DIVERGENT
ENERGY SERVICES

Divergent Energy Services Corp.

Condensed Consolidated Interim Financial Statements

As at September 30, 2018 and for the three and nine month periods ended September 30, 2018 and 2017

(Unaudited)

Condensed Consolidated Statement of Financial Position
As at September 30, 2018 and December 31, 2017
(Unaudited)

In United States Dollars, (000`s)	Note	**September 30, 2018**	**December 31, 2017**
ASSETS			
Current assets			
Cash and cash equivalents		$64	$549
Accounts receivable		974	689
Inventories		1,427	1,420
Prepaid expenses and deposits		241	139
		2,706	2,797
Property and equipment		392	435
		$3,098	$3,232
LIABILITIES AND DEFICIENCY			
Current liabilities			
Accounts payable and accrued liabilities		$3,483	$3,362
Liabilities related to discontinued operations	13	1,586	1,179
		5,069	4,541
Debentures	5	4,011	4,580
		9,080	9,121
Shareholders' deficiency			
Share capital	6	17,747	17,416
Warrants	7	141	20
Contributed surplus		5,735	5,644
Accumulated other comprehensive income		574	711
Deficit		(30,179)	(29,680)
		(5,982)	(5,889)
		$3,098	$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 nine months periods ended September 30, 2018 and 2017
(Unaudited)

In United States Dollars, (000`s)	Note	Three months ended September 30, 2018	2017	Nine months ended September 30, 2018	2017
Revenue		$1,659	$1,778	$5,610	$6,081
Cost of sales		1,088	1,282	3,838	4,336
Gross profit		571	496	1,772	1,745
General and administrative expenses		674	654	2,029	2,153
Stock based compensation	8	19	38	71	149
		(693)	(692)	(2,100)	(2,302)
Results from operating activities		(122)	(196)	(328)	(557)
Product development		-	49	4	281
Gain on disposal of assets		-	-	-	(2)
Net finance expense	9	166	882	117	1,729
		(166)	(931)	121	(2,008)
Loss from continuing operations before income taxes		(288)	(1,127)	(449)	(2,565)
Deferred tax recovery		-	-	53	-
Net loss from continuing operations after income taxes		(288)	(1,127)	(396)	(2,565)
Net loss from discontinued operations, net of tax	13	(92)	(4)	(408)	(171)
Net loss		(380)	(1,131)	(804)	(2,736)
Other comprehensive income (loss)		(48)	515	(137)	913
Total comprehensive loss for the period		($428)	($616)	($941)	($1,823)
Net loss per share (Note 10):					
Continuing operations - Basic and diluted		($0.00)	($0.01)	($0.00)	($0.02)
Discontinued operations - Basic and diluted		($0.00)	($0.00)	($0.00)	($0.00)
Net loss - Basic and diluted		($0.00)	($0.01)	($0.00)	($0.02)

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

Condensed Consolidated Statement of Equity (Deficiency)

Nine months ended September 30, 2018 and 2017
(Unaudited)

In United States Dollars, (000`s)	Share capital	Warrants	Contributed surplus	Accumulated other comprehensive income	Deficit	Total deficiency
Balance January 1, 2017	$16,451	$383	$5,081	$643	($27,551)	($4,993)
Debenture interest paid with common shares (Note 6 (a))	448	-	-	-	-	448
Stock based compensation (Note 8)	-	-	180	-	-	180
Warrants expired	-	(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)

In United States Dollars, (000`s)	Share capital	Warrants	Contributed surplus	Accumulated other comprehensive income	Deficit	Total - deficiency
Balance January 1, 2018	$17,416	$20	$5,644	$711	($29,680)	($5,889)
Debenture interest paid with common shares (Note 6 (a))	331	-	-	-	-	331
IFRS 9 adoption (Note 4)					305	305
Stock based compensation (Note 8)	-	-	71	-	-	71
Warrants issued for debenture extension, (net of deferred tax $53) (Note 7)	-	141	-	-	-	141
Warrant expiry (Note 7)	-	(20)	20	-	-	-
Net loss for the period (Note 4)	-	-	-	-	(804)	(804)
Other comprehensive income	-	-	-	(137)	-	(137)
Balance at September 30, 2018	$17,747	$141	$5,735	$574	($30,179)	($5,982)

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, 2018 and 2017
(Unaudited)

		Nine months ended September 30,	
In United States Dollars, (000`s)	**Note**	**2018**	**2017**
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES			
Net loss from continuing operations		($396)	($2,565)
Items not affecting cash:			
Amortization		75	80
Stock based compensation		71	149
(Gain) loss on disposal of assets		-	(3)
Debenture interest paid in common shares		331	332
Accretion on debentures	5	76	128
Unrealized foreign exchange		(333)	1,037
		(176)	(842)
Changes in non-cash working capital	11	(273)	691
Cash from (used in) operating activities		(449)	(151)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from private placement issue of common shares (net of costs)	6(b)	-	537
Repayment of debt		-	(13)
Cash (used in) from financing activities		-	524
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES			
Property, plant and equipment additions		(36)	(115)
Cash used in investing activities		(36)	(115)
CASH FLOWS FROM (USED IN) DISCONTINUED OPERATIONS		-	185
Effect of exchange rate fluctuations on cash		-	(1)
Change in cash and cash equivalents		(485)	442
Cash and cash equivalents, beginning of period		549	100
Cash and cash equivalents, end of period		$64	$542

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 period ended September 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 product 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 $30,179 at September 30, 2018. The Corporation has experienced a history of net losses and using cash in its operations. The Corporation has negative working capital at September 30, 2018, of $2,363. In addition, the Corporation has accounts payable in excess of a year old amounting to $1,000 and obligations relating to its discontinued operations totaling $1,586. 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 83% of accounts receivable at September 30, 2018 (December 31, 2017 - 90%) and revenue of $1,380 (2017 - $1,512) and $4,849 (2017 - $5,439) for the three and nine months ended September 30, 2018 and 2017, respectively. The Corporation has tax liabilities associated with its discontinued Mexican operations. These tax filings and liabilities are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, actual amounts realized may differ from that estimated and recorded by management.
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 Corporation's Board of Directors on November 22, 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, 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

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

The IASB also 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

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.
In Q1 2018, the Corporation did not identify any recognition or measurement effect of the initial adoption of IFRS 9. In the current quarter, the Corporation determined that the modification of the terms of the debentures in the fourth quarter of 2017 (Note 5), while not resulting in an extinguishment of debt under IFRS 9, did result in a gain of $305 which should have been reflected as an IFRS 9 initial adoption adjustment to the opening deficit (a decrease) at January 1, 2018. The associated immaterial adjustment to increase accretion (within finance expense) of $5 and $6 for the three months ended March 31, 2018 and June 30, 2018, respectively, is reflected in the current quarter.

5. DEBENTURES

	Debt portion	Warrant portion	Common shares issued as transaction costs
10% debentures payable at January 1, 2017	$4,116	$-	$21
Accretion	173	-	-
Effect of movements in exchange rates	291	-	-
10% debentures payable at December 31, 2017	4,580	-	21
Accretion	76	-	-
IFRS 9 adoption (Note 4)	(305)		
Costs associated with debentures extension	(194)	194	-
Effect of movements in exchange rates	(146)	-	-
10% debentures payable at September 30, 2018	$4,011	$194	$21

The Corporation has debentures outstanding with a principle amount of CAD $5,750, bear interest at 10% per annum and secured by all of the Corporation's assets. 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. The gain on modification is a result of the application of IFRS 9 which reduces the value of the dentures and increases the accretion in future periods.

(All figures in '000's of US dollars except number of shares, 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))	5,356,190	331
Balance at September 30, 2018	114,258,362	$17,747

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, June 30, 2018 and September 30, 2018, the Corporation elected to pay the interest in common shares of 1,720,639, 1,522,847 and 2,112,704 amounting to CAD $431. 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
Warrant expiration	276,000	(20)
Warrants issued – extension to maturity date of debentures (net of deferred tax $53) (Note 5)	5,750,000	141
Balance at September 30, 2018	5,750,000	$141

Warrants outstanding at September 30, 2018

Expiry	Exercise Price (CAD $)	Number of Warrants
December 31, 2021	0.13	5,750,000

The warrants were valued using the Black-Scholes model. At September 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	3.25 years

(All figures in '000's of US dollars except number of shares, 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 $29, $23 and $19 was recorded for the three, six and nine month periods ended September 30, 2018, respectively (for the three, six and nine month periods ended September 30, 2017; $46, $74 and $28).

Continuity of stock options at September 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	(665,000)	0.28	(1,819,999)	0.34
Balance – end of period	7,615,000	0.26	7,285,001	0.29

The number of options exercisable at September 30, 2018, is 4,443,332 (2017 – 4,218,331) at a weighted average exercised price of CAD $0.31 (2017 - CAD $0.33).

9. NET FINANCE EXPENSE

	Three months ended September 30,	
	2018	**2017**
Foreign exchange loss	$24	$721
Interest expense	116	115
Accretion expense	26	46
Net finance expense	$166	$882

	Nine months ended September 30,	
	2018	**2017**
Foreign exchange (gain) loss	($305)	$1,241
Interest expense	346	360
Accretion expense	76	128
Net finance expense	$117	$1,729

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, 2018, of 112,238,622 (2017 – 105,810,719) and 110,612,188 (2017- 104,838,663), 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,	
	2018	**2017**
Trade receivables and advances	($285)	$657
Inventory	(7)	403
Prepaid expenses and deposits	(102)	66
Accounts payable and accrued liabilities	121	(435)
Changes in non-cash working capital	($273)	$691

12. COMMITMENTS

The Corporation 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	2022	Total
Premises and office equipment	$42	$251	$251	$162	$-	$706
Vehicles	19	95	68	38	36	256
	$61	$346	$319	$200	$36	$962

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) **Discontinued operations**	**2018**	**2017**	**2018**	**2017**
Selling, general and administrative expenses	$-	$4	$-	$131
Amortization	-	-	-	1
Stock based compensation	-	-	-	10
Loss from discontinued operations before taxes	-	4	-	142
Current tax expense	92	-	408	29
Net loss from discontinued operations	($92)	($4)	($408)	($171)

The Corporation has recorded $1,586 (2017 - $1,179) of liabilities related to the discontinued operations of its Mexican subsidiary. The Mexican subsidiary was legally dissolved on February 19, 2018.

The Corporation's income taxes for the three and nine month periods ended September 30, 2018 were $92 and $408 which relate to possible additional net liabilities upon dissolution of the Mexico subsidiary. Divergent has taken certain tax positions in its Mexican tax filings using its best estimate based on a qualitative assessment of all relevant factors. These filings are subject to audit and potential reassessment. Accordingly, actual amounts realized may differ from that estimated and recorded by management.

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

Cash flows from (used in) discontinued operations

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

14. RELATED PARTY TRANSACTIONS

The following transactions were in the normal course of operations and entered into and recorded at the agreed amounts as follows:
Certain officers and directors participated in the Corporation's Debenture issue, currently holding CAD $2,390, and as a result interest was paid through the issue of common shares to a certain officer and directors amounting to $34, $35 and $35 for the three, six and nine month periods ended September 30, 2018 (for the three, six and nine month periods ended September 30, 2017, $11, $23, and $23 respectively).
Officers and directors advanced the Corporation CAD $195, of which CAD $5 was repaid and CAD $70 was converted into common shares of the private placement. The remaining advances of CAD $120 is included in accounts payables and accrued liabilities. The advances are due on demand and bear interest at 10%. Interest of CAD $17 is included in accounts payable and accrued liabilities.

15. GEOGRAPHIC SEGMENTS

Although the Corporation's head office is in Canada, all revenues are earned in the United States.