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 August 16, 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 4 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 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	-	82	-	-
Effect of movements in exchange rates	-	145	-	-
10% debentures payable at June 30, 2017	$5,234	$4,343	$467	$21

The debentures mature and are repayable on December 31, 2017.

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

6. 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
Common shares returned in exchange for inventory (Note 6(a))	(1,000,000)	(130)
Common shares issued – debenture interest (Note 6(b))	2,833,150	439
Common shares issued – private placement (net of costs) (Note 6(c))	902,915	187
Balance at December 31, 2016	99,061,524	$16,451
Common shares issued – debenture interest (Note 6(b))	1,734,975	216
Common shares issued – private placement (net of costs) (Note 6(d))	5,000,000	517
Balance at June 30, 2017	105,796,499	$17,184

a) Effective January 22, 2016 the Corporation commenced the closure of its Karlington subsidiary in Kalama, Washington, USA. 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 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 periods ended March 31, 2017 and June 30, 2017, the Corporation elected to pay the interest in common shares of 891,703 and 843,272 which amounted to CAD $143 and CAD $143, respectively. In aggregate for the fiscal year ended 2016 common shares of 2,833,150 amounting to CAD $575 was paid.

c) During the period ended Q2 2016 the Corporation completed a non-brokered private placement of 902,915 common shares at a price of CAD $0.27 per common share for aggregate gross proceeds of CAD $244. Divergent paid commissions and finder's fees to qualified non-related parties of 6% of the gross proceeds which amounted to CAD $4.

d) During the period ended Q2 2017 the Corporation completed a private placement of 5,000,000 common shares at a price of CAD $0.15 per share for gross proceeds of CAD $750. Divergent paid finder's fees to qualified non-related parties of 6% of gross proceeds which amounted to CAD $41. In addition, qualified non-related parties received 276,000 warrants exercisable at CAD $0.15 which expire on December 31, 2018 and were attributed a value CAD $27.

7. WARRANTS

	Number of warrants	Amount
Balance at December 31, 2016	5,750,000	$383
Warrants issued – private placement (Note 6(d))	276,000	20
Balance at June 30, 2017	6,026,000	$403

Warrants outstanding at June 30, 2017

Expiry	Exercise Price (CAD $)	Number of Warrants
December 31, 2017	0.20	2,875,000
December 31, 2017	0.24	2,875,000
December 31, 2018	0.15	276,000
		6,026,000

The warrants were valued using the Black-Scholes model. At June 30, 2017, the weighted average exercise price of the warrants is $0.22.

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

8. 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. Stock based compensation expense of $74 and $110 was recorded for the three and six month periods ended June 30, 2017, respectively (for the three and six month periods ended June 30, 2016 $123 and $182).

Continuity of stock options at June 30,	**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	5,800,000	$0.34
Grants during the period	1,930,000	$0.16	1,350000	0.28
Forfeiture during the period	(570,000)	0.33	(600,000)	0.31
Balance – end of period	8,535,000	0.30	6,200,000	0.35

The number of options exercisable at June 30, 2017, is 3,099,998 (2016 – 1,800,000) at a weighted average exercised price of $0.34 (2016 - CAD $0.35).

9. NET FINANCE EXPENSE

	Three months ended June 30,	
	2017	**2016**
Foreign exchange loss (gain)	($477)	$13
Interest expense	(138)	(115)
Accretion expense	(42)	(41)
Net finance expense	($657)	($143)

	Six months ended June 30,	
	2017	**2016**
Foreign exchange loss	($519)	($542)
Interest expense	(245)	(225)
Accretion expense	(82)	(80)
Net finance expense	($846)	($847)

10. 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 three and six month periods ended June 30, 2017, of 100,603,428 (2016 – 96,669,823) and 99,841,662 (2016 - 96,154,871), respectively. All outstanding options and warrants are anti-dilutive for the period and comparative period.

11. SUPPLEMENTAL CASH FLOW INFORMATION – CHANGES TO NON-CASH WORKING CAPITAL

	Six months ended June 30,	
	2017	**2016**
Accounts receivable	$412	($353)
Inventory	352	(839)
Prepaid expenses and deposits	117	310
Accounts payable and accrued liabilities	(123)	1,054
Income taxes payable	-	59
Changes to non-cash working capital	$758	$231

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

12. COMMITMENTS

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

	2017	2018	2019	2020	2021	2022	Total
Premises and office equipment	$124	$255	$255	$255	$170	$9	$1,068
Vehicles	56	63	18	-	-	-	137
	$180	$318	$273	$255	$170	$9	$1,205

13. RELATED PARTIES

The following transactions were in the normal course of operations and entered into and recorded at the agreed to exchange amount which reflects fair value:

Debenture interest was paid through the issue of common shares to a certain officer and directors amounting to $34 for the three month period ended and $46 for the six month period ended June 30, 2017 (for the three and six month periods ended June 30, 2016, $11 and $23, respectively).

Officers and directors advanced the Corporation CAD $195, of which CAD $70 was converted into common shares of the private placement (Note 6(d)). The remaining advances of CAD $125 is included in accounts payables and accrued liabilities. The advances are due on demand and bear interest at 10%. Interest of CAD $2 is included in accounts payable and accrued liabilities.

14. 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.

<u>Artificial lift systems</u>

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.

<u>Project management and financing</u>

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.

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

Three months ended June 30, 2017	Artificial lift systems	Project management and financing (Discontinued operations)	Corporate	Total
Revenue	$2,140	$-	$ -	$2,140
Net earnings (loss)	216	(87)	(1,072)	(943)
Amortization	26	1	1	28
Capital Expenditures	(13)	-	3	(10)
Total Assets	$3,082	$10	$535	$3,627

Three months ended June 30, 2016	Artificial lift systems	Project management and financing (Discontinued operations)	Corporate	Total
Revenue	$2,640	$ -	$ -	$2,640
Net loss	443	(229)	(759)	(545)
Amortization	26	2	2	30
Capital Expenditures	(23)	-	-	(23)
Total Assets	$4,631	$854	$229	$5,714

Six months ended June 30, 2017	Artificial lift systems	Project management and financing (Discontinued operations)	Corporate	Total
Revenue	$4,303	$ -	$ -	$4,303
Net earnings (loss)	399	(167)	(1,838)	(1,606)
Amortization	51	1	2	54
Capital Expenditures	76	-	3	79
Total Assets	$3,082	$10	$535	$3,627

Six months ended June 30, 2016	Artificial lift systems	Project management and financing (Discontinued operations)	Corporate	Total
Revenue	$4,759	$-	$ -	$4,759
Net earnings (loss)	309	(1,147)	(1,908)	(2,746)
Amortization	51	6	3	60
Capital Expenditures (net)	(9)	-	(2)	(11)
Total Assets	$4,632	$854	$228	$5,714

The accounts receivable include a single customer of the Artificial lift systems segment which represents 62% at June 30, 2017 and at December 31, 2016 represents 66% (Q2 2016 – 92%). Accounts receivable from a customer of the Project Management and Financing segment amounts to Nil at Q2 2017 (Q2 2016 – 91%).

Approximately 89% (Q2 2016 - 97%) of the Artificial lift systems segment sales are attributable to one customer at June 30, 2017. The Group has established allowances for impairment of trade receivables and advances in 2017 of Nil (2016 - $768).

15. 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.

	Three months ended June 30,		Six months ended June 30,	
In United States Dollars, (000`s)	2017	2016	2017	2016
Discontinued operations				
Selling, general and administrative expenses	82	39	128	87
Amortization	-	3	-	6
Stock based compensation	5	12	10	24
Allowance for advances receivable	-	-	-	760
Loss on disposal of assets	-	73	-	73
Net finance expense	-	63	-	138
Loss from discontinued operations before income taxes	(87)	(190)	(138)	(1,088)
Current income tax expense	(-)	(39)	(29)	(59)
Net loss from discontinued operations	(87)	(229)	(167)	(1,147)

Cash flows from (used in) discontinued operations

	2017	2016
Cash (used in) from operating activities	$185	($46)
Cash generated from investing activities	-	32
Cash flows (used in) from discontinued operations	$185	($14)