Divergent Energy Services Corp.

Interim Condensed Consolidated Financial Statements

For the three and nine month periods ended September 30, 2020

(Unaudited)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

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

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

Divergent Energy Services Corp.

Unaudited Interim Condensed Consolidated Statements of Financial Position
(Stated in thousands of United States dollars, except per share amounts)

	Note	September 30, 2020	December 31, 2019
ASSETS			
Current assets			
Cash		**17**	249
Prepaid expenses, deposits and advances		**68**	23
Trade receivables		**895**	1,652
Inventories	*5*	**619**	631
		1,599	2,555
Non-current assets			
Right-of-use assets		**271**	488
Property and equipment		**176**	251
Total Assets		**2,046**	3,294
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	*7*	**2,533**	4,897
Current portion of lease obligations		**162**	270
Related party loans	*14*	**15**	92
Government loans	*15*	**72**	-
Promissory note	*7*	**195**	-
Interest payable	*6,7,14*	**53**	346
		3,030	5,605
Non-current liabilities			
Lease obligations		**103**	210
Government loans	*15*	**181**	-
Debentures	*6,14*	**4,123**	4,134
Promissory note	*7*	**1,538**	-
Total Liabilities		**8,975**	9,949
SHAREHOLDERS' DEFICIT			
Share capital	*8*	**18,564**	17,927
Contributed surplus		**5,799**	5,790
Warrants	*9*	**141**	141
Accumulated other comprehensive loss		**(1,296)**	(1,136)
Accumulated deficit		**(30,137)**	(29,377)
Total Shareholders' Deficit		**(6,929)**	(6,655)
Total Liabilities and Shareholders' Deficit		**2,046**	3,294

GOING CONCERN	*2*
RELATED PARTIES	*14*
SUBSEQUENT EVENT	*18*

Unaudited Interim Condensed Consolidated Statements of Net Income (Loss) and Comprehensive Income (Loss)
(Stated in thousands of United States dollars, except per share amounts)

		Three months ended September 30,		Nine months ended September 30,	
	Note	**2020**	**2019**	**2020**	**2019**
Revenue		**743**	2,268	**2,885**	5,904
Cost of sales	***12***	**(599)**	(1,742)	**(2,301)**	(4,424)
Reversal of provision for slow moving inventory	***5***	**289**	-	**94**	-
Gross profit		**433**	526	**678**	1,480
General and administration		**(416)**	(472)	**(1,478)**	(1,533)
Depreciation and amortization	***12***	**45**	(59)	**(17)**	(171)
Stock based compensation	***10***	**(1)**	(6)	**(9)**	(31)
Results from operating activities		**61**	(11)	**(826)**	(255)
Product development expense		**-**	(6)	**-**	(56)
Finance (expense) income	***11***	**(147)**	31	**66**	(884)
Net (loss) income		**(86)**	14	**(760)**	(1,195)
Other comprehensive income (loss) being foreign exchange gain (loss)		**121**	(111)	**(160)**	322
Total comprehensive income (loss) for the period		**35**	(97)	**(920)**	(873)
Income (loss) per share					
Net loss – basic and dilutive (cents)	***13***	**0.00**	(0.00)	**(0.01)**	(0.01)

Divergent Energy Services Corp.

Unaudited Interim Condensed Consolidated Statements of Equity
(Stated in thousands of United States dollars)

	Note	Number of shares	Share capital	Warrants	Contributed surplus	Accumulated other comprehensive (loss)/income	Accumulated deficit	Total shareholders' deficit
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	*8*	2,835,614	74	-	-	-	-	74
Stock based compensation	*10*		-	-	31	-	-	31
Net loss for the period			-	-	-	-	(1,195)	(1,195)
Other comprehensive income			-	-	-	322	-	322
Balance at September 30, 2019		120,062,601	17,927	141	5,784	(1,238)	(27,928)	(5,314)
Balance at December 31, 2019		120,062,601	17,927	141	5,790	(1,136)	(29,377)	(6,655)
Debenture interest settled with common shares	*8*	**51,743,096**	**637**	**-**	**-**	**-**	**-**	**637**
Stock based compensation	*10*		**-**	**-**	**9**	**-**	**-**	**9**
Net loss for the Period			**-**	**-**	**-**		**(760)**	**(760)**
Other comprehensive loss			**-**	**-**	**-**	**(160)**	**-**	**(160)**
Balance at September 30, 2020		**171,805,697**	**18,564**	**141**	**5,799**	**(1,296)**	**(30,137)**	**(6,929)**

Divergent Energy Services Corp.

Unaudited Interim Condensed Consolidated Statements of Cash Flows
(Stated in thousands of United States dollars)

	Note	Three months ended September 30, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
OPERATING ACTIVITIES					
Net (loss) income		**(86)**	(28)	**(760)**	(1,227)
Adjustments for:					
Amortization of property and equipment	*12*	**25**	26	**75**	72
Depreciation of right-of-use assets	*12*	**56**	33	**176**	99
Gain on sale of assets		**-**	-	**-**	(21)
Stock based compensation	*10*	**1**	6	**9**	31
Accretion on debentures	*6*	**34**	30	**97**	86
Accretion on promissory note		**(267)**	-	**(267)**	-
Debenture interest settled in common shares	*8*	**108**	-	**637**	74
Provision for slow moving inventory	*5*	**(289)**	-	**(94)**	-
Allowance for doubtful accounts		**(7)**	-	**4**	-
Lease finance expense	*12*	**18**	-	**56**	-
Foreign exchange		**208**	(130)	**(273)**	469
Changes in non-cash working capital	*17*	**227**	68	**80**	466
Net cash generated from operating activities		**28**	5	**(260)**	49
FINANCING ACTIVITIES					
Payments towards lease obligations		**(74)**	(93)	**(225)**	(284)
Government loans	*15*	**-**	-	**253**	-
Net cash used in financing activities		**(74)**	(93)	**28**	(284)
INVESTING ACTIVITIES					
Property and equipment additions		**-**	2	**-**	(25)
Net cash used in investing activities		**-**	2	**-**	(25)
Net change in cash		**(46)**	(86)	**(232)**	(260)
Cash, beginning of period		**63**	118	**249**	292
Cash, end of period		**17**	32	**17**	32

The accompanying notes are an integral part of these interim condensed 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 unaudited interim condensed consolidated financial statements of the Company as at and for the three and nine months ended September 30, 2020 comprise the Company and its wholly owned foreign subsidiaries (collectively, "Divergent", “Company” or “Group”).

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 interim condensed 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 September 30, 2020 the Company had a working capital deficiency of $1,430 and shareholders’ deficit of $6,928. During the third quarter of 2020, the Company incurred a net loss of $86, generated cash from operations of $28 and approximately 95% of the Company’s sales were attributable to one customer. At September 30, 2020, the Company has debentures payable of $4,123 (CAD $5,750) which mature on December 31, 2021. During 2020, given the limited cash resources on hand, the Company elected to settle interest obligations on the debentures with Company common shares. At September 30, 2020 the Company does not have sufficient cash or other resources available and does not generate income sufficient to meet its obligations and commitments in a timely manner.

Additional financing, a restructuring of existing secured and unsecured obligations, an increase in revenue or a combination is required for the Company to meet its existing obligations. The Company’s management and Board of Directors continue to seek alternative debt and equity financings 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 sufficient and 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.

2. GOING CONCERN (CONTINUED)

Impact of COVID-19

During the first quarter of 2020, the financial markets were negatively impacted by the coronavirus that causes a respiratory disease (COVID-19). The COVID-19 outbreak was declared a pandemic by the World Health Organization on March 12, 2020. At the end of March 2020, the Company was advised by a substantial majority of its client base that they had temporarily suspended operations related to the sales and service of submersible pumps which had a material impact on the financial resources of the Company. The Company resumed limited work on May 18, 2020, with activity slowly recovering following improvements in the price of natural gas and oil. It is not possible to estimate if prices will continue to improve or remain at the present levels for an extended period of time which could have a negative impact on the level of our customer activity. Should prices not continue to improve, this could have a significant adverse impact on the Company's financial results. The extent to which COVID-19 may impact Divergent's results are highly uncertain and cannot be predicted. COVID-19 may impact the measurement of fair value for certain 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.

3. BASIS OF PRESENTATION

Statement of compliance

These unaudited interim condensed consolidated financial statements are prepared in accordance with IAS 34 – Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"). Accordingly these interim financial statements do not include all of the information and footnotes required by the International Financial Reporting Standards ("IFRS") for complete financial statements and should be read in conjunction with the December 31, 2019 audited annual consolidated financial statements.

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

In preparing these interim financial statements, the significant judgements made by management in applying the accounting policies and the key sources of estimation uncertainty were the same as those applied to the annual audited consolidated financial statements as at and for the year ended December 31, 2019. These interim financial statements have been prepared following the same accounting policies as the annual audited consolidated financial statements for the year ended December 31, 2019 and should be read in conjunction with those annual audited financial statements and the notes thereto.

These unaudited interim condensed consolidated financial statements were approved by the Board of Directors on November 12, 2020 and have not been reviewed by the Company's auditors. The disclosures provided below are incremental to those included in the 2019 annual audited consolidated financial statements.

(Stated in thousands of United States dollars except as otherwise noted)

3. BASIS OF PRESENTATION (CONTINUED)

Basis of measurement

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

Presentation and functional currency

These unaudited interim condensed 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 unaudited interim condensed consolidated financial statements. The following legal entities are within the Divergent Group of companies as at September 30, 2020:

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	Operating 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

Use of estimates and judgments

In applying the Company's accounting policies, the preparation of unaudited interim condensed 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 unaudited interim condensed 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.

3. BASIS OF PRESENTATION (CONTINUED)

Use of estimates and judgments (continued)

Significant estimates and judgments used in the preparation of these unaudited interim condensed consolidated financial statements 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;
- 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.

4. SIGNIFICANT ACCOUNTING POLICIES

New accounting standards not yet effective

Certain pronouncements have been issued by the IASB that are mandatory for accounting periods after September 30, 2020. There are currently no such pronouncements that are expected to have a significant impact on the Company’s unaudited interim condensed consolidated financial statements upon adoption.

5. INVENTORIES

The Company evaluates inventory on hand on a regular basis and adjusts its provisions to reduce or increase carrying amounts of inventories to their net realizable value. For the three and nine months ended September 30, 2020 the Company recorded a reversal of provisions in the amount of $289 and $94 (2019 - $Nil and $Nil, respectively) as slow-moving inventory was used in operations. The cumulative provision included in inventories at September 30, 2020 is $1,441 (December 31, 2019 - $1,535).

(Stated in thousands of United States dollars except as otherwise noted)

6. DEBENTURES

At September 30, 2020, the Company had Canadian Dollar denominated debentures outstanding of CAD $5,750 (December 31, 2019 – CAD $5,750). The debentures bear interest at 10% per annum, are secured by a trust indenture and a general security agreement over all of the assets of the Company and mature on December 31, 2021. See Subsequent Events note 18 for discussion on the Company's initiative to restructure the debentures.

During the three and nine months ended September 30, 2020, interest expense, inclusive of late interest fees, recorded on the debentures was $108 and $334, respectively (2019 - $106 and $324, respectively). On September 30, 2020, the Company issued common shares to settle interest obligations relating to Q3 2020. Interest payable at September 30, 2020 was $Nil (December 31, 2019 – $334).

	Carrying Value	Face Value [1]	Face Value (CAD $)
Debentures payable at December 31, 2019	4,134	4,427	5,750
Accretion	**97**	**-**	**-**
Effect of movements in exchange rates	**(108)**	**(116)**	**-**
Debentures payable at September 30, 2020	**4,123**	**4,311**	**5,750**

(1) The US Dollar value of the Canadian Dollar denominated loan converted at the period end foreign exchange rate.

7. PROMISSORY NOTE

On September 28, 2020, the Company and its primary inventory supplier entered into an agreement to convert an accounts payable amount of $2,000 into a long-term, subordinated secured promissory note. The Note has a 4-year term, an interest rate of 10% per annum, and quarterly payments commencing on September 30, 2020.

	Carrying Value
Promissory note payable at December 31, 2019	-
Additions	**2,000**
Principal payments	**-**
Adjustment to carrying value	**(298)**
Accretion during the period	**31**
Promissory note payable at September 30, 2020	**1,733**
Current portion	**195**
Long-term portion	**1,538**

During the three and nine months ended September 30, 2020, interest expense recorded on the promissory note was $50 and $50, respectively. Interest payable at September 30, 2020 was $50.

(Stated in thousands of United States dollars except as otherwise noted)

8. SHARE CAPITAL

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

Issued	Number of shares	$
Balance at December 31, 2018	117,226,987	17,853
Common shares issued during Q1 2019 (1)	2,835,614	74
Balance at December 31, 2019	120,062,601	17,927
Common shares issued during Q2 2020 (2)	**23,862,475**	**424**
Common shares issued during Q2 2020 (3)	**14,335,621**	**105**
Common shares issued during Q3 2020 (4)	**13,545,000**	**108**
Balance at September 30, 2020	**171,805,697**	**18,564**

(1) On June 30, 2019, the Company settled the first quarter 2019 interest obligations on debentures totaling $106 (CAD $143) by the issue of common shares at a price of CAD $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 CAD $0.035 cents per share resulting in a gain of $32 on the settlement of the obligation.

(2) On May 1, 2020, the Company settled interest obligations, plus late penalty interest, on debentures for the period April 1, 2019 to March 31, 2020 totaling $424 (CAD $597) by the issue of common shares at a price of CAD $0.025 per share which was the equivalent fair market value on the date the Company announced the election to satisfy the interest obligation.

(3) On June 30, 2020, the Company settled interest obligations on debentures for the period April 1, 2020 to June 30, 2020 totaling $105 (CAD $143) by the issue of common shares at a price of CAD $0.010 per share which was the equivalent fair market value on the date the Company announced the election to satisfy the interest obligation.

(4) On September 30, 2020, the Company settled interest obligations on debentures for the period July 1, 2020 to September 30, 2020 totaling $108 (CAD $145) by the issue of common shares at a price of CAD $0.0107 per share which was the equivalent fair market value on the date the Company announced the election to satisfy the interest obligation.

9. WARRANTS

Warrants are issued in CAD $.

	Number of warrants	$
Balance at December 31, 2019 and September 30, 2020(1)	**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.

(Stated in thousands of United States dollars except as otherwise noted)

10. 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 the three and nine month periods ended September 30, 2020, $1 and $9, respective (2019 - $6 and $31, respectively) 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 $.

	Number of options	Weighted average exercise price per option (CAD $)
Balance at December 31, 2019	**5,135,000**	**0.20**
Expired	**(250,000)**	**0.43**
Forfeited	**(1,375,000)**	**0.23**
Balance at September 30, 2020	**3,510,000**	**0.17**

The number of options exercisable at September 30, 2020, is 3,311,667 (December 31, 2019 – 3,355,000) at a weighted average exercised price of CAD $0.18 (December 31, 2019 – CAD $0.23) for those exercisable options. The weighted average remaining term for exercisable options is 1.4 years (December 31, 2019 – 1.85 years).

11. FINANCE (EXPENSE) INCOME

	Three months ended September 30,		**Nine months ended September 30,**	
	2020	**2019**	**2020**	**2019**
Interest on debentures	**(108)**	(106)	**(334)**	(324)
Interest on promissory note	**(50)**	-	**(50)**	-
Interest on related party loans	**(1)**	(7)	**(1)**	(13)
Accretion of debentures	**(34)**	(30)	**(97)**	(86)
Accretion on promissory note	**267**	-	**267**	-
Lease finance expense	**(2)**	-	**(7)**	-
Foreign exchange gain (loss)	**(219)**	174	**288**	(461)
Net finance (expense) income	**(147)**	31	**66**	(884)

(Stated in thousands of United States dollars except as otherwise noted)

12. ALLOCATION TO COST OF GOODS SOLD

The Company leases machinery and equipment which is used to conduct operations and provide services to clients. The below table reconciles the allocation to the amounts reflected in the statements.

	Three months ended September 30,		Nine months ended September 30,	
	2020	**2019**	**2020**	**2019**
Amortization of property and equipment				
Office	**(1)**	(1)	**(2)**	(2)
Field	**(24)**	(25)	**(73)**	(70)
Cash flow statement	***(25)***	*(26)*	***(75)***	*(72)*
Allocation to cost of goods sold	**73**	-	**73**	-
	48	(26)	**(2)**	(72)
Depreciation of Right-of-Use assets				
Office	**(3)**	(3)	**(15)**	(9)
Field	**(53)**	(30)	**(161)**	(90)
Cash flow statement	***(56)***	*(33)*	***(176)***	*(99)*
Allocation to cost of goods sold	**53**	-	**161**	-
	(3)	(33)	**(15)**	(99)
Depreciation and amortization	***45***	*(59)*	***(17)***	*(171)*
Lease finance expense				
Office	**(2)**	-	**(7)**	-
Field	**(16)**	-	**(49)**	-
Cash flow statement	***(18)***	-	***(56)***	-
Allocation to cost of goods sold	**16**	-	**49**	-
Finance expense	***(2)***	-	***(7)***	

13. PER SHARE AMOUNTS

Basic and diluted income per share have been calculated based on net income divided by the weighted average number of common shares outstanding for the three and nine months ended September 30, 2020, of 138,302,422 and 158,407,925, respectively (2019 – 120,062,601 and 119,138,174, respectively). All outstanding options and warrants are anti-dilutive for the period and comparative period.

(Stated in thousands of United States dollars except as otherwise noted)

14. RELATED PARTIES

Transactions and 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.

Certain directors and officers of the Company have provided debentures and unsecured loans to the Company which are denominated in Canadian Dollars. Interest on debentures accrues at 10% per annum.

	Carrying Value	Face Value[1]	Face Value (CAD $)
Debentures payable to related parties at December 31, 2019	990	1,060	1,377
Accretion	**23**	-	-
Effect of movements in exchange rates	**(26)**	**(28)**	**-**
Debentures payable to related parties at September 30, 2020	**987**	**1,032**	**1,377**

(1) The US Dollar value of the Canadian Dollar denominated loan converted at the period end foreign exchange rate.

Related party loans at December 31, 2019	92
Repayments	**(37)**
Reclassified to accounts payable	**(35)**
Effect of movements in exchange rates	**(5)**
Related party loans at September 30, 2020	**15**

Interest on related party loans accrues at 5% per annum. At September 30, 2020, $3 of accrued interest is included in interest payable (December 31, 2019 - $12).

15. GOVERNMENT LOANS

On May 3, 2020, the Company executed a loan agreement with Wells Fargo under the US Government sponsored Paycheck Protection Program ("PPP Loan"). The Company obtained a loan amount of $253 with an interest rate of 1% per annum payable at the end of the term of the loan. The loan matures on May 3, 2022. Under the terms of the PPP Loan, loan amounts are to be utilized during an 8-week period ("cover period") commencing at the date of signing the PPP Loan on specific US based expenditures including payroll and benefits of employees, rent and utilities. Under the terms of an PPP Flexibility Act (signed on June 5, 2020) repayment of the PPP Loan commences 10 months following the cover period. Monthly principal payments of $11 commence in March 2021. At maturity, the remaining unpaid principal plus accrued interest is due and payable. Certain provisions of the PPP Loan allow the Company to apply to have the loan forgiven in whole or part. Conditions include maintaining employee numbers and compensation levels and funds are required to be spent on payroll costs, rental payments and utilities payments with not more than 25% of the loan forgiveness amount attributable to non-payroll costs. The Company has complied with all the provisions of the loan agreement and will apply to have the loan forgiven prior to commencing with the monthly principal repayments. If not forgiven, principal payments of $72 are due over the next twelve months.

See Subsequent Events note for information regarding an additional government loan obtained by the Company.

(Stated in thousands of United States dollars except as otherwise noted)

16. FINANCIAL RISK MANAGEMENT

(A) 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 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 three and nine months ended September 30, 2020. The Company is not subjected to any internally or externally imposed capital requirements.

(B) Contingencies

From time to time, the Group is subject to legal proceedings, assessments and claims in the ordinary course of business. At the date of these statements, in the opinion of management, there are no ongoing matters.

17. SUPPLEMENTARY CASH FLOW INFORMATION

Net change in non-cash working capital

	Three months ended September 30,		**Nine months ended September 30,**	
	2020	**2019**	**2020**	**2019**
Prepaid expenses, deposits and advances	**(45)**	(64)	**(45)**	(59)
Trade receivables	**368**	(818)	**753**	(1,089)
Inventories	**288**	(209)	**106**	(547)
Accounts payable and accrued liabilities	**(435)**	1,159	**(364)**	2,161
Related party loans	**-**	-	**(77)**	-
Interest payable	**51**	-	**(293)**	-
	227	68	**80**	466

18. SUBSEQUENT EVENT

SBA loan

On October 16, 2020, the Company announced that it had obtained a $150 long-term loan from the US Small Business Administration ("SBA Loan") in the United States. The SBA Loan has a 30-year term, an interest rate of 3.75% per annum, and requires monthly principal and interest payments commencing 12 months from the date the funds were received by the Company. The Company has provided a continuing priority security interest in all the assets of the Company's US wholly owned subsidiary, EPSL, which security interest will require ratification by the existing debenture holders.