



*Unaudited Condensed Consolidated Interim Financial Statements*

## **Divergent Energy Services Corp.**

*As at March 31, 2023 and for the three month periods ended March 31, 2023 and 2022*

**NOTICE OF NO AUDITOR REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

The accompanying unaudited condensed consolidated interim financial statements of Divergent Energy Services Corp. have been prepared by and are the responsibility of the Corporation's management.

The Corporation's independent auditor has not performed a review of these condensed consolidated interim financial statements in accordance with the standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

# Divergent Energy Services Corp.

## Unaudited Condensed Consolidated Interim Statements of Financial Position

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

	Note	March 31, 2023 (Unaudited)	December 31, 2022 (Audited)
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		\$775	\$556
Prepaid expenses, deposits and advances		108	134
Trade receivables		1,271	1,114
Inventories	4	602	680
		<u>2,756</u>	<u>2,484</u>
<b>Non-current assets</b>			
Property and equipment		162	171
Right-of-use assets		412	457
<b>Total Assets</b>		<u>\$3,330</u>	<u>\$3,112</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		\$1,682	\$1,566
Current portion of lease obligations		161	168
Interest payable	5	120	132
Promissory notes	5	557	457
		<u>2,520</u>	<u>2,323</u>
<b>Non-current liabilities</b>			
Lease obligations		218	257
Promissory notes	5	1,554	1,726
Debentures	6	727	702
Government loan	7	31	30
<b>Total Liabilities</b>		<u>\$5,050</u>	<u>\$5,038</u>
<b>SHAREHOLDERS' DEFICIT</b>			
Share capital	8	\$19,613	\$19,613
Contributed surplus		6,125	6,016
Warrants	9	-	99
Accumulated other comprehensive loss		(1,401)	(1,429)
Accumulated deficit		(26,057)	(26,225)
<b>Total Shareholders' Deficit</b>		<u>(\$1,720)</u>	<u>(\$1,926)</u>
<b>Total Liabilities and Shareholders' Deficit</b>		<u>\$3,330</u>	<u>\$3,112</u>
<b>RELATED PARTIES</b>			
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Approved by the Board of Directors: Signed "Cameron Barton", Executive Chairman Signed "Ken Berg", Director, CEO

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

## Divergent Energy Services Corp.

### Unaudited Condensed Consolidated Interim Statements of Net Income and Comprehensive Income

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

	Note	Three months ended March 31,	
		2023	2022
Revenue		\$3,103	\$2,616
Cost of sales		(2,150)	(1,908)
Provision reversal for slow moving inventory	4	28	-
Gross profit		981	708
General and administration		(648)	(406)
Depreciation and amortization	13	(2)	(2)
Share-based compensation	10	(10)	(12)
<b>Results from operating activities</b>		<b>321</b>	<b>288</b>
Finance expense	12	(153)	(277)
<b>Net income</b>		<b>168</b>	<b>11</b>
Other comprehensive income being foreign exchange gains		28	113
<b>Total comprehensive income</b>		<b>\$196</b>	<b>\$124</b>
<b>Income per share</b>			
Net income – basic and dilutive - cents <sup>(1)</sup>	11	\$0.01	\$0.00

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

## Divergent Energy Services Corp.

### Unaudited Condensed Consolidated Interim Statements of Changes in Shareholders' Deficit

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

	Note	Number of shares <sup>(1)</sup>	Share capital	Warrants	Contributed surplus	Accumulated other comprehensive (loss)/income	Accumulated deficit	Total shareholders' deficit
Balance at December 31, 2021		33,004,912	\$19,613	\$99	\$5,972	(\$1,018)	(\$26,786)	(\$2,120)
Share-based Compensation	10		-	-	12	-	-	12
Net income for the period			-	-	-	-	11	11
Other comprehensive income			-	-	-	113	-	113
Balance at March 31, 2022		33,004,912	\$19,613	\$99	\$5,984	(\$905)	(\$26,775)	(\$1,984)
Balance at December 31, 2022		33,004,912	\$19,613	\$99	\$6,016	(\$1,429)	(\$26,225)	(\$1,926)
Share-based Compensation	10		-	-	10	-	-	10
Expiration of warrants	9		-	(99)	99	-	-	-
Net income for the period			-	-	-	-	168	168
Other comprehensive income			-	-	-	28	-	28
Balance at March 31, 2023		33,004,912	\$19,613	\$-	\$6,125	(\$1,401)	(\$26,057)	(\$1,720)

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

# Divergent Energy Services Corp.

## Unaudited Condensed Consolidated Interim Statements of Cash Flows

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

	Note	Three months ended March 31,	
		2023	2022
<b>OPERATING ACTIVITIES</b>			
Net income		\$168	\$11
Adjustments for:			
Amortization of right-of-use assets	13	45	40
Interest expense	5,6,7	77	85
Depreciation and amortization of property and equipment	13	9	9
Share-based compensation	10	10	12
Accretion of debentures	6	24	23
Provision reversal for slow moving inventory	4	(28)	-
Provision for expected credit losses		26	-
Accretion of promissory notes	5	43	40
Accretion of government loans	7	1	1
Lease finance expense	13	25	24
Foreign exchange loss		28	121
Changes in non-cash working capital	16	65	(199)
<b>Net cash generated from operating activities</b>		<b>\$493</b>	<b>\$167</b>
<b>INVESTING ACTIVITIES</b>			
Additions of property and equipment		\$-	(\$8)
Proceeds on disposal of property and equipment		-	1
<b>Net cash used in investing activities</b>		<b>\$-</b>	<b>(\$7)</b>
<b>FINANCING ACTIVITIES</b>			
Payments towards lease obligations		(\$70)	(\$63)
Interest payments on debentures	6	(26)	(28)
Interest payments on government loan	7	(1)	(1)
Principal payments on promissory notes	5	(115)	(50)
Interest payments on promissory notes	5	(62)	(68)
<b>Net cash used in financing activities</b>		<b>(\$274)</b>	<b>(\$210)</b>
Net change in cash		\$219	(\$50)
Cash, beginning of period		556	607
Cash, end of period		\$775	\$557

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

# **Divergent Energy Services Corp.**

## **Notes to Unaudited Condensed Consolidated Interim Financial Statements**

### **For the three months ended March 31, 2023 and 2022**

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

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#### **1. NATURE OF BUSINESS**

Divergent Energy Services Corp. is a Canadian legal entity with its head office located at 2020, 715 - 5 Avenue SW, Calgary, AB, T2P 2X6. These unaudited condensed consolidated interim financial statements of the Company as at and for the period ended March 31, 2023 comprise the Company and its wholly owned foreign subsidiaries (collectively, "Divergent" or "Company"). The Company is in the business of providing artificial lift products and services to its clients in the oil and gas industry in the Northern Mountain States in the United States, more specifically Wyoming and Colorado.

#### **2. BASIS OF PRESENTATION**

##### **Statement of compliance**

These unaudited 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, 2022 audited annual consolidated financial statements.

The preparation of condensed consolidated interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these unaudited condensed consolidated interim financial statements, the significant judgements made by management in applying the accounting policies and the key sources of estimation uncertainty were the same as those applied to the annual audited consolidated financial statements as at and for the year ended December 31, 2022. These unaudited condensed consolidated interim financial statements have been prepared following the same accounting policies as the annual audited consolidated financial statements for the year ended December 31, 2022 and should be read in conjunction with those annual audited financial statements and the notes thereto.

These unaudited condensed consolidated interim financial statements were approved by the Board of Directors on May 10, 2023 and have not been reviewed by the Company's auditors. The disclosures provided below are incremental to those included in the 2022 annual audited consolidated financial statements.

##### **Basis of measurement**

The condensed consolidated interim financial statements have been prepared on the historical cost basis except where otherwise specified.

##### **Presentation and functional currency**

These condensed consolidated interim financial statements are presented in US dollars.

The functional currency of the parent is the Canadian dollar, and the functional currency of the Company's subsidiaries is the US dollar. All financial information presented in US dollars has been rounded to the nearest thousand except for per share amounts.

##### **Basis of consolidation**

Subsidiaries are entities controlled by the Company and the financial statements of subsidiaries are included in the condensed consolidated interim financial statements from the date that control commences until the date that control ceases. Intra-Company balances and transactions, and any unrealized income and expenses arising from intra-Company transactions, are eliminated in preparing the condensed consolidated interim financial statements. The following legal entities are within the Divergent group of companies as at March 31, 2023:

## Divergent Energy Services Corp.

### Notes to Unaudited Condensed Consolidated Interim Financial Statements

#### For the three months ended March 31, 2023 and 2022

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

Legal entity	Incorporation date	Jurisdiction of incorporation	Percent ownership	Functional /reporting currency	Type of entity
American Oilfield Solutions Corp. ("AOSC")	December 19, 2012	USA	100%	US Dollar	Holding Company - Active
Extreme Pump Solutions, LLC ("EPSL")	October 21, 1996	USA	100%	US Dollar	Operational Company - Active
Flextek Oilfield Supply, LLC ("FOSL")	July 31, 2000	USA	100%	US Dollar	Inactive – dormant
Karlington Artificial Lift, LLC ("KALL")	June 7, 2005	USA	100%	US Dollar	Inactive – dormant

### 3. SIGNIFICANT ACCOUNTING POLICIES

#### New accounting standards not yet effective

Certain pronouncements have been issued by the IASB that are mandatory for accounting periods after March 31, 2023. There are currently no such pronouncements that are expected to have a significant impact on the Company's unaudited condensed consolidated interim financial statements upon adoption.

### 4. INVENTORIES

For the three months ended March 31, 2023, a net provision reversal of \$28 (March 31, 2022 – provision of \$nil) was recorded to adjust the carrying amount of inventories to their estimated net realizable value. The cumulative provision included in inventories at March 31, 2023 is \$345 (December 31, 2022 - \$460).



## Divergent Energy Services Corp.

### Notes to Unaudited Condensed Consolidated Interim Financial Statements

#### For the three months ended March 31, 2023 and 2022

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

#### 5. PROMISSORY NOTES

The Company has the following notes outstanding to equipment suppliers. The carrying value of the notes is determined by discounting the anticipated future cash flow impact of the note using an effective interest rate of 17% which approximates the Company's cost of capital at the date of entering into these agreements.

- i) A subordinated, secured promissory note maturing on June 30, 2024 with an interest rate of 10% per annum, and quarterly principal and interest payments which accelerate over the term of the loan. This note was renegotiated during the last quarter of 2021, to a 6-year term, maturing on June 30, 2026, maintaining an interest rate of 10% per annum. For the quarter ended March 31, 2023, interest expense recorded on the promissory note was \$37 (March 31, 2022 – \$41). Interest payable at March 31, 2023 was \$120 (December 31, 2022 - \$132).

	Face Value	Carrying Value
Promissory note payable at December 31, 2022	\$1,425	\$1,295
Principle payments	-	(50)
Accretion	-	19
<b>Promissory note payable at March 31, 2023</b>	<b>\$1,425</b>	<b>\$1,264</b>
<b>Current portion</b>		<b>\$289</b>
<b>Long-term portion</b>		<b>\$975</b>

- ii) An unsecured promissory note maturing on December 31, 2024 with an interest rate of 5% per annum, and quarterly principal and interest payments which accelerate over the term of the loan. For the quarter ended March 31, 2023, interest expense recorded on the promissory note was \$4 (March 31, 2022 – \$5). Interest payable at March 31, 2023 was \$nil (December 31, 2022 - \$nil).

	Face Value	Carrying Value
Promissory note payable at December 31, 2022	\$315	\$293
Principle payments	-	(25)
Accretion	-	8
<b>Promissory note payable at March 31, 2023</b>	<b>\$315</b>	<b>\$276</b>
<b>Current portion</b>		<b>\$118</b>
<b>Long-term portion</b>		<b>\$158</b>

## Divergent Energy Services Corp.

### Notes to Unaudited Condensed Consolidated Interim Financial Statements

#### For the three months ended March 31, 2023 and 2022

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

- iii) An unsecured promissory note maturing on December 31, 2025 with an interest rate of 5% per annum, and quarterly principal and interest payments which accelerate over the term of the loan. For the quarter ended March 31, 2023, interest expense recorded on the promissory note was \$9 (March 31, 2022 – \$10). Interest payable at March 31, 2023 was \$nil (December 31, 2022 - \$nil).

	Face Value	Carrying Value
Promissory note payable at December 31, 2022	\$688	\$595
Principle payments	-	(40)
Accretion	-	16
<b>Promissory note payable at March 31, 2023</b>	<b>\$688</b>	<b>\$571</b>
<b>Current portion</b>		<b>\$150</b>
<b>Long-term portion</b>		<b>\$421</b>

## 6. DEBENTURES

At March 31, 2023, the Company has Canadian Dollar denominated debentures outstanding of CAD \$1,437 (December 31, 2022 – CAD \$1,437) equivalent to a face value of \$1,062 at the March 31, 2022 exchange rate (December 31, 2022 - \$1,061).

The debentures bear interest at 10% per annum, are secured by a trust indenture and a general security agreement over the assets of the Company and mature on December 31, 2025. Pursuant to the second supplemental indenture, the Company 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, 2025. During 2020, the Company elected to pay the interest obligations by issuing common shares, and subsequently the Company elected to pay the interest obligations in cash.

During the quarter ended March 31, 2023, interest expense recorded on the debentures was \$26 (March 31, 2022 - \$28) and interest payable at March 31, 2023 was \$nil (December 31, 2022 – \$nil).

	Carrying Value	Face Value <sup>(1)</sup>	Face Value (CAD \$)
Debentures payable at December 31, 2022	\$702	\$1,061	\$1,437
Accretion	24	-	-
Effect of movements in exchange rates	1	1	-
<b>Debentures payable at March 31, 2023</b>	<b>\$727</b>	<b>\$1,062</b>	<b>\$1,437</b>

(1) The US Dollar value of the Canadian Dollar denominated loan converted at the period end foreign exchange rate.

## 7. GOVERNMENT LOAN

On October 16, 2020, the Company executed a long-term loan agreement with the US Small Business Administration (“SBA Loan”) in the amount of \$150. The SBA Loan has a 30-year term, an interest rate of 3.75% per annum, and requires monthly principal and interest payments commencing 12 months from the date the funds were received by the Company. The Company provided a continuing priority security interest in all the assets of the Company’s US wholly owned subsidiary, EPSL, a security approved by the existing debenture holders in December 2020. An effective interest rate of 13% was used to discount the anticipated future cash flow of the loan and determine the carrying

## Divergent Energy Services Corp.

### Notes to Unaudited Condensed Consolidated Interim Financial Statements

#### For the three months ended March 31, 2023 and 2022

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

value at the date of entering into the loan agreement. The effective interest rate of 13% approximates the costs of corporate bonds with similar repayment terms at the time of the loan.

	Face Value	Carrying Value
Loan payable at December 31, 2022	\$150	\$30
Accretion	-	1
<b>Loan payable at March 31, 2023</b>	<b>\$150</b>	<b>\$31</b>
<b>Current portion</b>		<b>\$-</b>
<b>Long-term portion</b>		<b>\$31</b>

During the quarter ended March 31, 2023, interest expense recorded on the loan was \$1 (March 31, 2022 – \$1). Interest payable at March 31, 2023 was \$nil (December 31, 2022 - \$1).

## 8. SHARE CAPITAL

### Authorized

Unlimited common shares, unlimited preferred shares, issuable in series.

Common shares are denominated and issued in Canadian Dollars (CAD \$).

### Issued

	Number of Shares	Amount
<b>Balance at December 31, 2022 and March 31, 2023</b>	<b>33,004,912</b>	<b>\$19,613</b>
Balance at December 31, 2021 and March 31, 2022	33,004,912	\$19,613

## 9. WARRANTS

Warrants are issued in CAD \$

	Number of warrants	Amount
Warrants outstanding at December 31, 2022	2,875,000	\$99
Expired – January 21, 2023	(2,875,000)	(99)
<b>Warrants outstanding at March 31, 2023</b>	<b>-</b>	<b>\$-</b>
Warrants outstanding at December 31, 2021	2,875,000	\$99
Warrants outstanding at March 31, 2022	2,875,000	\$99

## Divergent Energy Services Corp.

### Notes to Unaudited Condensed Consolidated Interim Financial Statements

#### For the three months ended March 31, 2023 and 2022

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

#### 10. SHARE-BASED COMPENSATION

The Company has established a stock option plan to allow certain officers, directors, employees and consultants to acquire common shares of the Company. A total of 10% of the Company's shares outstanding are reserved for the issue of share-based options pursuant to the plan. During the first quarter of 2023, share-based compensation of \$10 (March 31, 2022 - \$12) was recognized in the condensed consolidated interim statement of net income and comprehensive income with a corresponding amount in contributed surplus. Stock options are issued in CAD \$.

Continuity of stock options	Number of options	Weighted average exercise price (CAD \$)
Balance, December 31, 2022	3,208,000	\$0.14
Granted	-	-
Expired	-	-
<b>Balance, March 31, 2022</b>	<b>3,208,000</b>	<b>\$0.14</b>

The number of options exercisable at March 31, 2023 is 1,158,000 (December 31, 2022 – 1,102,333) at a weighted average exercise price of CAD \$0.23 (December 31, 2022 – CAD \$0.42). The weighted average remaining term for exercisable options is 2.92 years (December 31, 2022 – 3.51 years).

The Company granted 575,000 options on March 23, 2022 with a weighted average exercise price of CAD \$0.12. The grants were valued using the Black-Scholes model with the following assumptions:

Expected volatility	104%
Expected forfeiture	15%
Risk-free rate	2.2%
Expected stock option life	5 years

The Company granted 2,500,000 options on May 17, 2021 with a weighted average exercise price of CAD \$0.075. The grants were valued using the Black-Scholes model with the following assumptions:

Expected volatility	85%
Expected forfeiture	15%
Risk-free rate	0.79%
Expected stock option life	5 years

#### 11. PER SHARE AMOUNTS

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 three months ended March 31, 2023, of 33,004,912 (March 31, 2022 – 33,004,912). All outstanding options and warrants are anti-dilutive for the periods and comparative periods.

## Divergent Energy Services Corp.

### Notes to Unaudited Condensed Consolidated Interim Financial Statements

#### For the three months ended March 31, 2023 and 2022

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

#### 12. FINANCE (EXPENSE) INCOME

	Three months ended March 31,	
	2023	2022
Interest expense on debentures	(\$26)	(\$28)
Accretion of debentures	(24)	(23)
Interest expense on promissory notes	(50)	(56)
Accretion of promissory notes	(43)	(40)
Interest expense on government loans	(1)	(1)
Accretion of government loans	(1)	(1)
Lease finance expense	(2)	(2)
Foreign exchange loss	(6)	(126)
Net finance expense	(\$153)	(\$277)

#### 13. RECONCILIATION OF DEPRECIATION, AMORTIZATION AND LEASE FINANCE EXPENSE

The Company leases and owns machinery and equipment used in operations. The below table reconciles the depreciation, amortization and lease financing costs reflected in the condensed consolidated interim financial statements.

	Three months ended March 31,	
	2023	2022
<b>Depreciation and amortization of property and equipment</b>		
Office	\$-	\$-
Field	(9)	(9)
<i>Cash flow statement</i>	(9)	(9)
Expensed to cost of sales	9	9
	\$-	\$-
<b>Amortization of ROU assets</b>		
Office	(\$2)	(\$2)
Field	(43)	(38)
<i>Cash flow statement</i>	(45)	(40)
Expensed to cost of sales	43	38
	(\$2)	(\$2)
<b>Depreciation and amortization</b>	(\$2)	(\$2)
<b>Lease finance expense</b>		
Office	(\$2)	(\$2)
Field	(23)	(22)
<i>Cash flow statement</i>	(25)	(24)
Expensed to cost of sales	23	22
<b>Finance expense</b>	(\$2)	(\$2)

# Divergent Energy Services Corp.

## Notes to Unaudited Condensed Consolidated Interim Financial Statements

### For the three months ended March 31, 2023 and 2022

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

#### 14. RELATED PARTIES

Transactions and balances with related parties were in the normal course of operations and measured at fair value. Related parties include members of the board of directors and executive management.

Certain directors and officers of the Company have provided debentures to the Company which are denominated in Canadian Dollars. At March 31, 2023, the CAD \$1,437 (December 31, 2022 – CAD \$1,437) face value of the debentures includes \$254 (CAD \$344) (December 31, 2022 – \$271 (CAD \$344)) due to directors and officers of the Company.

	Carrying value	Face value <sup>(1)</sup>	Face value (CAD \$)
Debentures payable at December 31, 2022	\$168	\$254	\$344
Accretion	6	-	-
Effect of movements in exchange rates	-	-	-
<b>Debentures outstanding at March 31, 2023</b>	<b>\$174</b>	<b>\$254</b>	<b>\$344</b>

Interest accrues at 10% per annum. All interest expense incurred during the first quarter of 2023 was paid during the quarter.

At March 31, 2023, accounts payable and accrued liabilities includes \$305 (December 31, 2022- \$126) owing to directors and officers of the Company relating to accrued compensation.

#### 15. FINANCIAL RISK MANAGEMENT

##### Capital management

The Company's objective when managing its capital is to strike a balance between maintaining investor, creditor and market confidence while sustaining future development of the Company. Changes to the capital structure, which the Company defines as its share capital and debt, is evaluated with the objective of continuously improving the debt-to-capitalization ratio. For the purposes of this calculation, debt includes current and long-term portions of borrowed funds, including debentures. Additionally, the Company monitors its ability to service its debt from operating cash flows.

##### Credit risk

As of March 31, 2023, the Company's net trade receivables are current in the quarter. \$26 was recorded in the period against trade receivables for expected credit losses.

##### Contingencies

From time to time, the Company is subject to legal proceedings, assessments and claims in the ordinary course of business. At this time, in the opinion of management, there are no ongoing matters.

## Divergent Energy Services Corp.

### Notes to Unaudited Condensed Consolidated Interim Financial Statements

#### For the three months ended March 31, 2023 and 2022

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

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#### 16. SUPPLEMENTARY CASH FLOW INFORMATION

Net change in non-cash working capital	Three months ended March 31,	
	2023	2022
Prepaid expenses, deposits and advances	\$26	\$22
Trade receivables	(183)	(131)
Inventories	106	68
Accounts payable and accrued liabilities	116	(158)
	<b>\$65</b>	<b>(\$199)</b>