Divergent Energy Services Corp.

Condensed Consolidated Interim Financial Statements

As at June 30, 2018 and for the three and six months periods ended June 30, 2018 and 2017

(Unaudited)

Condensed Consolidated Statement of Financial Position

As at June 30, 2018 and December 31, 2017
(Unaudited)

In United States Dollars, (000`s)	Note	**June 30, 2018**	**December 31, 2017**
ASSETS			
Current assets			
Cash and cash equivalents		$477	$549
Accounts receivable		466	689
Inventories		1,492	1,420
Prepaid expenses and deposits		120	139
		2,555	2,797
Property and equipment		405	435
		$2,960	$3,232
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		$3,229	$3,362
Liabilities related to discontinued operations	14	1,493	1,179
		4,722	4,541
Debentures	5	4,202	4,580
		8,924	9,121
Shareholders' deficit			
Share capital	6	17,634	17,416
Warrants	7	161	20
Contributed surplus		5,696	5,644
Accumulated other comprehensive income		622	711
Deficit		(30,077)	(29,680)
		(5,964)	(5,889)
		$2,960	$3,232

Going concern 2

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 and six months periods ended June 30, 2018 and 2017
(Unaudited)

In United States Dollars, (000`s)	Note	Three months ended June 30, 2018	2017	Six months ended June 30, 2018	2017
Continuing operations					
Revenue		$2,021	$2,140	$3,951	$4,303
Cost of sales		1,490	1,545	2,750	3,054
Gross profit		531	595	1,201	1,249
Selling, general and administrative expenses		681	699	1,355	1,500
Stock based compensation	8	23	69	52	110
		(704)	(768)	(1,407)	(1,610)
Results from operating activities		(173)	(173)	(206)	(361)
Product development		-	26	4	232
Net finance (income) expense	9	(19)	657	(76)	846
		19	(683)	72	(1,078)
Net loss from continuing operations before income taxes		(154)	(856)	(134)	(1,439)
Deferred tax recovery		-	-	53	-
Net loss from continuing operations		(154)	(856)	(81)	(1,439)
Loss from discontinued operations, net of tax		-	(87)	(316)	(167)
Net loss		(154)	(943)	(397)	(1,606)
Other comprehensive income (loss)		(44)	327	(89)	397
Total comprehensive loss for the period		($198)	($616)	($486)	($1,209)
Net loss per share:	10				
Continuing operations - Basic and diluted		($0.00)	($0.01)	($0.00)	($0.01)
Discontinued operations - Basic and diluted		($0.00)	($0.00)	($0.00)	($0.00)
Net loss - Basic and diluted		($0.00)	($0.01)	($0.00)	($0.01)

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, 2017	$16,451	$383	$5,081	$643	($27,551)	($4,993)
Debenture interest paid with common shares (Note 6 (b))	448	-	-	-	-	448
Stock based compensation	-	-	180	-	-	180
Warrants expired (Note 5)	-	(383)	383	-	-	-
Private placement of common shares (net of issue costs) (Note 6 (d))	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)
Debenture interest paid with common shares (Note 6 (b))	218	-	-	-	-	218
Stock based compensation (Note 8)	-	-	52	-	-	52
Warrants issued for debenture extension, (net of deferred tax$53) (Note 5)	-	141	-	-	-	141
Net loss for the period	-	-	-	-	(397)	(397)
Other comprehensive income	-	-	-	(89)	-	(89)
Balance at June 30, 2018	$17,634	$161	$5,696	$622	($30,077)	($5,964)

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

Divergent Energy Services Corp.

Condensed Consolidated Statement of Cash Flows

Six months ended June 30, 2018 and 2017
(Unaudited)

		Six months ended June 30,	
In United States Dollars, (000`s)	**Note**	**2018**	**2017**
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES			
Net loss from continuing operations		(81)	($1,439)
Items not affecting cash:			
Amortization		49	53
Gain on sale of assets		-	(2)
Stock based compensation	8	52	120
Debenture interest paid in common shares		218	216
Accretion on debentures	5	24	82
Deferred tax recovery		(53)	-
Unrealized foreign exchange		(295)	343
		(86)	(627)
Changes in non-cash working capital	11	37	758
Cash from (used in) operating activities		(49)	131
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES			
Proceeds from private placement issue of common shares (net of costs)	6	-	537
Repayment of long-term debt		(4)	(9)
Cash from financing activities		(4)	528
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES			
Property, plant and equipment additions, net		(19)	(101)
Cash From (used in) investing activities		(19)	(101)
CASH FLOWS FROM (USED IN) DISCONTINUED OPERATIONS		-	185
Effect of exchange rate fluctuations on cash		-	7
Change in cash and cash equivalents		(72)	750
Cash and cash equivalents, beginning of period		549	100
Cash and cash equivalents, end of period		477	$850

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 period ended June 30 , 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 $30,077 at June 30, 2018. The Corporation has experienced a history of net losses and using cash in its operations.

The Corporation has negative working capital at June 30, 2018, of $2,167. In addition, the Corporation has accounts payable in excess of a year old amounting to $1,000. 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 68% of accounts receivable at June 30, 2018 (December 31, 2017 - 90%) and revenue of $ $1,623 (2017 - $1,960) and $3,469 (2017 - $3,927) for the three and six months ended June 30, 2018 and 2017, respectively.

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 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 August 20, 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 was adopted beginning on 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 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	-	24	-	-
Costs associated with debentures extension	-	(194)	194	-
Effect of movements in exchange rates	-	(208)	-	-
10% debentures payable at June 30, 2018	$5,234	$4,202	$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
Common shares issued - debenture interest (Note 6(a))	4,840,648	448
Common shares issued - private placement (net of costs) (Note 6(b))	5,000,000	517
Balance at December 31, 2017	108,902,172	$17,416
Common shares issued – debenture interest (Note 6(a))	3,313,486	218
Balance at June 30, 2018	112,215,658	$17,634

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 periods ended March 31, 2018 and June 30, 2018, the Corporation elected to pay the interest in common shares of 1,720,639 and 1,522,847 amounting to CAD $285. 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, 2017	276,000	$20
Warrants issued – extension to maturity date of debentures (net of deferred tax $53) (Note 5)	5,750,000	141
Balance at June 30, 2018	6,026,000	$161

Warrants outstanding at June 30, 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

The warrants were valued using the Black-Scholes model. At June 30, 2018, the weighted average exercise price of the warrants is $0.13.

A total fair value of $161 was estimated for the 6,026,000 options outstanding, using the Black-Scholes option pricing model based on the following weighted average assumptions:

	2018
Risk free rate	0.78%
Average expected volatility	64%
Expected dividend per share	Nil
Expected life	3 years

(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 $23 and $52 was recorded for the three and six month periods ended June 30, 2018, respectively (for the three and six month periods ended June 30, 2017 $74 and $110).

Continuity of stock options at June 30,	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
Grants during the period	1,495,000	0.14	1,930,000	0.16
Forfeiture during the period	(520,000)	0.31	(570,000)	0.33
Balance – end of period	7,760,000	$0.26	8,535,000	$0.30

The number of options exercisable at June 30, 2018, is 4,443,332 (2017 – 3,099,998) at a weighted average exercised price of CAD $0.31 (2016 - CAD $0.34).

9. NET FINANCE EXPENSE

	Three months ended June 30,	
	2018	2017
Foreign exchange gain	$144	($477)
Interest expense	(114)	(138)
Accretion expense	(11)	(42)
Net finance expense	$19	($657)

	Six months ended June 30,	
	2018	2017
Foreign exchange gain	$329	($519)
Interest expense	(230)	(245)
Accretion expense	(23)	(82)
Net finance expense	$76	($846)

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, 2018, of 110,640,509 (2017 – 100,603,428) and 109,780,900 (2016 - 99,841,662), 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,	
	2018	2017
Accounts receivable	$223	$412
Inventory	(72)	352
Prepaid expenses and deposits	19	117
Accounts payable and accrued liabilities	(133)	(123)
Changes to non-cash working capital	$37	$758

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:

	2018	2019	2020	2021	Total
Premises and office equipment	$187	$249	$249	$161	$846
Vehicles	67	59	32	2	160
	$254	$308	$281	$163	$1,006

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(b)). 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. 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)	**2018**	**2017**	**2018**	**2017**
Discontinued operations				
Selling, general and administrative expenses	$-	$82	$-	128
Stock based compensation	-	5	-	10
Loss from discontinued operations before income taxes	-	(87)	(-)	(138)
Current income tax expense	-	(-)	(316)	(29)
Net loss from discontinued operations	$-	($87)	(316)	(167)

Cash flows from (used in) discontinued operations

	2018	**2017**
Cash (used in) from operating activities	$-	$185
Cash generated from investing activities	-	-
Cash flows (used in) from discontinued operations	$-	$185