Divergent Energy Services Corp.

Condensed Consolidated Interim Financial Statements

As at March 31, 2019 and for the three month periods ended March 31, 2019 and 2018

(Unaudited)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

The accompanying unaudited condensed interim consolidated 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 interim consolidated 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.

Condensed Consolidated Statement of Financial Position
As at March 31, 2019 and December 31, 2018
(Unaudited)

In United States Dollars, (000`s)	Note	March 31, 2019	December 31, 2018
ASSETS			
Current assets			
Cash and cash equivalents		$300	$292
Trade receivables		738	660
Inventories		1,397	1,157
Prepaid expenses and deposits		207	163
		2,642	2,272
Right of use assets	5	921	-
Property and equipment		340	529
		$3,903	$2,801
LIABILITIES AND DEFICIENCY			
Current liabilities			
Accounts payable and accrued liabilities		$3,757	$3,368
Current portion of lease obligations	5	225	32
		3,982	3,400
Debentures	6	3,930	3,822
Long – term lease obligations	5	597	125
		8,509	7,347
Shareholders' deficit			
Share capital	7	17,959	17,853
Warrants	8	141	141
Contributed surplus		5,770	5,753
Accumulated other comprehensive income		(1,324)	(1,560)
Deficit		(27,152)	(26,733)
		(4,606)	(4,546)
		$3,903	$2,801
Going concern	3		
Subsequent event	15		

Approved by the Board of Directors

Signed "Ken Bagan" Chairman   Signed "Ken Berg", Director and CEO

Condensed Consolidated Statement of Comprehensive Loss
For the three months ended March 31, 2019 and 2018
(Unaudited)

		Three months ended March 31,	Restated (Note 2)
In United States Dollars, (000`s)	**Note**	**2019**	**2018**
Revenue		$1,765	$1,930
Cost of sales		1,250	1,260
Gross profit		515	670
General and administrative expenses		450	674
Stock based compensation	**9**	17	29
		(467)	(703)
Results from operating activities		48	(33)
Product development		1	4
Net finance (expense) income	**10**	(466)	632
		(467)	(628)
Income (loss) income from continuing operations before income taxes		(419)	595
Deferred tax recovery		-	53
Income (loss) income from continuing operations		(419)	648
Income from discontinued operations, net of tax	**2(B), 14**	-	1,179
Net (loss) income		(419)	1,827
Other comprehensive income (loss)		236	(620)
Total comprehensive (loss) income for the period		($183)	$1,207

Income (loss per) share:	**11**		
Continuing operations - Basic and diluted		($0.00)	$0.01
Discontinued operations - Basic and diluted		$0.00	$0.01
Net income (loss) - Basic and diluted		($0.00)	$0.02

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

Divergent Energy Services Corp.

Condensed Consolidated Statement of Equity
Three month ended March 31, 2019 and 2018
(Unaudited)

In United States Dollars, (000`s)	Share capital	Warrants	Contributed surplus	Accumulated other comprehensive income	Deficit	Total deficit
Balance January 1, 2018	**$17,416**	**$20**	**$5,644**	**($681)**	**($28,288)**	**($5,889)**
Debenture interest paid with common shares (Note 6 & 7)	437	-	-	-	-	437
Stock based compensation	-	-	89	-	-	89
Warrants expired	-	(20)	20	-	-	-
IFRS 9 adoption (Note 6(c))	-	-	-	-	305	305
Warrants issued for extension to maturity date of debentures (net of deferred tax of $53) (Note 6 & 8)	-	141	-	-	-	141
Net income for the year	-	-	-	-	1,250	1,250
Other comprehensive income	-	-	-	(879)	-	(879)
Balance at December 31, 2018	**$17,853**	**$141**	**$5,753**	**($1,560)**	**($26,733)**	**($4,546)**
Common shares issued for debenture interest (Note 6 & 7)	106	-	-	-	-	106
Stock based compensation (Note 9)	-	-	17	-	-	17
Net loss for the period	-	-	-	-	(419)	(419)
Other comprehensive income	-	-	-	236	-	236
Balance at March 31, 2019	**$17,959**	**$141**	**$5,770**	**($1,324)**	**($27,152)**	**($4,606)**

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

Condensed Consolidated Statement of Cash Flows
Three month ended March 31, 2019 and 2018
(Unaudited)

In United States Dollars, (000`s)	**Note**	**2019**	**2018**
CASH FLOWS (USED IN) FROM OPERATING ACTIVITIES			
(Loss) income from continuing operations		(\$419)	\$648
Items not affecting cash:			
Amortization		54	25
Stock based compensation		17	29
Debenture interest paid in common shares		106	110
Accretion on debentures	**6**	28	12
Deferred tax recovery		-	(53)
Foreign exchange		310	(774)
Changes in non-cash working capital items	**12**	27	(202)
Cash from (used in) operating activities		123	(205)
CASH FLOWS USED IN FINANCING ACTIVITIES			
Repayment of lease obligations		(115)	-
Cash used in financing activities		(115)	-
CASH FLOWS USED IN INVESTING ACTIVITIES			
Equipment additions		-	(18)
Cash used in investing activities		-	(18)
Change in cash and cash equivalents		8	(223)
Cash and cash equivalents, beginning of period		292	549
Cash and cash equivalents, end of period		\$300	\$326
Interest paid on capital leases		\$11	\$-

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

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

1. REPORTING ENTITY

Divergent Energy Services Corp. (the "Corporation"), is an Alberta Corporation with a registered office located at 600, 815 – 8 Avenue SW, Calgary, AB, T2P 3P2. The condensed consolidated interim financial statements of the Corporation as at and for the three month period ended March 31, 2019, 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 in the USA.

2. RESTATEMENT OF FINANCIAL STATEMENTS

A) The Corporation restated its consolidated statement of financial position as at March 31, 2018, December 31, 2017 and January 1, 2017 and its consolidated statement of net income (loss) and comprehensive income (loss), statement of equity and statement of cash flows for the three month period ended March 31, 2018.

In the course of preparing the Corporation's consolidated financial statements for the year ended December 31, 2018, errors were identified with respect to the foreign currency translation of certain balances and inter-company amounts associated with the Corporation's wholly owned foreign subsidiaries. The Corporation analyzed all prior periods commencing with the fiscal 2011 period. For periods prior to 2011, sufficient information was no longer available.

The following table present the impact of the restatement adjustments on the Corporation's previously reported consolidated financial statements for the three month periods ended March 31, 2018.

B) The Corporation had conducted its operations in Mexico primarily through its wholly owned subsidiary, COTS Mexico. During the year ended December 31, 2016 the Corporation 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 three months ended March 31, 2018 COTS Mexico was liquidated and it was determined that any liabilities associated with COTS Mexico, including income and withholding taxes owed, were eliminated upon liquidation.

During the first quarter of 2018, the Corporation recorded $1,494 in respect of an estimated withholding tax payable arising on the dissolution of COTS Mexico on February 1, 2018. It was subsequently determined that any tax liabilities of COTS Mexico were eliminated upon liquidation. Accordingly, the Corporation reversed a tax provision of $1,494 as shown in the table below.

Restated March 31, 2018	**As previously reported**	**2018 Adjustments**	**As restated**
STATEMENT OF INCOME AND COMPREHENSIVE INCOME			
Finance income	57	575	632
Income (loss) from continuing operations before income taxes	20	575	595
Income (loss) from continuing operations	73	575	648
Income (loss) from discontinued operations, net of tax (B)	(315)	1,494	1,179
Net income (loss)	(242)	2,069	1,827
Other comprehensive income (loss)	(45)	(575)	(620)
Continuing operations - basic and dilutive loss per share	(0.00)	0.01	0.01
Discontinued operations - basic and dilutive income (loss) per share	(0.00)	0.01	0.01
Net income (loss) – basic and dilutive	(0.00)	0.02	0.02
STATEMENT OF CASH FLOWS			
Income from continuing operations	$73	$575	$648
Foreign exchange loss	(199)	(575)	(774)

3. 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.

As these financial statements are being filed on December 30, 2019, they include additional information regarding the going concern up to that date. At March 31, 2019 the Corporation has a working capital deficiency of $1,340 and an accumulated deficit of $27,152. During the period ended March 31, 2019 the Corporation generated a loss from continuing operations of $419 and cash from operations of $123. During Q1 2019 approximately 90% (Q1 2018 - 96%) of sales are attributable to one customer. Included in accounts payable and accrued liabilities are amounts due to related parties totaling CAD $120 which are due on December 31, 2020 (see Note 13). The Corporation does not have sufficient cash or other resources available to meet its obligations and commitments in a timely manner. On May 3, 2019, the Corporation announced that it was delayed in filing its annual financial statements for the year ended December 31, 2018, the related management's discussion and analysis (MD&A") and certificates of its chief executive officer and chief financial officer with the Alberta Securities Commission ("ASC") beyond the deadline of April 30, 2019. In connection with this delay, on May 6, 2019, the Corporation received from the ASC a cease trade order ("CTO") for the Corporation's failure to file the above noted materials prior to the filing deadline. Further, the Corporation has not filed its 2019 interim financial statements, MD&A and certifications on the required filing deadlines. The Corporation is unable to raise additional financing to fund operations while the CTO is in place.

The CTO has prevented the Corporation from issuing common shares to settle interest obligations on the debentures for the three month periods ended June 30, 2019 and September 30, 2019. As of December 30, 2019, the filing date, the Corporation has received waivers from its debenture holders covering all outstanding interest currently due and payable, plus interest which will become due and payable on December 31, 2019 which allows the Corporation to pay all outstanding interest owing to debenture holders by the issue of the Corporation's common shares on or before March 31, 2020. Accordingly, the Corporation is currently compliant with the provisions of the debenture indenture.

As a result of the foregoing, there exist material uncertainties that cast significant doubt on the Corporation's ability to continue as a going concern.

Additional financing is required in order for the Corporation to meet its current obligations. 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 and to provide for the repayment of the Corporation's obligations as they become due. There is no assurance the Corporation will be able to obtain adequate financing in the future or that such financing will be on terms acceptable to the Corporation.

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.

4. 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, 2018 audited annual consolidated financial statements.

The condensed consolidated interim financial statements were authorized for issue by the Board on December 30, 2019.

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, 2018.

Prior to liquidation of its Mexican subsidiary (See Note 14), the Corporation has taken certain tax positions in its Mexican tax filings using its best estimate based on a qualitative assessment of all relevant factors.

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

5. SIGNIFICANT ACCOUNTING POLICIES ADOPTED IN CURRENT PERIOD

On January 1, 2019 the Corporation adopted IFRS 16, which introduces a comprehensive model to identify, recognize, measure, and present lease arrangements. The Corporation adopted IFRS 16 using the modified retrospective approach. Under this approach, the comparative information has not been restated and the reclassification and adjustments arising from the new leasing rules are recognized in the opening statement of financial position on January 1, 2019. The details of the accounting policy changes and the quantitative impact of these changes are described below.

If a contract is assessed to contain a lease, the Corporation recognizes a lease liability with a corresponding right-of-use ("ROU") asset on the date at which the leased asset is available for use by the Corporation. The lease liability is initially measured at the present value of the lease payments outstanding at the commencement date discounted using the interest rate implicit in the lease. If the implicit interest rate cannot be determined, the Corporation's incremental borrowing rate is used, being the rate it would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment. Generally, the Corporation uses is incremental borrowing rate as its discount rate.

In measuring the lease obligations, the Corporation used and incremental borrowing rate as at January 1, 2019 to discount the lease payment of 5%.

The ROU is depreciated using the straight-line method from the recognition date to the earlier of the end of the useful life of the asset or the end of the lease term.

Upon initial adoption of IFRS 16, the Corporation recognized $937 of ROU assets and an equal amount of lease obligations with no adjustment required to the Corporation's deficit, which is summarized as follows:

Operating lease commitments at December 31, 2018	**$881**
Discounted amount at January 1, 2019	$780
Finance lease obligations at December 31, 2018	157
Total lease obligations at January 1, 2019	**937**
Payments during the period	115
Discounted amount at March 31, 2019	822
Less current lease obligations	**225**
Long-term lease obligations at March 31, 2019	**$597**

6. DEBENTURES

	Debt portion	**Warrant portion**	**Common shares issued as transaction costs**
10% debentures payable at January 1, 2018	**$4,580**	**$-**	**$21**
Accretion	104	-	-
IFRS 9 adoption	(305)		
Cost associated with debentures extension	(194)	141	
Effect of movements in exchange rates	(363)	-	-
10% debentures payable at December 31, 2018	**3,822**	**141**	**21**
Accretion	28	-	-
Effect of movements in exchange rates	80	-	-
10% debentures payable at March 31, 2019	**$3,930**	**$141**	**$21**

(a) The Corporation has debentures outstanding totaling CAD $5,750 of which CAD $1,423 are held by related parties. The debentures bear interest at 10% per annum and the interest is paid quarterly by cash or with the Corporation's common shares. The debentures are secured by a general security agreement over all of the assets of the Corporation.

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

(b) 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 5,750,000 share purchase warrants, exercisable at CAD $0.13 and expiring December 31, 2021.

(c) The Corporation determined that the modification of the terms of the debentures in the fourth quarter of 2017, while not resulting in an extinguishment of debt under IFRS 9, did result in a gain of $305 which has been reflected as an IFRS 9 initial adoption adjustment to the opening deficit (a decrease) at January 1, 2018.

7. 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, 2018	99,061,524	$17,416
Common shares issued – debenture interest	8,324,819	437
Balance at December 31, 2018	117,226,991	17,853
Shares issued - debenture interest (Note 6(a))	2,835,614	106
Balance at March 31, 2019	120,062,605	$17,959

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, 2019, the Corporation elected to pay the interest in common shares of 2,835,614 amounting to CAD $142.

8. WARRANTS

	Number of warrants	Amount
Balance at January 1, 2018	276,000	$20
Warrants expired	(276,000)	(20)
Extension to maturity date of warrants (net of deferred tax of $53)	5,750,000	141
Balance at December 31, 2018 and March 31, 2019	5,750,000	$141

At March 31, 2019, the weighted average exercise price of the warrants is $0.13.

Warrants outstanding at March 31, 2019

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

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

9. 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, 2019, $17 (Q1 2018 -$29) 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,	2019		2018	
	Number of options	Weighted average exercise price (CAD $)	Number of options	Weighted average exercise price (CAD $)
Balance – beginning of period	7,960,000	$0.25	6,785,000	$0.29
Issued	-	-	-	-
Balance – end of period	7,960,000	$0.25	6,785,000	$0.29

The number of options exercisable at March 31, 2019, is 5,046,666 (2018 – 4,454,999) at a weighted average exercised price of CAD $0.25.

10. NET FINANCE (EXPENSE) INCOME

	Three months ended March 31,	
	2019	**2018**
Foreign exchange (loss) gain	($323)	$760
Interest expense - directors and officers advances and bank charges	(9)	(6)
Interest expense on debentures	(106)	(110)
Accretion expense on debentures	(28)	(12)
Net finance (expense) income	**($466)**	**$632**

11. 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, 2019, of 117,258,498 (Q1 2018 – 108,921,290). 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 129,800,386 (Q1 2018 – 119,003,437).

12. SUPPLEMENTAL CASH FLOW INFORMATION – CHANGES IN NON-CASH WORKING CAPITAL BALANCES

	Three months ended March 31,	
	2019	**2018**
Trade receivables and advances	($78)	$41
Inventory	(240)	(56)
Prepaid expenses and deposits	(44)	18
Accounts payable and accrued liabilities	389	(205)
Changes to non-cash working capital	**$27**	**($202)**

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

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 for the three month period ended 2019 amount to CAD $78 (2018 – CAD $78) which was in common shares of the Corporation.

b) Officers and directors advanced the Corporation CAD $195, of which CAD $70 was converted into common shares of a private placement and CAD $5 was repaid. The remaining advances of CAD $120 is included in accounts payables and accrued liabilities. The advances are due on demand, mature December 31, 2020 and bear interest at 10%. Interest of CAD $16 (Q1 2018 – CAD $3) is included in accounts payable and accrued liabilities.

14. DISCONTINUED OPERATIONS

The Corporation had conducted its operations in Mexico primarily through its wholly owned subsidiary, COTS Mexico. On February 1, 2018 COTS Mexico was liquidated and it was determined that any liabilities associated with COTS Mexico, including income and withholding taxes owed, were eliminated upon liquidation. Accordingly, the Corporation recorded an income tax recovery of $1,179 previously accrued.

The operating results of COTS Mexico are presented below as discontinued operations.

	Three months ended March 31,	
		Restated
Discontinued operations	**2019**	**2018**
Selling, general and administrative expenses	$-	$-
Stock based compensation	-	-
Loss from discontinued operations before income taxes	-	-
Current income tax expense (recovery)	-	(1,179)
Income (loss) from discontinued operations	$-	$1,179

15. SUBSEQUENT EVENTS

Compliance with debenture covenants

As these financial statements are being filed on December 30, 2019, they include information related to the Corporation becoming compliant with covenants of the indenture agreements effective December 30, 2019. This event is described in Note 3 - Going Concern.