



Unaudited Condensed Consolidated Interim Financial Statements

Divergent Energy Services Corp.

As at September 30, 2022 and for the three and nine month periods ended September 30, 2022 and 2021

NOTICE OF NO AUDITOR REVIEW OF CONDENSED CONSOLIDATED 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, 2022	December 31, 2021
		(Unaudited)	(Audited)
ASSETS			
Current assets			
Cash		\$665	\$607
Prepaid expenses, deposits and advances		126	104
Trade receivables		1,188	877
Inventories	4	554	711
		<u>2,533</u>	<u>2,299</u>
Non-current assets			
Property and equipment		159	133
Right-of-use assets		501	535
Total Assets		<u>\$3,193</u>	<u>\$2,967</u>
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		\$1,462	\$1,438
Current portion of lease obligations		171	156
Interest payable		145	183
Promissory notes	5	402	216
		<u>2,180</u>	<u>1,993</u>
Non-current liabilities			
Lease obligations		297	353
Promissory notes	5	1,819	2,061
Government loans	7	29	26
Debentures	6	670	654
Total Liabilities		<u>\$4,995</u>	<u>\$5,087</u>
SHAREHOLDERS' DEFICIT			
Share capital	8	\$19,613	\$19,613
Contributed surplus		6,007	5,972
Warrants	9	99	99
Accumulated other comprehensive loss		(1,718)	(1,018)
Accumulated deficit		(25,803)	(26,786)
Total Shareholders' Deficit		<u>(\$1,802)</u>	<u>(\$2,120)</u>
Total Liabilities and Shareholders' Deficit		<u>\$3,193</u>	<u>\$2,967</u>
RELATED PARTIES	14		

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 condensed consolidated interim financial statements

Divergent Energy Services Corp.

Unaudited Condensed Consolidated Interim Statements of Net Income and Comprehensive Income

(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,		Nine months ended September 30,	
		2022	2021	2022	2021
Revenue		\$3,712	\$2,185	\$9,470	\$5,897
Cost of sales	13	(3,149)	(1,557)	(7,518)	(4,518)
Provision reversal for slow moving inventory	4	-	21	-	181
Gross profit		563	649	1,952	1,560
General and administration		(419)	(371)	(1,216)	(1,214)
Depreciation and amortization	13	(1)	(2)	(7)	(7)
Share-based compensation	10	(10)	(12)	(35)	(19)
Results from operating activities		133	264	694	320
Finance income	12	445	300	289	2,183
Net income		578	564	983	2,503
Other comprehensive loss being foreign exchange losses		(559)	(218)	(700)	(32)
Total comprehensive income for the period		\$19	\$346	\$283	\$2,471
Income per share					
Net income – basic and dilutive	11	\$0.01	\$0.02	\$0.03	\$0.08

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

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, 2020		18,629,912	\$18,364	\$141	\$5,800	(\$1,045)	(\$29,248)	(\$5,988)
Shares issued on settlement of debentures	8	14,375,000	1,249	-	-	-	-	1,249
Share-based compensation	10		-	-	19	-	-	19
Issue warrants on extension of debentures	6		-	99	-	-	-	99
Net income for the period			-	-	-	-	2,503	2,503
Other comprehensive loss			-	-	-	(32)	-	(32)
Balance at September 30, 2021		33,004,912	\$19,613	\$240	\$5,819	(\$1,077)	(\$26,745)	(\$2,150)
Balance at December 31, 2021		33,004,912	\$19,613	\$99	\$5,972	(\$1,018)	(\$26,786)	(\$2,120)
Share-based Compensation	10		-	-	35	-	-	35
Net income for the period			-	-	-	-	983	983
Other comprehensive loss			-	-	-	(700)	-	(700)
Balance at September 30, 2022		33,004,912	\$19,613	\$99	\$6,007	(\$1,718)	(\$25,803)	(\$1,802)

(1) Common shares outstanding 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)

	Note	Three months ended September 30,		Nine months ended September 30,	
		2022	2021	2022	2021
OPERATING ACTIVITIES					
Net income from continuing operations		\$578	\$564	\$983	\$2,503
Adjustments for:					
Amortization of right-of-use assets	13	42	44	124	130
Depreciation and amortization of property and equipment	13	10	9	29	29
Gain on sale of assets		-	-	-	9
Share-based compensation	10	10	12	35	19
Accretion on debentures	6	24	19	70	187
Provision for slow moving inventory	4	-	(21)	-	(181)
Accretion of promissory notes	5	41	44	124	129
Accretion of government loans	7	1	(3)	3	9
Gain on restructuring debentures	6	-	-	-	(418)
Allowance for doubtful accounts		-	(27)	-	-
Fair value adjustment on issue of common stock	8	-	-	-	(2,157)
Lease finance expense	13	27	21	75	65
Forgiveness of PPP loan		-	(226)	-	(226)
Foreign exchange		(597)	22	(667)	342
Changes in non-cash working capital	16	288	(235)	(190)	492
Net cash generated from operating activities		424	223	586	932
INVESTING ACTIVITIES					
Proceeds on disposal		-	-	-	27
Net cash generated from investing activities		-	-	-	27
FINANCING ACTIVITIES					
Payments towards lease obligations		(57)	(68)	(186)	(236)
Interest payments on debentures	6	(28)	(29)	(84)	(86)
Principal payments on promissory notes	5	(80)	(50)	(180)	(150)
Interest paid on promissory notes	5	(26)	(32)	(78)	(103)
Net cash used in financing activities		(191)	(179)	(528)	(575)
Net change in cash		233	44	58	384
Cash, beginning of period		432	403	607	63
Cash, end of period		\$665	\$447	\$665	\$447

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

Divergent Energy Services Corp.

Notes to Unaudited Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2022 and 2021

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

1. NATURE OF BUSINESS

Divergent Energy Services Corp. is a Canadian legal entity with its head 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 three and nine month periods ended September 30, 2022 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. 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 condensed consolidated 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, 2021 audited annual consolidated financial statements.

The preparation of condensed consolidated 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, 2021. 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, 2021 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 15, 2022 and have not been reviewed by the Company's auditors. The disclosures provided below are incremental to those included in the 2021 annual audited consolidated financial statements.

Basis of measurement

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

Share consolidation

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

Divergent Energy Services Corp.

Notes to Unaudited Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2022 and 2021

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

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 December 31, 2021 was 33,004,912.

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.

Common shares and per-share amounts disclosed herein reflect the post-share consolidation shares unless otherwise specified.

Presentation and functional currency

These 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.

Basis of consolidation

Subsidiaries are entities controlled by the Company and the financial statements of subsidiaries are included in the condensed consolidated interim 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 condensed consolidated interim financial statements. The following legal entities are within the Divergent group of companies as at September 30, 2022:

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

3. 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, 2022. 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.

Divergent Energy Services Corp.

Notes to Unaudited Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2022 and 2021

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

4. INVENTORIES

For the three and nine months ended September 30, 2022 a provision of \$nil and \$nil respectively (September 30, 2021 – provision reversal of \$21 and \$181 respectively) was recorded to adjust the carrying amount of inventories to their estimated net realizable value. The cumulative provision included in inventories at September 30, 2022 is \$420 (December 31, 2021 - \$420).

5. 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 these agreements.

- i) Subordinated, secured promissory note maturing on September 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 September 30, 2026, maintaining an interest rate of 10% per annum. For the three and nine months ended September 30, 2022, interest expense recorded on the promissory note was \$38 and \$121 respectively (for the three and nine months ended September 30, 2021 – \$46 and \$141 respectively). Interest payable at September 30, 2022 was \$145 (December 31, 2021 - \$178).

	<u>Carrying Value</u>
Promissory note payable at December 31, 2021	\$1,422
Principal payments	(150)
Accretion	55
Promissory note payable at September 30, 2022	<u>\$1,327</u>
Current portion	\$218
Long-term portion	<u>\$1,109</u>

- 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 three and nine months ended September 30, 2022, interest expense recorded on the promissory note was \$5 and \$14 respectively (for the three and nine months ended September 30, 2021 – \$4 and \$14 respectively). Interest payable at September 30, 2022 was \$nil (December 31, 2021 - \$nil).

	<u>Carrying Value</u>
Promissory note payable at December 31, 2021	\$282
Principal payments	(10)
Accretion	23
Promissory note payable at September 30, 2022	<u>\$295</u>
Current portion	\$72
Long-term portion	<u>\$223</u>

Divergent Energy Services Corp.

Notes to Unaudited Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2022 and 2021

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

- 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 three and nine months ended September 30, 2022, interest expense recorded on the promissory note was \$10 and \$29 respectively (for the three and nine months ended September 30, 2021 – \$10 and \$29 respectively). Interest payable at September 30, 2022 was \$nil (December 31, 2021 - \$nil).

	<u>Carrying Value</u>
Promissory note payable at December 31, 2021	\$573
Principal payments	(20)
Accretion	46
Promissory note payable at September 30, 2022	<u>\$599</u>
Current portion	\$112
Long-term portion	<u>\$487</u>

6. DEBENTURES

At September 30, 2022, the Company has Canadian Dollar denominated debentures outstanding of CAD \$1,437 (December 31, 2021 – CAD \$1,437) equivalent to a face value of \$1,048 at the September 30, 2022 exchange rate (December 31, 2021 - \$1,134). 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, and subsequently 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.

Divergent Energy Services Corp.

Notes to Unaudited Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2022 and 2021

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

For the three and nine months ended September 30, 2022, interest expense recorded on the debentures was \$28 and \$84 respectively (for the three and nine months ended September 30, 2021 - \$28 and \$105 respectively) and interest payable at September 30, 2022 was \$nil (December 31, 2021 – \$nil).

	Carrying value	Face value ⁽¹⁾	Face value (CAD \$)
Debentures payable at December 31, 2021	\$654	\$1,134	\$1,437
Accretion	70	-	-
Effect of movements in exchange rates	(54)	(86)	-
Debentures payable at September 30, 2022	\$670	\$1,048	\$1,437

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

7. 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, 2021	\$26
Accretion	3
Loan payable at September 30, 2022	\$29
Current portion	\$-
Long-term portion	\$29

For the three and nine months ended September 30, 2022, interest expense recorded on the loan was \$1 and \$4 respectively (for the three and nine months ended September 30, 2021 – \$1 and \$2 respectively). Interest payable at September 30, 2022 was \$nil (December 31, 2021 - \$42).

Divergent Energy Services Corp.

Notes to Unaudited Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2022 and 2021

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

8. SHARE CAPITAL

Authorized

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

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

<u>Issued</u>	Number of Shares ⁽¹⁾	Amount
Balance at December 31, 2021 and September 30, 2022	33,004,912	\$19,613

<u>Issued</u>	Number of Shares ⁽¹⁾	Amount
Balance at December 31, 2020	18,629,912	\$18,364
Common shares issued ⁽¹⁾	14,375,000	1,249
Balance at September 30, 2021	33,004,912	\$19,613

(1) 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.

9. WARRANTS

All outstanding warrants reflect the Share Consolidation as described in Note 2. These warrants will expire January 20, 2023.

Warrants are issued in CAD \$	Number of warrants	Amount
Warrants outstanding at December 31, 2020	575,000	\$141
Issued on January 19, 2021	2,875,000	99
Expired on December 31, 2021	(575,000)	(141)
Warrants outstanding at December 31, 2021	2,875,000	\$99
Warrants outstanding at September 30, 2022	2,875,000	\$99

Divergent Energy Services Corp.

Notes to Unaudited Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2022 and 2021

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

10. 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. For the three and nine months ended September 30, 2022, share-based compensation of \$10 and \$35 respectively (for the three and nine months ended September 30, 2021 - \$12 and \$19 respectively) was recognized in the condensed consolidated interim statement of net income and comprehensive income with a corresponding amount in contributed surplus. Share-based 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.

Continuity of stock options	Number of options	Weighted average exercise price (CAD \$)
Balance, December 31, 2021	2,777,000	\$0.22
Granted – March 23, 2022	575,000	0.12
Expired	(144,000)	0.09
Balance, September 30, 2022	3,208,000	\$0.14

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 September 30, 2022 is 737,900 (December 31, 2021 – 244,000) at a weighted average exercise price of CAD \$0.53 (December 31, 2021 – CAD \$1.75). The weighted average remaining term for exercisable options is 3.20 years (December 31, 2021 – 0.58 years).

The Company granted 575,000 options on March 23, 2022 with a weighted average exercise price of CAD \$0.12 and 2,500,000 options on May 17, 2021 with a weighted average exercise price of CAD \$0.075. Both grants were valued using the Black-Scholes model with the following assumptions:

Expected volatility	85%
Expected forfeiture	15%
Risk-free rate	0.79%
Expected stock option life	5 years

11. PER SHARE AMOUNTS

Basic and diluted income per share have been calculated based on net income divided by the weighted average number of common shares outstanding for the three and nine months ended September 30, 2022 of 33,004,912 and 33,004,912 respectively (for the three and nine months ended September 30, 2021 – 32,004,454 and 33,152,140 respectively). All outstanding options and warrants are anti-dilutive for the periods and comparative periods.

Divergent Energy Services Corp.

Notes to Unaudited Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2022 and 2021

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

12. FINANCE INCOME (EXPENSE)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2022	2021	2022	2021
Interest expense on debentures	(\$28)	(\$28)	(\$84)	(\$105)
Accretion of debentures	(24)	(19)	(70)	(187)
Gain on restructuring debentures	-	-	-	418
Gain on sale of assets	-	-	-	9
Interest on promissory notes	(53)	(60)	(164)	(183)
Accretion of promissory notes	(41)	(44)	(124)	(129)
Forgiveness of PPP loan	-	226	-	226
Interest expense on government loans	(1)	(1)	(4)	(5)
Accretion of government loans	(1)	3	(3)	(9)
Lease finance expense	(1)	(2)	(6)	(6)
Fair value adjustment on share issue	-	-	-	2,157
Foreign exchange (loss) gain	594	225	744	(3)
Net finance income	\$445	\$300	\$289	\$2,183

Divergent Energy Services Corp.

Notes to Unaudited Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2022 and 2021

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

13. 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 condensed consolidated interim financial statements.

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Depreciation and amortization of property and equipment				
Office	\$-	\$-	\$-	\$-
Field	(10)	(9)	(29)	(29)
<i>Cash flow statement</i>	(10)	(9)	(29)	(29)
Expensed to cost of sales	10	9	29	29
	\$-	\$-	\$-	\$-
Amortization of ROU assets				
Office	(\$1)	(\$2)	(\$7)	(\$7)
Field	(41)	(42)	(117)	(123)
<i>Cash flow statement</i>	(42)	(44)	(124)	(130)
Expensed to cost of sales	41	42	117	123
	(\$1)	(\$2)	(\$7)	(\$7)
Depreciation and amortization	(\$1)	(\$2)	(\$7)	(\$7)
Lease finance expense				
Office	(\$1)	(\$2)	(\$6)	(\$6)
Field	(26)	(19)	(69)	(59)
<i>Cash flow statement</i>	(27)	(21)	(75)	(65)
Expensed to cost of sales	26	-	69	40
Finance expense	(\$1)	(\$21)	(\$6)	(\$25)

Divergent Energy Services Corp.

Notes to Unaudited Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2022 and 2021

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

14. RELATED PARTIES

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

Certain directors and officers of the Company have provided debentures to the Company which are denominated in Canadian Dollars. At September 30, 2022, the CAD \$1,437 (December 31, 2021 – CAD \$1,437) face value of the debentures includes \$251 (CAD \$344) (December 31, 2021 – \$271 (CAD \$344)) due to directors and officers of the Company.

	Carrying value	Face value ⁽¹⁾	Face value (CAD \$)
Debentures payable at December 31, 2021	\$157	\$271	\$344
Accretion	17	-	-
Effect of movements in exchange rates	(14)	(20)	-
Debentures outstanding at September 30, 2022	\$160	\$251	\$344

Interest accrues at 10% per annum. All interest expense incurred during the first half of 2022 was paid during the quarter.

At September 30, 2022, accounts payable and accrued liabilities includes \$nil (December 31, 2021 - \$126) owing to directors and officers of the Company relating to accrued compensation.

15. FINANCIAL RISK MANAGEMENT

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. Additionally, the Company monitors its ability to service its debt from operating cash flows.

Credit risk

As of September 30, 2022, the Company's trade receivables are current.

Contingencies

From time to time, the Company is subject to legal proceedings, contractual obligations, assessments and claims in the ordinary course of business. At this time, in the opinion of management, there are no ongoing matters.

Divergent Energy Services Corp.

Notes to Unaudited Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2022 and 2021

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

16. SUPPLEMENTARY CASH FLOW INFORMATION

Net change in non-cash working capital

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2022	2021	2022	2021
Prepaid expenses, deposits and advances	(\$71)	(\$93)	(\$22)	(\$54)
Trade receivables	404	51	(311)	210
Inventories	(66)	36	157	577
Accounts payable and accrued liabilities	33	(246)	24	(325)
Interest payable	(12)	17	(38)	84
	\$288	(\$235)	(\$190)	\$492