Divergent Energy Services Corp.

Consolidated Financial Statements

As at December 31, 2018 and 2017 and January 1, 2017 and for the years ended December 31, 2018 and 2017

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Divergent Energy Services Corp.

Opinion

We have audited the consolidated financial statements of Divergent Energy Services Corp. (the "Company"), which comprise:

- the consolidated statements of financial position as at December 31, 2018, December 31, 2017 and January 1, 2017
- the consolidated statements of net income (loss) and comprehensive income (loss) for the years ended December 31, 2018 and 2017
- the consolidated statements of equity for the years ended December 31, 2018 and 2017
- the consolidated statements of cash flows for the years ended December 31, 2018 and 2017
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018, December 31, 2017 and January 1, 2017, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2018 and 2017 in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "*Auditors' Responsibilities for the Audit of the Financial Statements*" section of our auditors' report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the financial statements, which indicates that the Company has a working capital deficiency of $1,128,000 and an accumulated deficit of $26,733,000 as at December 31, 2018. In addition, the Company used cash in operations of $189,000 during the year ended December 31, 2018. The Company is currently in non-compliance of its debenture agreements and therefore debenture holders have the right to demand immediate payment of all amounts owing. The Company does not have sufficient cash or other resources to meet its obligations in a timely manner.

As stated in Note 1 in the financial statements, these events or conditions, along with other matters as set forth in Note 1 in the financial statements, indicate that a material uncertainty exists that casts significant doubt on the Company's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

Emphasis of Matter – Comparative Information

We draw attention to Note 5 to the financial statements, which explains that certain comparative information presented:

- for the year ended December 31, 2017 has been restated.
- as at January 1, 2017 has been derived from the financial statements for the year ended December 31, 2016 which have been restated (not presented herein).

Note 5 explains the reason for the restatement and also explains the adjustments that were applied to restate certain comparative information.

Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. Other information comprises:

- the information, included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

The engagement partner on the audit resulting in this auditors' report is Jason Stuart Brown.

KPMG LLP

Chartered Professional Accountants

Calgary, Canada

December 20, 2019

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

	Note	December 31, 2018	December 31, 2017 (Note 5) Restated	January 1, 2017 (Note 5) Restated
ASSETS				
Current assets				
Cash and cash equivalents		$292	$549	$100
Trade receivables and advances	**6**	660	689	1,320
Inventories	**8**	1,157	1,420	1,868
Prepaid expenses and deposits		163	139	226
		2,272	2,797	3,514
Property and equipment	**7**	529	435	386
		$2,801	$3,232	$3,900
LIABILITIES AND SHAREHOLDERS' DEFICIENCY				
Current liabilities				
Accounts payable and accrued liabilities	**9**	$3,368	$3,358	$3,669
Liabilities associated with discontinued operations	**23**	-	1,179	1,087
Debentures		-	-	4,116
Current portion of long-term debt	**11**	32	4	17
		3,400	4,541	8,889
Debentures	**1, 10**	3,822	4,580	-
Long-term debt	**11**	125	-	4
		7,347	9,121	8,893
Shareholders' Deficiency				
Share capital	**12**	17,853	17,416	16,451
Warrants	**13**	141	20	383
Contributed surplus		5,753	5,644	5,081
Accumulated other comprehensive loss		(1,560)	(681)	(4,379)
Deficit		(26,733)	(28,288)	(22,529)
		(4,546)	(5,889)	(4,993)
		$2,801	$3,232	$3,900

GOING CONCERN	**1**
COMMITMENTS	**20**
SUBSEQUENT EVENTS	**1,10,24**

Approved by the Board of Directors

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

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

Consolidated Statement of Net Income (Loss) and Comprehensive Income (Loss)
(All figures in '000's of US dollars except number of shares and per share data, unless otherwise stated)
For the years ended December 31

	Note	2018	2017 (Note 5) Restated
CONTINUING OPERATIONS			
Revenue	**19**	$7,535	$8,182
Cost of sales	**8**	(5,482)	(5,841)
Gross profit		2,053	2,341
General and administrative expenses		2,674	2,749
Stock based compensation	**14**	89	180
		(2,763)	(2,929)
Results from operating activities		(710)	(588)
Product development		9	327
Finance (income) expense	**18**	(730)	1,988
(Gain) loss on disposal of assets		(7)	1
		728	(2,316)
Income (loss) from continuing operations before income taxes		18	(2,904)
Deferred tax recovery	**16**	53	-
Income (loss) from continuing operations		71	(2,904)
Income (loss) from discontinued operations, net of tax	**23**	1,179	(2,855)
Net income (loss)		1,250	(5,759)
Other comprehensive (loss) income		(879)	3,698
Total comprehensive income (loss) for the year		371	($2,061)
Income (loss) per share	**15**		
Continuing operations - basic and dilutive		$0.00	($0.03)
Discontinued operations - basic and dilutive		$0.01	($0.03)
Net income (loss) – basic and dilutive		$0.01	($0.06)

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

Consolidated Statement of Equity
(All figures in '000's of US dollars except number of shares and per share data, unless otherwise stated)
For the years ended December 31

	Note	Share capital	Warrants	Contributed surplus	Accumulated other comprehensive income	Retained Earnings (deficit)	Total equity (deficit)
Balance January 1, 2017 as originally presented		$16,451	$383	$5,081	$643	($27,551)	($4,993)
Correction of an error	**5**	-	-	-	(5,022)	5,022	-
Restated balance at January 1, 2017	**5**	16,451	383	5,081	(4,379)	(22,529)	($4,993)
Debenture interest paid with common shares	**12(a)**	448	-	-	-	-	448
Private placement of common shares (net of issue costs)		517	20	-	-	-	537
Stock based compensation		-	-	180	-	-	180
Warrants expired		-	(383)	383	-	-	-
Net loss for the year (restated)	**5**	-	-	-	-	(5,759)	(5,759)
Other comprehensive income (restated)	**5**	-	-	-	3,698	-	3,698
Restated balance at December 31, 2017	**5**	17,416	20	5,644	(681)	(28,288)	(5,889)
Debenture interest paid with common shares	**12(a)**	437	-	-	-	-	437
Stock based compensation		-	-	89	-	-	89
Warrants expired		-	(20)	20	-	-	-
IFRS 9 adoption	**10(c)**	-	-	-	-	305	305
Warrants issued for extension to maturity date of debentures (net of tax)	**13(a)**	-	141	-	-	-	141
Net income for the year		-	-	-	-	1,250	1,250
Other comprehensive loss		-	-	-	(879)	-	(879)
Balance at December 31, 2018		$17,853	$141	$5,753	($1,560)	($26,733)	($4,546)

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

Consolidated Statement of Cash Flows
(All figures in '000's of US dollars except number of shares and per share data, unless otherwise stated)
For the years ended December 31

	Note	2018	2017 (Note 5) Restated
CASH FLOWS (USED IN) FROM OPERATING ACTIVITIES			
Net income (loss) from continuing operations		$71	($2,904)
Items not affecting cash:			
Amortization allocated to general and administrative expenses		129	102
Deferred tax recovery		(53)	-
Stock based compensation		89	180
Loss (gain) on disposal of assets		(7)	1
Write down of inventory	**8**	225	-
Debenture interest paid in common shares	**12**	437	448
Accretion on debentures	**10**	104	173
Foreign exchange		(1,236)	1,275
Changes in non-cash working capital	**22**	52	771
Cash (used in) from operating activities		(189)	46
CASH FLOWS (USED IN) FROM FINANCING ACTIVITIES			
Repayment of long-term debt	**11**	(4)	(17)
Proceeds from the issue of common shares (net of issue costs)	**12**	-	537
Cash (used in) from financing activities		(4)	520
CASH FLOWS USED IN INVESTING ACTIVITIES			
Proceeds from disposal of property, plant and equipment		7	-
Property, plant and equipment additions		(72)	(147)
Cash used in investing activities		(65)	(147)
CASH FLOWS FROM DISCONTINUED OPERATIONS	**23**	-	30
Effect of exchange rate fluctuations on cash		1	-
Change in cash and cash equivalents		(257)	449
Cash and cash equivalents, beginning of year		549	100
Cash and cash equivalents, end of year		$292	$549

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

1. REPORTING ENTITY AND GOING CONCERN

Divergent Energy Services Corp. (the "Corporation", "Divergent" or the "Group), is a Canadian Corporation with a registered office located at 1500, 715 - 5 Avenue SW, Calgary, AB, T2P 2X6. The audited consolidated financial statements of the Corporation as at and for the year ended December 31, 2018, comprise the Corporation and its wholly owned foreign subsidiaries.

Cdn Oilfield Technologies and Solutions, S. de R.L. de C.V. ("COTS Mexico") was legally dissolved on February 1, 2018 and has been accounted for and presented as discontinued operations in these financial statements (See Note 23).

The Group is in the business of providing artificial lift products and services to its clients in the oil and gas industry in the Powder River and DJ Basin located in the United States.

GOING CONCERN

These consolidated 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.

At December 31, 2018 the Corporation has a working capital deficiency of $1,128 (see further discussion in Note 8) and an accumulated deficit of $26,733. During the year ended December 31, 2018 the Corporation generated income from continuing operations of $71 and used cash in operations of $189. During the year ended December 31, 2018 approximately 93% (2017 - 95%) of sales are attributable to one customer. Included in accounts payable and accrued liabilities are amounts due to related parties totaling $87 which are due on December 31, 2019 (see Note 21). 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 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.

Theses consolidated 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 consolidated financial statements, then adjustments would be necessary to the classification and carrying amounts of the assets and liabilities and the reported revenues and expenses.

2. BASIS OF PRESENTATION

(A) Statement of compliance:

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and were authorized for issue by the Board of Directors on December 20, 2019.

(B) Basis of measurement:

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

(C) Functional and presentation currency:

These consolidated financial statements are presented in US dollars. The functional currency of the parent is the Canadian dollar and the functional currency of the Group'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.

(D) Use of estimates and judgments:

The preparation of the consolidated 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.

The Group assesses impairment at each reporting date relative to the valuation of its trade receivables. Depending on the timing of collection, the Group will discount the amounts due with respect to the amount of expected credit losses. Furthermore, the Group may provide an allowance to the amounts due if collection is deemed unlikely.

Additionally, estimates are used in the determination of the fair value of stock based compensation for options granted, and for warrants issued to shareholders, debenture holders and agents in regards to financing arrangements.

Prior to liquidation of its Mexican subsidiary (See Note 23), 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.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, unless otherwise indicated.

(A) Basis of consolidation:

Subsidiaries are entities controlled by the Corporation and the financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Intra-Group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(B) Foreign currency:

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Group's entities at exchange rates at the dates of the transactions. Monetary assets and liabilities which are denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for the effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign exchange gains and losses are recognized in profit or loss.

(ii) Foreign operations

For foreign subsidiaries whose functional currency is not the functional currency of the reporting entity, upon consolidation the Group translates assets and liabilities for all foreign subsidiaries at period-end exchange rates and income and expense accounts at average exchange rates. Unrealized gains or losses resulting from these translations are reflected in comprehensive income (loss) as foreign currency translation differences.

When a foreign operation is disposed of, either through sale, liquidation or abandonment, the relevant amount in the cumulative amount of foreign currency translation reserve is transferred to profit or loss as part of the profit or loss on disposal.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognized in other comprehensive income.

(iii) Translation to presentation currency

The assets and liabilities of the Group are translated to the presentation currency at exchange rates at the reporting date. The income and expenses of the Group are translated to the presentation currency at average exchange rates for the reporting period. Foreign currency translation reporting differences are recognized in other comprehensive income.

(C) Financial instruments:

(i) Non-derivative financial assets

The Group initially recognizes receivables and deposits on the date that they originate. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group classifies non-derivative financial assets as either financial assets at fair value through profit or loss in the Consolidated Statement of Net Income (Loss) and Comprehensive Income (Loss) and receivables in the Statement of Financial Position.

Classification

Financial instruments within the scope of IFRS 9: Financial Instruments are classified upon initial recognition into one of the following categories: fair value through profit or loss ("FVTPL"), fair value through other comprehensive income ("FVTOCI"), or amortized cost.

The Group determines the classification of financial assets at initial recognition. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or the Corporation has opted to measure at FVTPL.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short-term investments with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Advances and receivables

Advances and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition advances and receivables are measured at amortized cost using the effective interest method, less any impairment or expected credit losses. The Group has the following advances and other receivables: trade receivables, advances, and cash and cash equivalents.

ii) Non-derivative financial liabilities

The Group initially recognizes debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument. The Group derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired. The Group has the following non-derivative financial liabilities: long-term debt, debentures, accounts payable and accrued liabilities.

Such financial liabilities are recognized initially at fair value net of any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

(iii) Compound financial instruments

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts. Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition.

Interest, losses and gains relating to the financial liability are recognized in profit or loss. Distributions to the equity holders are recognized in equity, net of any tax benefit.

(D) Long-lived assets – property, plant and equipment:

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and are recognized separately in profit or loss.

(ii) Amortization

Amortization is calculated based on the cost of the asset, less its residual value and is recognized in profit or loss over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The capital assets are amortized as follows:

Computer hardware & software	30% declining balance
Furniture and equipment	20% to 30% declining balance
Leasehold improvements	Straight line over lease term
Shop equipment	20% declining balance
Vehicles and trailers	20% to 30% declining balance

Amortization methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

(E) Leased assets:

(i) Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

(ii) Other leases are operating leases and the leased assets are not recognized in the Group's consolidated statement of financial position.

(iii) Payments made under operating leases are recognized, in profit or loss, on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease , over the term of the lease.

(iv) Minimum lease payments, made under finance leases, are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period, during the lease term, so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(F) Inventories:

Inventories are measured at the lower of cost and net realizable value. The cost of inventories are based on the weighted average cost principle, and include expenditures incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(G) Impairment:

(i) Financial assets (including trade receivables and advances)

The Corporation recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Group measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Corporation measures the loss allowance for the financial asset at an amount equal to twelve months of expected credit losses.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is recognized in net earnings. The asset, together with the associated allowance, are written off when no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Corporation. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or decreased or reduced by adjusting the allowance account.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets which include property and equipment are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest component of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit, or "CGU"). Fair value less costs to sell is determined by using discounted net cash flows of a CGU less costs of disposal, using assumptions that an independent market participant may take into account. The Group's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount.

(H) Provisions:

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation, that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows, at a pre-tax rate, that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance expense.

(I) Employee benefits:

(i) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(ii) Stock based payment transactions

The Group accounts for stock based compensation plans in accordance with IFRS 2, "*Share based payment",* which requires companies to recognize the cost of such awards of equity instruments based on the grant date fair value of those awards. The Group estimates the fair value of stock option awards on the date of grant utilizing a Black–Scholes option valuation model. Certain key assumptions used in the Black-Scholes model include the expected stock price volatility, forfeitures, dividend yield and expected term.

(J) Revenue:

Revenue from the sale of artificial lift products in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognized when the service and or equipment has been delivered and installed and when the significant risks and rewards of ownership have been transferred to the buyer and no further activities are required by the Corporation.

(K) Income tax:

Tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that they relate to a business combination, or items recognized directly in equity, or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes, and the amounts used for taxation purposes. Deferred tax is not recognized for:

(i) temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;

(ii) temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future;

(iii) taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

Deferred tax assets and liabilities are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(L) Earnings (loss) per share:

The Corporation presents basic and diluted earnings per share (EPS) data for its common shares. Basic EPS is calculated by dividing the profit or loss, attributable to common shareholders of the Corporation by the weighted average number of common shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares, which comprise stock options and warrants to purchase common shares.

(M) Accounting Standards and Amendments (issued but not yet adopted):

New accounting standards, amendments to accounting standards and interpretations are effective for annual periods beginning on or after January 1, 2019 and have not been applied in preparing the Consolidated Financial Statements for the year ended December 31, 2018. The standards applicable to the Corporation are as follows:

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's initial assessment is a right of use asset of approximately $937 will be recognized with and offsetting current and long-term liability of approximately $347 and $590, respectively. The Corporation will recognize these adjustments using the modified retrospective approach. These initial estimates are subject to refinement as the Corporation finalizes its analysis of the appropriate discount rates and lease terms.

4. DETERMINATION OF FAIR VALUES

Some of the Group's accounting policies and disclosures require the determination of fair value for financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(A) Trade receivables and advances:

The fair value of trade receivables and advances is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

(B) Non-derivative financial liabilities:

Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of debentures, the market rate of interest is determined by reference to similar liabilities that do not have equity features attached. For financing leases, the market rate of interest is determined by reference to similar lease agreements.

(C) Stock based payment transactions and warrants:

The fair value of the employee stock options and warrants are measured using the Black-Scholes option pricing model. Measurement inputs include the share price on measurement date, the exercise price of the instrument, the expected volatility, the weighted average expected life of the instruments (based on historical experience and general option-holder behavior), the expected dividends, and the risk-free interest rate. Service and non-market performance conditions are not taken into account in determining fair value.

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

5. RESTATEMENT

The Corporation is restating its consolidated statement of financial position as at 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 year ended December 31, 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 year ended December 31, 2017, as well as the impact of the consolidated statement of financial position as at January 1, 2017.

Restated 2017	As previously reported	Opening 2016 Adjustment	2017 Adjustment	As restated
STATEMENT OF FINANCIAL POSITION				
Accumulated other comprehensive income (loss)	$711	($5,022)	$3,630	($681)
Deficit	(29,680)	5,022	(3,630)	(28,288)
STATEMENT OF NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)				
Finance expense	(833)		(1,155)	(1,988)
Loss from continuing operations before income taxes	(1,749)	-	(1,155)	(2,904)
Loss from continuing operations	(1,749)	-	(1,155)	(2,904)
Loss from discontinued operations, net of tax	(380)		(2,475)	(2,855)
Net loss	(2,129)	-	(3,630)	(5,759)
Other comprehensive income	68	-	3,630	3,698
Continuing operations - basic and dilutive loss per share	(0.02)	-	(0.01)	(0.03)
Discontinued operations - basic and dilutive loss per share	-	-	(0.03)	(0.03)
Net income loss – basic and dilutive	(0.02)	-	(0.04)	(0.06)
STATEMENT OF CASH FLOWS				
Net loss from continuing operations	(1,749)	-	(1,155)	(2,904)
Foreign exchange	$120	-	$1,155	$1,275

The error had the following impact on the consolidated statement of financial position as at January 1, 2017:

Restated January 1, 2017	As previously reported	Adjustment	As restated
STATEMENT OF FINANCIAL POSITION			
Accumulated other comprehensive income (loss)	$643	($5,022)	($4,379)
Deficit	(27,551)	5,022	(22,529)

6. TRADE RECEIVABLES AND ADVANCES

	2018	2017
Not past due 1 – 60	$655	$676
Past due 61 - 90 days	-	2
Past due more than 90 days	5	11
	$660	$689

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

7. PROPERTY AND EQUIPMENT

Cost	Vehicles and trailers	Computer and office equipment	Leasehold improvements	Shop equipment	Total
Balance at January 1, 2017	$419	$146	$64	$667	$1,296
Additions	8	14	10	130	162
Disposals	(70)	(1)	-	-	(71)
Effects of movement in exchange rates	-	(1)	-	-	(1)
Balance at December 31, 2017	$357	$158	$74	$797	$1,386
Additions	193	9	6	20	228
Disposals	(40)	-	-	-	(40)
Effects of movement in exchange rates	-	1	-	-	1
Balance at December 31, 2018	$510	$168	$80	$817	$1,575

Accumulated amortization	Vehicles and trailers	Computer and office equipment	Leasehold improvements	Shop equipment	Total
Balance at January 1, 2017	($302)	($126)	($30)	($452)	($910)
Amortization for the year	(33)	(6)	(6)	(60)	(105)
Disposals	62	-	-	-	62
Effects of movement in exchange rates	-	1	-	1	2
Balance at December 31, 2017	($273)	($131)	($36)	($511)	($951)
Amortization for the year	(51)	(8)	(7)	(64)	(130)
Disposals	35	-	-	-	35
Effects of movement in exchange rates	-	-	-	-	-
Balance at December 31, 2018	($289)	($139)	($43)	($575)	($1,046)

Carrying amounts	Vehicles and trailers	Computer and office equipment	Leasehold improvements	Shop equipment	Total
As at December 31, 2017	$84	$27	$38	$286	$435
As at December 31, 2018	$221	$29	$37	$242	$529

Included in shop equipment is a capital lease for a forklift with a net book value of $152 (2017 - $Nil).

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

8. INVENTORIES

	2018	2017
Components	$1,019	$1,303
Finished Goods	138	117
Total	$1,157	$1,420

All inventory relates to artificial lift equipment. Inventory included in cost of sales amounts to $3,888 (2017- $4,502). During 2018, as a result of an analysis of inventory cost and related sale value, a provision of $225 (2017 - $nil) was recorded to reduce the cost to realizable value. Included in inventory are items totaling $138 for which the Corporation does not expect will be realized until fiscal 2020.

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2018	2017
Trade payables	$2,800	$2,614
Accrued liabilities	568	744
Total accounts payable and accrued liabilities	$3,368	$3,358

Included in trade payables are $1,161 (2017 - $1,200) in excess of one year outstanding.

10. DEBENTURES

		Debt portion	Warrant portion	Common shares issued as transaction costs
Debentures payable at December 31, 2016		$4,116	$-	$21
Accretion		173	-	-
Effect of movements in exchange rates		291	-	-
Debentures payable at December 31, 2017		$4,580	$Nil	$21
Costs associated with debentures extension	(b)	(194)	141	
IFRS 9 adoption	(c)	(305)		
Accretion		104	-	-
Effect of movements in exchange rates		(363)	-	-
Debentures payable at December 31, 2018	(d)	$3,822	$141	$21

(a) At December 31, 2018, the Corporation has debentures outstanding of CAD $5,750 (2017 – CAD $5,750) of which CAD $1,423 (2017 – CAD $1,423) are held by related parties (see Note 21). The debentures bear interest at 10% per annum and the interest is paid quarterly by cash or with the Corporation's common shares (See Note 12(a)). The debentures are secured by a trust indenture and a general security agreement over all of the assets of the Corporation. The Corporation may, at any time, redeem all, but not less than all, of the outstanding Debentures.

(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 of 5,750,000 share purchase warrants (Note 13), 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.

(d) As detailed in Note 1, 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.

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

11. LONG-TERM DEBT

	Interest Rate	Maturing	2018	2017
Truck - loan	5.00%	2018	$-	$4
Forklift - capital lease	4.50%	2023	157	-
Less: Current portion			(32)	(4)
Long-term debt			$125	$-

The forklift has a net book value of $152 (2017 – $Nil).

During the year, $4 (2017 - $17) was paid to reduce the principal amount of the long-term debt.

12. SHARE CAPITAL

Authorized

Unlimited common shares

Unlimited preferred shares, issuable in series.

Issued

	Number of Shares	Amount
Balance at January 1, 2017	99,061,524	$16,451
Common shares issued – settle debenture interest payable (a)	4,840,648	448
Common shares issued - private placement (net of costs) (b)	5,000,000	517
Balance at December 31, 2017	108,902,172	17,416
Common shares issued – settle debenture interest payable (a)	8,324,819	437
Balance at December 31, 2018	117,226,991	$17,853

(a) Pursuant to the second supplemental indenture of the debentures of November 1, 2017, 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. As a result of these amended terms of the debenture (See Note 10(b)) the Corporation settled the interest obligations during the fiscal year ended 2018 by the issue of 8,324,819 common shares (2017 – 4,840,648 common shares) in lieu of cash payments of $437 (2017 - $448).

(b) During Q2 2017 the Corporation completed a private placement of 5,000,000 common shares at a price of US dollar equivalent $0.11 per share (CAD $0.15 per share) for gross proceeds of $547 (CAD $750). Divergent paid finder's fees to qualified non-related parties of 6% of the gross proceeds which amounted to $30 (CAD $41). In addition, qualified non-related parties were issued 276,000 share purchase warrants (See Note 13) exercisable at CAD $0.15 which expired on December 31, 2018. Utilizing the Black Scholes valuation model the additional value was calculated and attributed to the share purchase warrants of $20 (CAD $27).

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

13. WARRANTS

	Number of warrants	Amount
Balance January 1, 2017	5,750,000	$383
Warrants expired	(5,750,000)	(383)
Warrants issued with private placement of common shares (Note 12(b))	276,000	20
Balance at December 31, 2017	276,000	20
Warrants expired	(276,000)	(20)
Warrants issued with extension to maturity date of debentures (a)	5,750,000	141
Balance at December 31, 2018	5,750,000	$141

a) 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 common share purchase warrants, exercisable at CAD $0.13 and expiring December 31, 2021. Utilizing the Black Scholes valuation model the additional value was calculated and attributed to the share purchase warrants of $141 (net of deferred tax of $53).

Warrants outstanding at December 31, 2018	Exercise Price (CAD $)	Number of Warrants
Expire on December 31, 2021	0.13	5,750,000

14. STOCK BASED PAYMENTS

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 year ended December 31, 2018, $89 (2017 - $180) of stock based compensation was recognized in the statement of net income (loss) and comprehensive income (loss) with a corresponding amount in contributed surplus.

	2018		2017	
Continuity of stock options	Number of options	Weighted average exercise price (CAD $)	Number of options	Weighted average exercise price (CAD $)
Balance – beginning of year	6,785,000	0.29	7,175,000	0.33
Issued	1,840,000	0.14	1,930,000	0.16
Forfeitures / Expiries	(665,000)	0.28	(2,320,000)	0.35
Balance – end of year	7,960,000	0.25	6,785,000	0.29

The number of options exercisable at December 31, 2018, is 4,576,666 (2017 – 4,051,665) at a weighted average exercised price of CAD $0.31 (2017 - CAD $0.33). The weighted average remaining term for exercisable options is 2 years (2017 - 3 years).

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

During fiscal 2018, the Corporation granted the following options:

Granted	Number of options	Exercise price (CAD $)	Estimated fair value (CAD $)	Vesting
April 2, 2018	400,000	$0.085	$19	Vest one-third annually over three years and expire 5 years from the date of grant.
April 2, 2018	1,095,000	$0.155	$38	Vest one-third annually over three years and expire 5 years from the date of grant.
October 2, 2018	345,000	$0.15	$3	Vest one-third annually over three years and expire 5 years from the date of grant.
Total	1,840,000		$60	

A total fair value of $46 (CAD $60) was estimated for the 1,840,000 options that were granted in 2018, using the Black-Scholes option pricing model based on the following weighted average assumptions:

	2018
Risk free rate	1.76%
Average expected volatility	64%
Expected dividend per share	Nil
Expected life	5 years

15. INCOME (LOSS) PER SHARE

Basic and diluted per share amounts have been calculated by dividing the income or loss by the weighted average number of common shares outstanding for the year. All warrants and stock options that are issued and outstanding at the end 2018 and 2017 are anti-dilutive and therefore excluded from the calculation of the dilutive per share amounts. The volume weighted average trading price of the Corporation's common shares was $0.06 during the year ended December 31, 2018 (2017 - $0.14).

	2018	2017 (Note 5) Restated
Amounts used in determining basic and diluted earnings (loss) per share:		
Income (loss) from continuing operations	$71	($2,904)
Income (loss) from discontinued operations, net of tax	1,179	(2,855)
Net income (loss)	1,250	(5,759)
Shares used in calculating basic and diluted earnings (loss) per share:		
Weighted average number of common shares outstanding during the year	111,556,838	103,178,228

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

16. INCOME TAX EXPENSE

Reconciliation of effective tax rate

Income tax expense differs from the amount that would be computed by applying the combined federal and provincial statutory income tax rate to net income (loss) before taxes. The reasons for the differences are as follows:

	2018	2017 (Note 5) Restated
Income (loss) from continuing operations before tax	$18	($2,904)
Statutory income tax rate	27.0%	27.0%
Computed income tax expense (recovery)	5	(784)
Increase (decrease) result from:		
(Non-taxable) non-deductible items	(134)	229
Change in unrecognized deferred tax assets	76	555
Income tax (recovery) expense	($53)	$Nil

17. DEFERRED TAXES

Unrecognized deferred tax assets

Deferred tax assets have not been recognized in these financial statements as it is not probable that future taxable profits will be available to utilize such assets. The following items have not been recognized:

Gross amounts, not tax effected	2018	2017 (Note 5) Restated
Deductible temporary differences	$6,460	$7,627
Non-capital losses	8,660	8,375
Capital losses	6,184	7,103
	$21,304	$23,105

The Group has non-capital losses for income tax purposes in Canada and US that expire from 2029 to 2038. The deductible temporary differences and capital losses do not expire under current tax legislation. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilize the benefits. As a result of the restatement discussed in Note 5, estimated tax deductions as at December 31, 2017 have been restated and increased from $20,420 as previously reported to $23,105.

The Corporation has and continues to operate in multiple jurisdictions (Canada and United States) with complex tax laws and regulations which evolved over time and continue to change. The Corporation has taken certain tax filing positions in its tax filings which are subject to possible audits, tax assessments and reassessments, even after the lapse of a considerable amount of time. Accordingly, actual income tax impact may differ from that estimated and recorded by the Corporation.

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

18. NET FINANCE (INCOME) EXPENSE

	2018	2017 (Note 5) Restated
Interest expense on debentures	$437	$448
Interest expense on directors and offices advances and bank charges	23	85
Foreign exchange (income) loss	(1,294)	1,282
Accretion of debentures	104	173
Net finance (income) expense	($730)	$1,988

19. FINANCIAL RISK MANAGEMENT

(A) Risk management framework:

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework including developing and monitoring the Group's risk management policies.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers.

Trade receivables and advances

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer and the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk, particularly in the current economic circumstances. During the year ended December 31, 2018 approximately 93% (2017 - 95%) of sales are attributable to one customer. Accounts receivable include a customer of the Artificial Lift Systems segment which represents 85% at December 31, 2018 (2017 – 89%). The Group has established allowances for expected credit losses of trade receivables and advances in 2018 - $Nil (2017 - $125) which are included in discontinued operations (Note 23).

Liquidity risk

Liquidity risk is the risk that the Group may encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. See Note 1 for the conditions that currently exist that may cast significant doubt on the Corporation's ability to continue as a going concern.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. The level of market risk to which the Group is exposed to, depends on market conditions, expectations of future price or market rate movements and the composition of the Group's financial assets and liabilities. The Group regularly monitors market risk exposure, tolerances and control processes in order to manage the exposure related to changes in market risk to stay within acceptable market risk limits.

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

(i) Currency risk

The Group is exposed to currency risk on sales and purchases that are denominated in a currency other than the respective functional currencies of Group entities, primarily the Canadian dollar. The Group does not hedge its foreign currency.

Substantially all of the Corporation's revenues were generated in United States dollars during 2017 and 2018. The carrying value of property and equipment located in the United States totaled $536 (2017 - $441)

(ii) Interest rate risk

Interest rate risk arises from changes in market interest rates that may affect the fair value or future cash flows from the Group's financial assets or liabilities. The Group is exposed to interest rate risk on certain debt instruments and short term investments to the extent of changes in the underlying market interest rates. Cash flow exposure to interest rate risk is minimal at this time as substantially all of the Group's borrowings bear interest at fixed rates.

(B) Capital management:

Capital, which the Group defines as its share capital and debt, is monitored on a basis of the debt-to-capitalization ratio. For the purposes of this calculation, debt includes current and long-term portions of borrowed funds, including debentures. The Group's objective when managing its capital is to strike a balance between maintaining investor, creditor and market confidence while sustaining future development of the Group.

The Group's existing debt agreements do not require maintenance of any financial covenants. There were no changes to the Group's approach to capital management during the year ended December 31, 2018. The Group is not subjected to any internally or externally imposed capital requirements except that which is described in Note 1 – Going Concern.

(C) Contingencies:

From time to time, the Group is subject to legal proceedings, assessments and claims in the ordinary course of business. At this time, in the opinion of management, none of these matters are reasonably expected to result in a material adverse effect on the Group's financial position.

20. COMMITMENTS

The Group has entered into operating leases for the use of premises and vehicles. Minimum annual operating lease payments are summarized for the years as follows:

	2019	2020	2021	2022	2023 and thereafter	Total
Premises and office equipment	$260	$260	$167	$-	$-	$687
Vehicles	121	97	64	36	33	351
	$381	$357	$231	$36	$33	$1,038

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

21. RELATED PARTIES

The following transactions were in the normal course of operations and are recorded at their agreed upon amounts:

(A) Certain directors and officers of the Corporation have provided debentures to the Corporation which are denominated in Canadian Dollars. The CAD $5,750 face value of the debentures includes CAD $1,423 (2017 – CAD $1,423) due to directors and officers of the Corporation. Interest paid on these debentures during the year was to $110 (CAD $142) (2017 – $60 (CAD $78)).

(B) At December 31, 2018, officers and directors have advances to the Corporation outstanding of $87 (CAD $120) (2017 - $87 (CAD $120)) which are included in accounts payables and accrued liabilities. The advances are due on demand, maturing December 31, 2019 and bear interest at 10%. Interest of $10 (CAD $13) (2017 – $7 (CAD $9)) is included in accounts payable and accrued liabilities.

(C) During 2017, certain directors and officers of the Corporation converted advances made to the Corporation of $51 (CAD $70) into common shares of the private placement (Note 12(b)).

(D) In addition to their salaries, the Group also provides non-cash, stock based compensation to executive officers. Directors also participate in the Corporation's stock option program.

Key management personnel compensation comprised:

	2018	2017
Salaries and wages	$266	$316
Directors' fees	73	65
Stock based compensation	63	128
Total	$402	$509

22. SUPPLEMENTARY CASH FLOW INFORMATION

Net change in non-cash working capital

	2018	2017
Trade receivables and advances	$29	$403
Inventories	38	488
Prepaid expenses and deposits	(24)	84
Accounts payable and accrued liabilities	9	(204)
Total net change in non-cash working capital	$52	$771

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

23. DISCONTINUED OPERATIONS

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 year ended December 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.

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 5).

The operating results of COTS Mexico are presented below as discontinued operations.	**2018**	**2017 (Note 5) Restated**
Expenses		
Selling, general and administrative expenses	$-	$150
Amortization	-	2
Provision for bad debts on advances receivable	-	125
Loss on disposal of assets	-	3
Stock based compensation	-	10
Foreign exchange	-	2,475
	-	2,765
Loss from discontinued operations before income taxes	-	(2,765)
Income tax recovery (expense)	1,179	(90)
Income (Loss) from discontinued operations	$1,179	($2,855)

Cash flows from discontinued operations		
Cash from operating activities	$-	$30
Cash flows from discontinued operations	$-	$30

24. SUBSEQUENT EVENT

Non-compliance with debenture covenants

The Corporation became non-compliant with covenants of the indenture agreements effective November 16, 2019. This event is described in Note 1 - Going Concern.