



PRESS RELEASE

## **CORRECTION OF PREVIOUS PRESS RELEASE: DIVERGENT Energy Services Announces the Release of 2018 Financial Statements and the Results of an Internal Review of Accounting Practices**

Symbol (DVG: TSX-V)

*In the press release published at 9:00 a.m. EST on December 23, 2019, the Results of Operations table for the year ended December 31, 2019 referred to a net loss of \$1,250 instead of net income of \$1,250, and in addition for the same period in the table, referred to a net loss per share of \$0.01 instead of a net income per share of \$0.01.*

*Set out below is the corrected press release in its entirety.*

CALGARY, ALBERTA – December 23, 2019. **DIVERGENT Energy Services Corp.** (“Divergent”, the “Company”, “we” or “our”) announces the release of its 2018 audited consolidated financial statements and related management’s discussion and analysis (“MD&A”) as well as the restated financial results for the interim periods ending March 31, 2018, June 30, 2018 and September 30, 2018. In addition, the Company is releasing the findings of a review undertaken by the Audit Committee of certain accounting policies and certain financial statements have been restated to correct errors identified in the accounting of foreign exchange.

### **BACKGROUND AND SCOPE OF THE AUDIT COMMITTEE REVIEW**

While preparing the financial statements for the year-ended December 31, 2018, the Company identified errors with respect to foreign currency translation, tax accruals and tax deferrals. The Company did not have sufficient time to complete an analysis of the impact of the errors and finalize the 2018 financial statements prior to the filing deadline of April 30, 2019. As a result, the Company failed to file its 2018 financial statements with the regulatory authorities on time and on May 6, 2019 was notified by the Alberta Securities Commission (“ASC”) of a Failure to File Cease Trade Order (“CTO”) which resulted in the Company’s shares being halted from trading. Now that the 2018 audited consolidated financial results have been released, the Company plans to file its 2019 quarterly statements in the near future. Following acknowledgement by the regulatory authorities that the Company’s filings for 2018 and 2019 are in compliance, the Company will request the ASC to have the CTO lifted so that the common shares of the Company can be reinstated for trading by the TSX Venture Exchange.

### **CORRECTED MATTERS IN THE 2017 and 2018 PREVIOUSLY REPORTED FINANCIAL RESULTS**

#### **Accumulated other comprehensive income**

An independent review was conducted of the Company’s foreign currency translation methodology which covered calendar years 2011 to 2018. For periods prior to 2011, the information was no longer available. The analysis of Accumulated Other Comprehensive Income (“AOCI”) and unrealized (non-cash holding gains and losses) on foreign currency translation resulted in changes to AOCI and the Company’s Finance Expense. The impact of the restatement adjustments on the Company’s previously reported consolidated financial statements for the year ended December 31, 2017, as well as the impact of the consolidated statement of financial position as at January 1, 2017, are detailed in the respective financial statements and related MD&A and can be found on SEDAR and the Company’s website.

### Tax related matters from discontinued operations

During the year ended December 31, 2016, the Company commenced winding down the operations of COTS Mexico and in fiscal 2017 a liquidator was engaged to commence the process of the liquidation of the entity. During the year ended December 31, 2018 COTS Mexico was liquidated and it was determined that any accrued liabilities and any deferred tax assets associated with COTS Mexico, including income and withholding taxes owed were eliminated upon liquidation. In addition, as COTS Mexico had ceased all operations and was effectively abandoned by the Company upon the engagement of the liquidator in fiscal 2017, the Company transferred the associated accumulated other comprehensive loss associated with COTS Mexico totaling \$2,475,000 from accumulated other comprehensive loss to foreign exchange loss within the loss from discontinued operations during the year ended December 31, 2017.

### FINANCIAL AND OPERATING HIGHLIGHTS – YEAR ENDED DECEMBER 31, 2018

The year began with a strong first quarter that saw positive EBITDA being generated from the multi-year contract that began in Q4 2017, however the client's owners put the company up for sale in April 2018 which resulted in a reduced operating budget and lowered activity for the remainder of 2018. As a result, we began targeting clients more focused on oil production and were able to make up some of the reduced sales.

The fourth quarter of 2018 contains a provision for aging inventory which is represented as Cost of Sales and results in a lower gross profit than was generated by day to day sales. Additionally, we began to see increases in costs throughout our supply chain that we were unable to pass on to clients.

Select Financial Information for the three and twelve-month periods ending December 31, 2018 can be summarized as follows:

### RESULTS OF OPERATIONS

Select Financial Information (Tables contain audited year-end results for 2018 and restated results for 2017. Refer to the Company's financial statements and related MD&A for a full description)

<i>(in 000's of USD \$ unless otherwise stated)</i>	Three Months Ended Dec 31		Year Ended Dec 31	
	2018	2017	2018	2017
Revenue	\$1,925	\$2,101	\$7,535	\$8,182
Cost of sales	(1,644)	(1,505)	(5,482)	(5,841)
Gross Profit	281	596	2,053	2,341
General and administrative expenses	(644)	(595)	(2,674)	(2,749)
Stock based compensation	(18)	(31)	(89)	(180)
	(662)	(626)	(2,763)	(2,929)
<b>Results from operating activities</b>	<b>(381)</b>	<b>(30)</b>	<b>(710)</b>	<b>(588)</b>
Product development	(5)	(46)	(9)	(327)
Net finance (expense) income	671	149	730	(1,988)
(Loss) gain on disposal of assets	7	(3)	7	(1)
	673	100	728	(2,316)

<b>Income (loss) from continuing operations before income taxes</b>	<b>292</b>	<b>70</b>	<b>18</b>	<b>(2,904)</b>
Deferred tax recovery	-	-	53	-
<b>Income (loss) from continuing operations</b>	<b>292</b>	<b>70</b>	<b>71</b>	<b>(2,904)</b>
Income (loss) from discontinued operations, net of tax	-	(2,684)	1,179	(2,855)
<b>Net income (loss)</b>	<b>\$292</b>	<b>(\$2,614)</b>	<b>\$1,250</b>	<b>(\$5,759)</b>
<b>Net income (loss) per share – basic (cents per share)</b>	<b>\$0.00</b>	<b>(\$0.03)</b>	<b>\$0.01</b>	<b>(\$0.06)</b>

As at December 31	2018	2017
<b>Assets</b>		
Current assets	\$2,272	\$2,797
Long-term assets	529	435
	<b>\$2,801</b>	<b>\$3,232</b>
<b>Liabilities</b>		
Current liabilities	\$3,400	\$4,541
Long-term liabilities	3,947	4,580
	<b>7,347</b>	<b>9,121</b>
Shareholders' deficiency	(4,546)	(5,889)
	<b>\$2,801</b>	<b>\$3,232</b>
Working capital ratio	0.67	0.62

The Company's complete set of 2018 year end and 2018 restated interim filings have been filed on the SEDAR website at [www.sedar.com](http://www.sedar.com) and are also available on the Company's website at [www.divergentenergyservices.com](http://www.divergentenergyservices.com).

## OUTLOOK

### Corporate

The Company's top priority is to address all of the issues with the ASC to allow for the removal of the cease trade order issued by the ASC on May 6, 2019 and corresponding trading halt by the TSX Venture Exchange. Removal of the CTO and trading halt can only take place following the filing with the securities commissions and the TSX Venture Exchange of the Q1, Q2 and Q3 2019 consolidated financial statements and management's discussion & analysis. The Company will engage fully with the ASC following this filing and address any concerns that would impact the timely removal of the CTO. Management does not anticipate the CTO to be lifted prior to the end of 2019 and will keep shareholders updated on the progress.

The Company is currently seeking a waiver from its debenture holders covering all outstanding interest currently due and payable, including interest which will become due and payable on December 31, 2019.

Immediately following the removal of the CTO and trading halt, the Company plans to pay the outstanding unpaid liability for interest expense on its debentures by way of issuing common shares of the Company (as permitted by the Indenture).

## **Operations**

Activity levels across the USA continue to be high, with demand for artificial lift services generally outstripping supply. The recent slowdown in drilling activity has not resulted in a reduction in demand for Electric Submersible Pump products because the sector predominantly works on existing wells. The Company is focused on expanding its customer base across Wyoming and Colorado, both of which have favorable market conditions. We are encouraged by our early opportunities and we are currently evaluating ways to grow the Company, meet demand, and increase market share.

Coal Bed Methane (“**CBM**”) – in late 2017 the Company announced it entered into a three-year contract with the single largest CBM producer in the Powder River Basin (“**PRB**”). The producer is focused on maintaining gas production in a mature asset base. Although the Company does not expect a volume increase in this business, we have recently concluded negotiations for a 13% price increase, and we do expect the business level to remain stable.

## **Product Development**

Prior to the end of 2018, all Linear Pump assets were shipped to the United States. On June 6, 2019, one system was installed in a test well facility in the southern US. The pump was successfully started and operated as expected. There were some changes to the computer code that were unexpected and are required in order to monitor and operate the pump 24 hours per day in an indoor environment. These changes are expected to take some time and incur costs, and while the Linear Pump remains a strong part of our vision for the future, the current focus is to direct our resources to the existing opportunities on the conventional side of our business.

## **Strategy to Move Forward**

The Company recognizes that the change in scope in testing the Linear Pump may be prolonged and therefore steps must be taken to deliver value within the products and services that are within our control.

Key Strategies:

- Position the Company to take advantage of the near-term upswing in PRB activity.
- Explore synergies with other companies to leverage products and services together to increase sales.
- Seek opportunities to expand into other basins of high activity.

The Company’s vision is to be a premier supplier of submersible pumping products that increase production while reducing costs and carbon footprint. Divergent’s Technical Advisory Committee continues to evaluate emerging artificial lift technologies that will differentiate Divergent within a competitive and growing market.

## **ABOUT DIVERGENT ENERGY SERVICES CORP.**

Headquartered in Calgary, Alberta, DIVERGENT Energy Services Corp. provides an array of Artificial Lift products and services that are used in the oil and gas industry. Products include Electromagnetic Pumps, Electric Submersible Pumps, and Electric Submersible Progressing Cavity Pumps.

**For Further Information:** Ken Berg, President and Chief Executive Officer; or Scott Hamilton, Chief Financial Officer.

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**FORWARD LOOKING STATEMENTS**

*This press release contains forward-looking statements, including, without limitation, statements pertaining to the Company's expectations regarding the revocation of the CTO and trading halt, anticipated future operational activity levels, and expansion opportunities. All statements included herein, other than statements of historical fact, are forward-looking information and such information involves various risks and uncertainties. There can be no assurance that such information will prove to be accurate, and actual results and future events could differ materially from those anticipated in such information. A description of assumptions used to develop such forward-looking information and a description of risk factors that may cause actual results to differ materially from forward-looking information can be found in the Company's disclosure documents on the SEDAR website at [www.sedar.com](http://www.sedar.com). Forward-looking statements are based on estimates and opinions of management of the Company at the time the information is presented. The Company may, as considered necessary in the circumstances, update or revise such forward-looking statements, whether as a result of new information, future events or otherwise, but the Company undertakes no obligation to update or revise any forward-looking statements, except as required by applicable securities laws.*

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