# Divergent Energy Services Corp.

## Condensed Consolidated Interim Financial Statements

**As at September 30, 2019 and for the three and nine month periods ended September 30, 2019 and 2018**

**(Unaudited)**

## NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

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

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

**Restated Condensed Consolidated Statement of Net Loss and Comprehensive Loss**
Three and nine months periods ended September 30, 2019 and 2018
(Unaudited)

| In United States Dollars, (000`s) | Note | September 30, 2019 | December 31, 2018 |
|---|---|---|---|
| **Assets** | | | |
| Current assets | | | |
| Cash and cash equivalents | | $32 | $292 |
| Accounts receivable | | 1,749 | 660 |
| Inventories | | 1,704 | 1,157 |
| Prepaid expenses and deposits | | 222 | 163 |
| | | 3,707 | 2,272 |
| Right of use assets | 5 | 927 | - |
| Property and equipment | | 351 | 529 |
| | | $4,985 | $2,801 |
| **Liabilities and Deficiency** | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | | $5,529 | $3,368 |
| Debentures | 6 | 4,024 | - |
| Current portion of long-term lease obligations | 5 | 358 | 32 |
| | | 9,911 | 3,400 |
| Debentures | 6 | - | 3,822 |
| Long-term lease obligations | 5 | 387 | 125 |
| | | 10,298 | 7,347 |
| **Shareholders' deficiency** | | | |
| Share capital | 7 | 17,959 | 17,853 |
| Warrants | 8 | 141 | 141 |
| Contributed surplus | | 5,784 | 5,753 |
| Accumulated other comprehensive income | | (1,237) | (1,560) |
| Deficit | | (27,960) | (26,733) |
| | | (5,313) | (4,546) |
| | | $4,985 | $2,801 |

| | |
|---|---|
| Going concern | 2 |
| 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 Loss and Comprehensive Loss**
Three and nine months periods ended September 30, 2019 and 2018
(Unaudited)

| In United States Dollars, (000`s) | Note | Three months ended September 30, 2019 | Three months ended September 30, Restated (Note 3) 2018 | Nine months ended September 30, 2019 | Nine months ended September 30, Restated (Note 3) 2018 |
|---|---|---|---|---|---|
| Revenue | | $2,268 | $1,659 | $5,904 | $5,610 |
| Cost of sales | | 1,742 | 1,088 | 4,424 | 3,838 |
| Gross profit | | 526 | 571 | 1,480 | 1,772 |
| General and administrative expenses | | 531 | 674 | 1,736 | 2,029 |
| Stock based compensation | **9** | 6 | 19 | 31 | 71 |
| | | (537) | (693) | (1,767) | (2,100) |
| **Results from operating activities** | | (11) | (122) | (287) | (328) |
| Product development | | 6 | - | 56 | 4 |
| Net finance expense (income) | **10** | (31) | 1,104 | 884 | (30) |
| | | 25 | (1,104) | (940) | 26 |
| **Income (loss) from continuing operations before income taxes** | | 14 | (1,226) | (1,227) | (302) |
| Deferred tax recovery | | - | - | - | 53 |
| **Income (loss) from continuing operations after income taxes** | | 14 | (1,226) | (1,227) | (249) |
| **Net income from discontinued operations** | | - | - | - | 1,179 |
| **Net income (loss)** | | 14 | (1,226) | (1,227) | 930 |
| Other comprehensive (loss) income | | (111) | 890 | 322 | (284) |
| **Total comprehensive (loss) income for the period** | | ($97) | ($336) | ($905) | $646 |
| | | | | | |
| **Net loss per share (Note 11):** | | | | | |
| Continuing operations - Basic and diluted | | $0.00 | ($0.01) | ($0.01) | ($0.00) |
| Discontinued operations - Basic and diluted | | $0.00 | $0.00 | $0.00 | $0.01 |
| Net income (loss)- Basic and diluted | | $0.00 | ($0.01) | ($0.01) | $0.01 |

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

**Condensed Consolidated Statement of Equity (Deficiency)**
Nine months ended September 30, 2019 and December 31, 2018
(Unaudited)

| In United States Dollars, (000`s) | Share capital | Warrants | Contributed surplus | Accumulated other comprehensive income | Deficit | Total deficiency |
|---|---|---|---|---|---|---|
| **Balance January 1, 2018** | **$17,416** | **$20** | **$5,644** | **($681)** | **($28,288)** | **($5,889)** |
| Debenture interest paid with common shares (Note 7 (a)) | 437 | - | - | - | - | 437 |
| Stock based compensation (Note 9) | - | - | 89 | - | - | 89 |
| Warrants expired | - | (20) | 20 | - | - | - |
| Warrants issued for debenture extension, (net of deferred tax$53) (Note 6 (b)) | - | 141 | - | - | - | 141 |
| IFRS adoption | - | - | - | - | 305 | 305 |
| Net income for the year | - | - | - | - | 1,250 | 1,250 |
| Other comprehensive income | - | - | - | (691) | - | (691) |
| **Balance at December 31, 2018** | **17,853** | **141** | **5,753** | **(1,560)** | **(26,733)** | **(4,546)** |
| Debenture interest paid with common shares (Note 7 (a)) | 106 | - | - | - | - | 106 |
| Stock based compensation (Note 9) | - | - | 31 | - | - | 31 |
| Net loss for the period | - | - | - | - | (1,227) | (1,227) |
| Other comprehensive income | - | - | - | 323 | - | 323 |
| **Balance at September 30, 2019** | **$17,959** | **$141** | **$5,784** | **($1,237)** | **($27,960)** | **($5,313)** |

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

## Condensed Consolidated Statement of Cash Flows

Nine months ended September 30, 2019 and 2018
(Unaudited)

| | | Nine months ended September 30, | |
|---|---|---|---|
| In United States Dollars, (000`s) | Note | 2019 | 2018 |
| **CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES** | | | |
| Net loss from continuing operations | | ($1,227) | ($249) |
| Items not affecting cash: | | | |
| Amortization | | 171 | 75 |
| Stock based compensation | | 31 | 71 |
| (Gain) loss on disposal of assets | | (21) | - |
| Debenture interest | **7** | 324 | 331 |
| Accretion on debentures | **6** | 86 | 76 |
| Foreign exchange | | 219 | 480 |
| Changes in non-cash working capital | **12** | 466 | (274) |
| **Cash from (used in) operating activities** | | 49 | (449) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Repayment of lease obligations | | (284) | - |
| **Cash used in financing activities** | | (284) | - |
| **CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES** | | | |
| Property, plant and equipment additions | | (25) | (36) |
| **Cash used in investing activities** | | (25) | (36) |
| Change in cash and cash equivalents | | (260) | (485) |
| Cash and cash equivalents, beginning of period | | 292 | 549 |
| **Cash and cash equivalents, end of period** | | **$32** | **$64** |

| | | | |
|---|---|---|---|
| Interest paid on lease obligations | | $27 | $- |

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

## 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, 2019, comprise the Corporation and its wholly owned subsidiaries (referred to as the "Group"). These condensed consolidated interim financial statements include the accounts of the Corporation and its wholly-owned subsidiaries. The Group is in the business of providing artificial lift product and services to its clients in the oil and gas industry in the USA..

## 2. GOING CONCERN

These condensed consolidated interim financial statements have been prepared on a going concern basis. The going concern basis of presentation assumes that the Corporation will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

As these financial statements are being filed on December 30, 2019, they include additional information regarding the going concern up to that date. At September 30, 2019 the Corporation has a working capital deficiency of $6,204 and an accumulated deficit of $27,960. During the three and nine month periods ended September 30, 2019, the Corporation generated income from continuing operations of $14 and loss of $1,227, respectively. The Corporation generated cash from operations of $49. Approximately 82% and 84% (Q3 2018 - 83% and 86%) of sales are attributable to one customer for the three and nine month periods ended September 30, 2019, respectively. Included in accounts payable and accrued liabilities are amounts due to related parties totaling CAD $120 which are due on December 31, 2020 (see Note 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.

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

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

Additional financing is required in order for the Corporation to meet its current obligations. The Corporation's management and Board of Directors continue to seek alternative debt and equity financings in order to fund additional projects and operations in North America and to provide for the repayment of the Corporation's obligations as they become due. There is no assurance the Corporation will be able to obtain adequate financing in the future or that such financing will be on terms acceptable to the Corporation.

The unaudited condensed consolidated interim financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis were not appropriate for these financial statements, then adjustments would be necessary to the classification and carrying amounts of the assets and liabilities and the reported revenues and expenses to reflect a liquidation basis of accounting.

## 3. RESTATEMENT OF FINANCIAL STATEMENTS

A) The Corporation restated 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 three and nine month periods ended September 30, 2018.

In the course of preparing the Corporation's consolidated financial statements for the year ended December 31, 2018, errors were identified with respect to the foreign currency translation of certain balances and inter-company amounts associated with the Corporation's wholly owned foreign subsidiaries. The Corporation analyzed all prior periods commencing with the fiscal 2011 period. For periods prior to 2011, the 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 the year ended December 31, 2017, as well as the impact of the consolidated statement of financial position as at September 30, 2018.

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

B) The Corporation had conducted its operations in Mexico primarily through its wholly owned subsidiary, COTS Mexico. During the year ended December 31, 2016 the Corporation commenced winding down the operations of COTS Mexico and in fiscal 2017 a liquidator was engaged to commence the process of the liquidation of the entity. During the three months ended March 31, 2018 COTS Mexico was liquidated and it was determined that any liabilities associated with COTS Mexico, including income and withholding taxes owed, were eliminated upon liquidation.

As at September 30, 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 $1,587 for the three and nine months ended September 30, 2018, respectively, previously accrued as shown in the table below.

| **Restated three months ended September 30, 2018** | **As previously reported** | **Adjustments** | **As restated** |
|---|---|---|---|
| **CONSOLIDATED STATEMENT OF NET LOSS AND COMPREHENSIVE LOSS** | | | |
| Net finance expense | ($166) | ($938) | ($1,104) |
| Loss from continuing operations before income taxes | (288) | (938) | (1,226) |
| Loss from continuing operations | (288) | (938) | (1,226) |
| Income (loss) from discontinued operations, net of tax (B) | (92) | 92 | - |
| Net 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** | **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 (B) | (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 | (333) | (147) | (480) |

## 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, 2018 audited annual consolidated financial statements.

The condensed consolidated interim financial statements were authorized for issue by the Corporation's Board of Directors on December 30, 2019.

### B. Presentation Currency

These unaudited condensed consolidated interim financial statements are presented in US dollars ("USD").

### C. Use of Estimates and Judgments

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended December 31, 2018.

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

## 5. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

| | |
|---|---|
| **Operating lease commitments at December 31, 2018** | **$881** |
| Discounted amount at January 1, 2019 | 780 |
| Finance lease obligations at December 31, 2018 | 157 |
| **Total lease obligations at January 1, 2019** | **937** |
| Additional lease commitments | 92 |
| Payments during the period | (284) |
| Discounted amount at September 30, 2019 | 745 |
| **Less current lease obligations** | **(358)** |
| **Long-term lease obligations at September 30, 2019** | **$387** |

## 6. DEBENTURES

| | Debt portion | Warrant portion | Common shares issued as transaction costs |
|---|---|---|---|
| **10% debentures payable at January 1, 2018** | **$4,580** | **$-** | **$21** |
| Accretion | 104 | - | - |
| IFRS 9 adoption | (305) | | |
| Costs associated with debentures extension | (194) | 141 | |
| Effect of movements in exchange rates | (363) | - | - |
| **10% debentures payable at December 31, 2018** | **3,822** | **141** | **21** |
| Accretion | 86 | - | - |
| Effect of movements in exchange rates | 116 | - | - |
| **10% debentures payable at September 30, 2019** | **$4,024** | **$141** | **$21** |

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

(b) On November 1, 2017, the Corporation requested and was granted an extension of the maturity date for the outstanding debentures by the registered holders and the maturity dates of the debentures were extended by four years to December 31, 2021. The terms of the extension agreement included the issue on January 1, 2018 5,750,000 share purchase warrants, exercisable at CAD $0.13 and expiring December 31, 2021.

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

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

## 7. SHARE CAPITAL

Authorized

Unlimited common shares

Unlimited preferred shares, issuable in series, with rights and limitations to be set prior to issue.

Issued

| | Number of Shares | Amount |
|---|---|---|
| **Balance at January 1, 2018** | **99,061,524** | **$17,416** |
| Common shares issued – debenture interest | 8,324,819 | 437 |
| **Balance at December 31, 2018** | **117,226,991** | **17,853** |
| Common shares issued – debenture interest | 2,835,614 | 106 |
| **Balance at September 30, 2019** | **120,062,605** | **$17,959** |

Pursuant to the second supplemental indenture of the debentures the Corporation has the option to pay the debenture interest in either cash or common shares up to and including at the maturity of the debentures on December 31, 2021. For the period ended March 31, 2019 Corporation elected to pay the interest in common shares of 2,835,614 amounting to CAD $142. As a result of the ongoing cease trade orders issued by the Alberta and British Columbia Securities Commissions, the Corporation was unable to issue shares in lieu of cash for the debenture interest due for the period ending June 30, 2019 and September 30, 2019 amounting to CAD $143 and CAD $145, the amounts are included in accounts payable and accrued liabilities. The Corporation sought and received a waiver from the debenture holders to approve a delay of up to 45 days for the June and September interest payments of shares in lieu of cash. (See Note 2). For fiscal 2018 the Corporation paid the debenture interest with 8,324,819 common shares amounting to CAD $575.

## 8. WARRANTS

| | Number of warrants | Amount |
|---|---|---|
| **Balance at January 1, 2018** | **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 December 31, 2018 and September 30, 2019** | **5,750,000** | **$141** |

**Warrants outstanding at September 30, 2019**

| 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, 2019, 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 years |

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

## 9. STOCK BASED COMPENSATION

The Corporation has established a stock option plan to allow certain officers, directors, employees and consultants to acquire common shares of the Corporation. A total of 10% of the Corporation's shares outstanding are reserved for the issue of stock options pursuant to the stock option plan. Stock based compensation expense of $17, $8 and $6 was recorded for the three, six and nine month periods ended September 30, 2019, respectively (for the three, six and nine month periods ended September 30, 2018; $29, $23 and $19).

| **Continuity of stock options at September 30,** | **2019** | | **2018** | |
|---|---|---|---|---|
| | Number of options | Weighted average exercise price (CAD $) | Number of options | Weighted average exercise price (CAD $) |
| Balance – beginning of period | 7,615,000 | $0.25 | 6,785,000 | $0.29 |
| Grants during the period | - | $- | 1,840,000 | $0.14 |
| Forfeiture during the period | (2,350,000) | $0.33 | (665,000) | $0.28 |
| Balance – end of period | 5,610,000 | $0.22 | 7,615,000 | $0.25 |

The number of options exercisable at September 30, 2018, is 5,531,666 (2018 – 4,443,332) at a weighted average exercised price of CAD $0.25 (2018 - CAD $0.31).

## 10. NET FINANCE EXPENSE (INCOME)

| | **Three months ended September 30,** | |
|---|---|---|
| | **2019** | **2018** |
| Foreign exchange (gain) loss | ($174) | $962 |
| Interest expense – directors and officers advances and bank charges | 7 | 3 |
| Interest expense - debentures | 106 | 113 |
| Accretion expense | 30 | 26 |
| Net finance expense (income) | ($31) | $1,104 |

| | **Nine months ended September 30,** | |
|---|---|---|
| | **2019** | **2018** |
| Foreign exchange (gain) loss | $461 | ($450) |
| Interest expense – directors and officers advances and bank charges | 13 | 13 |
| Interest expense - debentures | 324 | 331 |
| Accretion expense | 86 | 76 |
| Net finance expense (income) | $884 | ($30) |

## 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, 2019, of 120,062,605 (2018 – 112,238,622) and 119,138,174 (2018 - 110,612,188), respectively. All outstanding options and warrants are anti-dilutive for the period and comparative period.

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

## 12. SUPPLEMENTAL CASH FLOW INFORMATION – CHNAGES IN NON-CASH WORKING CAPITAL

| | Nine months ended September 30, | |
|---|---|---|
| | **2019** | **2018** |
| Trade receivables and advances | ($1,089) | ($285) |
| Inventory | (547) | (7) |
| Prepaid expenses and deposits | (59) | (102) |
| Accounts payable and accrued liabilities | 2,161 | 120 |
| **Changes in non-cash working capital** | **$466** | **($274)** |

## 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:

| | 2019 | 2020 | 2021 | 2022 | 2023 and thereafter | Total |
|---|---|---|---|---|---|---|
| Premises and office equipment | $61 | $242 | $156 | $- | $- | $459 |
| Vehicles | 29 | 116 | 83 | 48 | 30 | 306 |
| | $90 | $358 | $239 | $48 | $30 | $764 |

## 14. DISCONTINUED OPERATIONS

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

| | **Three months ended September 30,** | | **Nine months ended September 30,** | |
|---|---|---|---|---|
| **Discontinued operations** | **2019** | **2018** | **2019** | **2018** |
| Loss from discontinued operations before taxes | $- | $- | $- | $- |
| Current tax expense (recovery) | - | - | - | (1,179) |
| **Net income from discontinued operations** | $- | $- | $- | $1,179 |

## 15. RELATED PARTY TRANSACTIONS

The following transactions were in the normal course of operations and entered into with the same terms as non-related parties and are recorded at their agreed to exchange amounts which reflect fair values:

a) The 10% debenture of CAD $5,750 includes CAD $1,423 from directors and officers of the Corporation. Interest paid to directors and officers for the three and month period ended 2019 amount to CAD $78 (2018 – CAD $78) which was in common shares of the Corporation.

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

## 16. SUBSEQUENT EVENTS

### Compliance with debenture covenants

As these financial statements are being filed on December 30, 2019, they include information related to the Corporation becoming compliant with covenants of the indenture agreements effective December 30, 2019. This event is described in Note 2 - Going Concern.