



# CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016



## MANAGEMENT STATEMENT OF RESPONSIBILITY

The preparation and presentation of the accompanying consolidated financial statements of McCoy Global Inc. (the "Corporation"), which have been prepared in accordance with International Financial Reporting Standards, are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements include certain amounts that are based on the best estimates and judgments of management and in their opinion present fairly, in all material respects, the Corporation's financial position, financial performance and cash flows. The Corporation's accounting procedures and related systems of internal controls are designed to provide reasonable assurance that its assets are safeguarded and its financial information is reliable.

The consolidated financial statements have been audited by PricewaterhouseCoopers LLP, the Corporation's external auditors. The external auditors are responsible for examining the consolidated financial statements and expressing their opinion on the fairness of the consolidated financial statements in accordance with International Financial Reporting Standards. The auditor's report outlines the scope of their audit examination and states their opinion.

The Board of Directors, through the Audit Committee, is responsible for overseeing management's responsibility for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Audit Committee meets regularly with management and the external auditors to satisfy itself that each group is discharging its responsibilities with respect to internal controls and financial reporting. The Audit Committee reports its findings to the Board of Directors for their consideration when approving the consolidated financial statements for issuance to the shareholders. The external auditors have full and open access to the Audit Committee, with and without the presence of management. The Audit Committee also considers, for review by the Board of Directors and approval by the shareholders, the engagement or reappointment of the external auditors.

**(signed) "Jim Rakievich"**

President & Chief Executive Officer

March 7, 2018

**(signed) "Jacob Coonan"**

Senior Vice President & Chief Financial Officer



March 7, 2018

## **Independent Auditor's Report**

### **To the Shareholders of McCoy Global Inc.**

We have audited the accompanying consolidated financial statements of McCoy Global Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2017 and 2016 and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

#### **Management's responsibility for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of these 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.

#### **Auditor's responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

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**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of McCoy Global Inc. and its subsidiaries as at December 31, 2017 and 2016 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

**(Signed) “PricewaterhouseCoopers LLP”**

**Chartered Professional Accountants**

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Stated in thousands of Canadian dollars)

As at	Note	December 31, 2017	December 31, 2016
		\$	\$
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		14,972	22,176
Restricted cash	11	2,500	-
Trade and other receivables	19	8,449	5,362
Inventories	5	18,330	28,197
Income taxes recoverable		1,513	4,370
Prepaid expenses and deposits		765	1,109
		<b>46,529</b>	61,214
Property, plant and equipment	6	9,042	7,113
Intangible assets	7	1,290	1,439
Deferred tax assets	12	577	129
<b>Total assets</b>		<b>57,438</b>	69,895
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	9	5,563	3,655
Customer deposits		1,710	458
Provisions	10	3,363	2,347
Borrowings	11	4,930	-
		<b>15,566</b>	6,460
Provisions	10	666	3,630
<b>Total liabilities</b>		<b>16,232</b>	10,090
<b>Shareholders' equity</b>	13		
Share capital		60,126	60,187
Contributed surplus		4,866	4,617
Accumulated other comprehensive income		7,378	9,848
Accumulated deficit		(31,164)	(14,847)
<b>Total shareholders' equity</b>		<b>41,206</b>	59,805
Commitments	23		
<b>Total liabilities and shareholders' equity</b>		<b>57,438</b>	69,895

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

Approved by the Board of Directors

(signed) "Jim Rakievich"  
Director

(signed) "Chris Seaver"  
Director

## CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

(Stated in thousands of Canadian dollars, except per share amounts)

For the years ended	Note	December 31, 2017	December 31, 2016
		\$	\$
<b>Revenue</b>	15	<b>40,045</b>	26,999
<b>Cost of sales</b>		<b>37,061</b>	32,708
<b>Gross profit (loss)</b>		<b>2,984</b>	(5,709)
General and administration		9,218	11,040
Sales and marketing		3,883	3,092
Research and development		2,755	1,039
Restructuring charges	10	2,710	9,557
Other losses, net		915	2,463
Impairment charges	6, 7	606	6,645
Finance charges, net	11	183	116
		<b>20,270</b>	33,952
<b>Loss before income taxes</b>		<b>(17,286)</b>	(39,661)
<b>Income tax (recovery) expense</b>	17		
Current		(521)	(3,925)
Deferred		(448)	190
		<b>(969)</b>	(3,735)
<b>Net loss</b>		<b>(16,317)</b>	(35,926)
<b>Other comprehensive loss</b>			
Translation loss of foreign operations		(2,470)	(2,049)
<b>Comprehensive loss</b>		<b>(18,787)</b>	(37,975)
<b>Loss per share</b>	18		
Basic from net loss		<b>(0.59)</b>	(1.30)
Diluted from net loss		<b>(0.59)</b>	(1.30)

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

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Stated in thousands of Canadian dollars, except share amounts)

	Note	<u>Issued capital</u>		Contributed surplus	Accumulated other comprehensive income	Retained earnings (deficit)	Total equity
		Number of shares	Share capital				
		#	\$	\$	\$	\$	\$
<b>Balances at January 1, 2016</b>		27,704,239	60,187	4,306	11,897	21,079	97,469
Net loss		-	-	-	-	(35,926)	(35,926)
Translation loss on foreign operations		-	-	-	(2,049)	-	(2,049)
Employee share-based compensation expense		-	-	311	-	-	311
<b>Balances at December 31, 2016</b>		27,704,239	60,187	4,617	9,848	(14,847)	59,805
Net loss		-	-	-	-	(16,317)	(16,317)
Translation loss on foreign operations		-	-	-	(2,470)	-	(2,470)
Employee share-based compensation expense		-	-	249	-	-	249
Repurchase of shares	25	(20,000)	(61)	-	-	-	(61)
<b>Balances at December 31, 2017</b>		27,684,239	60,126	4,866	7,378	(31,164)	41,206

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

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Stated in thousands of Canadian dollars)

For the years ended	Note	December 31, 2017	December 31, 2016
<b>Cash (used in) generated from</b>		\$	\$
<b>Operating activities</b>			
Net loss		(16,317)	(35,926)
Adjustments for:			
Depreciation of property, plant and equipment	6	2,335	3,465
Amortization of intangible assets	7	819	1,226
Income tax recovery		(969)	(3,735)
Finance charges, net		183	116
<b>EBITDA</b>		<b>(13,949)</b>	<b>(34,854)</b>
Share-based compensation expense	14	218	332
Impairment charges	6, 7	606	6,645
Changes in non-cash working capital balances	22	10,803	15,976
Changes in restructuring provision	10	(1,180)	3,204
Income taxes recovered		3,218	1,723
Finance costs paid, net		(186)	(86)
Gain on disposal of property, plant and equipment		(803)	(140)
<b>Net cash used in operating activities</b>		<b>(1,273)</b>	<b>(7,200)</b>
<b>Investing activities</b>			
Purchases of property, plant and equipment		(1,222)	(862)
Proceeds from sale of property, plant and equipment		1,829	2,399
Additions to intangible assets		(701)	(52)
Business combination, net	24	(7,985)	-
<b>Net cash (used in) generated from investing activities</b>		<b>(8,079)</b>	<b>1,485</b>
<b>Financing activities</b>			
Proceeds from borrowings, net	11	5,157	-
Repurchase of shares	25	(61)	-
Funds transferred to restricted cash		(2,500)	-
<b>Net cash generated from financing activities</b>		<b>2,596</b>	<b>-</b>
Effect of exchange rate changes on cash and cash equivalents		(448)	441
<b>Decrease in cash and cash equivalents</b>		<b>(7,204)</b>	<b>(5,274)</b>
<b>Cash and cash equivalents – beginning of the year</b>		<b>22,176</b>	<b>27,450</b>
<b>Cash and cash equivalents – end of the year</b>		<b>14,972</b>	<b>22,176</b>

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2017 and 2016

*(in thousands of Canadian dollars, except share data or unless otherwise specified)*

### 1. NATURE OF OPERATIONS

McCoy Global Inc. ("McCoy", "McCoy Global" or the "Corporation") is incorporated and domiciled in Canada and is a leading provider of equipment and technologies designed to support wellbore integrity and assist with collecting critical data for the global energy industry. McCoy Global's core products are used predominantly during the well construction phase for both land and offshore wells during both oil and gas exploration and development.

The Corporation is engaged in the following:

- i. design, production and distribution of capital equipment to support wellbore integrity and to support capital equipment sales through aftermarket products and services such as technical support, consumables, and replacement parts;
- ii. design, production and distribution of data collection technologies used in rugged applications for the global energy industry as well as in construction, marine and aerospace;
- iii. repair, maintenance, and calibration of the Corporation's capital equipment and similar competitor products; and
- iv. rental of the Corporation's capital equipment.

Set out below are McCoy's principal operations:

Operating Name	Country of Incorporation	Operating Region	Ownership Interest
McCoy Global Canada Corp.	Canada	Canada & Russia	100%
McCoy Global FZE	United Arab Emirates	Middle East & Africa	100%
McCoy Global Singapore Pte. Ltd.	Singapore	Asia Pacific	100%
McCoy Global UK Ltd.	United Kingdom	Europe	100%
McCoy Global USA, Inc.	United States	United States & Latin America	100%

McCoy and its subsidiary companies are collectively referred to herein as the "Corporation."

The address of the registered office of the Corporation is DLA Piper (Canada) LLP, Livingston Place, 1000 - 250 2nd Street SW, Calgary, Alberta. The Corporation is listed on the Toronto Stock Exchange ("TSX") under the symbol "MCB."

### 2. STATEMENT OF COMPLIANCE

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Certain comparative balances have been reclassified to conform to the presentation adopted in the current year.

These consolidated financial statements were approved by the Board of Directors on March 7, 2018.

### 3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these consolidated financial statements are described below. These policies have been consistently applied to all years presented unless otherwise stated herein.

#### a) BASIS OF PRESENTATION

The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries. Intercompany transactions and balances are eliminated on consolidation.

The consolidated financial statements have been prepared mainly under the historical cost basis. Other measurement bases used are described in the applicable notes. The consolidated financial statements are presented in Canadian dollars, rounded to the nearest thousand, except when otherwise indicated. The Corporation operations in Canada have a functional currency of Canadian dollars. The Corporation's principal operations in the United States, United Kingdom, Singapore and the United Arab Emirates have a functional currency of US dollars.

Presentation of the consolidated statements of financial position differentiates between current and non-current assets and liabilities. The consolidated statements of loss and comprehensive loss are presented using the function classification for expenditures.

## **b) BASIS OF CONSOLIDATION**

Subsidiaries are those entities the Corporation controls. The Corporation controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is obtained by the Corporation until the date control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries as follows:

- consideration transferred is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange;
- acquisition transaction costs are expensed as incurred;
- identifiable assets acquired and liabilities assumed are measured at their fair value at the acquisition date;
- the excess of the fair value of consideration transferred over the fair value of the identifiable net assets acquired is recorded as goodwill; and
- if the fair value of the consideration transferred is less than the fair value of the net assets acquired, the difference is recognized directly in the consolidated statements of loss and comprehensive loss.

## **c) CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS**

The preparation of the Corporation's consolidated financial statements requires management to make estimates and judgments about the future that affect the application of accounting policies and the reported amounts of assets, liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. If these estimates and judgments prove to be inaccurate, future (loss) earnings may be materially impacted.

Estimates and underlying assumptions are reviewed on an ongoing basis and revisions to estimates are recognized prospectively. Actual results may differ from those estimates.

The areas involving a higher degree of judgment or estimation that are significant to the consolidated financial statements are as follows:

### **(i) INVENTORIES**

The Corporation records inventories at the lower of cost and net realizable value. Inventory writedowns, or reversals of previous writedowns, are recorded each period as required and updated based on management's judgment. Further information regarding this judgment is described in note 3(g) and note 5.

### **(ii) TRADE AND OTHER RECEIVABLES**

The Corporation records trade and other receivables at amortized cost. Writedowns for trade and other receivables are recorded each period as required and updated based on management's judgment. Further information regarding this judgment is described in note 3(e) and note 19(b)(ii).

### **(iii) PROVISIONS**

Estimates and judgments are used in measuring and recognizing provisions and the Corporation's exposure to contingent liabilities and onerous contracts. Judgment is necessary to determine the likelihood and estimated future outflow of resources that may be required to settle any future or existing claims, onerous contracts or contingent obligations. Further information regarding these estimates and judgments are described in note 3(k) and note 10.

### **(iv) INCOME TAX**

The Corporation operates in several tax jurisdictions and is required to estimate its income taxes in each of these tax jurisdictions in preparing its consolidated financial statements. The calculation of income taxes requires the use of judgment. Further information regarding the judgment used is described in note 3(m) and note 17.

Deferred tax assets are recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Judgment and estimation are necessary to determine the likelihood and availability of future taxable profits against which tax losses and tax credits carried forward can be used. Further information regarding this judgment is described in note 3(m) and note 12.

### **(v) IMPAIRMENT OF FINANCIAL ASSETS**

The Corporation assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets carried at amortized cost is impaired. Judgment is used in determining whether any indications of impairment over the loan or receivable are present and in determining the likelihood, timing and estimated future cash inflows related to the loan or receivable. Further information regarding the judgment used is described in note 19.

### **(vi) IMPAIRMENT OF NON-FINANCIAL ASSETS**

Long-lived assets include property, plant and equipment and intangible assets. The carrying value of these assets is periodically reviewed for impairment or whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable in accordance with the accounting policy stated in note 3(j). Judgment is required in the aggregation of assets into Cash Generating Units ("CGUs").

The recoverable amounts of CGUs are determined based on value-in-use calculations. These calculations require the use of estimates and judgments, including an estimation of the future cash flows from the CGU or group of CGUs and judgment is required in determining the appropriate discount rate. In deriving the underlying projected cash flows, assumptions must also be made about the impact of future drilling activity on sales, operating margins and market conditions over the useful life of the assets or CGUs. Although estimates are consistent with current industry reports, internal planning and expected future operations, such estimations are subject to uncertainty and judgment. Further information regarding the estimates and judgment used is described in note 8.

## **d) TRANSLATION OF FOREIGN CURRENCY**

### **(i) FOREIGN CURRENCY TRANSACTIONS**

Monetary and non-monetary transactions denominated in foreign currencies are translated into the entity's functional currency at the exchange rate prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rate prevailing at the reporting date. Foreign currency translation differences are recognized in earnings or loss.

### **(ii) FOREIGN OPERATIONS**

The assets and liabilities of foreign operations, including fair value adjustments arising on acquisition, are translated into Canadian dollars at the exchange rates at the reporting date. The earnings and expenditures of foreign operations are translated into Canadian dollars each month using the monthly average foreign exchange rate applicable for that month. Currency translation differences, including those on monetary items that form part of a net investment in a foreign operation, are recognized in other comprehensive income ("OCI") as a translation gain or loss on foreign operations, and may be subsequently reclassified to earnings or loss on disposal of a foreign operation.

## e) FINANCIAL INSTRUMENTS

Financial assets and liabilities are recognized when the Corporation becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Corporation has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the contractual obligation has been discharged, cancelled or expired.

### (i) NON-DERIVATIVE FINANCIAL INSTRUMENTS

At initial recognition, non-derivative financial instruments are measured at fair value and are classified as one of the following: held-for-trading, available-for-sale, held-to-maturity, loans and receivables or other financial liabilities.

The Corporation has designated its non-derivative financial instruments as follows:

Financial Instrument	Category	Measurement
Cash and cash equivalents	Loans and receivables	Amortized cost
Trade and other receivables	Loans and receivables	Amortized cost
Trade and other payables	Other financial liabilities	Amortized cost
Borrowings	Other financial liabilities	Amortized cost
Onerous lease and legal provisions	Other financial liabilities	Amortized cost

At the reporting date, the Corporation did not have any non-derivative financial assets classified as held-for-trading, available-for-sale or held-to-maturity.

- **LOANS AND RECEIVABLES**

Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

- **OTHER FINANCIAL LIABILITIES**

Other financial liabilities are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, other financial liabilities are measured at amortized cost using the effective interest method.

## f) CASH AND CASH EQUIVALENTS

Cash and cash equivalents primarily comprise Canadian dollar and US dollar cash on deposit. The Corporation holds local currency for each location and its operations are in for local purchases and expenditures.

## g) INVENTORIES

Raw materials, work-in-progress and finished goods inventories are recorded at the lower of cost, as determined on a weighted average cost basis, and net realizable value.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of work-in-progress and finished goods and manufactured production parts inventories includes raw materials, direct labour and an estimated share of production overheads based on normal operating capacity. If the carrying value exceeds net realizable value, a writedown is recognized. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the writedown is reversed. The reversal is up to the amount of the original writedown, so that the new carrying amount is the lower of the cost and the revised net realizable value.

Finished goods consist of parts and equipment inventories that are available for sale to external parties. Certain parts, classified as finished goods, may also be used in the production of finished goods.

## **h) PROPERTY, PLANT AND EQUIPMENT**

### **(i) RECOGNITION AND MEASUREMENT**

Items of property, plant and equipment ("PP&E") are measured at cost less accumulated depreciation and any associated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bring the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located. General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

When parts of an item of PP&E have different useful lives, they are accounted for as separate major components of PP&E.

Gains and losses on disposals of PP&E are determined by comparing the proceeds with the carrying amount of the asset and are included as part of other gains and losses in earnings or loss.

### **(ii) SUBSEQUENT COSTS**

Costs incurred subsequent to the asset being put into use are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Corporation and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. Repairs and maintenance costs are charged to earnings or loss as incurred.

### **(iii) DEPRECIATION**

PP&E is depreciated on a straight-line basis over the period of their expected useful lives as follows:

Buildings	15 years
Machinery and office equipment	3 – 15 years
Rental equipment	3 – 8 years
Computer equipment	1 – 3 years
Leasehold improvements	Term of related lease

No depreciation is charged on land. Depreciation is not recognized on assets under construction until such time that they are ready for their intended use. Residual values, method of depreciation and useful lives of the assets are reviewed annually and adjusted if appropriate. The effect of such changes is recognized in earnings or loss prospectively.

## **i) INTANGIBLE ASSETS**

### **(i) INTERNALLY GENERATED INTANGIBLE ASSETS**

Expenditures on research are recognized as an expense as incurred.

Costs incurred on product development are capitalized as intangible assets when it is probable the development will provide economic benefits, considering its commercial and technical feasibility, the resources available for development and that costs can be measured reliably. The expenditure capitalized includes the cost of materials, direct labour and overhead costs that are directly attributable to the asset in order for it to be capable of operating in the manner intended by management. Subsequent to initial recognition, development expenditures are measured at cost less accumulated amortization and any accumulated impairment losses.

The Corporation has incurred costs associated with the purchase and development of computer software. Computer software is initially recorded at cost, including directly attributable expenditures that are necessary to prepare the software for its intended use. Costs associated with maintaining computer software are recognized as an expense as incurred. Subsequent to initial recognition, software development expenditures are measured at cost less accumulated amortization and any accumulated impairment losses.

**(ii) OTHER INTANGIBLE ASSETS**

Intangible assets are stated at cost less accumulated amortization and accumulated impairment losses.

**(iii) AMORTIZATION**

Intangible assets with finite lives are amortized on a straight-line basis over the period of their expected useful lives as follows:

Internally generated intellectual property	3 – 5 years
Software	1 – 5 years

Amortization is not recognized on assets under development until such time that they are ready for their intended use.

**j) IMPAIRMENT**

**(i) FINANCIAL ASSETS**

The Corporation assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets carried at amortized cost is impaired. If there is objective evidence, such as significant financial difficulty of the obligor, breach of contract or it becomes probable the debtor will enter bankruptcy, the asset is tested for impairment.

The amount of loss is measured as the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. If in a subsequent period the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed.

**(ii) NON-FINANCIAL ASSETS**

The carrying values of non-financial assets, such as PP&E and intangible assets with finite useful lives, are tested for impairment when events or changes in circumstances indicate the carrying amount may not be recoverable. If any such indication exists, the recoverable amount of the asset is determined. Intangible assets with indefinite useful lives or under development are tested for impairment annually.

For impairment testing, assets are grouped together into CGUs, defined as the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets. Corporate assets are allocated to CGUs on a reasonable and consistent basis, where possible.

The recoverable amount of an asset or CGU is the greater of its fair value less costs to sell and value in use. Value in use is based on the estimated future cash flows, discounted to their present value using an after-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets or CGU.

An impairment loss is recognized in earnings or loss for the amount by which the assets or CGU's carrying amount exceeds its recoverable amount. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of amortization, if no impairment loss had been recognized.

**k) PROVISIONS**

Provisions are recognized when the Corporation has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. The timing or amount of the outflow may still be uncertain.

Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period. Each obligation is discounted to present value using the expected future cash flows at a rate that reflects current market assessments of the time value of money and the risks specific to the liability.

A restructuring provision is recognized when the Corporation has developed a detailed formal plan for restructuring and has formally announced the plan's main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the Corporation.

## **l) LEASES**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to earnings or loss on a straight-line basis over the period of the lease.

Leases in which substantially all the risks and rewards of ownership have transferred to the Corporation are classified as finance leases. The leased assets are recognized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance lease balance outstanding. The corresponding rental obligations, net of finance charges, are included in finance lease obligations. The interest element of the finance cost is charged to earnings or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The assets acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

## **m) INCOME TAX**

Income tax expense comprises of current and deferred taxes. Current and deferred taxes are normally recognized in earnings or loss except to the extent that they relate to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income for the period, using the 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 liabilities are offset when they relate to taxes levied by the same tax authority on the same taxable entity and there is a legally enforceable right to offset the current tax assets and liabilities.

Deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax assets and liabilities are determined on a non-discounted basis using tax rates and laws that have been enacted, or substantively enacted at the consolidated statements of financial position dates 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 presented as non-current. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to taxes levied by the same tax authority on the same taxable entity.

## **n) SHARE-BASED COMPENSATION**

### **(i) EQUITY SETTLED SHARE-BASED COMPENSATION**

The Corporation grants share options to certain employees, which are equity settled. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. Compensation expense is recognized as an employee expense over the tranche's vesting period based on the number of awards expected to vest, by increasing contributed surplus. The number of awards expected to vest is reviewed at least annually, with any impact recognized immediately.

### **(ii) CASH SETTLED SHARE-BASED COMPENSATION**

The Corporation grants deferred share units ("DSUs") to certain directors of the Corporation, which are cash settled. Fair value is measured at the date of grant using the Black-Scholes option pricing model. Compensation expense is recognized over the vesting period based on the number of awards expected to vest, by increasing or decreasing liabilities. The number of awards expected to vest is reviewed at least annually, with any impact recognized immediately. The fair value of the liability is remeasured on each consolidated statement of financial position date and settlement date, with any changes in fair value recognized in earnings or loss.

## **o) DIVIDENDS**

Dividends on common shares are recognized in the consolidated financial statements in the period in which the dividends are declared by the Board of Directors of the Corporation.

**p) SHARE CAPITAL**

Common shares are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a deduction from equity.

**q) EARNINGS PER SHARE**

The Corporation presents basic and diluted earnings per share ("EPS") data for its ordinary shares.

Basic EPS is calculated by dividing the net earnings for the year attributable to equity owners of the Corporation by the weighted average number of common shares outstanding during the year.

Diluted EPS is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of shares included with respect to options, warrants and similar instruments is computed using the treasury stock method. The Corporation's potentially dilutive common shares comprise share options granted to employees.

**r) REVENUE**

**(i) SALE OF PRODUCTS**

Revenues from the sale of products are recognized when the risks and rewards of ownership have transferred, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably; there is no continuing management involvement with the goods; and the revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Corporation's activities. Revenue is presented net of sales tax, returns and discounts and after eliminating sales within the Corporation.

The timing of the transfer of risks and rewards varies depending on the individual terms of the sales agreement, and typically occurs when products are shipped and the title has passed to the customer. Provisions for estimated warranty costs are made at the time the related revenue is recognized.

**(ii) RENDERING OF SERVICES**

Revenues from repair, maintenance, and calibration services are recognized as the services are rendered, when recovery of the consideration is probable and revenue can be measured reliably. Rates for services are typically priced on a per man-hour or similar basis.

**(iii) RENTAL**

Revenues from equipment rentals are recognized when there is a written arrangement in the form of a contract or purchase order with the customer, a fixed or determinable sales price is established with the customer, performance requirements are achieved and when recovery of the consideration is probable. Equipment rental revenue is recognized as performance requirements are achieved in accordance with the terms of the relevant agreement with the customer.



## 4. FUTURE ACCOUNTING PRONOUNCEMENTS

The International Accounting Standards Board (“IASB”) and the International Financial Reporting Interpretations Committee (“IFRIC”) have issued a number of new standards, amendments to standards and interpretations that are not effective for December 31, 2017 reporting periods. These standards and amendments have not been applied by the Corporation in preparing these consolidated financial statements. The new standards and amendments, and their anticipated impact on the Corporation’s financial statements once they are adopted, are as follows:

### a. IFRS 9 – FINANCIAL INSTRUMENTS & IFRS 7 – FINANCIAL INSTRUMENT DISCLOSURES

IFRS 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The Corporation has decided not to adopt IFRS 9 until it becomes mandatory on January 1, 2018.

The Corporation has substantially completed its analysis and does not expect the new guidance to have a significant impact on the classification and measurement of its financial instruments for the following reasons:

- i) The Corporation does not currently hold any financial assets that would be accounted for differently under the new standard;
- ii) The Corporation does not have any financial liabilities designated at fair value through profit or loss, which are the only liabilities impacted by the new standard; and
- iii) The Corporation does not currently have, or anticipate having any outstanding hedges that would require re-assessment under the updated hedge accounting rules.

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under IAS 39. This will apply to the Corporation’s trade and other accounts receivable and is not expected to have a material impact on the financial statements. Management is currently finalizing the evaluation of the impact of this, as well as the new presentation and disclosure rules on its financial reporting.

### b. IFRS 15 – REVENUE FROM CONTRACTS WITH CUSTOMERS

IFRS 15 will replace IAS 18 which covers revenue arising from the sale of goods and the rendering of services and IAS 11 which covers construction contracts.

The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption. The Corporation will adopt the new standard beginning January 1, 2018. Management is in the process of completing an evaluation of its various revenue streams in the context of the new standard and does not expect implementation to have a material impact on the financial statements.

### c. IFRS 16 – LEASES

IFRS 16 was issued in January, 2016. It will result in almost all leases being recognized on the statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Corporation’s operating leases. The Corporation has not yet determined the extent to which these lease commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Corporation’s profit and classification of cash flows.

Some of the commitments may be evaluated under the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

The standard is mandatory for first interim periods within annual reporting periods beginning on or after January 1, 2019. The Corporation does not intend to adopt the standard before its effective date.

Management continues to evaluate the potential measurement and disclosure impacts of these new standards on the Corporation's consolidated financial statements.

There are no other standards that are not yet effective and that would be expected to have a material impact on the Corporation in the current or future reporting periods.

## 5. INVENTORIES

	2017	2016
	\$	\$
Raw materials	1,245	2,127
Work-in-progress	1,509	536
Parts to be used in production	3,881	8,421
Production inventory	6,635	11,084
Finished goods available for sale	11,695	17,113
	18,330	28,197

Production parts are purchased or produced for the use in the production of finished goods. Finished goods available for sale consist of parts and equipment inventories that are available to external parties.

Included in cost of sales for the year ended December 31, 2017, is a net writedown of inventories to net realizable value of \$6,204 (2016 - \$2,665).

Inventory writedowns relating to the Corporation's restructuring plan, as described in note 10(c), amounted to \$1,163 (2016 - \$3,977) and are included in restructuring charges.

The net realizable value of capital equipment and related accessories included in finished goods available for sale, was assessed on a product line basis. Judgment was used in assessing the net realizable value of each item of capital equipment, including accessories. All other items in inventory were assessed for obsolescence at a distinct part level. A writedown is taken if management determines that the carrying value of the inventory items exceeds the net recoverable value. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the writedown is reversed. The reversal is up to the amount of the original writedown, so that the new carrying amount is the lower of the cost and the revised net realizable value.

## 6. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Machinery and office equipment	Rental equipment	Computer equipment	Leasehold improvements	Total
	\$	\$	\$	\$	\$	\$	\$
<b>Cost</b>							
Balances at							
January 1, 2016	-	-	24,210	3,272	3,245	3,927	34,654
Additions	-	-	41	821	-	-	862
Transfers to inventory	-	-	-	(774)	-	-	(774)
Disposals	-	-	(7,224)	(391)	-	-	(7,615)
Foreign exchange	-	-	(684)	(119)	(46)	(40)	(889)
Balances at							
December 31, 2016	-	-	16,343	2,809	3,199	3,887	26,238
Acquisition of subsidiary	1,396	3,374	112	5	16	-	4,903
Additions	-	146	64	911	101	-	1,222
Transfers from inventory	-	-	-	328	-	-	328
Disposals	-	-	(7,175)	(278)	(3)	-	(7,456)
Foreign exchange	(78)	(197)	(588)	(265)	(78)	(93)	(1,299)
<b>Balances at</b>							
<b>December 31, 2017</b>	<b>1,318</b>	<b>3,323</b>	<b>8,756</b>	<b>3,510</b>	<b>3,235</b>	<b>3,794</b>	<b>23,936</b>
<b>Accumulated depreciation</b>							
Balances at							
January 1, 2016	-	-	13,653	543	2,512	2,541	19,249
Depreciation	-	-	2,141	456	364	504	3,465
Impairment	-	-	2,098	-	-	262	2,360
Transfers to inventory	-	-	-	(210)	-	-	(210)
Disposals	-	-	(5,280)	(76)	-	-	(5,356)
Foreign exchange	-	-	(324)	(14)	(27)	(18)	(383)
Balances at							
December 31, 2016	-	-	12,288	699	2,849	3,289	19,125
Depreciation	-	228	1,203	443	138	323	2,335
Impairment	-	-	333	-	-	242	575
Disposals	-	-	(6,368)	(81)	(3)	-	(6,452)
Foreign exchange	-	(7)	(430)	(100)	(60)	(92)	(689)
<b>Balances at</b>							
<b>December 31, 2017</b>	<b>-</b>	<b>221</b>	<b>7,026</b>	<b>961</b>	<b>2,924</b>	<b>3,762</b>	<b>14,894</b>
<b>Carrying amount</b>							
At December 31, 2016	-	-	4,055	2,110	350	598	7,113
<b>At December 31, 2017</b>	<b>1,318</b>	<b>3,102</b>	<b>1,730</b>	<b>2,549</b>	<b>311</b>	<b>32</b>	<b>9,042</b>

During the year ended December 31, 2017, depreciation included in cost of sales amounted to \$2,224 (2016 - \$3,113); depreciation in general and administration amounted to \$107 (2016 - \$329); depreciation in research and development amounted to \$4 (2016 - \$23).

As a result of the restructuring plan described in note 10(c), certain PPE was identified, which would no longer be utilized to support revenue generating activities. It was determined through external appraisals and other assessments that the recorded net book value of certain assets exceeded the recoverable value (higher of fair value less costs to sell and value in use). Accordingly, the Corporation recognized an impairment charge of \$575 (2016 - \$2,360) against PPE specific to the restructuring plan.

## 7. INTANGIBLE ASSETS

	Internally generated intellectual property	Software and internally generated software	Total
	\$	\$	\$
<b>Cost</b>			
Balances at January 1, 2016	7,149	4,894	12,043
Additions	52	-	52
Retirements	(4,507)	(902)	(5,409)
Foreign exchange	-	(56)	(56)
<b>Balances at December 31, 2016</b>	<b>2,694</b>	<b>3,936</b>	<b>6,630</b>
Additions	659	42	701
Retirements	(739)	(450)	(1,189)
Foreign exchange	-	(2)	(2)
<b>Balances at December 31, 2017</b>	<b>2,614</b>	<b>3,526</b>	<b>6,140</b>
<b>Accumulated amortization</b>			
Balances, January 1, 2016	2,398	2,749	5,147
Amortization	316	910	1,226
Retirements	(4,507)	(902)	(5,409)
Impairment	4,285	-	4,285
Foreign exchange	-	(58)	(58)
<b>Balances at December 31, 2016</b>	<b>2,492</b>	<b>2,699</b>	<b>5,191</b>
Amortization	131	688	819
Retirements	(739)	(450)	(1,189)
Impairment	31	-	31
Foreign exchange	-	(2)	(2)
<b>Balances at December 31, 2017</b>	<b>1,915</b>	<b>2,935</b>	<b>4,850</b>
<b>Carrying amounts</b>			
At December 31, 2016	202	1,237	1,439
<b>At December 31, 2017</b>	<b>699</b>	<b>591</b>	<b>1,290</b>

During the year ended December 31, 2017, amortization included in cost of sales amounted to \$136 (2016 - \$322) and amortization in general and administration amounted to \$683 (2016 - \$904).

Management determined that the future economic benefits expected from the use of internally generated intellectual property are uncertain and recognized an impairment charge of \$31 (2016 - \$4,285).

Included in internally generated intellectual property is \$699 (2016 - \$42) that relates to products under development. While in development, internally generated intellectual property is not amortized until it has reached commercial production.

The cost and accumulated amortization of assets with no remaining economic lives were retired when determined.

The remaining amortization period of the finite-life intangible assets is as follows:

	2017	2016
Internally generated intellectual property	-	1 - 2 years
Software	1 year	1 - 2 years

## 8. IMPAIRMENT OF NON-FINANCIAL ASSETS

The Corporation reviews the carrying value of its non-financial assets at each reporting period for indicators of impairment. During the year ended December 31, 2017, the Corporation determined that low commodity prices and the prolonged down-cycle in drilling and completions activity levels an indicator of impairment and performed an assessment of the carrying values of non-financial assets. The recoverable amounts of non-financial assets were estimated based on their value in use, determined by discounting estimated future cash flows expected to be generated by the assets or Cash Generating Unit ("CGU") to which it was assigned. Due to the nature of the prolonged global market down-cycle, all identified CGUs, were assessed as part of the impairment assessment.

Key assumptions used in the estimation of value in use included the after-tax discount rate of 13% and management expectation of future outcomes and market conditions, including forecasted North American and international rig and well counts. Based on industry forecasts, average projected annual revenue growth over the next five years was estimated at 8%. No terminal value growth rate was used due to the finite lives of the underlying assets of the CGU. Discount rates were derived from the Corporation's estimated weighted average cost of capital, adjusted for risk factors specific to the CGUs.

The weighted average growth rates used are consistent with forecasts included in industry reports. The discount rates used are after-tax and reflect specific risks relating to the CGU. The process for determining fair value is subjective and requires management to exercise a significant amount of judgment in determining future growth rates, discount rates and tax implications.

Upon completion of the impairment assessment, it was determined that no impairment, incremental to that described in notes 6 and 7, was to be recognized on the Corporation's non-financial assets. No significant changes in any of the key assumptions would have resulted in an impairment charge in any CGU.

## 9. TRADE AND OTHER PAYABLES

	Note	2017	2016
		\$	\$
Trade payables		3,915	2,272
Accrued liabilities and other payables		1,481	1,111
Cash settled share-based compensation	14(b)	167	272
		5,563	3,655

## 10. PROVISIONS

	Warranty	Legal	Restructuring	Facility remediation	Total
	\$	\$	\$	\$	\$
Balances at January 1, 2016	993	150	-	2,360	3,503
Provisions made during the year	276	1,075	9,557	89	10,997
Provisions utilized during the year	(756)	(40)	(6,353)	(1,390)	(8,539)
Foreign exchange	(20)	-	36	-	16
Balances at December 31, 2016	493	1,185	3,240	1,059	5,977
Provisions made during the year	<b>480</b>	<b>165</b>	<b>3,729</b>	-	<b>4,374</b>
Provisions utilized during the year	<b>(333)</b>	<b>(1,047)</b>	<b>(4,767)</b>	<b>(10)</b>	<b>(6,157)</b>
Foreign exchange	<b>(23)</b>	-	<b>(142)</b>	-	<b>(165)</b>
<b>Balances at December 31, 2017</b>	<b>617</b>	<b>303</b>	<b>2,060</b>	<b>1,049</b>	<b>4,029</b>
Expected to be utilized within one year	617	303	1,394	1,049	3,363
Expected to be utilized thereafter	-	-	666	-	666

### a) WARRANTY

The warranty provision relates to the expected cost of meeting warranty obligations. Judgment related to the provisions is based on historical data and other known information and is an estimate of warranty required for products sold on or before the reporting date.

### b) LEGAL

In the normal course of business, the Corporation may become subject to litigation; losses, if any, may be covered by the Corporation's insurance. The legal provision is based on management's best estimate of the amount and timing of potential legal fees and settlements to be paid by the Corporation. Judgment related to the provision is based on uncertainty regarding timing and amount of costs to resolve litigation.

### c) RESTRUCTURING

In 2016 and 2017, as a direct response to the prolonged market down-cycle for oilfield equipment and services, the Corporation initiated two separate restructuring plans. These changes have provided more agility to respond to industry cycles.

The restructuring plan for 2017 included:

- i. the consolidation of McCoy Global's wellbore integrity solutions product line to Louisiana, USA, resulting in the closure of its Edmonton, Alberta production facility;
- ii. the transition of hydraulic power tong production from in-house manufacturing to an assembly production model; and
- iii. the relocation of its WINCATT® and weCATT™ torque turn technology production from Edmonton, Alberta to Austin, Texas to consolidate production of complimentary products.

The restructuring plan for 2016 included:

- iv. the consolidation of McCoy Global's hydraulic power tong product line to Edmonton, Alberta;
- v. the closure of the Corporation's warehouse and service facility in Houston, USA;
- vi. the relocation and downsizing of operations in Aberdeen, UK;
- vii. the relocation and downsizing of operations in Singapore, Republic of Singapore; and
- viii. further significant reductions in both operational, functional and management positions.

Restructuring charges have been included on the consolidated statements of loss and comprehensive loss as restructuring charges. At December 31, 2017, accrued restructuring costs are included in provisions on the consolidated statement of financial position. Non-current restructuring provisions were discounted using a pre-tax risk-free discount rate of 0.5%. The table below summarizes restructuring charges recorded on the consolidated statement of loss and comprehensive loss for the year ended December 31, 2017 and restructuring provisions included in the consolidated statement of financial position at December 31, 2017:

	Onerous lease contracts	Inventory writedowns	Severance pay and benefits	Other direct costs	Restructuring provisions
	\$	\$	\$	\$	\$
Balance at January 1, 2016	-	-	-	-	-
Costs recognized	3,991	3,977	1,114	475	9,557
Payments and allowances	(787)	(3,977)	(1,114)	(475)	(6,353)
Foreign exchange	36	-	-	-	36
Balance at December 31, 2016	3,240	-	-	-	3,240
Costs recognized	(1,514)	1,163	1,839	1,222	2,710
Payments and allowances	(359)	(1,163)	(1,444)	(782)	(3,748)
Foreign exchange	(142)	-	-	-	(142)
<b>Balance at December 31, 2017</b>	<b>1,225</b>	<b>-</b>	<b>395</b>	<b>440</b>	<b>2,060</b>

Provisions for onerous lease contracts include estimated future facility costs for facilities under lease for which the Corporation will receive nominal future economic benefits as a result of the restructuring plans. The provision includes facilities lease payments and estimated direct costs to maintain the facilities over the remaining lease term. In 2017, a \$1,749 reversal of a portion of an onerous lease contract provision was recorded. This relates to an onerous lease contract which, based on management's best estimate of the percentage of the leased premises that will be used for current and future operations, was partially put back into use as part of 2017 restructuring initiatives.

Inventory writedowns include inventory impacted as a direct result of the restructuring plans. Identified inventory is recorded at the lower of cost and net realizable value and is in excess of the Corporation's inventory provision policy. Inventory writedowns have been included within the obsolescence provision in inventory on the consolidated statements of financial position.

Severance pay and benefits include committed severance payments for workforce reductions as a result of the restructuring plans.

Other direct costs include freight, legal and other expenses required to complete the restructuring plans and are recorded as restructuring charges as incurred.

Judgment related to the provision is based on uncertainties regarding the amount and timing of estimated cash flows related to restructuring provisions.

#### d) FACILITY REMEDIATION

The Corporation leases premises, which are required to be returned to the landlord at the end of the lease in accordance with the terms of the lease agreement, including remediation of any deficiencies incurred as a result of carrying out business activities. In addition, as part of a prior business divestiture, the Corporation has indemnified the purchaser with respect to a leased premise associated with the divestiture. The facility remediation provision is based on management's estimate of the expected costs of restoring its locations or former locations to a condition that is in accordance with lease terms. When available, costs are estimated based on management's assessment of third party quotations to complete the required remediation efforts. If third party quotations are not available, management has used the best information available to assess the future costs to be incurred by the Corporation. Judgment related to these future costs is based on uncertainty regarding the full extent of the required costs to complete.

## 11. BORROWINGS

At December 31, 2017, the Corporation had borrowings of \$4,930. The credit facility (the "Facility") consisted of the following components:

- i. CAD \$2,000 operating line bearing interest at the Creditor's Canadian Prime Rate or US Base Rate plus a margin of 2.50% or LIBOR plus a margin of 4.00%. At December 31, 2017, \$878 was outstanding.
- ii. USD \$3,800 non-revolving term loan bearing interest at the Creditor's US Base Rate plus a margin of 2.50% or LIBOR plus a margin of 4.00%. At December 31, 2017, \$4,052 (USD \$3,230) was outstanding.

As required under the terms of the Facility, CAD \$2,500 is held under the Creditor's authority as security and is presented as restricted cash on the consolidated statements of financial position. The Facility is further secured by the Corporation's Canadian assets and the Corporation must maintain a minimum cash balance on hand with the Creditor.

Subsequent to year-end the Facility was repaid. Management is exploring options to replace the borrowings with another credit facility.

During the year ended December 31, 2017, the Corporation recognized \$183 in finance charges, net (2016 - \$116).

Changes in liabilities for which cash flows have been classified as financing activities in the consolidated statements of cash flows are as follows:

	Borrowings
	\$
Balance, December 31, 2016	-
Borrowings, net of repayments	5,157
Foreign exchange adjustment	(227)
Amortization of deferred financing costs	-
<b>Balance, December 31, 2017</b>	<b>4,930</b>

## 12. DEFERRED TAXES

### a) RECOGNIZED DEFERRED TAX ASSETS AND LIABILITIES

The income tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities are presented below:

	2017			2016		
	Assets	Liabilities	Net	Assets	Liabilities	Net
	\$	\$	\$	\$	\$	\$
Inventories	-	-	-	330	-	330
Provisions	408	-	408	86	-	86
PP&E	169	-	169	5	(292)	(287)
Deferred tax assets (liabilities)	577	-	577	421	(292)	129
Set-off of tax	-	-	-	(292)	292	-
<b>Net deferred tax assets</b>	<b>577</b>	<b>-</b>	<b>577</b>	<b>129</b>	<b>-</b>	<b>129</b>

With respect to the deferred tax assets and liabilities presented above, \$408 of the deferred tax assets (2016 - \$416) is expected to reverse in 2018.



## b) UNRECOGNIZED DEFERRED TAX ASSETS

Deferred tax assets have not been recognized in respect of the following items:

	2017	2016
	\$	\$
Deductible temporary differences	2,747	3,387
Tax losses	5,803	6,286
	8,550	9,673

Based on management's current estimates of future taxable earnings, the recoverability of these items is indeterminable and as such, deferred tax assets have not been recognized in respect of these amounts.

## c) TAX LOSSES CARRIED FORWARD

Unrecognized deferred tax assets derived from tax losses expire as follows:

	2017		2016	
	Gross amount	Tax effect	Gross amount	Tax effect
	\$	\$	\$	\$
2037	8,074	2,180	8,657	2,683
Indefinite	17,194	3,623	16,738	3,603
	25,268	5,803	25,395	6,286

Deferred tax assets have not been recognized in respect of capital losses of \$778 (2016 - \$771). It is not probable that future taxable capital gains will be available against which the Corporation can utilize the benefits of these losses. These losses do not expire.

## 13. SHAREHOLDERS' EQUITY

### a) SHARE CAPITAL

#### AUTHORIZED

- (i) Unlimited number of common, voting shares
- (ii) Unlimited number of preferred, non-voting shares

## 14. SHARE-BASED COMPENSATION

### a) EQUITY SETTLED SHARE-BASED COMPENSATION

The Corporation's share option plan for employees is administered by the Human Resources, Compensation & Governance Committee, which is a subcommittee of the Board of Directors. The Human Resources, Compensation & Governance Committee designates eligible participants to be included under the plan and designates the number of options and share price of the options, subject to applicable securities laws and stock exchange regulations.

The aggregate number of common shares issuable under the plan can be no greater than 10% of the common shares issued and outstanding from time to time on a non-diluted basis. In addition, no more than 5% of outstanding shares may be reserved for options granted to any one person and no more than 10% of outstanding shares may be reserved for options granted to insiders. The maximum term of options granted under the plan is ten years and the vesting period of option grants is at the discretion of the Board of Directors. The options vest evenly over the vesting period. The exercise price of options is determined by the Board of Directors, but cannot be lower than the market price of shares on the last trading day preceding the grant date.

The following reflects activity under the employee share option plan:

	2017		2016	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
	#	\$	#	\$
Outstanding, as at January 1	2,125,001	3.87	1,680,003	4.90
Granted	540,000	2.04	860,000	1.88
Forfeited	(104,000)	1.96	(251,001)	3.48
Expired	(126,001)	4.59	(164,001)	4.58
Exercised	-	-	-	-
<b>Outstanding, December 31</b>	<b>2,435,000</b>	<b>3.54</b>	<b>2,125,001</b>	<b>3.87</b>
<b>Exercisable, December 31</b>	<b>1,040,000</b>	<b>5.10</b>	<b>809,999</b>	<b>5.65</b>

Options with the following exercise price ranges were outstanding as at December 31:

Exercise price range	2017		2016	
	Options outstanding	Weighted average remaining contractual life	Options outstanding	Weighted average remaining contractual life
	#	years	#	years
< \$2	725,000	8.25	760,000	9.22
\$2 to \$4	1,040,000	8.06	665,001	7.20
\$4 to \$6	245,000	1.75	245,000	2.75
> \$6	425,000	0.95	455,000	1.94
	<b>2,435,000</b>	<b>6.24</b>	<b>2,125,001</b>	<b>6.28</b>

The following weighted average assumptions were used in the Black-Scholes calculations for share options granted during the years ended December 31:

	2017	2016
Share price	\$2.04	\$1.88
Exercise price	\$2.04	\$1.88
Expected volatility	48%	48%
Risk-free interest rate	1%	1%
Annual dividend rate	-	-
Expected life of options in years	7.0 years	7.0 years

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not be the actual outcome.

The weighted average fair value of share options granted during the year, calculated under the Black-Scholes option pricing model, was \$1.02 per share option (2016 - \$0.52 per share option) and there were no options exercised during the year.

## b) CASH SETTLED SHARE-BASED COMPENSATION

The Corporation has a DSU plan for Directors of the Corporation who are designated as participants by the Human Resources, Compensation & Governance Committee. The DSU plan has two components: an "appointment grant" and a "continuous grant." The appointment grant is provided to each newly appointed Director. The appointment grant fully vests on the third anniversary of the grant date. The continuous grant provides for an annual issue of DSUs to eligible Directors. One-third of the continuous grant vests annually on the anniversary of the grant date. The DSUs can only be exercised on exiting from the Board of Directors.

On exiting from the Board of Directors, the DSUs are redeemed for cash based on the market price of any vested DSUs at the time of exit. The liability relating to the units accumulated under this plan have been included in trade and other payables on the consolidated statements of financial position as disclosed in note 9.

	2017	2016
	#	#
Outstanding, as at January 1	177,997	152,995
Granted	20,272	25,002
Forfeited	(12,784)	-
Redeemed	(34,335)	-
<b>Outstanding, as at December 31</b>	<b>151,150</b>	<b>177,997</b>
<b>Vested, as at December 31</b>	<b>119,972</b>	<b>138,457</b>

## c) SHARE-BASED COMPENSATION EXPENSE

	2017	2016
	\$	\$
Equity settled share-based compensation	249	311
Cash settled share-based compensation	(31)	21
	<b>218</b>	<b>332</b>

Share-based compensation expense has been included in general and administration expense in the consolidated statements of loss and comprehensive loss.

## 15. REVENUE

	2017	2016
	\$	\$
Sale of products	34,939	24,540
Rendering of services	3,417	1,992
Rental	1,689	467
	<b>40,045</b>	<b>26,999</b>

## 16. EXPENSES BY NATURE

	2017	2016
	\$	\$
Employee compensation and benefit expense	17,341	15,872
Production costs to produce inventories and changes in inventories	20,605	17,471
Excess and obsolete inventory expense	6,204	2,665
Depreciation and amortization	3,154	4,691
Facilities and other	5,613	7,180
<b>Total expenses</b>	<b>52,917</b>	<b>47,879</b>
<b>Allocated to:</b>		
Cost of sales	37,061	32,708
General and administration	9,218	11,040
Sales and marketing	3,883	3,092
Research and development	2,755	1,039
<b>Total expenses</b>	<b>52,917</b>	<b>47,879</b>

## 17. INCOME TAX RECOVERY

### a) RECONCILIATION OF INCOME TAX RECOVERY

Income tax recovery varies from the amounts that would be computed by applying the domestic statutory rate of 27% (2016 - 27%) to loss before income taxes for the following reasons:

	2017	2016
	\$	\$
Loss before income taxes	(17,286)	(39,661)
Computed income tax recovery	(4,667)	(10,708)
Tax effects of:		
Jurisdictional tax rate differences	(190)	(710)
Effect of decreasing substantively enacted tax rates	1,561	-
Non-deductible expenses	93	118
Tax losses for which no deferred tax asset was recognized	1,215	7,989
Other items	1,019	(424)
<b>Income tax recovery</b>	<b>(969)</b>	<b>(3,735)</b>

## b) INCOME TAX RECOVERY ON EARNINGS

	2017	2016
	\$	\$
Current tax recovery	(521)	(3,925)
Deferred tax recovery:		
Origination and reversal of temporary differences	(1,663)	(7,799)
Tax losses for which no deferred tax asset was recognized	1,215	7,989
Total deferred tax (recovery) expense	(448)	190
<b>Income tax recovery</b>	<b>(969)</b>	<b>(3,735)</b>

## 18. LOSS PER SHARE

	2017			2016		
	Net loss	Weighted average shares	Per share amount	Net loss	Weighted average shares	Per share amount
	\$	#	\$	\$	#	\$
<b>Basic loss per share</b>						
Loss available to common shareholders	(16,317)	27,684,239	(0.59)	(35,926)	27,704,239	(1.30)
<b>Diluted loss per share</b>						
Loss available to common shareholders	(16,317)	27,684,239	(0.59)	(35,926)	27,704,239	(1.30)

The Corporation has excluded 2,435,000 share options from the computation of diluted loss per share (2016 - 2,125,001 share options) because they are anti-dilutive for the period presented.

## 19. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

### a) FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The fair value of cash and cash equivalents, trade and other receivables, trade and other payables, borrowings and current provisions approximate their carrying value due to their short-term nature. The carrying value of onerous lease provisions has been discounted to reduce the provision to fair value.

### b) FINANCIAL RISK MANAGEMENT

The Corporation's activities are exposed to a variety of financial risks of varying degrees of significance, which could affect the Corporation's ability to achieve strategic objectives. Overall, risk management programs focus on the unpredictability of financial and economic markets and seek to minimize potential adverse effects on financial performance. Risk management is carried out by financial management in conjunction with overall corporate governance. The principal financial risks to which the Corporation is exposed are described below:

#### (i) MARKET RISK

Market risk is the risk changes in market prices, such as foreign exchange rates and interest rates, will affect the Corporation'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 return. The Corporation may use derivatives to manage certain market risks.

- **Foreign currency risk**

The Corporation is exposed to foreign currency risk to the extent that there is a mismatch between the currencies in which revenues, purchases and monetary assets and liabilities are denominated and the respective functional currency of the Corporation's subsidiaries. Foreign currency risk is primarily with the US dollar. The Corporation may use forward exchange contracts to manage foreign currency risk.

The Corporation recognized a foreign currency exchange loss of \$560 in other losses (gains), net (2016 - loss of \$1,293). Based on the Corporation's US dollar denominated monetary assets and liabilities at December 31, 2017, the Corporation estimates that a ten cent change in the value of the US dollar would increase or decrease net earnings by \$468 (2016 - \$478).

- **Interest rate risk**

Interest rate risk is the risk the value or future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates. In 2017 and 2016, the Corporation was primarily exposed to interest rate risk on cash and cash equivalents and borrowings. The Corporation estimates that a change of 100 basis points in the interest rate as at December 31, 2017 would have increased or decreased net earnings for the year ended December 31, 2017 by \$166 (2016 - \$164), primarily arising from interest income earned on cash and cash equivalents offset by interest expense incurred on borrowings.

**(ii) CREDIT RISK**

Credit risk is the risk one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. The Corporation's credit risk exposure is primarily through its cash and cash equivalents, trade receivables and amounts held in escrow on business divestitures.

The credit risk associated with cash and cash equivalents is minimized by ensuring these financial assets are held primarily with Canadian chartered banks and Schedule I US financial institutions.

Trade receivables include balances due from customers primarily operating in the oil and gas industry. The Corporation manages credit risk by assessing the creditworthiness of its customers before providing products or services and monitoring customer credit and balances on an ongoing basis. In some instances, the Corporation will take additional measures to reduce credit risk including obtaining letters of credit or prepayments from customers. Writedowns for trade and other receivables are recorded each period as required and updated based on management's judgment.

As at December 31, 2017, the Corporation had four customers that accounted for \$2,327 (29%) of total trade receivables (2016 - two customers accounted for \$1,190, 23%).

As at December 31, trade receivables were classified as follows:

	2017	2016
	\$	\$
Fully performing	4,988	2,348
Past due but not impaired	2,321	2,159
Indications of impairment	757	919
<b>Trade receivables</b>	<b>8,066</b>	<b>5,426</b>

The credit quality of fully performing receivables is determined based on credit evaluations and management's past experience with the customers. Past due but not impaired trade receivables relate to a number of independent customers for whom there is no recent history of default. Management reviews trade receivable balances periodically for indications of possible impairment. Trade receivables with indications of possible impairment primarily relate to receivables aged greater than 180 days. Management has determined on a customer by customer basis that impairment provisions of \$757 (2016 - \$919) are sufficient to cover credit risk.

The aging analysis of trade receivables is as follows:

As at December 31	2017	2016
	\$	\$
0 to 30 days	2,826	1,473
31 to 60 days	2,162	875
61 to 120 days	1,692	1,425
121 to 180 days	629	734
Over 180 days	757	919
Trade receivables	8,066	5,426
Provisions for impairment	(757)	(919)
Trade receivables, net of impairment	7,309	4,507
Other receivables	1,140	855
<b>Total trade and other receivables</b>	<b>8,449</b>	<b>5,362</b>

Included in other receivables is \$nil (2016 - \$485) of escrow funds held in trust with legal counsel in relation to consideration on the sale of a business. There is uncertainty as to the collectability of this amount and therefore a provision has been recorded.

The movement in the Corporation's provision for impairment of trade receivables is as follows:

For the years ended	2017	2016
	\$	\$
Provision for impairment, as at January 1	(919)	(229)
Impairment reversal (loss), net	106	(773)
Amounts written off	-	88
Foreign exchange	56	(5)
<b>Provision for impairment, as at December 31</b>	<b>(757)</b>	<b>(919)</b>

### (iii) LIQUIDITY RISK

Liquidity risk is the risk the Corporation will not be able to meet its obligations with financial liabilities as they come due. The Corporation maintains sufficient cash and cash equivalents to meet financial obligations. Based on remaining contractual maturities, the undiscounted cash flows for the Corporation's financial liabilities, including interest payments, are as follows:

	Due in less than one year	Due between one and five years	Due later than five years	Total
	\$	\$	\$	\$
Borrowings	4,930	-	-	4,930
Trade and other payables	5,563	-	-	5,563
Legal provisions	303	-	-	303
Onerous lease provisions	560	665	-	1,225
Undiscounted cash flows for financial liabilities	11,356	665	-	12,021
Purchase commitments for inventory and operating supplies	1,794	-	-	1,794
	13,150	665	-	13,815

The Corporation also has commitments under operating leases for premises and equipment that mature in over one year as described in note 25.

### c) CAPITAL MANAGEMENT

The Corporation's objectives when managing its capital are to safeguard assets and continue as a going concern while, at the same time, maximizing the growth of the business and return to shareholders. The Corporation views its capital as the combination of borrowings as well as shareholders' equity as follows:

	2017	2016
	\$	\$
Borrowings	4,930	-
Shareholders' equity	41,206	59,805
<b>Total capital</b>	<b>46,136</b>	<b>59,805</b>

The Corporation sets the amount of capital in proportion to risk and manages and makes adjustments to the capital structure in light of changes in economic conditions and the risk characteristics of underlying assets. In order to maintain or adjust the capital structure, the Corporation may issue or repay borrowings, issue or repurchase shares, pay dividends or undertake other activities as deemed appropriate under the specific circumstances.

The Board of Directors reviews and approves any material transactions out of the ordinary course of business including proposals on acquisitions or other major investments or divestitures, as well as annual capital and operating budgets.

## 20. RELATED PARTY TRANSACTIONS

### a) DIVESTITURE OF COATINGS & HYDRAULICS DIVISION

On September 15, 2014, the Corporation divested its Coatings & Hydraulics division. A member of the Corporation's Board of Directors is the Chairman of, and holds an equity interest in, the purchaser of the Coatings & Hydraulics division. To facilitate the sale and minimize any potential conflicts of interest, the Corporation engaged a third party brokerage firm to solicit offers within the marketplace, manage the sales process and assist in negotiating the definitive agreements.

In 2016, the Corporation reached an agreement with the purchaser of the Coatings & Hydraulics division regarding closing adjustments resulting in cash proceeds of \$205 and a gain of \$nil.

The Corporation has entered into agreements indemnifying the purchaser with respect to certain leased premises associated with the Coatings & Hydraulics division. These remediation cost estimates are included in facility remediation provisions, as disclosed in note 10(d).

### b) KEY MANAGEMENT PERSONNEL

Key management personnel includes the Directors and senior corporate officers of the Corporation who are primarily responsible for planning, directing and controlling the Corporation's business activities.

Compensation awarded to key management personnel for employee services for the years ended December 31, 2017 and 2016 is as follows:

	2017	2016
	\$	\$
Salaries and other short-term employee benefits	1,730	1,907
Share-based compensation	158	262
Termination benefit	-	502
	<b>1,888</b>	<b>2,671</b>



## 21. SEGMENT INFORMATION

### GEOGRAPHIC INFORMATION

The Corporation's operations, as described in note 1, are viewed as a single operating segment by the chief operating decision maker for the purpose of resource allocation and assessing performance.

	2017		2016	
	Revenue	PP&E & intangible assets	Revenue	PP&E & intangible assets
	\$	\$	\$	\$
United States & Latin America	21,658	7,273	9,656	2,666
Middle East & Africa	7,128	485	7,629	222
Europe	6,782	494	5,957	481
Canada & Russia	2,987	1,504	1,636	3,809
Asia Pacific	1,490	576	2,121	1,374
	40,045	10,332	26,999	8,552

Revenue is attributed to a geographical region based on the location of the customer invoiced, which may not necessarily reflect the product's final destination.

During the year ended December 31, 2017, no individual customer accounted for greater than 10% of total revenue (2016 - no individual customer accounted for greater than 10% of total revenue).

## 22. CHANGES IN WORKING CAPITAL BALANCES

	2017	2016
Cash received from (used in) operating activities due to changes in non-cash working capital balances:	\$	\$
Trade and other receivables	(3,248)	3,976
Inventories	10,510	14,336
Other current assets	805	1,998
Trade and other payables	2,040	(2,729)
Customer deposits	1,286	(817)
Provisions, excluding restructuring	(590)	(788)
	10,803	15,976

## 23. COMMITMENTS

The Corporation has committed to payments under operating leases for premises and equipment and has also sublet certain premises that are under operating lease. The future aggregate minimum lease payments under non-cancellable operating leases, excluding onerous lease contracts, are as follows:

	Minimum lease payment, excluding onerous lease contracts	Sublease payments to be received	Net obligation
	\$	\$	\$
Less than one year	2,021	(266)	1,755
Between one and five years	4,193	-	4,193
Later than five years	-	-	-
	6,214	(266)	5,948

As at December 31, 2017, the Corporation has commitments to purchase inventory and operating supplies of \$1,794 (2016 - \$477). Payments for these commitments are expected to be made in 2018.

## 24. BUSINESS COMBINATION

Effective January 4, 2017, the Corporation acquired the assets and business of 3PS Inc. ("3PS"). 3PS specializes in sensors, systems and services for heavy industrial applications, including Torque and Tension Sub technology.

The aggregate consideration given and fair values of net assets acquired in the acquisition of 3PS are as follows:

	January 4, 2017
	\$
<b>Consideration transferred:</b>	
Cash consideration, net	7,985
<b>Total consideration</b>	<b>7,985</b>
<b>Identifiable assets acquired:</b>	
Trade and other receivables	817
Inventories	2,490
Property, plant and equipment	4,903
<b>Identifiable liabilities assumed:</b>	
Trade and other payables	162
<b>Total net identifiable assets</b>	<b>8,048</b>
<b>Gain on business combination</b>	<b>63</b>

The Corporation incurred due diligence and closing costs of \$310 in 2017 to complete the acquisition. The gain on business combination is included in other losses, net on the consolidated statements of loss and comprehensive loss and arose principally due to the acquired business having relatively more value to the Corporation than the seller.

The fair value of acquired trade receivables is \$817. This also represents the gross contractual amounts as no amounts are expected to be uncollectible.

The Corporation took steps to integrate 3PS with the Corporation's consolidated operating results and, therefore, revenue and net earnings are not reported on a stand-alone basis.

## 25. EQUITY

On May 19, 2017, the Corporation announced a normal course issuer bid ("NCIB"). The Corporation may purchase, for cancellation, up to a maximum 1,385,212 common shares, equal to 5 percent of the public float of 27,704,239 common shares as at May 12, 2017. The Corporation is also limited under the NCIB to purchasing no more than 4,496 common shares on any given day, subject to the block purchase exemption under the TSX rules. The NCIB will continue until May 23, 2018. Purchases will be made on the open market through the TSX or alternative platforms at the market price of such shares. All shares purchased under the NCIB will be cancelled.

The Corporation purchased 20,000 common shares pursuant to its NCIB at a weighted average price of \$2.07 per share. The share repurchase and costs to implement the NCIB were \$61.