Divergent Energy Services Corp.

Condensed Consolidated Interim Financial Statements

As at March 31, 2018 and for the three month periods ended March 31, 2018 and 2017

(Unaudited)

Condensed Consolidated Statement of Financial Position
As at March 31, 2018 and December 31, 2017
(Unaudited)

In United States Dollars, (000`s)	**Note**	**March 31, 2018**	**December 31, 2017**
ASSETS			
Current assets			
Cash and cash equivalents		$326	$549
Trade receivables and advances		648	689
Inventories		1,476	1,420
Prepaid expenses and deposits		157	139
		2,607	2,797
Property and equipment		428	435
		$3,035	$3,232
LIABILITIES AND DEFICIENCY			
Current liabilities			
Accounts payable and accrued liabilities		$3,158	$3,362
Liabilities related to discontinued operations	14	1,494	1,179
		4,652	4,541
Debenture	**5**	4,280	4,580
		8,932	9,121
Shareholders' deficit			
Share capital	**6**	17,526	17,416
Warrants	**7**	161	20
Contributed surplus		5,673	5,644
Accumulated other comprehensive income		666	711
Deficit		(29,923)	(29,680)
		(5,897)	(5,889)
		$3,035	$3,232
Going concern	**2**		
Subsequent event	**8**		

Approved by the Board of Directors

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

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, 2018 and 2017
(Unaudited)

CONTINUING OPERATIONS

		Three months ended March 31,	
In United States Dollars, (000`s)	**Note**	**2018**	**2017**
Revenue		$1,930	$2,163
Cost of sales		(1,260)	(1,441)
Gross profit		670	722
General and administrative expenses		674	869
Stock based compensation	**8**	29	41
		(703)	(910)
Results from operating activities		(33)	(188)
Product development		4	205
Net finance (income) expense	**9**	(57)	189
		53	(394)
Income (loss) from continuing operations before income taxes		20	(582)
Deferred tax recovery		53	-
Income (loss) from continuing operations		73	(582)
Loss from discontinued operations, net of tax	**14**	(316)	(80)
Net loss		(243)	(662)
Other comprehensive income (loss)		(45)	70
Total comprehensive loss for the period		($288)	($592)
Income (loss per) share:	**10**		
Continuing operations - Basic and diluted		$0.00	($0.01)
Discontinued operations - Basic and diluted		($0.00)	($0.00)
Net loss - Basic and diluted		($0.00)	($0.01)

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

Condensed Consolidated Statement of Equity

Three months ended March 31, 2018 and 2017
(Unaudited)

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)
Common shares issued for debenture interest (Note 6(a))	448	-	-	-	-	448
Stock based compensation (Note 8)	-	-	180	-	-	180
Warrants expired (Note 5)	-	(383)	383	-	-	-
Private placement of common shares (net of issue costs)(Note 6(b))	517	20	-	-	-	537
Net loss for the period	-	-	-	-	(2,129)	(2,129)
Other comprehensive income	-	-	-	68	-	68
Balance at December 31, 2017	$17,416	$20	$5,644	$711	($29,680)	($5,889)
Common shares issued for debenture interest (Note 6(a))	110	-	-	-	-	110
Stock based compensation (Note 8)	-	-	29	-	-	29
Warrants issued for debenture extension, (net of deferred tax $53) (Note 5)	-	141	-	-	-	141
Net loss for the period	-	-	-	-	(243)	(243)
Other comprehensive income	-	-	-	(45)	-	(45)
Balance at March 31, 2018	$17,526	$161	$5,673	$666	($29,923)	($5,897)

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, 2018 and 2017
(Unaudited)

In United States Dollars, (000`s)	Note	Three months ended March 31, 2018	2017
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES			
Net income (loss) from continuing operations		$73	($582)
Items not affecting cash:			
Amortization		25	26
Stock based compensation		29	46
Debenture interest paid in common shares		110	106
Accretion on debentures	**5**	12	41
Deferred tax recovery		(53)	-
Unrealized foreign exchange (gain) loss		(162)	(25)
		34	(388)
Changes in non-cash working capital items	**11**	(239)	274
Cash used in operating activities		(205)	(114)
CASH FLOWS USED IN INVESTING ACTIVITIES			
Equipment additions		(18)	(89)
Cash used in investing activities		(18)	(89)
CASH FLOWS FROM DISCONTINUED OPERATIONS		-	210
Effect of exchange rate fluctuations on cash		-	(3)
Change in cash and cash equivalents		(223)	4
Cash and cash equivalents, beginning of period		549	100
Cash and cash equivalents, end of period		$326	$104

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, 2018, 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 has an accumulated deficit of $29,923 at March 31, 2018. The Corporation has experienced a history of net losses and using cash in its operations.

The Corporation has negative working capital at March 31, 2018, of $2,045. In addition, the Corporation has accounts payable in excess of a year old amounting to $1,100. There is material uncertainty as to whether the Corporation will be able to repay these obligations and future obligations without obtaining additional future debt or equity financings.

During the year ended December 31, 2017 the Corporation's Debentures, amounting to CAD $5,750 were extended to the maturity date of 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.

In addition, the Corporation has economic dependence on a single customer in the United States which comprises approximately 96% (2017 - 90%) of revenue and accounts receivable of $589 (December 31, 2017 - $311) for the three months ended March 31, 2018.

The Corporation's management and Board of Directors continue to seek alternative debt and equity financings in order to fund additional projects and operations in North America.

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, 2017 audited annual consolidated financial statements.

The condensed consolidated interim financial statements were authorized for issue by the Board on May 28, 2018.

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, 2017.

(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 Corporation’s annual consolidated financial statements for the year ended December 31, 2017, and have been applied consistently to the periods presented in these interim condensed consolidated financial statements except as noted below.

Leases – to be adopted January 1, 2019
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 from Contracts with Customers (IFRS 15) – Adopted January 1, 2018
In May 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 and is effective for annual periods beginning on or after January 1, 2018. The Corporation recognizes revenue when it transfers control of the product or services to a customer which is on delivery and installation of the product at the customer site. Pricing is based on agreed contracted rates, and collectability is reasonably assured. The Corporation’s revenue transactions do not contain financing components and payments are typically due within 30 days of revenue recognition. The Corporation has assessed the impact of adopting IFRS 15 on the Consolidated Financial Statements and there have been no material differences identified as part of the Corporation’s assessments.

Financial Instruments (IFRS 9) – Adopted January 1, 2018
The Corporation adopted IFRS 9, which replaced IAS 39 – Financial Instruments: Recognition and Measurement, in its financial statements beginning January 1, 2018. IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities, however it eliminates the previous IAS 39 categories for financial assets held to maturity, loans and receivables and assets available for sale. Under IFRS 9 there are three principle classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (“FVOCI”) and fair value through profit and loss (“FVRPL”). The classification of financial assets under IFRS 9 is based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification. IFRS replaces the ‘incurred loss’ model in IAS 39 with an ‘expected credit loss’ model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognized earlier than under IAS 39. The adoption of IFRS 9 did not have a material impact on the Corporation’s financial statements.

5. DEBENTURES

	Principle	Debt portion	Warrant portion	Common shares issued as transaction costs
10% debentures payable at January 1, 2017	$5,234	$4,116	$-	$21
Accretion		173	-	-
Effect of movements in exchange rates		291	-	-
10% debentures payable at December 31, 2017	$5,234	$4,580	$-	$21
Accretion	-	12	-	-
Cost associated with debenture extension		(194)	194	-
Effect of movements in exchange rates	-	(118)	-	-
10% debentures payable at March 31, 2018	$5,234	$4,280	$194	$21

On November 1, 2017, the Corporation requested and was granted an extension of the maturity date for the outstanding debentures by the registered holders and the maturity dates of the debentures were extended by four years to December 31, 2021. The terms of the extension agreement included the issue on January 1, 2018 of 5,750,000 warrants, exercisable at CAD $0.13 and expiring December 31, 2021.

(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, 2017	99,061,524	$16,451
Shares issued - debenture interest (Note 6(a))	4,840,648	448
Shares issued - private placement (net of costs) (Note 6(b))	5,000,000	517
Balance at December 31, 2017	108,902,172	17,416
Shares issued - debenture interest (Note 6(a))	1,720,639	110
Balance at March 31, 2018	110,622,811	$17,526

a) 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, 2021. For the period ended March 31, 2018, the Corporation elected to pay the interest in common shares of 1,720,639 amounting to CAD $142. For fiscal 2017 the Corporation paid the debenture interest with 4,840,648 common shares amounting to CAD $575.

b) 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 the 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.

7. WARRANTS

	Number of warrants	Amount
Balance at December 31, 2016	5,750,000	$383
Warrants expired	(5,750,000)	(383)
Extension to maturity date of warrants (net of deferred tax of $2)	276,000	20
Balance at December 31, 2017	276,000	$20
Warrants issued (net of deferred tax of $53) (Note 5)	5,750,000	141
Balance at March 31, 2018	6,026,000	$161

At March 31, 2018, the weighted average exercise price of the warrants is $0.13.

Warrants outstanding at March 31, 2018

Expiry	Exercise Price (CAD $)	Number of Warrants
December 31, 2018	0.15	276,000
December 31, 2021	0.13	5,750,000
		6,026,000

(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. For the period ending March 31, 2018, $29 (Q1 2017 -$46) of stock based compensation was recognized in the statement of net income (loss) and comprehensive income (loss) with a corresponding amount in contributed surplus.

Continuity of stock options at March 31,	2018		2017	
	Number of options	Weighted average exercise price (CAD $)	Number of options	Weighted average exercise price (CAD $)
Balance – beginning of period	6,785,000	$0.29	7,175,000	$0.34
Issued	-	-	1,530,000	$0.16
Balance – end of period	6,785,000	$0.29	8,705,000	$0.31

The number of options exercisable at March 31, 2018, is 4,454,999 (2017 – 3,099,998) at a weighted average exercised price of CAD $0.31.

On April 2, 2018 the Corporation granted an aggregate of 1,095,000 stock options to directors, officers, and employees at an exercise price of $0.155 per common share. In addition, the Corporation granted for 400,000 stock options to members of the Technical Advisory Committee to the Board of Directors, exercisable into common shares at $0.085 per common share. All of the previously mentioned stock options shall vest as to one-third at 12 months, one-third at 24 months and one-third at 36 months from the date of grant and have a five year term to expiry.

9. NET FINANCE INCOME (EXPENSE)

	Three months ended March 31,	
	2018	**2017**
Foreign exchange income (loss)	$185	($42)
Interest expense	(116)	(106)
Accretion expense	(12)	(41)
Net finance income (expense)	$57	($189)

10. NET INCOME (LOSS) PER SHARE

Basic and diluted income per share have been calculated based on net income divided by the weighted average number of common shares outstanding for the period ended March 31, 2018, of 108,921,290 (Q1 2017 – 99,071,432). 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, 2018 to which fully diluted weighted average of equity instruments was 119,003,437 (Q1 2017 – 113,526,432).

11. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended March 31,	
	2018	**2017**
Trade receivables and advances	$41	$534
Inventory	(52)	225
Prepaid expenses and deposits	24	28
Accounts payable and accrued liabilities	(252)	(505)
Changes to non-cash working capital	($239)	$274

12. 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:

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

	2018	2019	2020	2021	Total
Premises and office equipment	$188	$251	$251	$162	$852
Vehicles	79	63	36	3	181
	$267	$314	$287	$165	$1,033

13. RELATED PARTIES

The following transactions were in the normal course of operations and entered into with the same terms as non-related parties and are recorded at their agreed to exchange amounts which reflect fair values:

a) The 10% debenture of CAD $5,750 includes CAD $1,423 from directors and officers of the Corporation. Interest paid to directors and officers in the year ended 2017 amount to CAD $78 (2016 – CAD $ 13).

b) Officers and directors advanced the Corporation CAD $195, of which CAD $70 was converted into common shares of a private placement. 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 $4 is included in accounts payable and accrued liabilities.

14. 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.

	2018	**2017**
Selling, general and administrative expenses	$-	$46
Stock based compensation (Note 8)	-	5
	-	(51)
Loss from discontinued operations before income taxes	-	(51)
Income tax expense		
Current income taxes	316	29
	(316)	(29)
Loss from discontinued operations, net of tax	($316)	($80)

The Corporation's income taxes for the three month period ended March 31, 2018 was $316 (2017 - $29) which relate to additional net liabilities upon dissolution of the Mexico subsidiary and the recovery of tax related interest.

The Corporation has taken certain tax positions in its Mexican tax filings using the best estimate based on a qualitative assessment of all relevant factors. These filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, actual amounts recorded may differ from that estimated and recorded by management.

Cash flows from discontinued operations	**2018**	**2017**
Cash from operating activities	$-	$210
Cash flows from discontinued operations	$-	$210

The Corporation has recorded $1,494 (2017 - $1,179) of liabilities related to the discontinued operations of its Mexican subsidiary. The Mexican subsidiary was legally dissolved on February 19, 2018 however the liabilities will continue to exist for an additional five years from the date of dissolution.