Divergent Energy Services Corp.

Restated 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)

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.

Restated Condensed Consolidated Statement of Financial Position

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

In United States Dollars, (000`s)	Note	Restated (See Note 2) September 30, 2018	Restated (See Note 2) 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		$3,482	$3,362
Liabilities related to discontinued operations	**2, 14**	-	1,179
		3,482	4,541
Debentures	**6**	4,011	4,580
		7,493	9,121
Shareholders' deficiency			
Share capital	**7**	17,747	17,416
Warrants	**8**	141	20
Contributed surplus		5,735	5,644
Accumulated other comprehensive income		(965)	(681)
Deficit		(27,053)	(28,288)
		(4,395)	(5,889)
		$3,098	$3,232

Going concern	**3**
Subsequent events	**16**

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.

Restated Condensed Consolidated Statement of Net Income (Loss) and Comprehensive Income (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, Restated 2018	Restated 2017	Nine months ended September 30, Restated 2018	Restated 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	**9**	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 (income)	**10**	1,104	603	(30)	2,138
		(1,104)	(652)	26	(2,417)
Loss (income) from continuing operations before income taxes		(1,226)	(848)	(302)	(2,974)
Deferred tax recovery		-	-	53	-
Net (loss) income from continuing operations after income taxes		(1,226)	(848)	(249)	(2,974)
Net income (loss) from discontinued operations, net of tax	**14**	-	(4)	1,179	(2,646)
Net income (loss)		(1,226)	(852)	930	(5,620)
Other comprehensive income (loss)		890	236	(284)	1,322
Total comprehensive income (loss) for the period		($336)	($616)	$646	($4,298)
Net income (loss) per share (Note 11):					
Continuing operations - Basic and diluted		($0.01)	($0.02)	$0.00	($0.03)
Discontinued operations - Basic and diluted		$0.00	($0.00)	$0.01	($0.02)
Net income (loss) - Basic and diluted		($0.01)	($0.02)	$0.01	($0.05)

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

Divergent Energy Services Corp.

Restated 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	Retained earnings (deficit)	Total deficiency
Previously reported Balances December 31, 2016	**$16,451**	**$383**	**$5,081**	**$643**	**($27,551)**	**($4,993)**
Correction of error (Note 2)	-	-	-	(5,022)	5,022	-
Restated Balances at January 1, 2017	**$16,451**	**$383**	**$5,081**	**($4,379)**	**($22,529)**	**($4,993)**
Debenture interest paid with common shares (Note 7 (a))	448	-	-	-	-	448
Stock based compensation (Note 9)	-	-	180	-	-	180
Warrants expired	-	(383)	383	-	-	-
Private placement of common shares (net of issue costs) (Note 7 (b))	517	20	-	-	-	537
Net loss for the period	-	-	-	-	(5,759)	(5,759)
Other comprehensive income	-	-	-	3,698	-	3,698
Restated Balances at December 31, 2017	**$17,416**	**$20**	**$5,644**	**($681)**	**($28,288)**	**($5,889)**
Debenture interest paid with common shares (Note 7 (a))	331	-	-	-	-	331
IFRS 9 adoption					305	305
Stock based compensation (Note 9)	-	-	71	-	-	71
Warrants issued for debenture extension, (net of deferred tax $53) (Note 8)	-	141	-	-	-	141
Warrant expiry (Note 8)	-	(20)	20	-	-	-
Net income for the period	-	-	-	-	930	930
Other comprehensive income	-	-	-	(284)	-	(284)
Restated balance at September 30, 2018	**$17,747**	**$141**	**$5,735**	**($965)**	**($27,053)**	**($4,395)**

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

Restated 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**	**Restated 2018**	**Restated 2017**
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES			
Net loss from continuing operations		($249)	($2,974)
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	**6**	76	128
Foreign exchange loss		480	1,446
Changes in non-cash working capital	**12**	(274)	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)	**7(b)**	-	537
Repayment of debt		-	(13)
Cash (used in) from financing activities		-	524
CASH FLOWS USED IN INVESTING ACTIVITIES			
Property, plant and equipment additions		(36)	(115)
Cash used in investing activities		(36)	(115)
CASH FLOWS FROM 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.

Restated Notes to Condensed Consolidated Interim Financial Statements
For the three and nine month periods ended September 30, 2018 and 2017

(Unaudited)

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

1. REPORTING ENTITY

Divergent Energy Services Corp. (the "Corporation"), is a Canadian 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 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. RESTATEMENT OF FINANCIAL STATEMENTS

The Corporation is restating its consolidated statement of financial position as at September 30, 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 and nine month periods ended September 30, 2018 and 2017.

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 tables present the impact of the restatement adjustments on the Corporation's previously reported consolidated financial statements for the three and nine month periods ended September 30, 2018 and 2017, as well as the impact of the consolidated statement of financial position as at September 30, 2018 and December 31, 2017.

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.

At the end of third quarter of 2018, the Corporation recorded $1,587 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 $92 and $408 for the three and nine month periods ended September 30, 2018, respectively, and recorded an income tax recovery of $1,179 previously accrued as shown in the table below.

Restated December 31, 2017	As previously reported	Opening 2016 Adjustment	2017 Adjustment	As restated
STATEMENT OF FINANCIAL POSITION				
Accumulated other comprehensive income	$711	($5,022)	$3,630	($681)
Deficit	(29,680)	5,022	(3,630)	(28,288)

Restated three months ended September 30, 2017	As previously reported	2017 Adjustments	As restated
STATEMENT OF INCOME AND COMPREHENSIVE INCOME			
Net finance expense	($882)	$279	($603)
Loss from continuing operations before income taxes	(1,127)	279	(848)
Loss from continuing operations	(1,127)	279	(848)
Net (loss)	(1,131)	279	(852)
Other comprehensive income (loss)	515	(279)	236
Continuing operations - basic and dilutive loss per share	(0.01)	(0.00)	(0.01)
Net income (loss) – basic and dilutive	(0.01)	(0.00)	(0.00)

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

Restated nine months ended September 30, 2017	As previously reported	2017 Adjustments	As restated
STATEMENT OF INCOME AND COMPREHENSIVE INCOME			
Net finance expense	($1,729)	($409)	($2,138)
Loss from continuing operations before income taxes	(2,565)	(409)	(2,974)
Loss from continuing operations	(2,565)	(409)	(2,974)
Loss from discontinued operations, net of tax	(171)	(2,475)	(2,646)
Net (loss)	(2,736)	(2,884)	(5,619)
Other comprehensive income (loss)	913	409	1,322
Continuing operations - basic and dilutive loss per share	(0.02)	(0.00)	(0.03)
Loss from discontinued operations, net of tax	(0.00)	(0.02)	(0.02)
Net income (loss) – basic and dilutive	(0.02)	(0.02)	(0.05)
STATEMENT OF CASH FLOWS			
Net loss from continuing operations	($2,565)	($409)	($2,974)
Foreign exchange	1,037	409	1,446

As at September 30, 2018	Previously reported	2018 Adjustments	As restated
Consolidated statement of financial position and equity			
Liabilities associated with discontinued operations	$1,586	($1,586)	$Nil
Accumulated other comprehensive income (loss)	574	(1,539)	(965)
Deficit	($30,179)	$3,126	($27,053)

Restated three months ended September 30, 2018	As previously reported	2018 Adjustments	As restated
CONSOLIDATED STATEMENT OF NET LOSS AND COMPREHENSIVE LOSS			
Net finance income (expense)	($166)	($938)	($1,104)
Income (loss) from continuing operations before income taxes	(288)	(938)	(1,226)
Income (loss) from continuing operations	(288)	(938)	(1,226)
Income (loss) from discontinued operations, net of tax (B)	(92)	92	-
Net income (loss)	(380)	(846)	(1,226)
Other comprehensive income (loss)	(48)	938	890
Continuing operations - basic and dilutive loss per share	(0.00)	(0.01)	(0.01)
Loss from discontinued operations, net of tax	0.00	(0.00)	(0.00)
Net income (loss) – basic and dilutive	(0.00)	(0.01)	(0.01)

Restated nine months ended September 30, 2018	As previously reported	2018 Adjustments	As restated
CONSOLIDATED STATEMENT OF NET LOSS AND COMPREHENSIVE LOSS			

Net finance income (expense)	($117)	$147	$30
Income (loss) from continuing operations before income taxes	(449)	147	(302)
Income (loss) from continuing operations	(396)	147	(249)
Income (loss) from discontinued operations, net of tax	(408)	1,587	1,179
Net income (loss)	(804)	1,734	930
Other comprehensive income (loss)	(137)	(147)	(284)
Continuing operations - basic and dilutive loss per share	(0.00)	0.00	0.00
Loss from discontinued operations, net of tax	0.00	0.01	0.01
Net income (loss) – basic and dilutive	(0.00)	0.01	0.01
STATEMENT OF CASH FLOWS			
Net income (loss) from continuing operations	($396)	$147	($249)
Foreign exchange (gain) loss	(333)	(147)	(480)

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 20, 2019, they include additional information regarding the going concern. At September 30, 2018 the Corporation has a working capital deficiency of $776 and an accumulated deficit of $27,053. During the three and nine month periods ended September 30, 2018, the Corporation generated losses from continuing operations of $1,226 and $249, respectively. The Corporation used cash in operations of $449. Approximately 83% and 86% (Q2 2017 - 85% and 89%) of sales are attributable to one customer for the three and nine month periods ended September 30, 2018, respectively. Included in accounts payable and accrued liabilities are amounts due to related parties totaling CAD $120 which are due on December 31, 2019 (see Note 15). 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 which has resulted in the Corporation becoming non-compliant with provisions of the indenture agreements. Currently, the debenture holders have the right to demand immediate repayment of all outstanding amounts. There is no assurance that the Corporation will be able to meet its interest payment obligation under the debentures or obtain a sufficient number of waivers from the debenture holders relating to all unpaid interest. The Corporation is seeking 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. If approved, the waiver would allow the Corporation to pay all outstanding interest owing to debenture holders by the issuance of shares on or before March 31, 2020.

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 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 originally authorized for issue by the Corporation's Board of Directors on November 22, 2018. The restated consolidated interim financial statements were authorized for issue by the Corporation's Board of Directors on December 20, 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, 2017.

Prior to liquidation of its Mexican subsidiary (See Note 15), 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.

5. 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

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

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.

6. 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.

As detailed in Note 3, the Company is currently not in compliance with respect to the debentures. As a result, the debenture holders have the right to demand immediate payment of all amounts owning.

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, 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 6) 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.

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

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.

8. 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

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. 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).

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

10. NET FINANCE EXPENSE

	Three months ended September 30,	
	Restated 2018	**Restated 2017**
Foreign exchange loss	($962)	($442)
Interest expense – directors and officers advances and bank charges	(8)	(6)
Interest expense - debentures	(108)	(109)
Accretion expense	(26)	(46)
Net finance expense	($1,104)	($603)

	Nine months ended September 30,	
	Restated 2018	**Restated 2017**
Foreign exchange (gain) loss	$452	($1,650)
Interest expense – directors and officers advances and bank charge	(15)	(28)
Interest expense - debentures	(331)	(332)
Accretion expense	(76)	(128)
Net finance income (expense)	$30	($2,138)

11. 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.

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

	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	120	(435)
Changes in non-cash working capital	($274)	$691

13. 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

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

14. DISCONTINUED OPERATIONS

As COTS Mexico had ceased all operations and was effectively abandoned upon the engagement of the liquidator in fiscal 2017, the Corporation transferred the associated accumulated other comprehensive loss associated with COTS Mexico totaling $2,475 from accumulated other comprehensive loss to foreign exchange loss within the loss from discontinued operations during the year ended December 31, 2017 (see note 2).

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

Discontinued operations	Restated (see Note 2) Three months ended September 30, 2018	2017	Restated (see Note 2) Nine months ended September 30, 2018	2017
Selling, general and administrative expenses	$-	$4	$-	$131
Amortization	-	-	-	1
Stock based compensation	-	-	-	10
Foreign exchange				2,475
Loss from discontinued operations before taxes	-	4	-	2,617
Current tax expense (recovery)	-	-	(1,179)	29
Net Income (loss) from discontinued operations	$-	($4)	$1,179	($2,646)

Cash flows from (used in) discontinued operations

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

15. 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, mature December 31, 2019 and bear interest at 10%. Interest of CAD $17 is included in accounts payable and accrued liabilities.

16. SUBSEQUENT EVENTS

Non-compliance with debenture covenants

As these financial statements are being filed on December 20, 2019, they include additional information regarding the subsequent events.

The Corporation became non-compliant with covenants of the indenture agreements effective November 16, 2019. This event is described in Note 3 - Going Concern.