Consolidated Financial Statements

Divergent Energy Services Corp.

As at and for the years ended December 31, 2019 and 2018

Independent Auditor's Report

To the Shareholders of Divergent Energy Services Corp.:

Opinion

We have audited the consolidated financial statements of Divergent Energy Services Corp. and its subsidiaries (the "Company"), which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated statements of net income (loss) and comprehensive income (loss), equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

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 Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated 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 2 in the consolidated financial statements, which indicates that the Company had a working capital deficiency of $3,050,000 and shareholders' deficit of $6,655,000 as at December 31, 2019 and, for the year then ended, had incurred a loss from continuing operations of $2,644,000 and generated cash from operations of $325,000. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Matter

The consolidated financial statements for the year ended December 31, 2018 were audited by another auditor who expressed an unmodified opinion on those conslidated financial statements on December 20, 2019.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's 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. We have nothing to report in this regard.

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

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

In preparing the consolidated 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.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 these consolidated 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 consolidated 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 auditor's report to the related disclosures in the consolidated 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 auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Brad Frampton.

MNP LLP

Calgary, Alberta
April 29, 2020

Chartered Professional Accountants

MNP

Divergent Energy Services Corp.

Consolidated Statements 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, 2019	December 31, 2018
ASSETS			
Current assets			
Cash		**$249**	$292
Prepaid expenses, deposits and advances		**23**	163
Trade receivables	**5**	**1,652**	660
Inventories	**6**	**631**	1,157
		2,555	2,272
Non-current assets			
Right-of-use assets	**9**	**488**	-
Property and equipment	**8**	**251**	529
Total Assets		**$3,294**	$2,801
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	**11**	**$4,897**	$3,265
Current portion of lease obligations	**10**	**270**	32
Related party loans	**12**	**92**	88
Interest payable	**12,13**	**346**	15
		5,605	3,400
Non-current liabilities			
Lease obligations	**10**	**210**	125
Debentures	**2,13**	**4,134**	3,822
Total Liabilities		**9,949**	7,347
SHAREHOLDERS' DEFICIT			
Share capital	**14**	**17,927**	17,853
Contributed surplus		**5,790**	5,753
Warrants	**15**	**141**	141
Accumulated other comprehensive loss		**(1,136)**	(1,560)
Accumulated deficit		**(29,377)**	(26,733)
Total Shareholders' Deficit		**(6,655)**	(4,546)
Total Liabilities and Shareholders' Deficit		**$3,294**	$2,801

GOING CONCERN	**2**
RELATED PARTIES	**20**
SUBSEQUENT EVENTS	**24**

Approved by the Board of Directors

Signed "Cam Barton", Chairman   *Signed "Ken Berg"*, Director, CEO

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

Divergent Energy Services Corp.

Consolidated Statements of Net (Loss) / Income and Comprehensive (Loss) / Income
(All figures in '000's of US dollars except number of shares and per share data, unless otherwise stated)

		Year ended December 31,	
	Note	**2019**	**2018**
Revenue	**21**	**$8,178**	$7,535
Cost of sales		**(5,897)**	(5,257)
Provision for slow moving inventory	**6**	**(1,325)**	(225)
Gross profit		**956**	2,053
General and administration		**(2,140)**	(2,545)
Depreciation and amortization	**8,9**	**(408)**	(129)
Stock based compensation	**16**	**(37)**	(89)
Results from operating activities		**(1,629)**	(710)
Product development credit (expense)	**7**	**270**	(9)
Finance (expense) income	**17**	**(1,285)**	730
Gain on disposal of assets		**-**	7
(Loss) income from continuing operations before income taxes		**(2,644)**	18
Deferred tax recovery	**18**	**-**	53
(Loss) income from continuing operations		**(2,644)**	71
Income from discontinued operations	**23**	**-**	1,179
Net (loss) income		**(2,644)**	1,250
Other comprehensive income (loss) being foreign exchange gains (losses)		**424**	(879)
Total comprehensive (loss) income for the year		**($2,220)**	$371
(Loss) income per share	**19**		
Continuing operations - basic and dilutive		**($0.02)**	$0.00
Discontinued operations - basic and dilutive		**-**	$0.01
Net (loss) income – basic and dilutive		**($0.02)**	$0.01

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

Consolidated Statements of Equity

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

	Note	Number of shares	Share capital	Warrants	Contributed surplus	Accumulated other comprehensive (loss)/income	Accumulated deficit	Total shareholders’ deficit
Balance at December 31, 2017		108,902,168	$17,416	$20	$5,644	($681)	($28,288)	($5,889)
Debenture interest settled with common shares	**13,14**	8,324,819	437	-	-	-	-	437
Stock based compensation	**16**		-	-	89	-	-	89
Warrants expired	**15**		-	(20)	20	-	-	-
IFRS 9 adoption	**13**		-	-	-	-	305	305
Warrants issued for extension to maturity date of debentures (net of tax)	**15**		-	141	-	-	-	141
Net income for the year			-	-	-	-	1,250	1,250
Other comprehensive loss			-	-	-	(879)	-	(879)
Balance at December 31, 2018		117,226,987	17,853	141	5,753	(1,560)	(26,733)	(4,546)
Debenture interest settled with common shares	**13,14**	**2,835,614**	**74**	**-**	**-**	**-**	**-**	**74**
Stock based compensation	**16**		**-**	**-**	**37**	**-**	**-**	**37**
Net loss for the year			**-**	**-**	**-**	**-**	**(2,644)**	**(2,644)**
Other comprehensive income			**-**	**-**	**-**	**424**	**-**	**424**
Balance at December 31, 2019		**120,062,601**	**$17,927**	**$141**	**$5,790**	**($1,136)**	**($29,377)**	**($6,655)**

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

Divergent Energy Services Corp.

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

	Note	2019	2018
OPERATING ACTIVITIES			
Net (loss) income from continuing operations		**($2,644)**	$71
Adjustments for:			
Depreciation and amortization	**8**	**139**	129
Depreciation of right-of-use assets	**9**	**269**	-
Stock based compensation	**16**	**37**	89
Accretion on debentures	**13**	**116**	104
Debenture interest settled in common shares	**13,17**	**74**	437
Gain on disposal of assets		**-**	(7)
Provision for slow moving inventory	**6**	**1,325**	225
Deferred tax recovery	**18**	**-**	(53)
Product development costs	**7**	**(310)**	-
Lease finance expense	**17**	**77**	-
Foreign exchange	**17**	**662**	(1,236)
Changes in non-cash working capital	**22**	**580**	52
Net cash generated from operating activities		**325**	(189)
INVESTING ACTIVITIES			
Proceeds from disposal of property and equipment		**-**	7
Property and equipment additions		**-**	(72)
Net cash used in investing activities		**-**	(65)
FINANCING ACTIVITIES			
Payments towards lease obligations	**10**	**(367)**	(4)
Net cash used in financing activities		**(367)**	(4)
Effect of exchange rate fluctuations on cash		**(1)**	1
Net change in cash		**(43)**	(257)
Cash, beginning of year		**292**	549
Cash, end of year		**$249**	$292

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

1. NATURE OF BUSINESS

Divergent Energy Services Corp. is a Canadian legal entity with a registered office located at 2020, 715 - 5 Avenue SW, Calgary, AB, T2P 2X6. The audited consolidated financial statements of the Company as at and for the year ended December 31, 2019 comprise the Company and its wholly owned foreign subsidiaries (collectively, "Divergent", "Company" or "Group").

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 consolidated 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 Northern Mountain States in the United States, more specifically Wyoming and Colorado.

2. GOING CONCERN

These consolidated financial statements have been prepared on a going concern basis which assumes that the Company 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 rather than through a process of forced liquidation.

At December 31, 2019 the Company had a working capital deficiency of $3,050 and shareholders deficit of $6,655. During 2019, the Company generated a loss from continuing operations of $2,644, generated cash from operations of $325 and approximately 81% of the Company's sales were attributable to one customer. The Company has debentures payable of CAD $5,750 which mature on December 31, 2021. The Company does not have sufficient cash or other resources available to meet its obligations and commitments in a timely manner.

On May 6, 2019, the Company received from the Alberta Securities Commission ("ASC") a cease trade order ("CTO") for the Company's failure to file its 2018 annual consolidated financial statements for the year ended December 31, 2018 prior to the April 30, 2019 filing deadline. During December 2019, the Company filed its restated 2018 Q1, Q2, Q3 and its 2019 Q1, Q2 and Q3 interim consolidated financial statements and management's discussion and analysis and its 2018 year-end audited consolidated financial statements and management's discussion and analysis. On March 26, 2020, the CTO was revoked by the ASC and the TSX Venture Exchange ("TSXV") issued a bulletin on April 9, 2020 reinstating trading of the Divergent's securities effective April 14, 2020.

The CTO prevented the Company from issuing common shares to settle interest obligations for Q2, Q3 and Q4 of 2019. Prior to December 31, 2019, the Company received waivers from its debenture holders covering all outstanding interest currently due and payable, plus interest which became due and payable on December 31, 2019. The waivers allow the Company to pay all outstanding interest owing to debenture holders by issuance of the Company's common shares on or before March 31, 2020. Accordingly, the Company is compliant with the provisions of the debenture indenture at December 31, 2019. The CTO was revoked on March 26, 2020 however the Company's shares did not resume trading prior to March 31, 2020 which prevented the Company from settling interest obligations for Q2, Q3 and Q4 of 2019 and Q1 2020 by the issuance of common shares. The Company did not obtain additional waivers resulting in the Company not being in compliance with the indenture agreements at April 1, 2020 and as at the date of these consolidated financial statements.

On April 15, 2020, the Company announced a plan to issue to debenture holders 23,862,476 shares at CAD $0.025 per share, as approved by the TSXV on April 15, 2020, for total consideration of $429 (CAD $597) which would settle all unpaid interest up to March 31, 2020.

2. GOING CONCERN (CONTINUED)

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

These circumstances and material uncertainties cast significant doubt on the Company's ability to continue as a going concern. These consolidated financial statements do not reflect adjustments in the carrying values of the assets and liabilities, expenses and the statement of financial position that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material. See additional information on going concern in subsequent events - Note 24(a).

3. BASIS OF PRESENTATION

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and the interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") that were in effect at January 1, 2019 and were authorized for issue by the Board of Directors on April 29, 2020.

Basis of measurement

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

Presentation and functional 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.

Basis of consolidation

Subsidiaries are entities controlled by the Company 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. The following legal entities are within the Divergent Group of companies as at December 31, 2019:

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

3. BASIS OF PRESENTATION (CONTINUED)

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

- Effective February 1, 2018, the 100% owned Mexican incorporated subsidiary, COTS Mexico was liquidated and therefore ceased to be a subsidiary at that time.

Use of estimates and judgments

In applying the Company's accounting policies, the preparation of consolidated financial statements requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts may differ materially from these estimates due to changes in general economic conditions, changes in laws and regulations, changes in future operating plans and the inherent imprecision associated with estimates.

Significant estimates and judgments used in the preparation of these consolidated financial statements and set out in Note 4 include:

- Determining if the Company is a going concern. Significant areas of judgment include future expected cash flows, including anticipated financing, costs and revenue;
- The calculation of right of use assets and corresponding lease liability, judgements include whether there is a reasonable expectation to exercise an option to renew and estimate of an incremental borrowing rate;
- The allowance for inventory obsolescence;
- Estimate of revenue;
- Estimates of current and future taxes;
- Determining depreciation;
- The fair value of share-based payments is based on estimates using the Black-Scholes option pricing model.
- The calculation of deferred income taxes requires judgment in applying tax laws and regulations, estimating the timing of temporary difference reversals, and estimating the realization of deferred tax assets;
- Assessing impairment of cash generating units;
- Management uses judgment to assess the existence of contingencies. By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. Management also uses judgment to assess the likelihood of the occurrence of one or more future events;

3. BASIS OF PRESENTATION (CONTINUED)

Use of estimates and judgments (continued)

- The Company applies a simplified approach for the measurement of expected credit losses ("ECL") on its trade receivables as these are typically short-term in nature. On initial recognition, the Company records a loss equal to the 12-month ECL unless the financial assets are considered credit impaired. The Company measures lifetime ECL's on its credit impaired trade receivables based on historical experience and forecasted economic conditions affecting the counterparties; and
- The determination of the Company's functional currency requires analyzing facts that are considered primary factors, and if the results are not conclusive, secondary factors. The analysis requires the Company to apply significant judgment since primary and secondary factors may be mixed. In determining its functional currency, the Company analyzes both the primary and secondary factors, including the currency of the Company's expected revenues, operating costs, general and administrative costs and financing proceeds in the countries that it operates in.

Prior to liquidation of its COTS Mexico (See Note 23) in 2018, the Company has taken certain tax positions in its Mexican tax filings using its best estimate based on a qualitative assessment of all relevant factors.

4. 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.

Foreign currency

a) 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 denominated in foreign currencies are translated to the functional currency at the exchange rates in effect at the reporting date. Foreign exchange gains and losses are recorded in the consolidated statement net income (loss) and comprehensive income (loss). Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to the functional currency at the exchange rate in effect when the fair value was determined. Foreign currency differences are generally recognized in net income. Non-monetary items that are measured based on historical cost in a foreign currency are translated to the functional currency using the exchange rate in effect at the date of the transaction giving rise to the item.

b) Foreign operations

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 recognized in the statement of net income (loss) and comprehensive income (loss) on disposal.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currency

c) *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.

Financial instruments

a) *Recognition and measurement*

Financial instruments are any contract that gives rise to a financial asset of one party and a financial liability or equity instrument of another party. Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial instruments are recognized initially at fair value, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The following table lists the Company's financial instruments and its category of method of measurement subsequent to initial recognition:

Cash	Fair value
Trade receivables	Amortized cost
Inventories	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Related party loans	Amortized cost
Lease obligations	Amortized cost
Debentures	Amortized cost

b) *Impairment*

Financial assets classified as measured at amortized cost reflect the Company's assessment of ECL's. ECL's are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. Expectations reflect historical credit losses, adjusted for forward looking factors.

The impairment methodology applied depends on whether there has been a significant increase in credit risk since initial recognition of the asset. If there has not been a significant increase in credit risk, the expected credit loss provision is based on expectations for the next twelve months. If there has been a significant increase in credit risk, the provision is based on expectations for the remaining lifetime of the asset.

Property and equipment

a) *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 and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and are recognized separately in the statement of net income (loss) and comprehensive income (loss).

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and equipment (continued)

b) *Depreciation and amortization*

Depreciation and amortization are 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 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.

The capital assets are depreciated and amortized as follows:

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

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

Depreciation is calculated to depreciate the cost, less estimated residual value, of assets on a systematic and rational basis over their expected useful lives. Estimates of residual value and useful lives are based on data and information from various sources including industry practice and historic experience. Expected useful lives and residual values are reviewed annually for any change to estimates and assumptions. Although management believes the estimated useful lives of the Company’s property and equipment are reasonable, it is possible that changes in estimates could occur, which may affect the expected useful lives and salvage values of the property and equipment.

Leases

The Company does not enter into agreements which would require it to act as a lessor and therefore the policy describes the accounting for leases as a lessee only. At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company recognizes a right-of-use asset (“ROU”) and a lease liability at the lease commencement date. The ROU asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. Any leasehold improvements are added to the related ROU asset.

The ROU asset is subsequently amortized using the straight-line method from the commencement date to the lesser of the end of the lease term or the useful life of the underlying asset. The ROU asset is reduced by any impairment losses, if any, and adjusted for remeasurements of the lease liability. The lease liability is initially measured at the present value of the lease payments discounted using the interest rate implicit in the lease if readily determinable, or the Company’s incremental borrowing rate. The lease payments include fixed and variable payments, residual value guarantees, and the exercise price under a purchase option that the Company is reasonably certain to exercise. The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in the expected future lease payments as a result of a revision to the lease term, for example. Remeasurements to the lease liability are reflected in the ROU asset to the extent that the carrying value of the ROU asset exceeds the adjustment, and to other income (expense) in net earnings/(loss) otherwise.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (continued)

The Company does not recognize ROU assets and lease liabilities for leases of low-value assets and short-term leases. Lease payments associated with these leases are expensed on a straight line basis over the lease term.

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. Inventory that is not realizable within one year is classified as long-term inventory. A provision is recorded against inventory balances for estimated obsolescence.

The Company records valuation adjustments for inventory by comparing the inventory cost to its net realizable value. This process requires the use of estimates and assumptions related to future market demand, costs and prices. Such assumptions are reviewed quarterly and may have a significant impact on the valuation adjustments for inventory. Net realizable value is assessed on an item by item basis except when they cannot be practically evaluated separately from other items.

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 in the statement of net income (loss) and comprehensive income (loss).

Employee benefits

a) *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.

b) *Stock based payment transactions*

The Company follows the fair value method for recognition of all stock-based compensation arrangements. Under this method, stock-based compensation for options granted to employees, and others providing similar services, is based on the estimated fair value at the time of the grant. For stock options, the fair value is estimated using the Black-Scholes option-pricing model. Certain key assumptions used in the Black-Scholes model include the expected stock price volatility, forfeitures, dividend yield and expected term. Compensation costs are recognized over the vesting period of the stock options.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue

The Company's services are provided based on orders and contracts with customers that include fixed or determinable prices and are based on daily, hourly or contracted rates. Contract terms do not include the provision for post-service obligations nor include a right of return for products. Revenue is recognized upon transfer of control of promised goods or services to the customers in an amount that reflects the consideration the Company expects to receive in exchange for those goods or services.

The Company's goods and services are generally distinct and accounted for as separate performance obligations. A good or service is distinct if the customer can benefit from it on its own or together with other readily available resources, and the Company's promise to transfer the good or service is separately identifiable from other promises in the contractual arrangement with the customer.

Product revenue is recognized when the customer can benefit from the product, which is typically when it is delivered or made available to the customer, at a point in time. Service revenue is recognized in the period in which the customer's delivery is fulfilled, at a point in time.

The Company recognizes an asset for the incremental costs of obtaining a contract with a customer if it expects the costs to be recoverable. Capitalized contract acquisition costs are amortized consistent with the pattern of transfer of the goods or services to which the asset relates. The amortization period includes anticipated contract renewals where there is either no renewal commission or a renewal commission that is not commensurate with the initial commission. The Company applies the practical expedient method available under IFRS and does not capitalize incremental costs of obtaining contracts if the amortization period is one year or less. The Company does not have any incremental costs meeting capitalization criteria.

The Company has elected to not adjust the total consideration over the contract term for the effect of a financing component if the period between the transfer of services to the customer and the customer's payment for these services is expected to be one year or less. In determining the transaction price and financing component for contract terms greater than one year, the Company has adjusted the promised amount of consideration for the effects of the time value of money. The Company has applied a discount rate reflective of a separate financing transaction between the Company and its customer at the inception of the contract. The effects of financing are presented separately as interest revenue in the consolidated statement of loss and comprehensive loss.

Where the outcome of performance obligations for contracts can be estimated reliably, revenue is recognized. Where the outcome of performance obligations for sales contracts cannot be reliably measured, contract revenue is recognized in the current year to the extent that costs have been incurred until such time that the outcome of the performance obligations can be reasonably measured. Significant estimation assumptions are required to estimate total contract costs, which are recognized as expenses in the year in which they are incurred. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxes

Tax expense comprises current and deferred tax. Tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or other comprehensive income, in which case the tax is also recognized directly in equity or other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted, or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous years. Current tax assets and current tax liabilities are only offset if a legally enforceable right exists to offset the amounts, and the Corporation intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Deferred tax is recognized in respect of all qualifying temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the statement of financial position date and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

The calculations for current and deferred taxes require management's interpretation of tax regulations and legislation in the various tax jurisdictions in which the Company operates, which are subject to change. The measurement of deferred tax assets and liabilities requires estimates of the timing of the reversal of temporary differences identified and management's assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income before they expire, which involves estimating future taxable income.

The Company is subject to assessments by various taxation authorities in the tax jurisdictions in which it operates and these taxation authorities may interpret the tax legislation and regulations differently. In addition, the calculation of income taxes involves many complex factors. As such, income taxes are subject to measurement uncertainty and actual amounts of taxes may vary from the estimates made by management.

Earnings (loss) per share

The Company 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 Company 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.

Cash Generating Units ("CGUs")

For the purposes of assessing impairment of non-financial assets, the Company must determine CGUs. Assets and liabilities are grouped into CGUs at the lowest level of separately identified cash inflows. Determination of what constitutes a CGU is subject to management judgement. The asset composition of a CGU can directly impact the recoverability of assets included within the CGU. Management has determined that the Company has one CGU.

The determination of whether indicators of impairment exist is based on management's judgment of whether there are internal and external factors that would indicate that a non-financial asset is impaired. The recoverable amounts used for impairment calculations require estimates of future net cash flows related to the assets or CGU's, probability of successful contract proposals and estimates of discount rates applied to these cash flows.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New accounting standards effective

Leases

The Company applied IFRS 16 with a date of initial application of January 1, 2019. As a result, the Company has changed its accounting policy for lease contracts as detailed below. The Company has applied IFRS 16 using the modified retrospective approach and therefore the comparative information before the initial application has not been restated and continues to be reported under IAS 17. The details of accounting policies under IAS 17 are disclosed separately if they are different from those under IFRS 16 and the impact of changes is disclosed in Note 10.

At inception of a contract, Divergent assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- the contract involves the use of an identified asset;
- the Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and,
- the Company has the right to direct the use of the asset. The Company has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used.

The policy is applied to contracts entered into, or changed, on or after January 1, 2019.

The Company has elected to not apply the lessee accounting model to:

- leases with a lease term of 12 months or less that do not contain a purchase option; and
- leases for which the underlying asset is of low value when it is new.

At inception or on reassessment of a contract that contains a lease component, Divergent allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. For the leases of building spaces in which it is a lessee, Divergent has elected to separate non-lease components, and account for the lease and non-lease components as a separate lease component. Any additional payment for the operating costs is a non-lease component and is accounted for as a rent expense.

The lease liability is initially measured at the present value of the lease payments that are not paid at the initial application date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate.

The Company recognizes a ROU asset on a lease-by-lease basis as the amount equal to the lease liability on January 1, 2019 with no impact to retained earnings. The ROU asset is subsequently depreciated using the straight-line method from the initial application date to the earlier of the end of the useful life of the ROU asset or the end of the lease term. In addition, the ROU asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New accounting standards effective (continued)

Leases (continued)

The following table show the impact of IFRS 16 implementation on opening balances:

	Closing Balance December 31, 2018	Adjustments	Opening Balance January 1, 2019
Assets			
Right-of-use assets(1)	$152	$526	**$678**
Liabilities			
Current portion of lease obligations(2)	32	82	**114**
Lease obligations(3)	$125	$440	**$565**

(1) Leased assets were disclosed in property and equipment in the prior year. The opening balance on January 1, 2019 is net of accumulated amortization.
(2) The current portion of the lease obligations was disclosed as current portion of long-term debt in the prior year.
(3) Lease obligations were disclosed as long-term debt in the prior year.

New accounting standards not yet effective

Certain pronouncements have been issued by the IASB that are mandatory for accounting periods after December 31, 2019. There are currently no such pronouncements that are expected to have a significant impact on the Company's consolidated financial statements upon adoption.

5. TRADE RECEIVABLES

	2019	2018
Not past due current to 60 days	**$1,598**	$655
Past due 61 - 90 days	**20**	-
Past due more than 90 days	**34**	5
	$1,652	$660

The provision for ECL's was $nil in 2019 (2018 – $nil).

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

6. INVENTORIES

	2019	2018
Materials and equipment inventory	**$2,181**	$1,382
Accumulated provision for slow moving inventory	**(1,181)**	(225)
Accumulated provision for obsolete inventory	**(354)**	-
Disposal of obsolete inventory	**(15)**	-
	$631	$1,157

During 2019, the Company acquired inventory from its supplier in excess of forecasted current year revenue projections. The Company temporarily reduced forecasted operating activities which impacted inventory turnover periods. There are risks that inventory could lose some or all its value due to technological obsolescence, shifts in market demand or other unexpected changes in industry conditions and circumstances. Given these uncertainties, the Company may be required to sell its inventories at a loss, abandon it or recycle it into different products. As a result, a provision has been taken for slow moving and obsolete inventory. The total provision in the current year is $1,325 (2018 - $225) and cumulative provision of $1,535 (2018 – $225).

7. PRODUCT DEVELOPMENT

The research and development project related to the linear pump motor ("Linear Project") which commenced in 2013 ceased by the end of 2018 and was placed on hold indefinitely early in 2019.

	2019	2018
Change in estimate of accrued liabilities	**$452**	$-
Provision for impairment of Linear Pump inventory	**(142)**	-
Testing and analysis	**(40)**	(9)
	$270	($9)

The Company has no current plans to advance this initiative at this time. The remaining assets and liabilities associated with the project's assets were impaired and liabilities were remeasured in 2019. The result is an impairment of inventory of $142k (2018 – $nil) and a reduction in estimated accrued liabilities of $452 (CAD $601) (2018 – $nil) which was recorded in the accounts in prior years and have been deemed only to be due when the pump reached commercial viability and sales were realized.

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

8. PROPERTY AND EQUIPMENT

Cost	Computer and office equipment	Leasehold improvements	Vehicles and trailers	Shop equipment	Total
Balance at December 31, 2017	$158	$74	$357	$797	$1,386
Additions	9	6	193	20	228
Disposals	-	-	(40)	-	(40)
Effects of movement in exchange rates	1	-	-	-	1
Balance at December 31, 2018	$168	$80	$510	$817	$1,575
Transfer to right-of-use assets	**-**	**-**	**(117)**	**-**	**(117)**
Transfer between asset classes	**(3)**	**16**	**(4)**	**(9)**	**-**
Balance at December 31, 2019	**$165**	**$96**	**$389**	**$808**	**$1,458**
Accumulated amortization					
Balance at December 31, 2017	($131)	($36)	($273)	($511)	($951)
Amortization for the year	(8)	(7)	(51)	(64)	(130)
Disposals	-	-	35	-	35
Balance at December 31, 2018	($139)	($43)	($289)	($575)	($1,046)
Amortization for the year	**(14)**	**(45)**	**(28)**	**(52)**	**(139)**
Disposals	**-**	**-**	**(30)**	**-**	**(30)**
Transfer to right-of-use assets	**-**	**-**	**8**	**-**	**8**
Transfer between asset classes	**(4)**	**(8)**	**12**	**-**	**-**
Balance at December 31, 2019	**($157)**	**($96)**	**($327)**	**($627)**	**($1,207)**
Carrying amounts					
As at December 31, 2018	$29	$37	$221	$242	$529
As at December 31, 2019	**$8**	**$-**	**$62**	**$181**	**$251**

A forklift under a capital lease with a carrying value of $152 is included in shop equipment in 2018 and is included in right-of-use assets in 2019.

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

9. RIGHT-OF-USE ASSETS

Effective January 1, 2019, Divergent applied IFRS 16 accounting policy for its office lease contracts and vehicle leases and recognized a ROU asset on a lease-by-lease basis as the amount equal to the lease liability. See Note 10.

	2019	2018
Cost		
Balance, beginning of year	**$160**	$-
IFRS 16 addition to opening balance	**526**	-
	686	-
Additions	**85**	160
Balance, end of year	**$771**	$160
Accumulated depreciation		
Balance, beginning of year	**$8**	$-
Depreciation	**269**	8
Foreign exchange	**6**	-
Balance, end of year	**$283**	$8
Carrying amounts		
Balance, beginning of year	**$152**	$-
Balance, end of year	**$488**	$152

In 2018, a forklift under a capital lease with a carrying value of $152 was included in property and equipment. In 2019, this capital lease is reflected in ROU assets.

10. LEASE OBLIGATIONS

The Company has lease liabilities for office and warehouse leases in two locations and various field vehicles and machinery. In 2018, the Company had a capital lease of $157 relating to a forklift with a carrying amount of $152.

	2019	2018
Balance, beginning of year	**$679**	$-
Liabilities incurred	**84**	157
Lease finance expense	**77**	-
Foreign exchange	**7**	-
Repayments in the year	**(367)**	-
Balance, end of year	**$480**	$157
Current portion	**270**	32
Non-current portion	**210**	125
	$480	$157

The total undiscounted amount of the estimated future cash flows to settle the lease obligations over the remaining lease term is $660 (2018 - $154). The Company's minimum lease payments are as follows:

	2019	2018
Within one year	**$355**	$32
Later than one year but not later than two years	**235**	32
Later than two years	**70**	93
Minimum lease payments	**660**	154
Amount representing finance charge	**180**	59
Present value of net minimum lease payments	**$480**	$95

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

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2019	2018
Trade payables	**$4,811**	$2,712
Accrued liabilities	**86**	553
Total accounts payable and accrued liabilities	**$4,897**	$3,265

Included in trade payables are $1,145 (2018 - $1,161) in excess of one year outstanding.

12. RELATED PARTY LOANS

	2019	2018
Loans from executive officers	**$92**	$88

The loans are denominated in Canadian Dollars and amounted to CAD $120 (2018 – CAD $120) and are repayable at the Company's option prior to the maturity date. On December 23, 2019, the term of the loans was extended by one year and maturing on December 31, 2020. The reduction in related party loans during 2019 is a result of the change in the US to CAD foreign exchange rate.

The related parties agreed to reduce the interest rate to 5% per annum from 10% per annum retroactive to the commencement of the loans (See Note 24). A credit adjustment of $12 was recorded during the year resulting in a total interest credit charge for 2019 of $3 (2018 – interest expense of $9).

At December 31 2019, accrued interest payable on related party loans was $12 (2018 - $15).

13. DEBENTURES

At December 31, 2019, the Company has Canadian Dollar denominated debentures outstanding of CAD $5,750 (2018 – CAD $5,750) equivalent to a face value of $4,427 at the year end exchange rate (2018 - $4,214).

On November 1, 2017, 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 exercisable at CAD $0.13 and expiring December 31, 2021 (See Note 15). The cost of issuing the warrants associated with the debenture extension was $194 ($141 net of deferred tax). The modification of the terms of the debentures, 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.

The debentures bear interest at 10% per annum and are secured by a trust indenture and a general security agreement over all of the assets of the Company. The Company may, at any time, redeem all, but not less than all, of the outstanding Debentures. Pursuant to the second supplemental indenture of the debentures of November 1, 2017, the Company has the option to pay the debenture interest in either cash or common shares up to and including at the maturity of the debentures on December 31, 2021.

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

13. DEBENTURES (CONTINUED)

During 2019, interest expense recorded on the debentures was $433 (2018 - $437) and interest payable at year end was $334 (2018 – $nil). During 2019, the Company elected to pay the interest obligation for the period January 1, 2019 to March 31, 2019 by issuing common shares of 2,835,614 totaling $106. The shares with issued at a price of $0.05 cents per share being the minimum share price of set by the TSXV. The fair market value price of the shares was $0.035 cents per share resulting in a gain on settlement of $32. During 2018, the Company paid debenture interest by issuing 8,324,819 common shares totaling $437.

Prior to December 31, 2019, the Company received waivers from its debenture holders covering all outstanding interest currently due and payable, plus interest which became due and payable on December 31, 2019. The waivers allow the Company to pay all outstanding interest owing to debenture holders by the issue of the Company's common shares on or before March 31, 2020 (See Note 24(b)). Accordingly, the Company was compliant with the provisions of the debenture indenture on December 31, 2019. The interest was not paid prior to March 31, 2020 and remain unpaid at the date of these financial statements. The Company did not obtain additional waivers resulting in the Company not being in compliance with the indenture agreements at April 1, 2020 and at the date of these consolidated financial statements.

Debentures payable at December 31, 2017	$4,580
Costs associated with debentures extension	(194)
IFRS 9 adoption	(305)
Accretion	104
Effect of movements in exchange rates	(363)
Debentures payable at December 31, 2018	$3,822
Accretion	**116**
Effect of movements in exchange rates	**196**
Debentures payable at December 31, 2019	**$4,134**

14. SHARE CAPITAL

Authorized

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

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

Issued	Number of Shares	Amount
Balance at December 31, 2017	108,902,168	$17,416
Common shares issued (1)	8,324,819	437
Balance at December 31, 2018	117,226,987	17,853
Common shares issued (2)	**2,835,614**	**74**
Balance at December 31, 2019	**120,062,601**	**$17,927**

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

14. SHARE CAPITAL (CONTINUED)

(1) During 2018, the Company settled all quarterly interest obligations on the debentures by the issue of common shares at share price equivalent to fair market value in lieu of cash payments.
(2) During 2019, the Company settled the first quarter interest obligations on the debentures by the issue of common shares at a price of $0.05 cents per share in lieu of cash payments. The equivalent fair market value of the Company's shares at the date of issue was $0.035 cents per share.

15. WARRANTS

Warrants are issued in CAD $.	Number of warrants	Amount
Balance at December 31, 2017	276,000	$20
Warrants expired	(276,000)	(20)
Warrants issued with extension to maturity date of debentures (1)	5,750,000	141
Balance at December 31, 2018 and 2019	**5,750,000**	**$141**

(1) On January 1, 2018, the Company issued 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 $194 (excluding deferred tax of $53).

Warrants outstanding at December 31, 2019	Number of Warrants	Exercise Price (CAD $)
Expire on December 31, 2021	**5,750,000**	**0.13**

16. STOCK BASED PAYMENTS

The Company has established a stock option plan to allow certain officers, directors, employees and consultants to acquire common shares of the Company. A total of 10% of the Company's shares outstanding are reserved for the issue of stock options pursuant to the stock option plan. During 2019, $37 (2018 - $89) of stock based compensation was recognized in the statement of net income (loss) and comprehensive income (loss) with a corresponding amount in contributed surplus. Stock options are issued in CAD $.

	2019		2018	
Continuity of stock options	Number of options	Weighted average exercise price (CAD $)	Number of options	Weighted average exercise price (CAD $)
Balance, beginning of year	7,960,000	0.25	6,785,000	0.29
Issued	-	-	1,840,000	0.14
Forfeitures	**(425,000)**	**0.25**	-	-
Expiries	**(2,400,000)**	**0.34**	(665,000)	0.28
Balance, end of year	**5,135,000**	**0.20**	7,960,000	0.25

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

16. STOCK BASED PAYMENTS (CONTINUED)

The number of options exercisable at December 31, 2019, is 3,355,000 (2018 – 4,576,666) at a weighted average exercised price of CAD $0.23 (2018 - CAD $0.31). The weighted average remaining term for exercisable options is 1.85 years (2018 - 2 years).

The Company did not grant options during 2019.

During fiscal 2018, the Company granted the following options all vesting one-third annually over three years and expiring 5 years from the date of grant:

	Number of options granted	Exercise price (CAD $)	Estimated fair value (CAD $)
April 2, 2018	400,000	0.085	19
April 2, 2018	1,095,000	0.155	38
October 2, 2018	345,000	0.15	3
	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

17. FINANCE (EXPENSE) INCOME

	2019	2018
Interest expense on debentures	**($433)**	($437)
Accretion of debentures	**(116)**	(104)
Interest expense on related party loans	**3**	(9)
Lease finance expense	**(77)**	-
Foreign exchange (loss) gain	**(662)**	1,294
Bank charges	**-**	(14)
Net finance (expense) income	**($1,285)**	$730

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

18. INCOME TAX

Reconciliation of effective tax rate

Income tax (recovery) 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:

	2019	2018
Income (loss) from continuing operations before tax	**($2,644)**	$18
Statutory income tax rate	**26.5%**	27.0%
Computed income tax (recovery) expense	**(701)**	5
Increase (decrease) resulting from:		
Stock based compensation	**38**	24
Non-taxable, non-deductible items	**25**	(158)
Change in tax rates	**393**	-
Unrecognized deferred tax assets	**245**	76
Income tax expense/(recovery)	**$-**	($53)

The Canadian statutory tax rate per the rate reconciliation above represents the average combined federal and provincial corporate tax rate. The federal corporate tax rate is 15.0% and the average provincial tax rate in Alberta was 11.5% during 2019. On June 28, 2019, the Alberta government enacted legislation which reduced the Alberta corporate income tax rate from 12% to: 11% effective July 1, 2019; 10% effective January 1, 2020; 9% effective January 1, 2021; and 8% effective January 1, 2022 and thereafter.

Unrecognized deferred tax assets

Within each tax jurisdiction, certain deferred tax assets have been offset to reduce deferred tax liabilities. The following deferred tax assets have not been recognized in these consolidated 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	**2019**	2018
Deductible temporary differences	**$1,366**	$6,460
Non-capital losses	**9,577**	8,660
Capital losses	**4,997**	6,184
	$15,940	$21,304

The Group has non-capital losses for income tax purposes in Canada and US that expire from 2029 to 2039. 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.

The Company 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. In 2018, the Company 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 Company.

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

19. PER SHARE AMOUNTS

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 2019 and 2018 are anti-dilutive and therefore excluded from the calculation of the dilutive per share amounts. The volume weighted average trading price of the Company's common shares was \$0.03 during 2019 (2018 - \$0.06).

	2019	2018
Amounts used in determining basic and diluted (loss) earnings per share:		
(Loss) Income from continuing operations	**(\$2,644)**	\$71
(Loss) Income from discontinued operations, net of tax	**-**	1,179
Net (loss) income	**(\$2,644)**	\$1,250
Shares used in calculating basic and diluted (loss) earnings per share:		
Weighted average number of common shares outstanding during the year	**119,371,181**	111,556,838

20. RELATED PARTIES

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

	2019	2018
Debentures (carrying value)	**\$990**	\$946
Interest payable on debentures	**80**	-
Related party loans (See Note 12)	**92**	88
Interest payable on related party loans	**12**	15

Certain directors and officers of the Company have provided debentures to the Company which are denominated in Canadian Dollars. The CAD \$5,750 face value of the debentures includes \$1,060 (CAD \$1,377) (2018 – \$1,043 (CAD \$1,423)) due to directors and officers of the Company. Interest on these debentures during the year was to \$104 (CAD \$138) (2018– \$110 (CAD \$142)) and interest payable at the end of the year was \$80 (CAD \$104) (2018 – \$nil).

Key management personnel compensation comprised:

	2019	2018
Salaries and wages	**\$263**	\$266
Directors' fees	**68**	73
Stock based compensation	**19**	63
	\$350	\$402

21. 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.

The majority of the Company's customers operate in oil and gas exploration and development. They may be exposed to long-term downturns in energy commodity prices, including the price for natural gas, or other events impacting these industries. The Company periodically assesses the financial strength of its customers and will adjust its marketing plan to mitigate credit risks as needed. The Company's cash balances are held by creditworthy financial institutions.

Trade receivables

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 2019, approximately 81% (2018 - 93%) of sales are attributable to one customer which makes the Company economically reliant on one customer. Trade receivables at December 31, 2019 include a customer which represents 68% (2018 – 85%) of trade receivables. The Company reports its financial results as one reportable segment as this is how the financial information is reviewed by the chief decision makers of the Company. The Company operates in one geographical area being the United States.

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. The Company forecasts cash requirements to ensure funding is available to settle financial liabilities when they become due. In the normal course of business, the Company accesses cash and cash flows from operations to pay current and long-term liabilities. Annual cash inflows from operations are collected based on the sale of inventories and provision of services.

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

21. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk (continued)

The following is a maturity analysis of the Company's financial obligations at December 31, 2019:

	Less than three months	Three months to one year	Beyond one year	Total
Accounts payable and accrued liabilities	**$4,897**	**$-**	**$-**	**$4,897**
Lease obligations	**46**	**224**	**210**	**480**
Related party loans	**-**	**92**	**-**	**92**
Debentures	**-**	**-**	**4,134**	**4,134**
Interest payable	**334**	**12**	**-**	**346**
	$5,277	**$328**	**$4,344**	**$9,949**

The following is a maturity analysis of the Company's financial obligations at December 31, 2018:

	Less than three months	Three months to one year	Beyond one year	Total
Accounts payable and accrued liabilities	$3,265	$-	$-	$3,265
Lease obligations	8	24	125	157
Related party loans	-	-	88	88
Debentures	-	-	3,822	3,822
Interest payable	-	15	-	15
	$3,273	$39	$4,035	$7,347

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.

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.

All of the Company's revenues were generated in United States dollars during 2019 and 2018.

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

21. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

The Company's objective when managing its capital is to strike a balance between maintaining investor, creditor and market confidence while sustaining future development of the Company. 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 Company has identified the need for additional equity and/or debt financing. The Company's existing debt agreements do not require maintenance of any financial ratios. There were no changes to the Company's approach to capital management during the year ended December 31, 2019. The Company is not subjected to any internally or externally imposed capital requirements.

(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, there are no ongoing matters.

22. SUPPLEMENTARY CASH FLOW INFORMATION

Net change in non-cash working capital

	2019	2018
Prepaid expense, deposits and advances	**$140**	($24)
Trade receivables	**(992)**	29
Inventories	**(941)**	38
Accounts payable and accrued liabilities	**2,084**	9
Interest payable	**289**	-
	$580	$52

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

23. DISCONTINUED OPERATIONS

The Company had conducted its operations in Mexico primarily through its wholly owned subsidiary, COTS Mexico. During the year ended December 31, 2016, the Company 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. The operating results of COTS Mexico are presented below as discontinued operations.

	2019	2018
Income from discontinued operations	**-**	$1,179

24. SUBSEQUENT EVENTS

a) Impact of COVID-19

During December 2019, the corona virus that causes a respiratory disease (COVID-19) was reported to have surfaced in Wuhan, China. Subsequent to year end, the financial markets have been negatively impacted by an outbreak which was declared a pandemic by the World Health Organization on March 12, 2020. Global oil prices have fallen by approximately 50% since December 31, 2019 partially due to the outbreak of COVID-19 and partially to the commercial and geopolitical conflicts among major oil producing countries. The Company sources some of its products from factories in China that may be affected by COVID-19 and extend lead times on certain products. In the region where the Company is active, natural gas prices have also been negatively impacted by macro business environment.

At the end of March 2020, the Company had been advised by a substantial majority of its client base that they have temporarily suspended operations related to the sales and service of submersible pumps. These suspensions are expected to be in place for a minimum of 90 days, which will result in a corresponding material reduction of revenue for Divergent for the same period, and during which time the Company's financial resources are expected to be extremely limited.

Although it is not possible to estimate the length or severity of these developments, if oil and regional natural gas prices remain at the present levels for an extended period of time, this could have a significant adverse impact on the Company's financial results. The extent to which COVID-19 may impact Divergent's results will depend on future developments, where are highly uncertain and cannot be predicted. COVID-19 will impact the measurement of fair value for some financial statement items; however, whether an adjustment is required depends on the timing of the impact to an item's fair value. The Company tests its non-financial assets for recoverability whenever events or changes in circumstances indicate that a non-financial asset's carrying amount may not be recoverable. These consolidated financial statements do not reflect these subsequent conditions in the recoverable amount estimates of the Company's non-financial assets as at December 31, 2019.

24. SUBSEQUENT EVENTS (CONTINUED)

b) Non-compliance with debenture covenants

As a result of the non-payment of interest on debentures by March 31, 2020, the Company became non-compliant with covenants of the indenture agreements.

On April 15, 2020, the Company announced a plan to issue to debenture holders 23,862,476 shares at CAD $0.025 per share, as approved by the TSXV, for total consideration of $429 (CAD $597) which would settle all unpaid interest up to March 31, 2020. The shares were not issued to debenture holders prior to the date of these consolidated financial statements.

c) Employment termination payment

On January 31, 2020, the Company terminated an executive and agreed to pay $254 (CAD $330) monthly over 2 years commencing March 2020.

d) Related party loans

On January 31, 2020, the terms of the related party loans were amended reducing interest charge per annum from 10% to 5% retroactive to the start of the loans resulting in an interest expense reduction of $15 which has been accrued in the 2019 accounts. All other terms and conditions of the related party loans remain unchanged.

A loan repayment of $38 (CAD $50) was made on January 31, 2020.