*Unaudited Condensed Consolidated Interim Financial Statements*

# Divergent Energy Services Corp.

*For the three and nine month periods ended September 30, 2021 and 2020*

**NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

The accompanying unaudited condensed consolidated interim 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 condensed consolidated interim 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 Condensed Consolidated Interim Statements of Financial Position

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

| | Note | September 30, 2021 | December 31, 2020 |
|---|---|---|---|
| **ASSETS** | | | (Audited) |
| **Current assets** | | | |
| Cash | | **$447** | $63 |
| Prepaid expenses, deposits and advances | | **131** | 77 |
| Receivables, net of allowance | | **765** | 975 |
| Inventories | **5** | **684** | 1,261 |
| | | **2,027** | 2,376 |
| **Non-current assets** | | | |
| Property and equipment | | **142** | 171 |
| Right-of-use assets | | **543** | 630 |
| **Total Assets** | | **$2,712** | $3,177 |
| | | | |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Accounts payable and accrued liabilities | | **$1,076** | $1,401 |
| Current portion of lease obligations | | **160** | 170 |
| Interest payable | | **175** | 91 |
| Paycheck protection program loan | **8** | **-** | 53 |
| Promissory notes | **7** | **450** | 156 |
| Debentures | **6,12** | **-** | 4,356 |
| | | **1,861** | 6,227 |
| **Non-current liabilities** | | | |
| Lease obligations | | **362** | 452 |
| Promissory notes | **7** | **1,985** | 2,300 |
| Government loan | **9** | **25** | 186 |
| Debentures | **6,12** | **629** | - |
| **Total Liabilities** | | **$4,862** | $9,165 |
| **SHAREHOLDERS' DEFICIT** | | | |
| Share capital | **11** | **$19,613** | $18,364 |
| Contributed surplus | **13** | **5,819** | 5,800 |
| Warrants | **12** | **240** | 141 |
| Accumulated other comprehensive loss | | **(1,077)** | (1,045) |
| Accumulated deficit | | **(26,745)** | (29,248) |
| **Total Shareholders' Deficit** | | **($2,150)** | ($5,988) |
| **Total Liabilities and Shareholders' Deficit** | | **$2,712** | $3,177 |
| **GOING CONCERN** | **2** | | |
| **RELATED PARTIES** | **15** | | |

Approved by the Board of Directors

*Signed "Cameron Barton"*, Chairman

*Signed "Ken Berg"*, Director, CEO

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

# Divergent Energy Services Corp.

## Unaudited Condensed Consolidated Interim Statements of Income (Loss) and Comprehensive Income (Loss)

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

| | Note | Three months ended September 30, 2021 | Three months ended September 30, 2020 | Nine months ended September 30, 2021 | Nine months ended September 30, 2020 |
|---|---|---|---|---|---|
| Revenue | | $2,185 | $743 | $5,897 | $2,885 |
| Cost of sales | 17 | (1,557) | (599) | (4,518) | (2,301) |
| Provision for slow moving inventory | 5 | 21 | 289 | 181 | 94 |
| Gross profit | | 649 | 433 | 1,560 | 678 |
| General and administration | | (371) | (416) | (1,214) | (1,478) |
| Depreciation and amortization | 17 | (2) | 45 | (7) | (17) |
| Stock based compensation | 13 | (12) | (1) | (19) | (9) |
| **Results from operating activities** | | 264 | 61 | 320 | (826) |
| Finance income (expense) | 10,17 | 300 | (147) | 2,183 | 66 |
| **Net income (loss)** | | 564 | (86) | 2,503 | (760) |
| Other comprehensive income (loss) | | (218) | 121 | (32) | (160) |
| **Total comprehensive income (loss) for the period** | | $346 | $35 | $2,471 | ($920) |
| **Income (loss) per share** | | | | | |
| Net income (loss) – basic and dilutive | 14 | $0.02 | $0.00 | $0.08 | ($0.01) |

# Divergent Energy Services Corp.

## Unaudited Condensed Consolidated Interim Statements of Changes in Shareholders' Deficit

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

| | Note | Number of shares (1) | Share capital | Warrants | Contributed surplus | Accumulated other comprehensive loss | Accumulated deficit | Total shareholders' deficit |
|---|---|---|---|---|---|---|---|---|
| Balance at December 31, 2019 | | 12,006,260 | $17,927 | $141 | $5,790 | ($1,136) | ($29,377) | ($6,655) |
| Stock based compensation | 13 | | - | - | 9 | - | - | 9 |
| Debenture interest settled with common shares | | 5,174,310 | 637 | - | - | - | - | 637 |
| Net loss for the period | | | - | - | - | - | (760) | (760) |
| Other comprehensive loss | | | - | - | - | (160) | - | (160) |
| Balance at September 30, 2020 | | 17,180,570 | $18,564 | $141 | $5,799 | ($1,296) | ($30,137) | ($6,929) |
| | | | | | | | | |
| Balance at December 31, 2020 | | 18,629,912 | $18,364 | $141 | $5,800 | ($1,045) | ($29,248) | ($5,988) |
| Stock based compensation | **13** | | **-** | **-** | **19** | **-** | **-** | **19** |
| Shares issued on conversion of debentures | **11** | **14,375,000** | **1,249** | **-** | **-** | **-** | **-** | **1,249** |
| Issue warrants on extension of debentures | **12** | | **-** | **99** | **-** | **-** | **-** | **99** |
| Net income for the period | | | **-** | **-** | **-** | **-** | **2,503** | **2,503** |
| Other comprehensive income | | | **-** | **-** | **-** | **(32)** | **-** | **(32)** |
| **Balance at September 30, 2021** | | **33,004,912** | **$19,613** | **$240** | **$5,819** | **($1,077)** | **($26,745)** | **($2,150)** |

(1) Common shares outstanding, for the current and prior year, reflect the Share Consolidation as described in Note 2.

# Divergent Energy Services Corp.

**Unaudited Condensed Consolidated Interim Statements of Cash Flows**

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

| | | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|---|
| | ***Note*** | **2021** | **2020** | **2021** | **2020** |
| **OPERATING ACTIVITIES** | | | | | |
| Net income (loss) | | **564** | (86) | **2,503** | (760) |
| Adjustments for: | | | | | |
| Amortization of right-of-use assets | ***17*** | **44** | 56 | **130** | 176 |
| Depreciation and amortization of property and equipment | ***17*** | **9** | 25 | **29** | 75 |
| Gain on sale of assets | ***10*** | **-** | - | **9** | - |
| Stock based compensation | ***13*** | **12** | 1 | **19** | 9 |
| Accretion on debentures | ***6,10*** | **19** | 34 | **187** | 97 |
| Debenture interest settled in common shares | | **-** | 108 | **-** | 637 |
| Provision for slow moving inventory | ***5*** | **(21)** | (289) | **(181)** | (94) |
| Accretion of promissory notes | | **44** | (267) | **129** | (267) |
| Accretion of government loans | | **(3)** | - | **9** | - |
| Gain on restructuring debentures | ***10*** | **-** | - | **(418)** | - |
| Allowance for (recovery of) doubtful accounts | | **(27)** | (7) | **-** | 4 |
| Fair value adjustment on issue of common stock | ***10*** | **-** | - | **(2,157)** | - |
| Lease finance expense | ***10,17*** | **21** | 18 | **65** | 56 |
| Forgiveness of PPP loan | ***9*** | **(226)** | - | **(226)** | - |
| Foreign exchange | | **22** | 208 | **342** | (273) |
| Changes in non-cash working capital | ***18*** | **(235)** | 227 | **492** | 80 |
| **Net cash generated (used) from operating activities** | | **223** | 28 | **932** | (260) |
| | | | | | |
| **INVESTING ACTIVITIES** | | | | | |
| Proceeds on disposal | | **-** | - | **27** | - |
| **Net cash generated from investing activities** | | **-** | - | **27** | - |
| | | | | | |
| **FINANCING ACTIVITIES** | | | | | |
| Payments towards lease obligations | | **(68)** | (74) | **(236)** | (225) |
| Interest payments on debentures | | **(29)** | - | **(86)** | - |
| Principal payments on promissory notes | ***7*** | **(50)** | - | **(150)** | - |
| Interest paid on promissory notes | | **(32)** | - | **(103)** | - |
| Government loan received | ***9*** | **-** | - | **-** | 253 |
| **Net cash generated (used) in financing activities** | | **(179)** | (74) | **(575)** | 28 |
| | | | | | |
| Net change in cash | | **44** | (46) | **384** | (232) |
| Cash, beginning of period | | **403** | 63 | **63** | 249 |
| Cash, end of period | | **447** | 17 | **447** | 17 |

## 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. These unaudited condensed consolidated interim financial statements of the Company as at and for the period ended September 30, 2021 comprise the Company and its wholly owned foreign subsidiaries (collectively, "Divergent" or "Company"). The Company 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 unaudited condensed consolidated interim 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. These condensed consolidated interim financial statements do not reflect adjustments in the carrying values of the assets and liabilities, revenues, expenses and financial position that would be necessary if the Company were unable to realize its assets and settle its liabilities and commitments as a going concern in the normal course of operations. Such adjustments could be material.

At September 30, 2021, the Company had a positive working capital of $166 and shareholders deficit of $2,150. During the three and nine months ended September 30, 2021 the Company generated a net income of $564 and income of $2,503 respectively, and generated cash from operations of $223 and $932 for the three and nine months ended September 30, 2021, respectively. Approximately 94% of the Company's sales were attributable to one customer.

These circumstances and material industry uncertainties cast significant doubt on the Company's ability to continue as a going concern. These unaudited condensed consolidated interim 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.

### Financial restructuring

At December 31, 2020, the Company had debentures payable with a face value of $4,516 (CAD $5,750) which were to mature on December 31, 2021. On December 11, 2020, the Company received approval from the debenture holders to convert 75% of the principal amount outstanding, CAD $4,313, into common shares of the Company on a one-time pro-rata basis at the price of CAD $0.30 (post-consolidation) per common share (the "Debenture Conversion") and extend the maturity date of the remaining 25% of the principal amount outstanding $1,143 (CAD $1,437), to December 31, 2025. On January 19, 2021, the Company received TSXV approval and the Debenture Conversion took place on January 20, 2021.

At the special meeting of shareholders held on December 28, 2020, shareholders approved the Debenture Conversion and approved consolidation of the common shares of the Company on the basis of one (1) post-consolidation share for up to every ten (10) pre-consolidation shares outstanding ("Share Consolidation"). Approval of these transactions were subject to final approval by the TSXV which was received January 19, 2021. The Company's common shares commenced trading on the exchange on a post-consolidation basis at the open of the market on January 19, 2021. Following the Share Consolidation, the total number of issued and outstanding common shares was 18,629,912. An additional 14,375,000 (post-consolidation) common shares were issued on January 20, 2021 on the Debenture Conversion which are subject to a four month hold period before being fully tradable. The total number of issued and outstanding common shares at September 30, 2021 is 33,004,912.

## 2. GOING CONCERN (CONTINUED)

### Financial restructuring (continued)

On January 20, 2021, the Company executed the 5th supplemental indenture agreement extending the maturity date of $1,129 (CAD $1,437) of the debentures from December 31, 2021 to December 31, 2025. As consideration for the extending the maturity date of the debentures, the Company issued two (2) warrants, each having an exercise price of CAD $0.30 (post-consolidation) and a term of two (2) years, for every dollar value of the principal amount of the debentures being extended resulting in the issue of 2,875,000 new warrants.

### Impact of COVID-19

The extent to which COVID-19 impacts the overall future business environment and the resulting impact on 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 condensed consolidated interim financial statements are prepared in accordance with IAS 34 – Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"). Accordingly, these 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, 2020 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 unaudited condensed consolidated 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, 2020. These unaudited condensed consolidated interim financial statements have been prepared following the same accounting policies as the annual audited consolidated financial statements for the year ended December 31, 2020 and should be read in conjunction with those annual audited financial statements and the notes thereto.

These unaudited condensed consolidated interim financial statements were approved by the Board of Directors on November 16, 2021 and have not been reviewed by the Company's auditors. The disclosures provided below are incremental to those included in the 2020 annual audited consolidated financial statements.

### Basis of measurement

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

### Presentation and functional currency

These unaudited condensed consolidated interim financial statements are presented in US dollars.

The functional currency of the parent is the Canadian dollar and the functional currency of the Company'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.

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

## 3. BASIS OF PRESENTATION (CONTINUED)

### 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-company balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the unaudited condensed consolidated interim financial statements. The following legal entities are within the Divergent Group of companies as at September 30, 2021:

| 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 condensed consolidated interim 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 condensed consolidated interim 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 unaudited condensed consolidated interim 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. Significant areas of judgement include whether there is a reasonable expectation to exercise an option to renew and an estimate of an incremental borrowing rate;
- The allowance for inventory obsolescence;
- Determining useful life of property and equipment and calculating depreciation;
- Complying with the terms of forgivable government loans;
- Determination of the allocation of field operating costs to cost of goods sold;
- The fair value of stock-based payments is based on estimates using the Black-Scholes option pricing model.
- The calculation of current and 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;

## 3. BASIS OF PRESENTATION (CONTINUED)

### Use of estimates and judgments (continued)

- 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, 2021. There are currently no such pronouncements that are expected to have a significant impact on the Company's unaudited condensed consolidated interim financial statements upon adoption.

## 5. INVENTORIES

For the three and nine months ended September 30, 2021 a provision reversal of $21 and $181 respectively (2020 – provision of $289 and $94) was recorded to adjust the carrying amount of inventories to their estimated net realizable value. The cumulative provision included in inventories at September 30, 2021 is $420 (December 31, 2020 - $601).

## 6. DEBENTURES

At September 30, 2021, the Company has Canadian Dollar denominated debentures outstanding of CAD $1,437 (December 31, 2020 – CAD $5,750) with an equivalent face value of $1,128 at the September 30, 2021 exchange rate (December 31, 2020 - $4,516). 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, 2025. Pursuant to the second supplemental indenture, 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, 2025. During Q3 2021, the Company elected to pay the interest obligations in cash.

On January 19, 2021, the Company received approval from the TSXV to issue 14,375,000 (post-consolidation) common shares on the conversion of the CAD $4,313 face value of debentures into common stock of the Company at a price of CAD $0.30 (post-consolidation). The debenture settlement took place on January 20, 2021.

On January 20, 2021, the fifth supplemental indenture was executed, and all required approvals were obtained to extend the maturity date of CAD $1,437 of debentures from December 31, 2021 to December 31, 2025. As consideration for the agreement to extend the debentures, the Corporation issued two (2) warrants, each having an exercise price of CAD $0.30 (post-consolidation) and a term of two (2) years, for every dollar of the debenture principal being extended resulting in the issue of 2,875,000 new warrants. The cost of issuing the warrants associated with the debenture extension was $99 (CAD $125). Additional legal and advisory cost of $9 were incurred in relation to the debenture extension.

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

During the three and nine months ended September 30, 2021, interest expense recorded on the debentures was $28 and $105, respectively (2020 - $108 and $334, respectively, inclusive of late interest fees).

| | Carrying value | Face value (1) | Face value (CAD $) |
|---|---|---|---|
| Debentures outstanding at December 31, 2020 | $4,356 | $4,516 | $5,750 |
| Conversion of debentures to equity | **(3,293)** | **(3,407)** | **(4,313)** |
| Cost of restructuring | **(108)** | **-** | **-** |
| Gain on debenture extension | **(418)** | **-** | **-** |
| Accretion | **187** | **-** | **-** |
| Effect of movements in exchange rates | **(95)** | **19** | **-** |
| **Debentures outstanding at September 30, 2021** | **$629** | **$1,128** | **$1,437** |

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

## 7. PROMISSORY NOTES

The Company has the following notes outstanding equipment suppliers. The carrying value of the notes is determined by discounting the anticipated future cash flow impact of the note using an effective interest rate of 17% which approximates the Company's cost of capital at the date of entering into the agreement.

i) Subordinated, secured promissory note maturing on June 30, 2024 with an interest rate of 10% per annum, and quarterly principal and interest payments which accelerate over the term of the loan. During the three and nine month periods ended September 30, 2021, interest expense recorded on the promissory note was $46 and $141 respectively (2020 – $nil and $nil respectively). Interest payable at September 30, 2021 was $170 (December 31, 2020 - $89).

| | Carrying Value |
|---|---|
| Promissory note payable at December 31, 2020 | **$1,681** |
| Principal payments | **(150)** |
| Accretion | **70** |
| **Promissory note payable at September 30, 2021** | **$1,601** |
| | |
| **Current portion** | **$428** |
| **Long-term portion** | **$1,173** |
| | **$1,601** |

ii) Unsecured promissory note maturing on December 31, 2024 with an interest rate of 5% per annum, and quarterly principal and interest payments which accelerate over the term of the loan. During the three and nine month periods ended September 30, 2021, interest expense recorded on the promissory note was $4 and $14 respectively (2020 – $nil and $nil respectively).

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

| | Carrying Value |
|---|---|
| Promissory note payable at December 31, 2020 | **$255** |
| Accretion | **20** |
| **Promissory note payable at September 30, 2021** | **$275** |
| | |
| **Current portion** | **$8** |
| **Long-term portion** | **$267** |
| | **$275** |

iii) Unsecured promissory note maturing on December 31, 2025 with an interest rate of 5% per annum, and quarterly principal and interest payments which accelerate over the term of the loan. During the three and nine month periods ended September 30, 2021, interest expense recorded on the promissory note was $10 and $29 respectively (2020 – $nil and $nil respectively).

| | Carrying Value |
|---|---|
| Promissory note payable at December 31, 2020 | **$520** |
| Accretion | **39** |
| **Promissory note payable at September 30, 2021** | **$559** |
| | |
| **Current portion** | **$14** |
| **Long-term portion** | **$545** |
| | **$559** |

## 8. PAYCHECK PROTECTION PROGRAM GOVERNMENT LOAN

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 $253 with an interest rate of 1% per annum payable at the end of the term of the loan. The loan was set to mature on May 3, 2022 with monthly principal and interest payments of $11 commencing October 2021. Had it matured, the remaining unpaid principal plus accrued interest would be due and payable. The carrying value of the loan is determined by discounting the anticipated future cash flow impact of the loan using an effective interest rate of 14%, which approximates the costs of corporate bonds with similar repayment terms at the date of entering into the loan agreement.

Provisions within the PPP Loan allow the Company to apply to have the loan forgiven. On March 26, 2021 the Company applied for forgiveness of the entire balance of the loan and received confirmation on September 28, 2021 that the PPP Loan had been forgiven in full.

During the three and nine month periods ended September 30, 2021, interest expense recorded on the loan was $1 and $2 respectively (2020 – $nil and $nil respectively). Interest payable at September 30, 2021 was $nil (December 31, 2020 - $1).

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

| | Carrying Value |
|---|---|
| Loan payable at December 31, 2020 | **$216** |
| Accretion | **10** |
| Forgiveness of PPP Loan | **(226)** |
| **Loan payable at September 30, 2021** | **$-** |

## 9. GOVERNMENT LOAN

On October 16, 2020, the Company executed a long-term loan agreement with the US Small Business Administration ("SBA Loan") in the amount of $150. 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 provided a continuing priority security interest in all the assets of the Company's US wholly owned subsidiary, Extreme Pumping Solutions Inc., a security approved by the existing debenture holders in December 2020. The carrying value of the loan is determined by discounting the anticipated future cash flow impact of the loan using an effective interest rate of 13%, which approximates the costs of corporate bonds with similar repayment terms at the date of entering into the loan agreement. During the three and nine month periods ended September 30, 2021, interest expense recorded on the loan was $1 and $2 (2020 – $nil and $nil respectively). Interest payable at September 30, 2021 was $2 (December 31, 2020 - $1).

| | Carrying Value |
|---|---|
| Loan payable at December 31, 2020 | **$23** |
| Accretion | **2** |
| **Loan payable at September 30, 2021** | **$25** |
| | |
| **Current portion** | **$-** |
| **Long-term portion** | **$25** |
| | **$25** |

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

## 10. FINANCE INCOME (EXPENSE)

| | Three months ended September 30, 2021 | Three months ended September 30, 2020 | Nine months ended September 30, 2021 | Nine months ended September 30, 2020 (1) |
|---|---|---|---|---|
| Interest expense on debentures | **($28)** | ($108) | **($105)** | ($334) |
| Accretion of debentures | **(19)** | (34) | **(187)** | (97) |
| Gain on restructuring debentures | **-** | - | **418** | - |
| Gain on sale of assets | **-** | - | **9** | - |
| Interest on promissory notes | **(60)** | (50) | **(183)** | (50) |
| Accretion of promissory notes | **(44)** | 267 | **(129)** | 267 |
| Forgiveness of PPP loan | **226** | - | **226** | - |
| Interest expense on government loans | **(1)** | - | **(5)** | - |
| Accretion of government loans | **3** | - | **(9)** | - |
| Lease finance expense | **(2)** | (2) | **(6)** | (7) |
| Fair value adjustment on share issue | **-** | - | **2,157** | - |
| Interest expense on related party loans | **-** | (1) | **-** | (1) |
| Foreign exchange (loss) gain | **225** | (219) | **(3)** | 288 |
| Net finance income | **$300** | ($147) | **$2,183** | $66 |

(1) Q1 2020, lease finance costs associated with field operating activities have been reclassified to cost of goods sold to be consistent with the current year disclosure of these expenses.

## 11. SHARE CAPITAL

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

| Issued | Number of shares (1) | Amount |
|---|---|---|
| Balance at December 31, 2020 | 18,629,912 | $18,364 |
| Common shares issued during nine months ended September 30, 2021 (2) | 14,375,000 | 1,249 |
| **Balance at September 30, 2021** | **33,004,912** | **$19,613** |

(1) On January 19, 2021 the Company's issued and outstanding common shares were consolidated on a basis of ten (10) pre-consolidation share for one (1) post-consolidation share. The number of common shares has been adjusted retrospectively to reflect a 10:1 Share Consolidation.
(2) On January 19, 2021, the Company received approval from the TSXV to issue 14,375,000 (post-consolidation) common shares on the conversion of $3,407 (CAD $4,313) of debentures into common stock of the Company at a price of CAD $0.30 (post-consolidation) per share. The shares were issued at the closing market price of CAD $0.11 (post- consolidation) price per share on January 20, 2021 resulting in a fair value adjustment on the share issue of $2,157.

## 12. WARRANTS

All outstanding warrants reflect the 10 to 1 Share Consolidation described in Note 2.

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

Warrants are issued in CAD $.

| | Number of warrants (1) | Amount |
|---|---|---|
| Balance at December 31, 2020 (1) | 575,000 | $141 |
| Issued (2) | 2,875,000 | 99 |
| **Balance at September 30, 2021** | **3,450,000** | **$240** |

(1) On January 1, 2018, the Company issued 575,000 (5,750,000 pre-consolidation) common share purchase warrants, exercisable at CAD $1.30 and expiring December 31, 2021.
(2) On January 21, 2021, the Company issued 2,875,000 (post-consolidation) common share purchase warrants, exercisable at CAD $0.30 (post-consolidation) and expiring January 21, 2023. The value attributed to the share purchase warrants is $99 (CAD $125) utilizing the Black Scholes valuation model,

## 13. STOCK BASED COMPENSATION

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, 2021, $12 and $19 respectively (2020 - $1 and $9 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 $.

All outstanding and exercisable options, as well as the weighted average exercise prices, in the following table reflect the Share Consolidation as described in Note 2.

| | Number of options | Weighted average exercise price per option (CAD $) |
|---|---|---|
| **Balance at December 31, 2020** | **326,000** | **$1.67** |
| Expired | (49,000) | |
| Granted | 2,500,000 | $0.075 |
| **Balance at September 30, 2021** | **2,777,000** | **$0.22** |

The number of options exercisable at September 30, 2021 is 281,667 (December 31, 2020 – 274,167) at a weighted average exercise price of CAD $1.72 (December 31, 2020 – CAD $1.73). The weighted average remaining term for exercisable options is 1.21 years (December 31, 2020 – 1.42 years).

The Company granted 2,500,000 options on May 17, 2021 with the following assumptions:

| | |
|---|---|
| Weighted average exercise price | $0.0457 (CAD $0.075) |
| Expected volatility | 85% |
| Expected forfeiture | 15% |
| Risk-free rate | 0.79% |
| Expected stock option life | 5 years |

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

## 14. PER SHARE AMOUNTS

Basic and diluted income (loss) 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, 2021, of 32,004,454 and 33,152,140 respectively (2020 – 13,830,242 and 15,840,793 respectively). All outstanding options and warrants are anti-dilutive for the periods and comparative periods.

## 15. 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 to the Company which are denominated in Canadian Dollars. At September 30, 2021, the CAD $1,437 face value of the debentures includes $270 (CAD $344) (December 31, 2020 - $1,081 [CAD $1,377]) due to directors and officers of the Company.

| | Carrying value | Face value [1] | Face value (CAD $) |
|---|---|---|---|
| Debentures payable at December 31, 2020 | $1,043 | $1,081 | $1,377 |
| Conversion of debentures to equity | **(788)** | **(816)** | **(1,033)** |
| Cost of restructuring | **(26)** | | |
| Gain on debenture extension | **(100)** | **-** | **-** |
| Accretion | **45** | **-** | **-** |
| Effect of movements in exchange rates | **(23)** | **5** | **-** |
| **Debentures outstanding at September 30, 2021** | **$151** | **$270** | **$344** |

Interest accrues at 10% per annum. All interest expense incurred during the third quarter of 2021 was paid during the quarter.

At September 30, 2021, accounts payable and accrued liabilities includes $150 (December 31, 2020 - $126) owing to directors and officers of the Company relating to accrued compensation.

## 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 Company defines as its share capital and debt, is monitored to ensure the Company's ability to service its debt. For the purposes of this calculation, debt includes current and long-term portions of borrowed funds, including debentures.

The Company completed a financial restructuring involving the secured debentures during 2021 (see Note 2). During 2020, the Company accessed $403 of government assistance and executed three promissory notes converting $3,145 of current liabilities into long-term obligations. A total 75% of the senior secured debentures outstanding at December 31, 2020 were converted into share capital of the Company during Q1 2021. The maturity date of the remaining 25% of outstanding debentures was extended to December 31, 2025. 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 period ended September 30, 2021. The Company is not subject to any internally or externally imposed capital requirements.

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

### (B) Contingencies

From time to time, the Company 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.

## 17. RECONCILIATION OF DEPRECIATION, AMORTIZATION AND LEASE FINANCE EXPENSE

The Company leases and owns machinery and equipment used in operations. The table below reconciles the depreciation, amortization and lease financing costs reflected in the financial statements.

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| **Depreciation and amortization of property and equipment** | | | | |
| Office | **($-)** | ($1) | **($-)** | ($2) |
| Field | **(9)** | (24) | **(29)** | (73) |
| *Cash flow statement* | ***(9)*** | *(25)* | ***(29)*** | *(75)* |
| Expensed to cost of sales | **9** | 73 | **29** | 73 |
| | **($-)** | $48 | **($-)** | ($2) |
| **Amortization of ROU assets** | | | | |
| Office | **($2)** | ($3) | **($7)** | ($15) |
| Field | **(42)** | (53) | **(123)** | (161) |
| *Cash flow statement* | ***(44)*** | *(56)* | ***(130)*** | *(176)* |
| Expensed to cost of sales | **42** | 53 | **123** | 161 |
| | **($2)** | ($3) | **($7)** | ($15) |
| ***Depreciation and amortization*** | **($2)** | $45 | **($7)** | ($17) |
| **Lease finance expense** | | | | |
| Office | **($2)** | ($2) | **($6)** | ($7) |
| Field | **(19)** | (16) | **(59)** | (49) |
| *Cash flow statement* | ***(21)*** | *(18)* | ***(65)*** | *(56)* |
| Expensed to cost of sales | **-** | 16 | **40** | 49 |
| ***Finance expense*** | **($21)** | ($2) | **($25)** | ($7) |

(1) Q3 2020, depreciation, amortization and finance costs associated with field operating activities have been reclassified to cost of goods sold to be consistent with the current year disclosure of these expenses.

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

## 18. SUPPLEMENTARY CASH FLOW INFORMATION

Net change in non-cash working capital

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| Prepaid expenses, deposits and advances | **($93)** | ($45) | **($54)** | ($45) |
| Trade receivables | **51** | 368 | **210** | 753 |
| Inventories | **36** | 288 | **577** | 106 |
| Accounts payable and accrued liabilities | **(246)** | (435) | **(325)** | (364) |
| Related party loans | **-** | - | **-** | (77) |
| Interest payable | **17** | 51 | **84** | (293) |
| | **($235)** | $227 | **$492** | $80 |