Divergent Energy Services Corp.

Condensed Consolidated Interim Financial Statements

As at September 30, 2017 and for the three and nine month periods ended September 30, 2017 and 2016

(Unaudited)

Condensed Consolidated Statement of Financial Position

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

In United States Dollars, (000`s)	Note	**September 30, 2017**	**December 31, 2016**
ASSETS			
Current assets			
Cash and cash equivalents		$542	$100
Accounts receivable		435	1,320
Inventories		1,506	1,868
Prepaid expenses and deposits		157	226
		2,640	3,514
Property and equipment		422	386
		$3,062	$3,900
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		$3,119	$3,690
Income taxes payable		1,179	1,087
Debentures	5, 15	4,562	4,116
		8,860	8,893
Shareholders' deficit			
Share capital	6	17,300	16,451
Warrants	7	403	383
Contributed surplus		5,230	5,081
Accumulated other comprehensive income		1,556	643
Deficit		(30,287)	(27,551)
		(5,798)	(4,993)
		$3,062	$3,900

Going concern	2
Subsequent event	15

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 nine months periods ended September 30, 2017 and 2016
(Unaudited)

In United States Dollars, (000`s)	Note	Three months ended September 30, 2017	2016	Nine months ended September 30, 2017	2016
Revenue		1,778	$3,969	6,081	$8,728
Cost of sales		1,282	3,376	4,336	7,165
Gross profit		496	593	1,745	1,563
Selling, general and administrative expenses		654	738	2,153	2,146
Stock based compensation	8	38	52	149	211
		(692)	(790)	(2,302)	(2,357)
Results from operating activities		(196)	(197)	(557)	(794)
Product development		49	25	281	246
(Gain) loss on disposal of assets		-	(25)	(2)	46
Net finance expense (income)	9	882	(137)	1,729	628
		(931)	137	(2,008)	(920)
Net loss from continuing operations		(1,127)	(60)	(2,565)	(1,714)
Net loss from discontinued operations, net of tax	13	(4)	(104)	(171)	(1,193)
Net loss		(1,131)	(164)	(2,736)	(2,907)
Other comprehensive income (loss)		515	(259)	913	33
Total comprehensive loss for the period		($616)	($423)	(1,823)	($2,874)
Net loss per share (Note 10):					
Continuing operations - Basic and diluted		($0.01)	($0.00)	($0.02)	($0.02)
Discontinued operations - Basic and diluted		($0.00)	($0.00)	($0.00)	($0.01)
Net loss - Basic and diluted		($0.01)	($0.00)	($0.02)	($0.03)

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

Condensed Consolidated Statement of Equity
Nine months ended September 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	-	-	240	-	-	240
Private placement of common shares (net of issue costs) (Note 6(c))	187	-	-	-	-	187
Debenture interest paid with common shares (Note 6 (b))	331	-	-	-	-	331
Warrants expired	-	(70)	70	-	-	-
Net loss for the period	-	-	-	-	(2,907)	(2,907)
Other comprehensive Income	-	-	-	33	-	33
Balance at September 30, 2016	$16,343	$345	$5,032	$336	($25,860)	($3,804)

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)
Stock based compensation	-	-	149	-	-	149
Private placement of common shares (net of issue costs) (Note 6 (d))	517	20	-	-	-	537
Debenture interest paid with common shares (Note 6 (b))	332	-	-	-	-	332
Net loss for the period	-	-	-	-	(2,736)	(2,736)
Other comprehensive income	-	-	-	913	-	913
Balance at September 30, 2017	$17,300	$403	$5,230	$1,556	($30,287)	($5,798)

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

Condensed Consolidated Statement of Cash Flows

Nine months ended September 30, 2017 and 2016
(Unaudited)

		Nine months ended September 30,	
In United States Dollars, (000`s)	**Note**	**2017**	**2016**
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES			
Net loss from continuing operations		($2,565)	($1,714)
Items not affecting cash:			
Amortization		80	79
Allowance for doubtful accounts		-	8
Stock based compensation		149	240
(Gain) loss on disposal of assets		(3)	(98)
Debenture interest paid in common shares		332	331
Accretion on debentures	5	128	122
Unrealized foreign exchange		1,037	117
		(842)	(915)
Changes in non-cash working capital	11	691	1,479
Cash from (used in) operating activities		(151)	564
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from private placement issue of common shares (net of costs)	6	537	187
Repayment of debt		(13)	(137)
Cash from financing activities		524	50
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES			
Property, plant and equipment additions		(115)	(167)
Property, plant and equipment disposals		-	503
Cash from (used in) investing activities		(115)	336
CASH FLOWS FROM (USED IN) DISCONTINUED OPERATIONS		185	(116)
Effect of exchange rate fluctuations on cash		(1)	(3)
Change in cash and cash equivalents		442	831
Cash and cash equivalents, beginning of period		100	77
Cash and cash equivalents, end of period		$542	$908

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 nine month periods ended September 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, were to mature on December 31, 2017. The Corporation reached an agreement with the Debenture holders on November 1, 2017 to extend the maturity date to December 31, 2021 in exchange for 5,750,000 common share purchase warrants with an exercise price of CAD $0.13 expiring on December 31, 2021(See Note 15 – Subsequent event).

The Corporation has $542 in cash at September 30, 2017 and a working capital deficit of $6,220. Since the extension of the Debentures occurred after September 30, 2017 the Debentures are presented as current liabilities. However future balance sheets of the Corporation will present the Debentures as long-term liabilities which will reduce the working capital deficiency by $4,562.

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 Corporation's Board of Directors on November 22, 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 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	-	128	-	-
Effect of movements in exchange rates	-	318	-	-
10% debentures payable at September 30, 2017	$5,234	$4,562	$467	$21

The debentures mature and are repayable on December 31, 2017, see also Subsequent event Note 15.

(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))	3,029,002	332
Common shares issued – private placement (net of costs) (Note 6(d))	5,000,000	517
Balance at September 30, 2017	107,090,526	$17,300

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. No gain or loss was recorded in the period as the inventory was written down to its estimated fair value at December 31, 2015.

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 three month and nine periods ended September 30, 2017, the Corporation elected to pay the interest in common shares of 1,294,027 and 3,029,002 which amounted to CAD $145 and CAD $431, respectively. For the three and nine month periods ended September 30, 2016, the Corporation issued 902,915 and 2,070,358 common shares which amounted to CAD $143 and CAD $431, respectively.

c) During 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 CAD $65 of the gross proceeds which amounted to CAD $4.

d) During 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 of CAD $27.

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

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	6,026,000	$403

Warrants outstanding at September 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 September 30, 2017, the weighted average exercise price of the warrants is $0.22. (See Note 15 – Subsequent event).

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 $46, $74 and $28 was recorded for the three month periods ended March 31, 2017, June 30, 2017 and September 30, 2017, respectively (for Q1 2016 - $123, Q2 2016 - $59 and Q3 2016 -$58).

Continuity of stock options at September 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	(1,819,999)	0.34	(600,000)	0.31
Balance – end of period	7,285,001	0.29	6,550,000	0.35

The number of options exercisable at September 30, 2017, is 4,218,331 (2016 – 3,683,332) at a weighted average exercised price of $0.33 (2016 - CAD $0.34).

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

9. NET FINANCE EXPENSE (INCOME)

		Three months ended September 30,
	2017	**2016**
Foreign exchange loss (gain)	$721	($300)
Interest expense	115	121
Accretion expense	46	42
Net finance expense (income)	$882	($137)

		Nine months ended September 30,
	2017	**2016**
Foreign exchange loss	$1,241	$160
Interest expense	360	346
Accretion expense	128	122
Net finance expense	$1,729	$628

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 nine month periods ended September 30, 2017, of 105,810,719 (2016 – 97,363,688) and 104,838,663 (2016- 96,549,241), respectively. All outstanding options and warrants are anti-dilutive for the period and comparative period.

11. SUPPLEMENTAL CASH FLOW INFORMATION

		Nine months ended September 30,
	2017	**2016**
Trade receivables and advances	$657	$116
Inventory	403	(187)
Prepaid expenses and deposits	66	140
Accounts payable and accrued liabilities	(435)	1,323
Income taxes payable	-	87
Changes in non-cash working capital	$691	$1,479

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	$62	$255	$255	$255	$170	$9	$1,006
Vehicles	28	63	18	-	-	-	109
	$90	$318	$273	$255	$170	$9	$1,115

13. 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 September 30,		**Nine months ended September 30,**	
In United States Dollars, (000`s)	**2017**	**2016**	**2017**	**2016**
Discontinued operations				
Selling, general and administrative expenses	$4	$32	$131	$119
Amortization	-	-	1	7
Stock based compensation	-	6	10	29
Allowance for advances receivable	-	-	-	760
Loss on disposal of assets			-	73
Net finance expense	-	37	-	117
Loss from discontinued operations before income taxes	4	75	142	1,105
Current income tax expense	-	29	29	88
Net loss from discontinued operations	($4)	($104)	($171)	($1,193)

Cash flows from (used in) discontinued operations

	2017	**2016**
Cash (used in) from operating activities	$185	($116)
Cash flows (used in) from discontinued operations	$185	($116)

14. RELATED PARTY TRANSACTIONS

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 $36 and $82 for the three month and nine month periods ended (for the three and nine month periods ended September 30, 2016, $11 and $34, 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 $5 is included in accounts payable and accrued liabilities.

15. SUBSEQUENT EVENT

Effective November 1, 2017, and subject to the final approval of the TSX Venture Exchange (the "TSXV"), and pursuant to the terms of the debenture indenture (the "Indenture"), as amended, the Corporation is amending the terms of its previously issued 10% secured debentures (the "Debentures") to extend the maturity date of the Debentures from December 31, 2017 to December 31, 2021 (the "Amendment"). The Amendment has been approved by an extraordinary resolution of the holders of the Debentures (the "Debenture holders") and Divergent will enter into a supplemental indenture with Computershare Trust Company of Canada, as Debenture trustee, to reflect the Amendment. In consideration for the Debenture holders approving the Amendments, the Corporation has agreed, subject to the final approval of the TSXV, to issue on or before January 1, 2018 to the Debenture holders an aggregate of 5,750,000 warrants to purchase 5,750,000 common shares in the capital of the Corporation at an exercise price of $0.13 on or before December 31, 2021. 1,377,000 of such warrants will be issued to Directors and/or Officers of the Corporation.