Consolidated Financial Statements

Divergent Energy Services Corp.

As at and for the years ended December 31, 2021 and 2020

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. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2021 and December 31, 2020, and the consolidated statements of net income and comprehensive income, shareholders' deficit and cash flows for the years 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, 2021 and December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits 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 audits 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 approximately 93% of the Company's sales were attributable to one customer for the year ended December 31, 2021 and, as of that date, the Company had a shareholders' deficit. 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 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 audits 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 audits 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 audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

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.

Calgary, Alberta

MNP LLP

March 15, 2022

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	At December 31, 2021	At December 31, 2020
ASSETS			
Current assets			
Cash		**$607**	$63
Prepaid expenses, deposits and advances		**104**	77
Trade receivables	**5**	**877**	975
Inventories	**6**	**711**	1,261
		2,299	2,376
Non-current assets			
Property and equipment	**7**	**133**	171
Right-of-use assets	**8**	**535**	630
Total Assets		**$2,967**	$3,177
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	**10**	**$1,438**	$1,401
Current portion of lease obligations	**9**	**156**	170
Interest payable	**12,13,14**	**183**	91
Pay check protection program loan	**13**	**-**	53
Promissory notes	**12**	**216**	156
Debentures	**2,11**	**-**	4,356
		1,993	6,227
Non-current liabilities			
Lease obligations	**9**	**353**	452
Promissory notes	**12**	**2,061**	2,300
Government loans	**13,14**	**26**	186
Debentures	**2,11**	**654**	-
Total Liabilities		**$5,087**	$9,165
SHAREHOLDERS' DEFICIT			
Share capital	**15**	**$19,613**	$18,364
Contributed surplus		**5,972**	5,800
Warrants	**17**	**99**	141
Accumulated other comprehensive loss		**(1,018)**	(1,045)
Accumulated deficit		**(26,786)**	(29,248)
Total Shareholders' Deficit		**($2,120)**	($5,988)
Total Liabilities and Shareholders' Deficit		**$2,967**	$3,177

GOING CONCERN	**2**
RELATED PARTIES	**23**

Approved by the Board of Directors: *Signed "Cameron Barton"*, Executive 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 Income and Comprehensive Income (Loss)

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

	Note	Year ended December 31, 2021	2020
Revenue		**$8,362**	$4,332
Cost of sales		**(6,466)**	(3,247)
Reversal of provision for slow moving inventory	**6**	**181**	934
Gross profit		**2,077**	2,019
General and administration	**16**	**(1,639)**	(2,054)
Depreciation and amortization	**20**	**(10)**	(20)
Share-based compensation	**18**	**(31)**	(10)
Results from operating activities		**397**	(65)
Forgiveness of paycheck protection loan	**13**	**226**	-
Benefit on low interest government loans	**13,14**	**-**	182
Finance income	**19**	**1,839**	12
Net income		**2,462**	129
Other comprehensive income being foreign exchange gains		**27**	91
Total comprehensive income		**$2,489**	$220
Income per share			
Net income – basic and dilutive - cents [1]	**22**	**$0.08**	$0.01

(1) Net income per common share reflect the Share Consolidation as described in Note 2 on a retrospective basis.

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

Divergent Energy Services Corp.

Consolidated 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)/income	Accumulated deficit	Total shareholders' deficit
Balance at December 31, 2019		12,006,260	$17,927	$141	$5,790	($1,136)	($29,377)	($6,655)
Debenture interest settled with common shares	11,15	6,623,625	437	-	-	-	-	437
Additional shares issued on Share Consolidation (1)	15	27	-	-	-	-	-	-
Share-based Compensation	17		-	-	10	-	-	10
Net income for the year			-	-	-	-	129	129
Other comprehensive Income			-	-	-	91	-	91
Balance at December 31, 2020		18,629,912	$18,364	$141	$5,800	($1,045)	($29,248)	($5,988)
Shares issued on settlement of debentures	15	**14,375,000**	**1,249**	**-**	**-**	**-**	**-**	**1,249**
Share-based compensation	17		**-**	**-**	**31**	**-**	**-**	**31**
Issue warrants on extension of debenture			**-**	**99**	**-**	**-**	**-**	**99**
Expiration of Warrants			**-**	**(141)**	**141**	**-**	**-**	**-**
Net income for the year			**-**	**-**	**-**	**-**	**2,462**	**2,462**
Other comprehensive income			**-**	**-**	**-**	**27**	**-**	**27**
Balance at December 31, 2021		**33,004,912**	**$19,613**	**$99**	**$5,972**	**($1,018)**	**($26,786)**	**($2,120)**

(1) Common shares outstanding reflect the Share Consolidation as described in Note 2.

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	Year ended December 31, 2021	2020
OPERATING ACTIVITIES			
Net income from continuing operations		**$2,462**	$129
Adjustments for:			
Amortization of right-of-use assets	**8,20**	**174**	220
Depreciation and amortization of property and equipment	**7,20**	**38**	100
Gain on sale of property and equipment		**9**	-
Share-based compensation	**18**	**31**	10
Accretion of debentures	**11,19**	**209**	132
Debenture interest settled in common shares	**15**	**-**	437
Reversal of provision for slow moving inventory	**6**	**(181)**	(934)
Provision for expected credit losses	**5**	**-**	8
Gain on restructuring of accounts payable	**19**	**-**	(652)
Accretion of promissory notes	**12,19**	**77**	55
Forgiveness of pay check protection loan	**13**	**(226)**	-
Benefit on low interest government loans	**13,14**	**-**	(182)
Accretion of government loans	**13,14,19**	**3**	18
Gain on restructuring of debentures	**19**	**(418)**	-
Fair value adjustment on issue of common shares	**19**	**(2,157)**	(314)
Lease finance expense	**9,20**	**90**	80
Foreign exchange		**491**	480
Changes in non-cash working capital	**25**	**750**	221
Net cash generated from (used in) operating activities		**$1,352**	($192)
INVESTING ACTIVITIES			
Proceeds on disposal of property and equipment		**$27**	$-
Purchases of property and equipment	**7**	**-**	(19)
Net cash generated from (used in) investing activities		**$27**	($19)
FINANCING ACTIVITIES			
Payments towards lease obligations	**9**	**($299)**	($274)
Interest payments on debentures	**11**	**(134)**	-
Principal payments on promissory notes	**12**	**(250)**	(92)
Interest paid on promissory notes	**12**	**(152)**	(12)
Government loans	**13,14**	**-**	403
Net cash (used in) generated from financing activities		**($835)**	$25
Effect of exchange rate fluctuations on cash		**-**	1
Net change in cash		**$544**	($186)
Cash, beginning of year		**63**	249
Cash, end of year		**$607**	$63

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, 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 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, 2021, the Company had working capital of $306 and shareholders deficit of $2,120. During 2021, the Company generated net income of $2,462, generated cash from operations of $1,352 and approximately 93% of the Company's sales were attributable to one customer. During 2021, the Company had $226 of its pay check protection loan forgiven. The Company fully addressed its prior working capital deficiency by way of a financial restructuring in the first quarter of 2021. Despite these improvements in the Company's financial position, the Company continues to be economically reliant on one customer for approximately 93% of its revenue.

These circumstances and material uncertainties, along with the continued supply chain issues and a global economic crisis, casts 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.

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 Settlement") 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 Settlement took place on January 20, 2021.

At the special meeting of shareholders held on December 28, 2020, shareholders approved the Debenture Settlement 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 Settlement which are subject to a four month hold period before being fully tradable. The total number of issued and outstanding common shares at December 31, 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 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

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, 2021 and were authorized for issue by the Board of Directors on March 15, 2022.

Basis of measurement

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

Share consolidation

As the Share Consolidation described in Note 2 was completed prior to the issuance of these consolidated financial statements, common shares and per-share amounts disclosed herein reflect the post-share consolidation shares unless 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 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.

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-Company transactions, are eliminated in preparing the consolidated financial statements. The following legal entities are within the Divergent group of companies as at December 31, 2021:

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

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

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 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;
- Determining useful life of property and equipment and calculating depreciation;
- 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;
- 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

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

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and deposits with maturities of three months or less that are subject to an insignificant risk of changes in their fair value and are used by the Company in the management of its short-term commitments.

Foreign currency

a) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Company'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 and comprehensive income. 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 and comprehensive income 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.

c) Translation to presentation currency

The assets and liabilities of the Company are translated to the presentation currency at exchange rates at the reporting date. The income and expenses of the Company 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

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 Company determines the classification of its financial assets at initial recognition. Financial assets are recognized initially at fair value, normally being the transaction price plus directly attributable transaction costs.

The Company determines the classification of its financial liabilities at initial recognition. All financial liabilities are initially recognized at fair value. For interest-bearing loans and borrowings this is the fair value of the proceeds received net of issue costs associated with the borrowing. After initial recognition, financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses arising on the repurchase, settlement, modification or cancellation of liabilities are recognized in the consolidated statement of net income and comprehensive income.

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
Accounts payable and accrued liabilities	Amortized cost
Related party loans	Amortized cost
Lease obligations	Amortized cost
Promissory notes	Amortized cost
Government loans	Amortized cost
Debentures	Amortized cost

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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 and comprehensive income.

b) Depreciation and amortization

Depreciation and amortization are calculated based on the cost of the asset, less its residual value and is recognized in net income/(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 Company will obtain ownership by the end of the lease term.

The capital assets are depreciated and amortized as follows:

Computer hardware and office equipment	Straight line over three years
Leasehold improvements	Straight line over lease term
Vehicles and trailers	Straight line over five years
Shop equipment	Straight line over five years

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is 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. 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 and selling 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 Company 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 Company 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) Share-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.

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 recovery on the taxable income (loss) 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 Company 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 consolidated 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.

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Earnings (loss) per share

The Company presents basic and diluted earnings (loss) 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.

5. TRADE RECEIVABLES

	2021	2020
Not past due current to 60 days	**$877**	$975
Past due 61 - 90 days	**-**	-
Past due more than 90 days	**-**	-
	$877	$975

The provision for ECL's was $nil in 2021 (2020 – $nil).

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

6. INVENTORIES

	2021	2020
Materials and equipment inventory	**$1,131**	$1,862
Accumulated provision, beginning of year	**(601)**	(1,535)
Decrease in provision for slow moving inventory	**181**	813
Decrease in provision for obsolete inventory	**-**	121
Accumulated provision, end of year	**(420)**	(601)
	$711	$1,261

The general economic and business outlook in the oil and gas environment improved significantly at the end of 2021 as prices for oil and gas recovered from their lows earlier in 2020. The Company forecasts increasing activity in 2022 and anticipates using inventory which had a provision against it in the prior years. In addition, the Company has determined there is a use for certain inventory previously classified as obsolete, some of which may require refurbishment to be able to be sold to customers. The provision in the current year was reversed by $181 in response to changing market conditions and consumption trends resulting in a cumulative provision at December 31, 2021 of $420 (2020 – $601). Inventory recognized in cost of sales for the year ended December 31, 2021 was $3,708 (2020 – $1,827).

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

7. PROPERTY AND EQUIPMENT

Cost	Computer and office equipment	Leasehold improvements	Vehicles and trailers	Shop equipment	Total
Balance at December 31, 2019	$165	$96	$389	$808	$1,458
Add:					
Additions	-	-	19	-	19
Transfer to ROU assets	-	-	(43)	43	-
Transfer between asset classes and derecognition of assets no longer in use	(147)	(96)	(147)	(465)	(855)
Balance at December 31, 2020	$18	$-	$218	$386	$622
Add:					
Additions	-	-	-	-	-
Balance at December 31, 2021	**$18**	**$-**	**$218**	**$386**	**$622**
Accumulated depreciation and amortization					
Balance at December 31, 2019	($157)	($96)	($327)	($627)	($1,207)
Add:					
Depreciation and amortization	(8)	-	(51)	(41)	(100)
Disposals	-	-	33	(32)	1
Transfer between asset classes and derecognition of assets no longer in use	147	96	147	465	855
Balance at December 31, 2020	($18)	$-	($198)	($235)	($451)
Add:					
Depreciation and amortization	-	-	(8)	(30)	(38)
Balance at December 31, 2021	**($18)**	**$-**	**($206)**	**($265)**	**($489)**
Carrying amounts					
As at December 31, 2020	$-	$-	$20	$151	$171
As at December 31, 2021	**$-**	**$-**	**$12**	**$121**	**$133**

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

8. RIGHT-OF-USE ASSETS

	2021	2020
Cost		
Balance, beginning of year	**$830**	$771
Additions	**79**	562
Dispositions	**(17)**	(503)
Balance, end of year	**$892**	$830
Accumulated amortization		
Balance, beginning of year	**($200)**	($283)
Amortization	**(174)**	(220)
Dispositions	**17**	303
Foreign exchange	**-**	-
Balance, end of year	**($357)**	($200)
Carrying amounts		
Balance, beginning of year	**$630**	$488
Balance, end of year	**$535**	$630

9. LEASE OBLIGATIONS

The Company has lease liabilities for office and warehouse leases in two locations and various field vehicles and machinery. The incremental borrowing rate used to discount the leases liabilities was 10% (2020 – 10%).

	2021	2020
Balance, beginning of year	**$622**	$480
Liabilities incurred	**95**	551
Dispositions	**-**	(201)
Lease finance expense	**91**	80
Foreign exchange	**-**	(14)
Repayments in the year	**(299)**	(274)
Balance, end of year	**509**	622
Current portion	**156**	170
Non-current portion	**353**	452
	$509	$622

The total undiscounted amount of the estimated future cash flows to settle the lease obligations over the remaining lease term is $904 (2020 - $1,068). The Company's minimum lease payments are as follows:

	2021	2020
Within one year	**$248**	$256
Later than one year but not later than two years	**253**	221
Later than two years	**403**	591
Minimum lease payments	**904**	1,068
Amount representing finance charge	**(395)**	(446)
Present value of net minimum lease payments	**$509**	$622

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

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2021	2020
Trade payables	**$995**	$1,184
Accrued liabilities	**443**	217
Total accounts payable and accrued liabilities	**$1,438**	$1,401

Included in trade payables are $218 (2020 - $234) in excess of one year outstanding.

11. DEBENTURES

At December 31, 2021, the Company has Canadian Dollar denominated debentures outstanding of CAD $1,437 (2020 – CAD $5,750) equivalent to a face value of $1,134 at the year end exchange rate (2020 - $4,536). See discussion in Note 2 on the corporate financial restructuring.

The debentures bear interest at 10% per annum, are secured by a trust indenture and a general security agreement over 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 2020, the Company elected to pay the interest obligations by issuing common shares, while throughout 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 settlement 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.

The Company determined that the new terms of the debenture should be accounted for as an extinguishment of debt. An effective interest rate of 14% was used to discount the anticipated future cash flow of the debentures. The effective interest rate of 14% approximates the Company's cost of capital at the time of the extinguishment.

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

11. DEBENTURES (CONTINUED)

During 2021, interest expense recorded on the debentures was $134 (2020 - $445), inclusive of late interest fees of $nil (2020 – $16) and interest payable at year end was $nil (2020 – $nil).

	Carrying value	Face value [(1)]	Face value (CAD $)
Debentures payable at December 31, 2019	$4,134	$4,427	$5,750
Accretion	132	-	-
Effect of movements in exchange rates	90	89	-
Debentures payable at December 31, 2020	$4,356	$4,516	$5,750
Settlement of debentures to equity	(3,293)	(3,407)	(4,313)
Cost of restructuring	(108)	-	-
Gain on debenture extension	(418)	-	-
Accretion	209	-	-
Effect of movements in exchange rates	(92)	25	-
Debentures payable at December 31, 2021	**$654**	**$1,134**	**$1,437**

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

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

12. PROMISSORY NOTES

The Company has the following notes outstanding to 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. This note was renegotiated during the last quarter of 2021, to a 6-year term, maturing on June 30, 2026, maintaining an interest rate of 10% per annum. For the year ended December 31, 2021, interest expense recorded on the promissory note was $185 (December 31, 2020 – $99). Interest payable at December 31, 2021 was $178 (December 31, 2020 - $99).

	Carrying Value
Promissory note payable at December 31, 2019	$-
Addition	2,000
Gain on restructuring of accounts payable	(299)
Principle payments	(75)
Accretion	55
Promissory note payable at December 31, 2020	$1,681
Change due to renegotiations of note terms	(103)
Principal payments	(250)
Accretion	94
Promissory note payable at December 31, 2021	**$1,422**
Current portion	**$170**
Long-term portion	**$1,252**

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. For the year ended December 31, 2021, interest expense recorded on the promissory note was $18 (December 31, 2020 – $2). Interest payable at December 31, 2021 was $nil (December 31, 2020 - $nil).

	Carrying Value
Promissory note payable at December 31, 2019	$-
Additions	367
Gain on restructuring of accounts payable	(105)
Principal payments	(7)
Accretion	-
Promissory note payable at December 31, 2020	$255
Accretion	27
Promissory note payable at December 31, 2021	**$282**
Current portion	**$16**
Long-term portion	**$266**

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

12. PROMISSORY NOTES (CONTINUED)

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. For the year ended December 31, 2021, interest expense recorded on the promissory note was $38 (December 31, 2020 – $nil). Interest payable at December 31, 2021 was $nil (December 31, 2020 - $nil).

	Carrying Value
Promissory note payable at December 31, 2019	$-
Additions	778
Gain on restructuring of accounts payable	(248)
Principal payments	(10)
Accretion	-
Promissory note payable at December 31, 2020	$520
Accretion	53
Promissory note payable at December 31, 2021	**$573**
Current portion	**$30**
Long-term portion	**$543**

13. 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 discount 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 year ended December 31, 2021, interest expense recorded on the loan was $1 (2020 – $nil). Interest payable at December 31, 2021 was $nil (December 31, 2020 - $1).

	Carrying Value
Loan payable at December 31, 2019	$-
Additions	253
Benefit on low interest loan	(54)
Accretion	17
Loan payable at December 31, 2020	$216
Accretion	10
Forgiveness of PPP Loan	(226)
Loan payable at December 31, 2021	**$-**

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

14. 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, EPSL, a security approved by the existing debenture holders in December 2020. An effective interest rate of 13% was used to discount the anticipated future cash flow of the loan and determine the carrying value and the date of entering into the loan agreement. The effective interest rate of 13% approximates the costs of corporate bonds with similar repayment terms at the time of the loan.

	Carrying Value
Loan payable at December 31, 2019	$-
Additions	150
Benefit on low interest loans	(128)
Accretion	1
Loan payable at December 31, 2020	$23
Accretion	3
Loan payable at December 31, 2021	**$26**
Current portion	**$-**
Long-term portion	**$26**

During the year ended December 31, 2021, interest expense recorded on the loan was $6. Interest payable at December 31, 2021 was $42.

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

15. 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 [1]	Amount
Balance at December 31, 2019	12,006,260	$17,927
Common shares issued [2]	2,386,248	170
Common shares issued [3]	1,433,562	52
Common shares issued [4]	1,354,500	101
Common shares issued [5]	1,449,315	114
Additional share issues on Share Consolidation [1]	27	-
Balance at December 31, 2020	18,629,912	$18,364
Common shares issued [6]	14,375,000	1,249
Balance at December 31, 2021	**33,004,912**	**$19,613**

(1) The number of common shares has been adjusted retrospectively to reflect a 10:1 Share Consolidation as described in Note 2. All references to the number of common shares in the following list are on a post-consolidation basis. Fractional shares post consolidation were rounded up to the nearest whole share resulting in an additional 27 shares being issued.

(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 by the issue of common shares at a price of CAD $0.25 per share. The equivalent fair market value of the Company's shares at the date of issue of the share from treasury was CAD $0.10 cents per share.

(3) On June 30, 2020, the Company settled interest obligations on debentures for the period April 1, 2020 to June 30, 2020 by the issue of common shares at a price of CAD $0.10 per share. The equivalent fair market value of the Company's shares at the date of issue of the share from treasury was CAD $0.05 cents per share.

(4) On September 30, 2020, the Company settled interest obligations on debentures for the period July 1, 2020 to September 30, 2020 by the issue of common shares at a price of CAD $0.107 per share. The equivalent fair market value of the Company's shares at the date of issue of the share from treasury was CAD $0.10 cents per share.

(5) On December 31, 2020, the Company settled interest obligations on debentures for the period October 1, 2020 to December 31, 2020 by the issue of common shares at a price of CAD $0.10 per share which was the equivalent fair market value on the date the Company announced the election to satisfy the interest obligation.

(6) On January 19, 2021, the Company received approval from the TSXV to issue 14,375,000 (post-consolidation) common shares on the settlement 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.

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

16. GENERAL AND ADMINISTRATION

	2021	2020
Salaries, benefits and employee costs	**$888**	$957
Severance	**-**	246
Director fees	**57**	46
Consultants and contractors	**191**	151
Office, insurance, warehouse and shop	**292**	407
Corporate and public company	**57**	26
Travel and accommodation	**12**	7
Professional, legal & advisory	**105**	214
Business development	**37**	-
	$1,639	$2,054

17. WARRANTS

All outstanding warrants reflect the Share Consolidation as described in Note 2.

Warrants are issued in CAD $	Number of warrants	Amount
Balance at December 31, 2020 and 2019 (1)	575,000	$141
Warrants issued on extension of debenture (2)	2,875,000	99
Warrants expired on December 31, 2021 (1)	(575,000)	(141)
Warrants outstanding at December 31, 2021	**2,875,000**	**$99**

(1) On January 1, 2018, the Company issued 575,000 (5,750,000 pre-consolidation) common share purchase warrants, exercisable at CAD $1.30 (CAD $0.13 pre-consolidation) 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).

(2) On January 20, 2021, the 5th supplemental indenture was executed, and all required approvals were obtained to extend the maturity date of $1,129 (CAD $1,437) of debentures from December 31, 2021 to December 31, 2025. As consideration for the agreement to extend 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.

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

18. SHARE-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 2021, stock-based compensation of $31 (2020 - $10) 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.

	2021		2020	
Continuity of stock options	Number of options	Weighted average exercise price (CAD $)	Number of options	Weighted average exercise price (CAD $)
Balance, beginning of year	326,000	$1.67	513,500	$1.98
Cancelled	-	-	(119,000)	2.43
Forfeited	-	-	(18,500)	1.53
Granted	2,500,000	0.075	-	-
Expired	(49,000)	0.02	(50,000)	3.30
Balance, end of year	**2,777,000**	**$0.22**	326,000	$1.67

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.

The number of options exercisable at December 31, 2021 is 244,000 (December 31, 2020 – 274,167) at a weighted average exercise price of CAD $1.75 (December 31, 2020 – CAD $1.73). The weighted average remaining term for exercisable options is 0.58 years (December 31, 2020 – 1.42 years).

The Company granted 2,500,000 options on May 17, 2021 valued using the Black-Scholes model 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)

19. FINANCE INCOME (EXPENSE)

	Note	2021	2020
Gain on disposal of property and equipment		**9**	-
Interest expense on debentures	**11**	**(134)**	($445)
Accretion of debentures	**11**	**(209)**	(132)
Gain on restructuring of debentures	**11**	**418**	-
Interest expense on related party loans		**-**	(1)
Interest expense on promissory notes	**12**	**(241)**	(101)
Accretion of promissory notes	**12**	**(174)**	(55)
Gain on restructuring of accounts payable	**14**	**-**	652
Gain on restructuring of note payable	**12**	**16**	-
Interest expense on government loans	**13,14**	**(7)**	(2)
Accretion of government loans	**13,14**	**(3)**	(18)
Lease finance expense	**9,10**	**(8)**	(9)
Fair value adjustment on share issue	**15**	**2,157**	314
Foreign exchange loss		**15**	(191)
Net finance income		**$1,839**	$12

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

20. RECONCILIATION OF DEPRECIATION, AMORTIZATION AND LEASE FINANCE EXPENSE

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

Depreciation and amortization of property and equipment	**2021**	2020
Office	**$-**	($3)
Field	**(38)**	(97)
Cash flow statement	***(38)***	*(100)*
Expensed to cost of sales	**38**	97
	$-	($3)
Amortization of ROU assets		
Office	**($10)**	($17)
Field	**(164)**	(203)
Cash flow statement	***(174)***	*(220)*
Expensed to cost of sales	**164**	203
	($10)	($17)
Depreciation and amortization	**($10)**	($20)
Lease finance expense		
Office	**($8)**	($9)
Field	**(82)**	(71)
Cash flow statement	***(90)***	*(80)*
Expensed to cost of sales	**82**	71
Finance expense	**($8)**	($9)

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

21. INCOME TAX

Reconciliation of effective tax rate

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

	2021	2020
Income from continuing operations before tax	**$2,462**	$129
Statutory income tax rate	**22.1%**	25.0%
Computed income tax expense	**545**	32
Increase (decrease) resulting from:		
Share-based compensation	**7**	3
Non-taxable, non-deductible items	**(70)**	(299)
Change in tax rates	**244**	-
Unrecognized deferred tax assets	**(726)**	264
Income tax expense (recovery)	**$-**	$-

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 10.0% during 2020 (2020 - 10.0%). On June 28, 2019, the Alberta government enacted legislation which reduced the Alberta corporate income tax rate to 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	**2021**	2020
Deductible temporary differences	**$1,042**	$883
Non-capital losses	**9,475**	11,061
Capital losses	**167**	2,869
	$10,684	$14,813

The Company has non-capital losses for income tax purposes in Canada and US that expire from 2029 to 2040. 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 Company 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)

22. 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.

	2021	2020
Amounts used in determining basic and diluted income (loss) per share:		
Net income	**$2,462**	$129
Shares used in calculating basic and diluted loss per share:		
Weighted average number of common shares outstanding during the year (1)	**32,256,624**	14,676,362

(1) Weighted average common shares outstanding reflect the Share Consolidation as described in Note 2 and have been applied retrospectively.

23. RELATED PARTIES

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

	2021	2020
Debentures (carrying value)	**$157**	$1,043
Interest payable on related party loans	**$-**	$-

Certain directors and officers of the Company have provided debentures to the Company which are denominated in Canadian Dollars. The CAD $1,437 (2020 – CAD $5,750) face value of the debentures includes $271 (CAD $344) (2020 – $1,082 (CAD $1,377)) due to directors and officers of the Company. Interest on these debentures during the year was $32 (CAD $40) (2020– $107 (CAD $143)) and interest payable at the end of the year was $nil (CAD $nil) (2020 – $nil (CAD $nil)).

Key management personnel and director compensation comprised:

	2021	2020
Salaries and benefits	**$291**	$258
Accrued performance-based compensation	**118**	112
Severance	**-**	246
Directors' fees	**57**	46
Share-based compensation	**1**	7
	$467	**$669**

During 2020, an executive officer departed the Company and a one-time severance of $246 was accrued. At December 31, 2021, severance costs of $nil (2020 - $140) are included in accounts payable and accrued liabilities.

23. FINANCIAL RISK MANAGEMENT

(A) Risk management framework

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

The Company's risk management policies are established to identify and analyze the risks faced by the Company, 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 Company's activities.

Credit risk

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

The majority of the Company's customers operate in oil and gas exploration and development in the United States. They may be exposed to extreme volatility 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 target customers within the industry to mitigate credit risks as needed. The Company's cash balances are held by creditworthy financial institutions.

Trade receivables

The Company'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. During 2021, the Company was economically reliant on one customer as approximately 93% (2020 - 90%) of sales during the year and 83% (2020 – 77%) of trade receivables outstanding at December 31, 2021 were with this customer.

Liquidity risk

Liquidity risk is the risk that the Company may encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company'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 Company'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)

23. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk (continued)

The following is a maturity analysis of the Company's undiscounted financial obligations at December 31, 2021:

	Less than three months	Three months to one year	Beyond one year	Total
Accounts payable and accrued liabilities	**$1,438**	**$-**	**$-**	**$1,438**
Lease obligations	**42**	**114**	**353**	**509**
Debentures	**-**	**-**	**654**	**654**
Interest payable	**13**	**40**	**130**	**183**
Promissory notes	**54**	**162**	**2,061**	**2,277**
Government loans(1)	**-**	**-**	**26**	**26**
	$1,547	**$316**	**$3,224**	**$5,087**

The following is a maturity analysis of the Company's undiscounted financial obligations at December 31, 2020:

	Less than three months	Three months to one year	Beyond one year	Total
Accounts payable and accrued liabilities	$1,401	$-	$-	$1,401
Lease obligations	64	192	812	1,068
Debentures	-	4,516	-	4,516
Interest payable	14	76	-	90
Promissory notes	50	200	2,803	3,053
Government loans(1)	-	86	317	403
	$1,529	$5,070	$3,932	$10,531

(1) The Company received a $253 2-year government loan which is forgivable if the funds were spent on approved expenditures set out in the loan agreement. The Company plans to apply for forgiveness of this loan in 2021 when the application process is opened by the government.

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 Company'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 Company is exposed to, depends on market conditions, expectations of future price or market rate movements and the composition of the Company's financial assets and liabilities. The Company 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 Company is exposed to currency risk on sales and purchases that are denominated in a currency other than the respective functional currencies of Company entities, primarily the Canadian dollar. The Company does not hedge its foreign currency.

All of the Company's revenues were generated in United States dollars during 2021 and 2020.

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

23. 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 Company's financial assets or liabilities. The Company 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 all of the Company'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 Company 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.

During the first quarter of 2021, the Company completed a financial restructuring involving the secured debentures. During 2020, the Company accessed $403 of government assistance and executed three promissory notes restructuring $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 subsequent to yearend. 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 year ended December 31, 2021. The Company is not subject to any internally or externally imposed capital requirements.

(C) 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.

24. SUPPLEMENTARY CASH FLOW INFORMATION

Net change in non-cash working capital

	2021	2020
Prepaid expenses, deposits and advances	**($27)**	($54)
Trade receivables	**98**	669
Inventories	**550**	304
Accounts payable and accrued liabilities	**37**	(351)
Related party loans	**-**	(92)
Interest payable	**92**	(255)
	$750	$221