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MD&A AND FINANCIAL REPORT 18

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended December 31, 2018

EXPLANATORY NOTES

The following Management's Discussion and Analysis of Financial Results ("MD&A"), dated March 6, 2018, should be read in conjunction with the cautionary statement regarding forward-looking information and statements below, as well as the audited consolidated financial statements and notes thereto, for the years ended December 31, 2018 and 2017. The annual consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). All amounts in the following MD&A are in Canadian dollars unless otherwise stated. References to "McCoy," "McCoy Global," "the Corporation," "we," "us" or "our" mean McCoy Global Inc. and its subsidiaries, unless the context otherwise requires. Additional information relating to McCoy Global, including periodic quarterly and annual reports and Annual Information Forms ("AIF"), filed with Canadian securities regulatory authorities, is available on SEDAR at sedar.com and our website at mccoyglobal.com.

FORWARD-LOOKING INFORMATION AND STATEMENTS

This MD&A contains certain forward-looking statements and forward-looking information (collectively referred to herein as "**forward-looking statements**") within the meaning of applicable Canadian securities laws. All statements other than statements of present or historical fact are forward-looking statements. Forward-looking information is often, but not always, identified by the use of words such as "could", "should", "can", "anticipate", "expect", "objective", "ongoing", "believe", "will", "may", "projected", "plan", "sustain", "continues", "strategy", "potential", "projects", "grow", "take advantage", "estimate", "well-positioned" or similar words suggesting future outcomes. In particular, this MD&A contains:

Forward-looking statements relating to McCoy Global's:

- business strategy;
- future development and organic growth prospects;
- impact of re-structuring plans and cost structure;
- competitive advantages; and
- merger and acquisition strategy.

Forward-looking statements respecting:

- the business opportunities for the Corporation that are based on the views of management of the Corporation and current and anticipated market conditions; and
- the perceived benefits of the growth and operating strategies of the Corporation; which are based upon the financial and operating attributes of the Corporation as at the date hereof, as well as the anticipated operating and financial results.

Other forward-looking statements regarding the Corporation are located in the documents incorporated by reference in this MD&A and are based on certain key expectations and assumptions of the Corporation concerning anticipated financial performance, business prospects, strategies, the sufficiency of budgeted capital expenditures in carrying out planned activities, the availability and cost of labour and services and the ability to obtain financing on acceptable terms, which are subject to change based on market conditions and potential timing delays. Although management of the Corporation considers these assumptions to be reasonable based on information currently available to them, they may prove to be incorrect.

By their very nature, forward-looking statements involve inherent risks and uncertainties (both general and specific) and risks that forward-looking statements will not be achieved. Undue reliance should not be placed on forward-looking statements, as a number of important factors could cause the actual results to differ materially from the beliefs, plans, objectives, expectations, anticipations, estimates and intentions expressed in the forward-looking statements, including those set out below and those detailed elsewhere in this MD&A:

- oil and natural gas price fluctuations;
- domestic and foreign competition;
- technology;
- replacement or reduced use of products and services;
- international operations;
- ability to effectively manage growth;
- business mergers and acquisitions;
- supply chain;
- reliance on key persons workforce availability;
- legal compliance;
- litigation;
- breach of confidentiality;
- safety performance;
- foreign exchange;
- availability of financing;
- selling additional common shares;
- customers' inability to obtain credit/financing;
- material differences between actual results and management estimates and assumptions;
- impact of the United States-Mexico-Canada Agreement;
- Greenhouse Gas ("GHG") regulations;
- change in U.S. administration;
- conservation measures and technological advances;
- terrorist attack or armed conflict;
- sufficiency of internal controls;
- insurance sufficiency, availability and rate risk;
- information security; and
- challenges by taxation authorities.

Readers are cautioned that the foregoing list is not exhaustive.

The reader is further cautioned that the preparation of financial statements in accordance with IFRS requires management to make certain judgments and estimates that affect the reported amounts of assets, liabilities, revenues and expenses. These judgments and estimates may change, having either a negative or positive effect on net earnings as further information becomes available, and as the economic environment changes.

The information contained in this MD&A, including the documents incorporated by reference herein, identifies additional factors that could affect the operating results and performance of the Corporation. We urge you to carefully consider those factors.

The forward-looking statements contained herein are expressly qualified in their entirety by this cautionary statement. The forward-looking statements included in this MD&A are made as of the date of this MD&A and the Corporation does not undertake and is not obligated to publicly update such forward-looking statements to reflect new information, subsequent events or otherwise unless so required by applicable securities laws.

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DESCRIPTION OF GAAP MEASURES AND NON-GAAP MEASURES

Throughout this MD&A, management uses measures which do not have a standardized meaning as prescribed by IFRS and therefore are considered to be additional or non-GAAP measures presented under IFRS.

EBITDA is calculated under IFRS and is reported as an additional subtotal in the Corporation's consolidated statements of cash flows. EBITDA is defined as net (loss) earnings, before:

- depreciation of property, plant and equipment;
- amortization of intangible assets;
- income tax expense (recovery); and
- finance charges, net.

Adjusted EBITDA is a non-GAAP measure defined as net (loss) earnings, before:

- depreciation of property, plant and equipment;
- amortization of intangible assets;
- income tax expense (recovery);
- finance charges, net;
- provision (recovery) for excess and obsolete inventory;
- other losses (gains), net;
- restructuring charges;
- share-based compensation; and
- impairment losses.

The Corporation reports on EBITDA and adjusted EBITDA because they are important measures used by management to evaluate performance. The Corporation believes adjusted EBITDA assists investors in assessing McCoy Global's current operating performance on a consistent basis without regard to non-cash, unusual (i.e. infrequent and not considered part of ongoing operations), or non-recurring items that can vary significantly depending on accounting methods or non-operating factors.

Adjusted EBITDA is not considered an alternative to net earnings or loss in measuring McCoy Global's performance. Adjusted EBITDA does not have a standardized meaning and is therefore not likely to be comparable to similar measures used by other issuers.

OUTLOOK AND FORWARD-LOOKING INFORMATION

McCoy Global delivered solid results for its fourth quarter 2018, reporting a second consecutive quarter of positive earnings and adjusted EBITDA. This achievement was a result of McCoy's disciplined approach to implementing cost reductions and operating efficiencies throughout the down cycle, underpinned by strengthening industry fundamentals for the majority of 2018.

However, the sharp decline in oil prices through the fourth quarter of 2018 has led to increased uncertainty surrounding our customers' 2019 capital budgets, with customers generally taking a more conservative approach to the start of the year.

In the US land market, the Permian basin remains highly competitive and increased market uncertainty has exacerbated pricing pressures and increased scrutiny over capital spending. McCoy has responded to the changing purchasing landscape by investing in its rental fleet and strategic finished goods equipment inventory to enable just-in-time customer purchases to better support the short-term contracts that are prevalent in this region. Additionally, McCoy commercialized its 10" 40K hydraulic power tong in the second quarter of 2018, as a direct response to the changing land market requirements for higher torque connections. The product quickly became a top selling model in 2018 and McCoy Global anticipates continued success of this product into 2019 and beyond. Additionally, we commercialized our next generation McCoy Torque-Turn System (MTT) in December and managed to deliver some new units to customers before year-end. We anticipate this new MTT will continue to generate revenue into 2019 and beyond based on the positive customer feedback we are receiving.

International and offshore markets highlight an area of potential opportunity for McCoy as we are experiencing a gradual recovery throughout 2019. The offshore market tends to be more project driven and requires more complex equipment solutions, where McCoy has traditionally, and continues, to have a strong market position. Further, McCoy Global has retained its engineering expertise throughout the downturn which will enable McCoy to develop data driven technology to address the ongoing efficiencies expected by customers.

McCoy booked $12.1 million in orders during the fourth quarter, which represented a sequential decrease of 30% over the third quarter of 2018. Despite this decrease, the Corporation exited 2019 with backlog of $15.0 million, which, coupled with continued discipline on managing costs, will position McCoy for a stable beginning to 2019. However, we remain in an uncertain market which will continue to make forecasting difficult. Management will continue its efforts in managing the business to generate free cash flow in the current market environment and we are pleased with the continued focus by our management team and staff.

Investment in new technology remains a key priority for McCoy and will play a critical role in McCoy's future. McCoy continues to focus on developing and delivering technology that leverages its depth of engineering and field expertise to provide enhanced customer support. As well construction continues to become more complex and there is greater emphasis within the industry on data acquisition and automation technologies, McCoy Global has developed a technology strategy, the 'Digital Technology Roadmap', to address customer challenges. McCoy has committed US$1.5 million in 2019 capital investment to this strategic initiative, with plans to launch the first of its product solutions before the end of 2019.

McCoy has remained committed to protecting shareholders from dilution and to preserving its balance sheet during the prolonged downcycle. McCoy's team will continue to focus on improving margins through supply chain and operational efficiencies, while diligently maintaining previously enacted cost reduction initiatives and operating model re-alignments while uncertain market fundamentals persist.

Finally, McCoy will continue to manage the business with the focus on generating positive cash flow and adjusted EBITDA in 2019, maintaining our strong balance sheet. Organic growth via McCoy's increased investments in new data driven technologies will also remain a priority.

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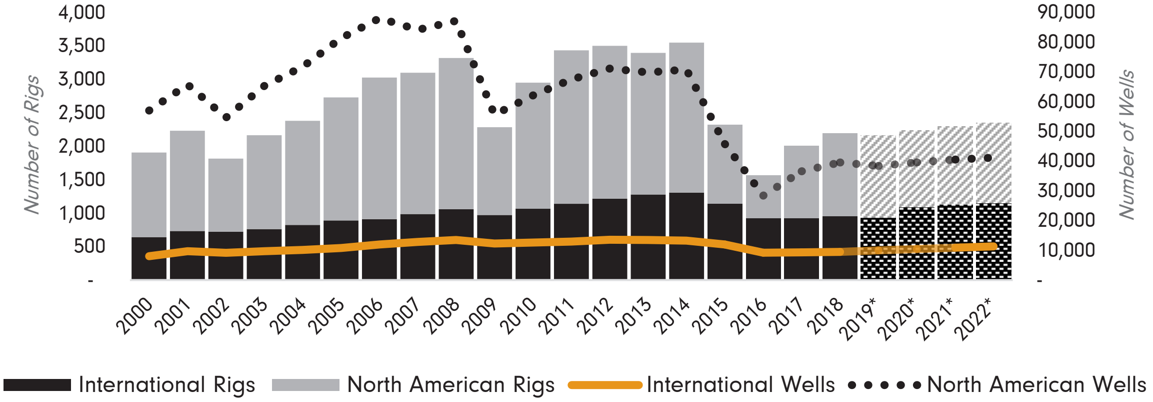
MARKET CONDITIONS

Management uses active rig counts as well as number and length of wells being drilled as data points to monitor and set expectations of the future performance of the Corporation. Generally, these metrics are leading indicators of demand for McCoy Global's products and services, although there are many factors that may impact any correlation.

A summary of historical and forecasted rig and well counts, which includes both land and offshore, obtained from Spears & Associates Drilling and Production Outlook, December 2018, is as follows:

International vs North American Rig** & Well Counts



*Forecasted

**Cumulative

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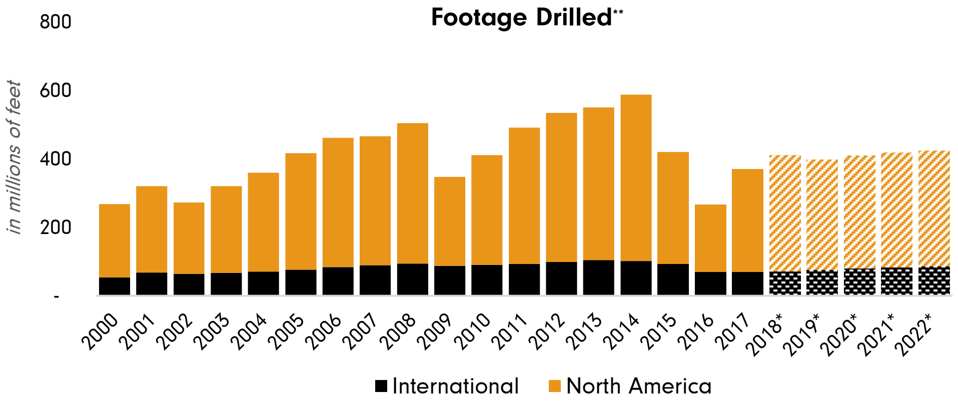
A summary of historical and forecasted footage drilled, which includes both land and offshore, obtained from Spears & Associates Drilling and Production Outlook, December 2018, is as follows:



Despite improving market conditions through the first three quarters of 2018, the market abruptly softened near the end of the fourth quarter. As a result, McCoy enters 2019 with less certainty than desired given heightened unpredictability surrounding customers' 2019 capital budgets.

In the North American land market, competition, cash constraints and pricing pressure continue to influence customer decisions on well-construction equipment purchases, which has led to increased customer demand for equipment rental options. Despite slightly lower projected activity in the market for 2019, McCoy has responded to the changing purchasing landscape by investing it its rental fleet and strategic finished goods inventories.

International and offshore markets are expected to continue their gradual recovery, representing an area of potential growth for McCoy. As the market gradually improves customers will begin to re-invest in equipment to meet demand and look to new technologies to gain efficiencies. McCoy continues to have a strong product presence in the off-shore market.

**Forecasted*
***Cumulative*

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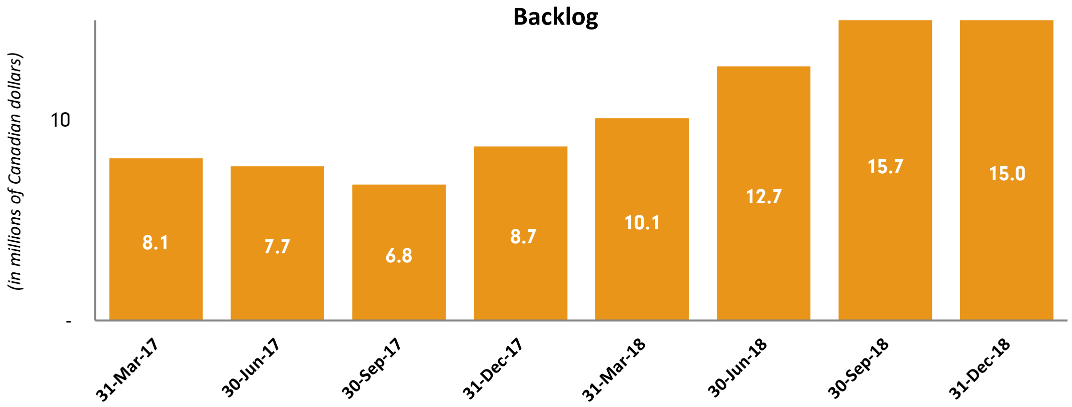
Backlog

Backlog is a measure of the amount of customer orders the Corporation has received and is therefore an indicator of a base level of future revenue potential. Backlog is not a GAAP measure and, as a result, the definition and determination of backlog will vary among other issuers reporting a backlog figure.

The Corporation defines backlog as orders that have a high certainty of being delivered and is measured on the basis of a firm customer commitment, such as the receipt of a purchase order. Customers may default on or cancel such commitments, however may be secured by a deposit and/or require reimbursement by the customer upon default or cancellation. Backlog reflects likely future revenues; however, cancellations or reductions may occur and there can be no assurance that backlog amounts will ultimately be realized as revenue, or that the Corporation will earn a profit on backlog once fulfilled. Expected delivery dates for orders recorded in backlog historically spanned from one to six months.

McCoy Global's backlog as at December 31, 2018 totaled $15.0 million, a decrease of $0.7 million or 4% from September 30, 2018. Compared to December 31, 2017, backlog increased $6.3 million or 72% as a result of improved industry fundamentals. During 2018, McCoy Global experienced increased order intake which drove increased backlog. Additionally, product mix, particularly capital equipment, has a significant impact on backlog due to longer lead time requirements.



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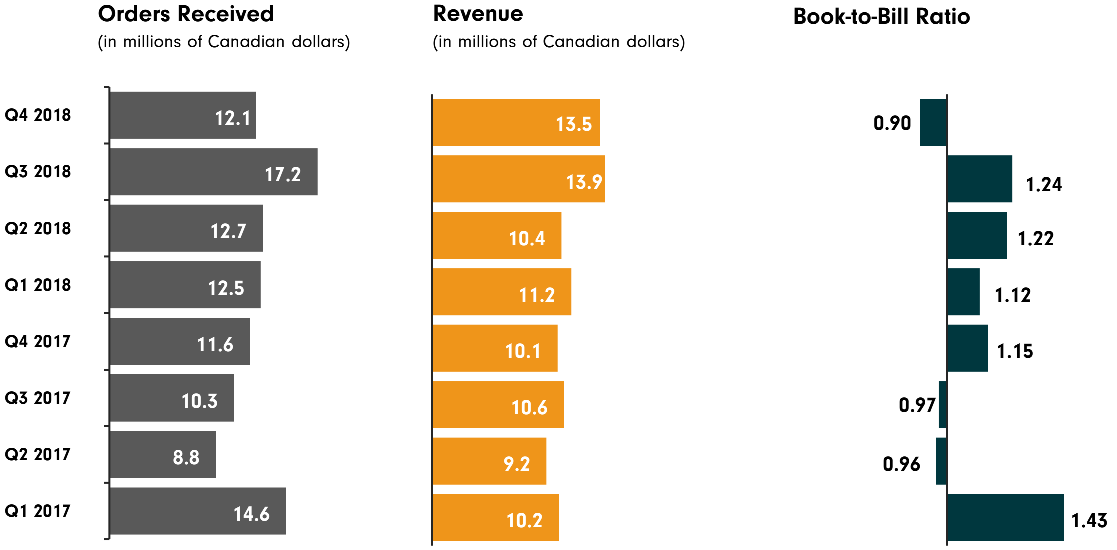
Book-to-Bill Ratio

The book-to-bill ratio is a measure of the amount of net sales orders received to revenues recognized. The ratio is an indicator of customer demand and sales order processing times. The book-to-bill ratio is not a GAAP measure and therefore the definition and calculation of the ratio will vary among other issuers reporting the book-to-bill ratio. McCoy Global calculates the book-to-bill ratio as net sales orders taken in the reporting period divided by the revenues reported for the same reporting period.

Set out below are orders received, revenue and the book-to-bill ratio:



STRATEGY AND CORE BUSINESS VISION

MCCOY GLOBAL'S VISION IS TO BE RECOGNIZED AS THE TRUSTED PARTNER DELIVERING SMART SOLUTIONS FOR RUGGED APPLICATIONS

McCoy Global Inc. 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:

- 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;
- 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;
- repair, maintenance, and calibration of the Corporation's capital equipment and similar competitor products; and
- rental of the Corporation's capital equipment.

Set out below are McCoy Global's principal operations:

Operating Name	Country of Incorporation	Operating Region	Ownership Interest
McCoy Global Canada Corp.	Canada	Canada	100%
McCoy Global FZE	United Arab Emirates	Eastern Hemisphere	100%
McCoy Global USA, Inc.	United States	United States, Central America & Latin America	100%

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Financial Results

Summary of Consolidated Fourth Quarter Results

For the three months ended December 31 ($000 except per share amounts)	**2018**	2017
Revenue	**13,543**	10,054
Net earnings (loss)	**931**	(6,254)
Per common share – basic	**0.03**	(0.23)
Per common share – diluted	**0.03**	(0.23)
Adjusted EBITDA	**776**	(898)
Per common share – basic	**0.03**	(0.03)
Per common share – diluted	**0.03**	(0.03)

EBITDA and adjusted EBITDA are calculated as follows:

For the three months ended December 31 ($000)	**2018**	2017
Net earnings (loss)	**931**	(6,254)
Depreciation of property, plant and equipment	**378**	502
Amortization of intangible assets	**146**	188
Income tax expense (recovery)	**(43)**	(140)
Finance charges, net	**101**	56
EBITDA	**1,513**	(5,648)
(Recovery of) provisions for excess and obsolete inventory	**(707)**	3,656
Other (gains) losses, net	**(239)**	(190)
Restructuring charges (reversals)	**65**	1,030
Share-based compensation	**144**	(4)
Impairment charges	**-**	258
Adjusted EBITDA	**776**	(898)

REVENUE

($000 except percentages)	For the three months ended December 31			
	2018	**2017**	Change	% Change
Revenue	**13,543**	10,054	3,489	35%

Overall revenue improved from the comparative period as a result of strengthening industry fundamentals for the majority of 2018. This was primarily driven by an increase in capital equipment order intake from the Eastern Hemisphere.

GROSS PROFIT (LOSS)

($000 except percentages)	For the three months ended December 31			
	2018	2017	Change	% Change
Gross profit (loss)	**4,192**	(1,416)	5,608	(396%)
Gross profit (loss) as a % of revenue	***31%***	*(14%)*	*45%*	

Gross profit increased from the comparative period as a result of increased production through-put, in combination with the cost reductions realized as a result of restructuring initiatives implemented in 2017.

Gross profit for the three months ended December 31, 2018 includes a $0.7 million recovery of excess and obsolete inventory (2017 – charge of $3.7 million). The inventory recovery is primarily related to components for non-standard product models which have seen renewed customer demand.

GENERAL AND ADMINISTRATION EXPENSE (G&A)

($000 except percentages)	For the three months ended December 31			
	2018	2017	Change	% Change
G&A	**1,990**	2,299	(309)	(13%)
G&A as a % of revenue	***15%***	*23%*	*(8%)*	

G&A spend and G&A as a percentage of revenue declined compared to the comparative period. The Corporation continues to monitor its overhead spend and expects future G&A expenditures to be in-line with the three months ended December 31, 2018.

SALES AND MARKETING EXPENSE (SALES & MARKETING)

($000 except percentages)	For the three months ended December 31			
	2018	2017	Change	% Change
Sales & marketing	**625**	1,009	(384)	(38%)
Sales & marketing as a % of revenue	***5%***	*10%*	*(5%)*	

Sales & Marketing decreased as a result of the previously announced restructuring initiatives.

RESEARCH AND DEVELOPMENT (R&D)

	For the three months ended December 31			
($000 except percentages)	**2018**	2017	Change	% Change
R&D expense	**762**	516	246	48%
Capitalized development expenditures	**-**	74	(74)	(100%)
R&D expenditures	**762**	590	172	29%
R&D expenditures as a % of revenue	**6%**	6%	-	

R&D expenditures were comparable to the prior period. During the quarter, the Corporation allocated resources to plan and execute the first phase of its Digital Technology Roadmap.

OTHER ITEMS

	For the three months ended December 31			
($000 except percentages)	**2018**	2017	Change	% Change
Finance charges, net	**101**	56	45	80%
Restructuring charges	**65**	1,030	(965)	(94%)
Impairment charges	**-**	258	(258)	(100%)
Other (gains) and losses, net	**(239)**	(190)	(49)	26%

Finance charges, net, includes borrowing costs offset by interest income on cash and cash equivalents.

Restructuring charges relate to restructuring initiatives to reduce the Corporation's cost structure.

Impairment charges are a result of restructuring initiatives which impaired certain property, plant and equipment and intellectual property in the comparative period.

Other (gains) losses, net, primarily includes costs associated with foreign exchange fluctuations, merger and acquisition costs and any associated gains or losses, and gains or losses on the disposal of property, plant and equipment.

SUMMARY OF QUARTERLY RESULTS

	2018				2017			
($000 except per share amounts)	**Dec 31**	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
Revenue	**13,543**	13,899	10,391	11,243	10,054	10,563	9,214	10,214
Impairment and restructuring charges (reversals)	**65**	15	1,028	798	1,288	319	365	1,344
Net earnings (loss)	**931**	183	(2,954)	(1,951)	(6,254)	(3,390)	(3,097)	(3,576)
Basic and diluted earnings (loss) per share	**0.03**	0.01	(0.11)	(0.07)	(0.23)	(0.12)	(0.11)	(0.13)
EBITDA	**1,513**	911	(1,054)	(1,392)	(5,648)	(2,915)	(2,452)	(2,933)
Adjusted EBITDA	**776**	687	(772)	(482)	(898)	(1,494)	(919)	15

SUMMARY OF CONSOLIDATED ANNUAL RESULTS

For the year ended December 31 ($000 except per share amounts)	**2018**	2017	2016
Revenue	**49,076**	40,045	26,999
Net loss	**(3,791)**	(16,317)	(35,926)
Per common share – basic	**(0.14)**	(0.59)	(1.30)
Per common share – diluted	**(0.14)**	(0.59)	(1.30)
Adjusted EBITDA	**205**	(3,296)	(13,192)
Per common share – basic	**0.01**	(0.12)	(0.48)
Per common share – diluted	**0.01**	(0.12)	(0.48)
Total assets	**59,742**	57,438	69,895
Total liabilities	**19,335**	16,232	10,090
Total non-current liabilities	**3,955**	666	3,630

EBITDA and adjusted EBITDA are calculated as follows:

For the year ended December 31 ($000)	**2018**	2017	2016
Net loss	**(3,791)**	(16,317)	(35,926)
Depreciation of property, plant and equipment	**2,573**	2,335	3,465
Amortization of intangible assets	**585**	819	1,226
Income tax expense (recovery)	**319**	(969)	(3,735)
Finance charges, net	**292**	183	116
EBITDA	**(22)**	(13,949)	(34,854)
(Recovery of) provisions for excess and obsolete inventory	**(1,717)**	6,204	2,665
Other (gains) losses, net	**(165)**	915	2,463
Restructuring charges	**1,004**	2,710	9,557
Share-based compensation	**203**	218	332
Impairment charges	**902**	606	6,645
Adjusted EBITDA	**205**	(3,296)	(13,192)

REVENUE

	For the year ended December 31			
($000 except percentages)	2018	2017	Change	% Change
Revenue	**49,076**	40,045	9,031	23%

Overall industry fundamentals improved for the majority of 2018, driving increased capital equipment order intake in addition to orders for corresponding parts and accessories, resulting in year over year revenue growth.

Geographically, the Eastern Hemisphere experienced the largest increase in revenue, including equipment orders for the offshore market. Increased activity in the US land market, coupled with the launch of McCoy's 10" 40K hydraulic power tong, drove increased revenues in the Western Hemisphere, however, this region continues to be subject to increasing competition and pricing pressure.

GROSS PROFIT

	For the year ended December 31			
($000 except percentages)	2018	2017	Change	% Change
Gross profit	**12,686**	2,984	9,702	325%
Gross profit as a % of revenue	***26%***	*7%*	*19%*	

Gross profit increased from the comparative period as a result of increased production through-put, in combination with cost reductions realized as a result of restructuring initiatives implemented in 2017. Gross profit for the year ended December 31, 2018 also includes the transitional impact of consolidating production facilities and transitioning to an assembly production model during the first half of the year. Driving further driving supply chain efficiencies and margin improvement will continue to be a key strategic focus in 2019.

Included in gross profit is a non-cash recovery for excess and obsolete inventory of $1.7 million (2017 – charge of $6.1 million). The inventory recovery is primarily related to components for non-standard product models which have seen renewed customer demand.

GENERAL AND ADMINISTRATION EXPENSE (G&A)

	For the year ended December 31			
($000 except percentages)	2018	2017	Change	% Change
G&A	**8,434**	9,218	(784)	(9%)
G&A as a % of revenue	***17%***	*23%*	*(6%)*	

The decline in G&A from 2017 is a result of the completion of restructuring initiatives as well as continued discipline around overhead spend. The Corporation expects to maintain G&A expenditures at current levels notwithstanding expectations of future revenue growth, driving an expected decrease in G&A as a percentage of revenue in future periods.

OTHER ITEMS

($000 except percentages)	For the year ended December 31 2018	2017	Change	% Change
Restructuring charges	**1,004**	2,710	(1,706)	(63%)
Impairment charges	**902**	606	296	49%
Finance charges, net	**292**	183	109	60%
Other (gains) losses, net	**(165)**	915	(1,080)	(118%)

Restructuring charges relate to restructuring initiatives to reduce the Corporation's cost structure. Costs incurred during the current and prior year primarily relate to:

(i) the closure of McCoy's production facility in Edmonton, Alberta;
(ii) transitioning production from Edmonton, Alberta to Broussard, Louisiana; and
(iii) consolidating Eastern Hemisphere operations in the UAE, which resulted in the closure of service and distribution facilities in Aberdeen, United Kingdom and Singapore.

Impairment charges recognized during the year relate to internally generated intellectual property. McCoy Global reviewed capitalized development costs related to new product development projects and determined that the future economic benefits expected from the use of these assets was uncertain. Impairment charges recognized in the comparative year relate to certain property, plant and equipment and intellectual property deemed impaired in response to the restructuring initiatives undertaken.

Finance charges, net, includes borrowing costs offset by interest income on cash and cash equivalents.

Other (gains) losses, net, primarily includes costs and recoveries associated with foreign exchange fluctuations, merger and acquisition activities and any gains or losses on the disposal of property, plant and equipment.

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LIQUIDITY AND CAPITAL RESOURCES

Selected cash flow and capitalization information is as follows:

For the year ended December 31 ($000)	**2018**	2017
Cash used in operating activities	**(4,996)**	(1,273)
Cash used in investing activities	**(970)**	(8,079)
Cash generated from financing activities	**1,297**	2,596

Cash used in operating activities was primarily related to working capital to support the increase order intake and revenues. This was offset by the collection of tax recoveries of $1.7 million in 2018, compared to $3.2 million in the prior year.

Cash used in investing activities primarily relates to the expansion of the Corporation's rental fleet to support the North American land market and strategic purchases of production equipment. This was offset by proceeds of $0.2 million from the sale of redundant equipment as restructuring initiatives were carried out in 2018. In 2017, investing activities were impacted by the $8.0 million acquisition of 3PS and additions to intangible assets related to the development of certain R&D projects.

In 2018, the Corporation repaid its borrowings under a previous facility and as a result, $2.0 million was released from restricted cash related to borrowings. Subsequent to the repayment, the Corporation executed a loan agreement to borrow $4.0 million USD under a term loan repayable in equal principal payments over four years. In 2018 cash generated from financing activities primarily related to borrowings associated with the acquisition of 3PS.

For the three months ended December 31 ($000)	**2018**	2017
Cash (used in) generated from operating activities	**(1,651)**	2,006
Cash generated from investing activities	**142**	1,510
Cash used in financing activities	**(272)**	(241)

Cash used in operating activities for the three months ended December 31, 2018 was the result of the increase in working capital to support customer orders, offset by the generation of positive EBITDA. In 2017 cash from operating activities was generated through a reduction in working capital and receipt of corporate tax refunds; offset by negative adjusted EBITDA.

Cash generated from investing activities for the three months ended December 31, 2018 was the result of sales conversion from the Corporation's rental fleet offset by investment in new rental fleet equipment. In the comparative period, cash was generated from the sale of property, plant and equipment.

Cash used in financing activities in the current and comparative quarter relate to principal repayments of the Corporation's borrowings.

For the year ended December 31 ($000)	2018	2017
Cash and cash equivalents	**10,947**	14,972
Restricted cash, as per credit facility	**500**	2,500
Borrowings	**(4,775)**	(4,930)
Net cash	**6,672**	12,542

As a result of undertaking significant restructuring efforts to respond to the extended downcycle in the oil and gas industry, the Corporation generated its second consecutive quarter of positive earnings and adjusted EBITDA, despite a 65% decline in revenue from its peak in 2014.

McCoy remains committed to managing the business for success in the current market environment through continued focus on margin improvements through supply chain and operational efficiencies and diligently maintaining previously enacted cost reduction initiatives. During the year ended December 31, 2018, McCoy invested in working capital to support the sharp increase in customer demand. With activity levels expected to stabilize, generating operating cashflows and increasing working capital efficiency is another key priority for the Corporation in 2019.

Anticipated capital spending in 2019 includes:

- US$1.5 million of investment in Corporation's Digital Technology Roadmap;
- settlement of provisions included in current liabilities as at December 31, 2018;
- investment in rental equipment to satisfy increasing customer demand; and
- nominal investments in production facility equipment.

Market uncertainty continues to be a challenge in developing longer term forecasts for the Corporation, including working capital projections.

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. The principal financial risks to which the Corporation is exposed are described in note 19 of the Consolidated Annual Financial Statements for the year ended December 31, 2018.

OTHER FINANCIAL INFORMATION

CONTRACTUAL OBLIGATIONS

The Corporation has committed to payments under operating leases for premises and equipment and has also sublet certain premises that are under operating lease. Based on remaining contractual maturities, the undiscounted cash flows for its financial liabilities; future aggregate minimum lease payments under non-cancellable operating leases; and commitments to purchase inventory and operating supplies are as follows:

As at December 31 ($000)	Due in less than one year	Due between one and five years	Due later than five years	Total
Borrowings	1,680	3,736	-	**5,416**
Trade and other payables	9,726	-	-	**9,726**
Onerous lease provisions	186	544	-	**730**
Undiscounted cash flows for financial liabilities	**11,592**	**4,280**	**-**	**15,872**
Future aggregate minimum lease payments under non-cancellable operating leases	1,684	3,653	**-**	**5,337**
Purchase commitments for inventory and operating supplies	4,335	-	-	**4,335**
	17,611	**7,933**	**-**	**25,544**

RELATED PARTY TRANSACTIONS

Divestiture

On September 15, 2014, the Corporation divested the Coating & 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 $0.2 million 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 described in note 10(d) of the Consolidated Annual Financial Statements for the year ended December 31, 2018.

OUTSTANDING SHARE DATA

As at March 8, 2018 the following class of shares and equity securities potentially convertible into common shares were outstanding:

Common shares	27,485,939
Convertible equity securities:	
Stock options	1,355,000
Restricted share plan units	492,000

The stock options and restricted share plan units are exercisable into an equal number of common shares. Stock options may be exercised after they have vested. Restricted share plan units are converted to common shares at pre-determined vesting dates.

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 amount 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 assumption are reviewed on an ongoing basis and revisions to estimates are recognized prospectively. Actual results may differ from these estimates.

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

(i) *Trade and other receivables*

The Corporation records trade and other receivables at amortized cost. Write downs for trade and other receivables are recorded each period as required and updated based on management's judgment.

(ii) *Inventories*

The Corporation records inventories at the lower of cost and net realizable value. Write-downs for inventory are recorded each period as required and updated based on management's judgment.

(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.

(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.

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 is necessary to determine the likelihood and availability of future taxable profits against which tax losses and tax credits carried forward can be used.

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(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.

(vi) *Impairment of non-financial assets*

Long-lived assets include property, plant and equipment and intangibles 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 Corporation's accounting policy. Judgment is required in the aggregation of assets into Cash Generating Units ("CGUs").

The recoverable amounts of cash-generating units 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 significant uncertainty and judgment.

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 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 make rental payments are recognized. The only exceptions are short-term and low-value leases.

The Corporation will apply the standard from its mandatory adoption date of January 1, 2019. The Corporation intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoptions. All right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

Management has evaluated the measurement and disclosure impact of the new standard which will affect primarily the accounting for the Corporation's operating leases. Upon adoption, the recognition of a right of use asset and corresponding liability in the range of $1,100 and $1,500.

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.

CONTROLS AND PROCEDURES

DISCLOSURE CONTROLS AND PROCEDURES ("DC&P")

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to management, including the CEO and CFO, on a timely basis so that appropriate decisions can be made regarding public disclosure.

An evaluation of the design and operating effectiveness of our DC&P was conducted, as at December 31, 2018, by management under the supervision of the CEO and the CFO. Based on this evaluation, the CEO and the CFO have concluded that, as at December 31, 2018, our DC&P, as in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings (NI 52-109), was effective.

INTERNAL CONTROLS OVER FINANCIAL REPORTING ("ICFR")

ICFR is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. Management is responsible for establishing and maintaining adequate ICFR.

Our ICFR includes policies and procedures that pertain to the maintenance of records that provide reasonable assurance that transactions are recorded as necessary to permit preparation of the financial statements in accordance with IFRS, and that receipts and expenditures are being made only in accordance with authorizations of management and directors; pertain to the maintenance of records that in reasonable detail accurately and fairly reflect our transactions and dispositions of our assets; and are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our annual consolidated financial statements.

Because of its inherent limitations, ICFR can provide only reasonable assurance and may not prevent or detect misstatements.

Furthermore, projections of an evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Management, under the supervision of the CEO and CFO, has evaluated the design and operating effectiveness of our ICFR using the framework and criteria established in Internal Controls – Integrated Framework of 2013, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, the CEO and the CFO have concluded that as at December 31, 2018, ICFR (as defined in NI 52-109) were effective. There were no changes in our ICFR during the year ended December 31, 2018 that have materially affected, or are reasonably likely to affect, our ICFR.

RISK AND UNCERTAINTIES RELATED TO THE BUSINESS

The Corporation's results of operations, business prospects, financial condition, cash distributions to shareholders and the trading price of the Corporation's shares are subject to a number of risks. These risk factors include:

- oil and natural gas price fluctuations;
- domestic and foreign competition;
- technology;
- replacement or reduced use of products and services;
- international operations;
- ability to effectively manage growth;
- business mergers and acquisitions;

- supply chain;
- reliance on key persons workforce availability;
- legal compliance;
- litigation;
- breach of confidentiality;
- safety performance;
- foreign exchange;
- availability of financing;
- selling additional common shares;
- customers' inability to obtain credit/financing;
- material differences between actual results and management estimates and assumptions;
- impact of the United States-Mexico-Canada Agreement;
- Greenhouse Gas ("GHG") regulations;
- change in U.S. administration;
- conservation measures and technological advances;
- terrorist attack or armed conflict;
- sufficiency of internal controls;
- insurance sufficiency, availability and rate risk;
- information security; and
- challenges by taxation authorities.

A discussion of these risks and other risks associated with investment of the Corporation's shares is given elsewhere in this MD&A as well as in "Risk Factors" detailed in the Corporation's Annual Information Form ("AIF") that is available on SEDAR at www.sedar.com.

RISK FACTORS

In addition to risks described elsewhere in this MD&A or in the AIF, the Corporation is exposed to various business risks which include but are not limited to the following:

OIL AND NATURAL GAS FLUCTUATIONS

A downturn in oil and natural gas prices worldwide has a direct impact on activities of the Corporation's customers.

Generally, there is higher demand for the Corporation's products and services when commodity prices are relatively high and the opposite is true when commodity prices are low. The volatility of crude oil and natural gas prices accounts for much of the cyclical nature of the oilfield services business.

Worldwide military, political and economic events, expectations for global economic growth, or initiatives by the Organization of the Petroleum Exporting Countries and other major petroleum exporting countries, can affect supply and demand for oil and natural gas. Weather conditions, governmental regulation (in Canada and elsewhere), levels of consumer demand, the availability of pipeline capacity, U.S. and Canadian natural gas storage levels, and other factors beyond the Corporation's control can also affect the supply of and demand for oil and natural gas and lead to future price volatility. A prolonged reduction in oil and natural gas prices would likely depress the level of exploration and production activity. This would likely result in a corresponding decline in the demand for McCoy Global's products and services and could have a material adverse effect on the Corporation's revenue, cash flow and profitability.
McCoy Global has trade receivables with customers in the oil and natural gas industry and their revenues may be affected by fluctuations in commodity prices. The Corporation's ability to collect receivables may be adversely affected by any prolonged weakness in oil and natural gas prices.

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DOMESTIC AND FOREIGN COMPETITION

The Corporation has competitors. If the Corporation does not respond effectively to competitors' new products, geographic expansion, quality, delivery, pricing and marketing strategies, the Corporation may lose market share. Further, drillers and operators are constantly evolving the means of extracting hydrocarbons, with an emphasis on safety and automation. If competitors develop complimentary or similar products which better align with customer requirements, the Corporation is at risk of customers switching to competitor products.

Reduced levels of activity in the oil and natural gas industry can intensify competition and result in pricing pressure on McCoy Global's products and services, and corresponding lower revenue to the Corporation.

TECHNOLOGY

The oilfield products and service industry is characterized by rapid and significant technological advancements and introductions of new products and services utilizing new technologies. Other oilfield product and service companies may have greater financial, technical and personnel resources that allow them to expedite development of new technologies before the Corporation. There can be no assurance that the Corporation will be able to respond to such competitive pressures and develop such technologies on a timely basis or at an acceptable cost. One or more of the technologies currently developed by the Corporation or developed in the future may become obsolete which could have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows. No assurances can be given that McCoy Global's competitors will not achieve technological advantages or introduce disruptive technologies.

McCoy Global may seek patents or other similar protections in respect of particular products and technology, however, McCoy Global may not be successful in such efforts. Competitors may also develop similar products and technology thereby adversely affecting McCoy Global's competitive advantage in one or more of McCoy Global's product lines. Additionally, there is no assurance that certain products or technology McCoy Global develops, may not be the subject of future patent infringement claims or other similar matters which could result in litigation, the requirement to pay licensing fees or other results that could have a material adverse effect on McCoy Global's business, financial condition, results of operations and cash flows.

REPLACEMENT OR REDUCED USE OF PRODUCTS AND SERVICES

Certain of the Corporation's products may become obsolete or experience a decrease in demand through the introduction of competing products that are lower in cost, exhibit enhanced performance characteristics or are determined by the market to be more preferable for other reasons. The Corporation will need to remain current with the changing market for oil and natural gas services and technological and regulatory changes. If the Corporation fails to do so, this could have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows.

INTERNATIONAL OPERATIONS

McCoy Global operates internationally through direct sales and distributors with operations in Canada, the United States and the United Arab Emirates. The Corporation's international operations are subject to risks normally associated with conducting business in foreign countries, including among others:

- an uncertain political and economic environment;
- the loss of revenue or property and equipment as a result of expropriation, confiscation, nationalization, contract deprivation and force majeure;
- war, terrorist acts or threats, civil insurrection, and geopolitical and other political risks;
- fluctuations in foreign currency and exchange controls;
- restrictions on the repatriation of income or capital;

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- increases in duties, taxes and governmental royalties;
- changes in laws and policies governing operations of foreign-based companies; and
- trade restrictions or embargoes imposed by the U.S. or other countries.

If there is a dispute relating to the Corporation's international operations, McCoy Global may be subject to the exclusive jurisdiction of foreign courts or may not be able to subject foreign persons to the jurisdiction of a court in Canada or the U.S.

In the international markets where the Corporation operates, McCoy Global is subject to various laws and regulations that govern the operation and taxation of its businesses and the import and export of the Corporation's equipment from country to country. There may be uncertainty about how these laws and regulations are imposed, applied or interpreted, and they could be subject to change. Since McCoy Global derives a portion of its revenues from subsidiaries outside of Canada and the U.S., the subsidiaries paying dividends or making other cash payments or advances may be restricted from transferring funds in or out of the respective countries, or face exchange controls or taxes on any payments or advances. McCoy Global has organized its foreign operations partly based on certain assumptions about various tax laws (including capital gains and withholding taxes), foreign currency exchange, and capital repatriation laws and other relevant laws of a variety of foreign jurisdictions. McCoy Global believes these assumptions are reasonable; however, there is no assurance that foreign taxing or other authorities will reach the same conclusion. If these foreign jurisdictions change or modify the laws, the Corporation could suffer adverse tax and financial consequences.

While the Corporation has developed policies and procedures designed to achieve compliance with applicable international laws, McCoy Global could be exposed to potential claims, economic sanctions, or other restrictions for alleged or actual violations of international laws related to the Corporation's international operations, including anti-corruption and anti-bribery legislation, trade laws and trade sanctions. The Canadian government, the U.S. Department of Justice, the Securities and Exchange Commission, the U.S. Office of Foreign Assets Control, and similar agencies and authorities in other jurisdictions have a broad range of civil and criminal penalties they may seek to impose against corporations and individuals for such violations, including injunctive relief, disgorgement, fines, penalties and modifications to business practices and compliance programs, among other things. While the impact of any of these factors, if any of those risks materialize, cannot be accurately predicted, it could have a material adverse effect on the Corporation's reputation, business, financial condition, results of operations and cash flow.

ABILITY TO EFFECTIVELY MANAGE GROWTH

The Corporation may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The Corporation's ability to manage growth effectively will require it to continue to implement and improve its operations and financial systems and to expand, train and manage its employee base. The Corporation's inability to deal with this growth could have a material adverse impact on its business, financial condition, results of operations and cash flows.

BUSINESS MERGERS AND ACQUISITIONS

McCoy Global considers and evaluates mergers and acquisitions of, or investments in, complementary businesses and assets as part of McCoy Global's growth strategy. Any merger or acquisition could have a material adverse effect on the Corporation's operating results, financial condition, or the price of the Corporation's securities. Mergers and acquisitions involve numerous risks, including unanticipated costs and liabilities, difficulty in integrating the operations and assets of the acquired business, the ability to properly access and maintain an effective internal control environment over an acquired company to comply with public reporting requirements, potential loss of key employees and customers of the acquired companies, and an increase in the Corporation's expenses and working capital requirements.

If McCoy Global is successful in integrating current or future acquisitions into its operations, the full benefits, such as operational or administrative synergies, expected from acquisitions may not be realized, which may result in the

Corporation committing capital resources and not receiving the expected returns. In addition, McCoy Global may not be able to continue to identify attractive acquisition opportunities or successfully acquire identified targets. In certain situations, the Corporation may find itself competing for targets with other strategic and non-strategic buyers which may have the desire or ability to value targets at a higher purchase price than McCoy Global.

SUPPLY CHAIN

The Corporation relies on various key suppliers and their risks and costs are ultimately borne by the Corporation. McCoy Global may further outsource key components, raw materials and component parts from a variety of suppliers in Canada, the U.S. and overseas. McCoy Global may also place advance orders for components or parts that have long lead times. The Corporation may experience cost increases, inferior quality, delays in delivery due to strong activity or financial hardship of suppliers or contractors, or other unforeseen circumstances relating to third parties. If the Corporation's current or alternate suppliers are unable to deliver the necessary components, materials, parts and services required at acceptable quality standards, it may delay delivery of products to McCoy Global's customers and have a material adverse effect on the Corporation's revenue, cash flow and earnings.

RELIANCE ON KEY PERSONS AND WORKFORCE AVAILABILITY

The Corporation's future and growth is dependent on retaining qualified employees at all levels of the organization. There is no assurance that the Corporation will be able to retain key personnel. Losing these individuals could have a material adverse effect on McCoy Global's operations and financial condition.

Additionally, McCoy's future growth may be dependent upon its ability to attract additional qualified employees. The inability to recruit skilled personnel could have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows.

LEGAL COMPLIANCE

The Corporation does business in, and sells goods into, many countries and its operations are subject to many different laws, customs and cultures. Business is conducted by both McCoy Global personnel and third-party representatives. The Corporation is required to comply with applicable anti-corruption laws, including the Canadian Corruption of Foreign Public Officials Act, the U.S. Foreign Corrupt Practices Act and the United Kingdom Bribery Act 2010, as well as local laws in all countries in which the corporation does business. Furthermore, certain products and services are subject to the export control laws of the United States, Canada, the United Kingdom, Singapore, the United Arab Emirates and other countries where its products are sold. Failure to comply with the laws and regulations governing exports may result in monetary fines for individuals as well as McCoy Global, loss of McCoy Global's export privileges, imprisonment, and other sanctions. The Corporation has established policies and procedures that McCoy Global personnel must follow to ensure compliance with those laws and regulations.

LITIGATION

In the normal course of the Corporation's business, it may become involved in, named as a party to, or be the subject of, various legal proceedings, including regulatory proceedings, tax proceedings and legal actions, related to personal injuries, contractual disputes, patent infringement, property damage, and the environment. The outcome of outstanding, pending or future proceedings cannot be predicted with certainty and may be determined adversely to the Corporation and as a result, could have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows.

BREACH OF CONFIDENTIALITY

In the normal course of the Corporation's business the Corporation may discuss potential business relationships, transactions with third parties, financing solutions or other activities and at which time the Corporation may disclose confidential information relating to the business, operations or affairs of the Corporation. The Corporation takes commercially reasonable measures to ensure confidentiality agreements are signed by third parties prior to the disclosure of any confidential information or to otherwise ensure the confidentiality of such information is maintained; however; a breach or failure of these measures could put the Corporation at competitive risk and may cause significant damage to its business. The harm to the Corporation's business from a breach of confidentiality cannot presently be quantified, but may be material and may not be compensable in damages. There is no assurance that, in the event of a breach of confidentiality, the Corporation will be able to obtain equitable remedies, such as injunctive relief, from a court of competent jurisdiction in a timely manner, if at all, in order to prevent or mitigate any damage to its business that such a breach of confidentiality may cause.

SAFETY PERFORMANCE

Standards for accident prevention in the oil and natural gas industry are governed by service company safety policies and procedures, accepted industry safety practices, customer-specific safety requirements, and health and safety legislation. Safety is a key factor that customers consider when selecting an oilfield product and service company. A decline in McCoy Global’s safety performance could result in lower demand for its products and services, and this could have a material adverse effect on the Corporation’s revenue, cash flow and earnings.

The Corporation is subject to various health and safety laws, rules, legislation and guidelines which can impose material liability, increase its costs or lead to lower demand for its products and services.

FOREIGN EXCHANGE

McCoy Global’s United States and international operations have revenues, expenses, assets and liabilities denominated in currencies other than the Canadian dollar. This means that changes in currency exchange rates can result in changes in profitability from period to period.

AVAILABILITY OF FINANCING

McCoy Global may need to obtain additional debt or equity financing in the future to support ongoing operations, undertake capital expenditures, repay existing or future debt, or pursue acquisitions or other business combination transactions. Volatility or uncertainty in the credit markets may increase costs associated with issuing debt or equity, and there is no assurance that the Corporation will be able to access additional financing when needed, or on acceptable or favourable terms. If the Corporation is unable to obtain financing to support ongoing operations or to fund capital expenditures, acquisitions, debt repayments, or other business combination transactions, it could limit growth and may have a material adverse effect on the Corporation’s revenue, cash flow and profitability.

SELLING ADDITIONAL COMMON SHARES

The Corporation may issue additional common shares in the future to fund its needs, as authorized by the Board of Directors. Other than as may be required by the TSX or other regulatory bodies in certain circumstances, the Corporation does not require shareholder approval to issue additional common shares, and shareholders do not have any pre-emptive rights related to share issues. The Corporation may make future acquisitions or enter into financings or other transactions involving the issuance of securities of the Corporation which may be dilutive.

CUSTOMERS’ INABILITY TO OBTAIN CREDIT/FINANCING

Many of McCoy Global’s customers require reasonable access to credit facilities and debt capital markets to finance their oil and gas drilling activity. If the availability of credit to McCoy Global’s customers is reduced, they may reduce their drilling expenditures, thereby decreasing demand for McCoy Global’s products and services. Any such reduction in spending by the Corporation’s customers could adversely affect the Corporation’s operating results and financial condition.

MATERIAL DIFFERENCES BETWEEN ACTUAL RESULTS AND MANAGEMENT ESTIMATES AND ASSUMPTIONS

In preparing consolidated financial statements in conformity with IFRS, estimates and assumptions are used by management in determining the reported amounts of assets and liabilities, revenues and expenses recognized during the periods presented and disclosures of contingent assets and liabilities known to exist as of the date of the financial statements. These estimates and assumptions must be made because certain information that is used in the preparation of such financial statements is dependent on future events, cannot be calculated with a high degree of precision from data available, or is not capable of being readily calculated based on generally accepted methodologies. In some cases, these estimates are particularly difficult to determine and the Corporation must exercise significant judgment. Estimates may be used in management's assessment of items such as allowance for doubtful accounts, business combinations, depreciation, impairment of assets, functional currency, fair values, income taxes, share-based compensation and asset retirement obligations. Actual results for all estimates could differ materially from the estimates and assumptions used by the Corporation, which could have a material adverse effect on McCoy Global's business, financial condition, results of operations, cash flows and future prospects.

IMPACT OF THE UNITED STATES-MEXICO-CANADA AGREEMENT

McCoy Global's customers and vendors may be located across North America and therefore may be subject to or impacted by the United States-Mexico-Canada Agreement. Provisions within this agreement may have a material adverse effect on the business, financial condition, results of operations and prospects of the Corporation.

GREENHOUSE GAS REGULATIONS

The oil and natural gas industry's exploration and production facilities and other operations and activities emit GHGs and both oil and gas exploration and production ("E&P") companies and oilfield services providers may be required to comply with GHG emissions legislation in Canada, the U.S. and in other jurisdictions in which they operate. Climate change policy is evolving at regional, national and international levels, and political and economic events may significantly affect the scope and timing of climate change measures that are ultimately put in place. As a signatory to the United Nations Framework Convention on Climate Change ("UNFCCC") and as a participant to the Copenhagen Agreement (a non-binding agreement created by the UNFCCC), the Government of Canada announced on January 29, 2010 that it will seek a 17% reduction in GHG emissions from 2005 levels by 2020. These GHG emission reduction targets are not binding. In May 2015, Canada submitted its Intended Nationally Determined Contribution ("INDC") to the UNFCCC, ahead of the 2015 United National Climate Change Conference ("COP 21"), held in Paris. As a result, the Government of Canada will replace the 17% reduction target established in the Copenhagen Agreement with INDC of 30% reduction below 2005 levels by 2030. INDCs were communicated prior to the COP 21 and constitute the actions and targets that individual countries will undertake to help keep global temperatures from rising more than 2° Celsius and to pursue efforts to limit below 1.5° Celsius. The UNFCCC adopted the Paris Agreement on December 12, 2015.

In addition, on December 9, 2016, the Government of Canada formally announced the Pan-Canadian Framework on Clean Growth and Climate Change. As a result, the federal government will implement a Canada wide carbon pricing scheme beginning in 2018. This may be implemented through either a cap and trade system or a carbon tax regime at the option of each province or territory. The federal government will impose a price on carbon of $10 per tonne on any province or territory which fails to implement its own system by 2018. This amount will increase by $10 annually until it reaches $50 per tonne in 2022 at which time the program will be reviewed.

In recent years, the United States Congress has considered legislation to reduce emissions of GHGs, including methane, a primary component of natural gas, and carbon dioxide, a by-product of the burning of natural gas. It presently appears unlikely that comprehensive climate legislation will be passed by either house of Congress or signed by the President in the near future, although energy legislation and other regulatory initiatives are expected to be proposed that may be relevant to GHG emissions issues. In addition, a number of states are addressing GHG emissions, primarily through the development of emission inventories or regional GHG cap and trade programs.

Independent of Congress, the U.S. Environmental Protection Agency (the "EPA") has adopted regulations controlling GHG emissions under its existing authority under the United States Clean Air Act (the "CAA"). For example, following its findings that emissions of GHGs present an endangerment to human health and the environment because such emissions contributed to warming of the earth's atmosphere and other climatic changes, the EPA has adopted regulations under existing provisions of the CAA that, among other things establish construction and operating permit reviews for GHG emissions from certain large stationary sources that are already potential major sources for conventional pollutants. In addition, the EPA has adopted rules requiring the monitoring and reporting of GHG emissions from specified production, processing, transmission and storage facilities in the United States on an annual basis.

Furthermore, in December 2015, at COP 21, like Canada the U.S. became a signatory to the Paris Agreement which has set broad goals to, among other things, limit global climate change to not more than 2° Celsius (or less), preparing, maintaining and publishing national greenhouse gas reduction targets and creating a "carbon-neutral" world by 2050. The agreement came into force on November 4, 2016, however U.S. President Donald Trump announced on June 1, 2017 that the U.S. would cease all participation in the Paris Agreement. Although it is not possible at this time to predict how new laws or regulations in the U.S. and Canada, or any legal requirements imposed following Canada agreeing to the Paris Agreement that may be adopted or issued to address GHG emissions would impact McCoy Global's business, any such future laws, regulations or legal requirements imposing reporting or permitting obligations on, or limiting emissions of GHGs from, the Corporation's equipment and operations could require it to incur costs to reduce emissions of GHGs associated with its operations as well as delays or restrictions in its ability to permit GHG emissions from new or modified sources. Such changes could also decrease the activity of the Corporation's clients.

The direct or indirect costs of compliance with these regulations may have a material adverse effect on the business, financial condition, results of operations and prospects of the Corporation. Any such regulations could also increase the cost of consumption, and thereby reduce demand for the oil, natural gas liquids and natural gas the Corporation's clients produce. Given the evolving nature of the debate related to climate change and the control of GHGs and resulting requirements, it is not possible to predict with certainty the impact on the Corporation and its operations and financial condition.

There has been public discussion that climate change may be associated with extreme weather conditions such as more intense hurricanes, thunderstorms, tornados and snow or ice storms, as well as rising sea levels. Another possible consequence of climate change is increased volatility in seasonal temperatures. Some studies indicate that climate change could cause some areas to experience temperatures substantially colder than their historical averages. Extreme weather conditions can interfere with the Corporation's operations and the operations of its clients and increase the Corporation's costs, and damage resulting from extreme weather may not be insured. However, at this time, the Corporation is unable to determine the extent to which climate change may lead to increased storm or weather hazards affecting its operations.

Additionally, the environmental regulations in the other jurisdictions in which McCoy Global operates may have a material adverse effect on the business, financial condition, results of operations and prospects of the Corporation.

CHANGES IN U.S. ADMINISTRATION

Changes in U.S. administrations may impact operations of McCoy Global as production operations are predominately located within the United States of America. The Corporation can not predict the impact of administration changes and could have a material adverse effect on its business, financial condition, results of operations and cash flows.

CONSERVATION MEASURES AND TECHNOLOGICAL ADVANCES

Fuel conservation measures, alternative fuel requirements, increasing consumer demand for alternatives to oil and natural gas, and technological advances in fuel economy and energy generation devices could reduce the demand for crude oil and other hydrocarbons. The Corporation cannot predict the impact of changing demand for oil and

CHALLENGES BY TAXATION AUTHORITIES

Taxation authorities may not agree with the classification of expenses the Corporation or its subsidiaries have claimed or may challenge the amount of interest expense deducted. If the taxation authorities successfully challenge these classifications or deductions, it could have an adverse effect on the Corporation's return to shareholders.

OTHER INFORMATION

Additional information relating to the Corporation, including the Corporation's Annual Information Form for the year end December 31, 2018 is available on SEDAR at www.sedar.com.

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Consolidated Financial Statements

December 31, 2018 and 2017

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"	**(signed) "Lindsay McGill"**
President & Chief Executive Officer	Vice President & Chief Financial Officer

March 6, 2019

Independent auditor's report

To the Shareholders of McCoy Global Inc.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of McCoy Global Inc. and its subsidiaries (together, the Company) as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited
The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2018 and 2017;
- the consolidated statements of loss and comprehensive loss for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

Independence
We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Steven Hollinger.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants

Edmonton, Alberta
March 6, 2019

Consolidated Statements of Financial Position

(Stated in thousands of Canadian dollars)

As at	Note	December 31, 2018	December 31, 2017
		$	$
Assets			
Current assets			
Cash and cash equivalents		**10,947**	14,972
Restricted cash	11	**500**	2,500
Trade and other receivables	19	**12,029**	8,449
Inventories	5	**27,238**	18,330
Income taxes recoverable		**-**	1,513
Prepaid expenses and deposits		**719**	765
		51,433	46,529
Other receivables		**476**	-
Property, plant and equipment	6	**7,824**	9,042
Intangible assets	7	**9**	1,290
Deferred tax assets	12	**-**	577
Total assets		**59,742**	57,438
Liabilities			
Current liabilities			
Trade and other payables	9	**9,726**	5,563
Customer deposits		**2,389**	1,710
Provisions	10	**1,901**	3,363
Borrowings	11	**1,364**	4,930
		15,380	15,566
Provisions	10	**544**	666
Borrowings	11	**3,411**	-
Total liabilities		**19,335**	16,232
Shareholders' equity	13		
Share capital		**59,695**	60,126
Contributed surplus		**5,125**	4,866
Accumulated other comprehensive income		**10,542**	7,378
Accumulated deficit		**(34,955)**	(31,164)
Total shareholders' equity		**40,407**	41,206
Commitments	23		
Total liabilities and shareholders' equity		**59,742**	57,438

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, 2018**	December 31, 2017
		$	$
Revenue	15	**49,076**	40,045
Cost of sales		**36,390**	37,061
Gross profit		**12,686**	2,984
General and administration		**8,434**	9,218
Sales and marketing		**2,688**	3,883
Research and development		**3,003**	2,755
Restructuring charges	10	**1,004**	2,710
Impairment charges	6, 7	**902**	606
Finance charges, net		**292**	183
Other (gains) losses, net		**(165)**	915
		16,158	20,270
Loss before income taxes		**(3,472)**	(17,286)
Income tax expense (recovery)	17		
Current		**(240)**	(521)
Deferred		**559**	(448)
		319	(969)
Net loss		**(3,791)**	(16,317)
Other comprehensive loss			
Translation gain (loss) of foreign operations		**3,164**	(2,470)
Comprehensive loss		**(627)**	(18,787)
Loss per share	18		
Basic from net loss		**(0.14)**	(0.59)
Diluted from net loss		**(0.14)**	(0.59)

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)

		Issued capital					
	Note	Number of shares	Share capital	Contributed surplus	Accumulated other comprehensive income	Retained earnings (deficit)	Total equity
		#	$	$	$	$	$
Balances at January 1, 2017		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		(20,000)	(61)	-	-	-	(61)
Balances at December 31, 2017		27,684,239	60,126	4,866	7,378	(31,164)	41,206
Net loss		**-**	**-**	**-**	**-**	**(3,791)**	**(3,791)**
Translation gain on foreign operations		**-**	**-**	**-**	**3,164**	**-**	**3,164**
Employee share-based compensation expense		**-**	**-**	**93**	**-**	**-**	**93**
Repurchase of shares	13b	**(198,300)**	**(431)**	**166**	**-**	**-**	**(265)**
Balances at December 31, 2018		**27,485,939**	**59,695**	**5,125**	**10,542**	**(34,955)**	**40,407**

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, 2018**	December 31, 2017
Cash (used in) generated from		**$**	$
Operating activities			
Net loss		**(3,791)**	(16,317)
Adjustments for:			
Depreciation of property, plant and equipment	6	**2,573**	2,335
Amortization of intangible assets	7	**585**	819
Income tax expense (recovery)		**319**	(969)
Finance charges, net		**292**	183
EBITDA		**(22)**	(13,949)
Share-based compensation expense	14	**203**	218
Impairment charges	6, 7	**902**	606
Changes in non-cash working capital balances	22	**(6,040)**	10,803
Changes in restructuring provision	10	**(1,330)**	(1,180)
Income taxes recovered		**1,721**	3,218
Finance costs paid, net		**(260)**	(186)
Gain on disposal of property, plant and equipment		**(170)**	(803)
Net cash used in operating activities		**(4,996)**	(1,273)
Investing activities			
Purchases of property, plant and equipment		**(1,003)**	(1,222)
Proceeds from sale of property, plant and equipment		**231**	1,829
Additions to intangible assets		**(198)**	(701)
Business combination, net	24	**-**	(7,985)
Net cash used in investing activities		**(970)**	(8,079)
Financing activities			
Proceeds from borrowings	11	**5,147**	5,895
Repayment of borrowings	11	**(5,585)**	(738)
Repurchase of shares	13b	**(265)**	(61)
Funds transferred from (to) restricted cash		**2,000**	(2,500)
Net cash generated from financing activities		**1,297**	2,596
Effect of exchange rate changes on cash and cash equivalents		**644**	(448)
Decrease in cash and cash equivalents		**(4,025)**	(7,204)
Cash and cash equivalents – beginning of the year		**14,972**	22,176
Cash and cash equivalents – end of the year		**10,947**	14,972

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2018 and 2017
(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	100%
McCoy Global FZE	United Arab Emirates	Eastern Hemisphere	100%
McCoy Global USA, Inc.	United States	United States, Central America & 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").

These consolidated financial statements were approved by the Board of Directors on March 6, 2019.

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's Canadian operations have a functional currency of Canadian dollars. The Corporation's principal operations in the United States 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) CHANGES IN ACCOUNTING POLICIES

The below amendments of standards and new and amended interpretations came into effect January 1, 2018. None of these standards had any material impact on the Corporation's financial statements.

IFRS 9 Financial Instruments

IFRS 9 replaces the provisions of IAS 39 that relates to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The standard was adopted on January 1, 2018, with the only impact being with respect to revising the Corporation's impairment methodology for its trade and other receivables.

The Corporation applies the simplified approach to measuring expected credit losses, which uses a lifetime expected credit loss allowance for all trade receivables. The adoption of this standard has not had a material impact on the consolidated financial statements.

IFRS 15 Revenue from contracts with customers

The Corporation adopted IFRS 15 Revenue from contracts with customers, effective January 1, 2018. The Corporation considered factors such as customer contracts with unique revenue recognition considerations, the nature and type of goods and services offered, the degree to which contracts include multiple performance obligations or variable consideration, and the pattern in which revenue is currently recognized, among other things.

The adoption of IFRS 15 resulted in certain procedural changes and updates to our accounting policies in accounting for revenue, however the timing of revenue recognition for all revenue streams remains the same.

c) 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.

d) 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 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(h) 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 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(l) and note 10.

(iv) Income taxes

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(n) 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(n) and note 12.

(v) 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(k). Judgment is required in the aggregation of assets into Cash Generating Units ("CGUs").

The recoverable amounts of CGUs are determined based on the greater of fair value less cost to sell and 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 revenues, 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.

e) 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.

f) 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 either amortized cost or fair value through profit or loss.

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

Financial Instrument	Measurement
Cash and cash equivalents	Amortized cost
Restricted cash	Amortized cost
Trade and other receivables	Amortized cost
Trade and other payables	Amortized cost
Borrowings	Amortized cost
Onerous lease and legal provisions	Amortized cost

Financial instruments at amortized cost 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, these instruments are measured at amortized cost using the effective interest method less a provision for impairment.

g) 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 its operations are in for local purchases and expenditures.

h) 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 maximum reversal of any amount is the original writedown, so that the new carrying amount is the lower of 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.

i) 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 accumulated 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.

(ii) SUBSEQUENT COSTS

Costs incurred subsequent to an 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 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	2 – 4 years
Computer equipment	1 – 3 years
Leasehold improvements	Lessor of the term of related lease and asset useful life

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.

j) 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) 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.

k) Impairment

(i) Financial assets

The Corporation applies the IFRS 9 simplified approach to measuring expected credit losses, which uses a lifetime expected credit loss allowance for all trade and other receivables. To measure the expected credit losses, trade and other receivables have been grouped based on shared credit risk characteristics and the days past due. The carrying amount of the asset is reduced by this amount, either directly or indirectly, through the use of an allowance account.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized

(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 for the amount by which the asset's 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 depreciation or amortization, if no impairment loss had been recognized.

l) 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.

m) 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 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 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 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.

n) INCOME TAXES

Income tax expense comprises 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.

o) 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 and the Corporation also grants restricted shares under the terms of its restricted share plan ("RSPs") to certain employees of the Corporation, which are cash settled. Fair value is measured at the date of grant using the share price at the date of issuance. 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.

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

The Corporation's products are sold based on purchase orders or contracts with customers that include fixed or determinable prices and do not generally include a right of return or other significant post-delivery obligations. Revenue from product sales is recognized at a point in time when a performance obligation has been satisfied by transferring control of promised goods to the customer, which is typically at the point of shipment. Revenue is recognized net of any taxes collected from customers, which are subsequently remitted to governmental authorities. Payment terms and conditions vary, but contracts generally do not include a significant financing component. 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 over time as the services are rendered. 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, 2018 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:

(i) IFRS 16 – Leases

IFRS 16 was issued in January 2016. It will result in almost all leases being recognized on the statements 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 make rental payments are recognized. The only exceptions are short-term and low-value leases.

The Corporation will apply the standard from its mandatory adoption date of January 1, 2019. The Corporation intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. All right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

Management has evaluated the measurement and disclosure impact of the new standard, which will affect primarily the accounting for the Corporation's operating leases. Upon adoption, the recognition of a right-of-use asset and corresponding liability in the range of $1,100 and $1,500.

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

5. Inventories

	2018	2017
	$	$
Raw materials	**1,609**	1,245
Work-in-progress	**2,217**	1,509
Parts to be used in production	**13,947**	3,881
Production inventory	**17,773**	6,635
Finished goods available for sale	**9,465**	11,695
	27,238	18,330

Production parts are purchased or produced for 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, 2018 is a net recovery of $1,717 (2017 - writedown of $6,204) to adjust inventories to net realizable value.

Inventory writedowns relating to the Corporation's restructuring plan, as described in note 10(c), amounted to $146 (2017 - $1,163) and are included in restructuring charges.

The net realizable value of capital equipment and related accessories included in inventories, was assessed on an individual product 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. Clear evidence of an increase in net realizable value includes, but is not limited to, increased sales or usage in production at a distinct part level. The maximum amount of any reversal is the original writedown, such that the new carrying amount is the lower of 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
	$	$	$	$	$	$	$
Cost							
Balances at January 1, 2017	-	-	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)
Balances at December 31, 2017	1,318	3,323	8,756	3,510	3,235	3,794	23,936
Additions	**-**	**-**	**63**	**940**	**-**	**-**	**1,003**
Transfers to inventory	**-**	**-**	**-**	**(520)**	**-**	**-**	**(520)**
Disposals	-	-	**(1,500)**	**(187)**	**(149)**	**(2,447)**	**(4,283)**
Foreign exchange	**115**	**288**	**946**	**211**	**98**	**118**	**1,776**
Balances at December 31, 2018	**1,433**	**3,611**	**8,265**	**3,954**	**3,184**	**1,465**	**21,912**
Accumulated depreciation							
Balances at January 1, 2017	-	-	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)
Balances at December 31, 2017	-	221	7,026	961	2,924	3,762	14,894
Depreciation	**-**	**238**	**668**	**1,602**	**37**	**28**	**2,573**
Transfer to inventory	**-**	**-**	**-**	**(227)**	**-**	**-**	**(227)**
Disposals	**-**	**-**	**(1,443)**	**(183)**	**(149)**	**(2,447)**	**(4,222)**
Foreign exchange	**-**	**31**	**704**	**158**	**74**	**103**	**1,070**
Balances at December 31, 2018	**-**	**490**	**6,955**	**2,311**	**2,886**	**1,446**	**14,088**
Carrying amount							
At December 31, 2017	1,318	3,102	1,730	2,549	311	32	9,042
At December 31, 2018	**1,433**	**3,121**	**1,310**	**1,643**	**298**	**19**	**7,824**

During the year ended December 31, 2018, depreciation included in cost of sales amounted to $2,573 (2017 - $2,224); depreciation in general and administration amounted to $nil (2017 - $107); depreciation in research and development amounted to $nil (2017 - $4).

Additions to rental fleet during 2018 and 2017 are comprised of equipment capitalized from inventory.

In the prior year, certain PPE was identified, as a result of the previously announced restructuring plan, 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 $nil (2017 - $575) against PPE specific to the restructuring plan.

Based on additional experience gained with the Corporation's rental fleet, the useful lives of certain assets in the fleet were revised from 6 – 10 years to 2 – 4 years. This resulted in an additional depreciation expense of $1,114 for the year ended December 31, 2018 and will impact future periods as follows:

	Future period impact
	$
Year ending December 31, 2019	218

7. Intangible Assets

	Internally generated intellectual property	Software and internally generated software	Total
	$	$	$
Cost			
Balances at January 1, 2017	2,694	3,936	6,630
Additions	659	42	701
Retirements	(739)	(450)	(1,189)
Foreign exchange	-	(2)	(2)
Balances at December 31, 2017	2,614	3,526	6,140
Additions	**192**	**6**	**198**
Retirements	**(902)**	**(59)**	**(961)**
Foreign exchange	**11**	**1**	**12**
Balances at December 31, 2018	**1,915**	**3,474**	**5,389**
Accumulated amortization			
Balances, January 1, 2017	2,492	2,699	5,191
Amortization	131	688	819
Retirements	(739)	(450)	(1,189)
Impairment	31	-	31
Foreign exchange	-	(2)	(2)
Balances at December 31, 2017	1,915	2,935	4,850
Amortization	**-**	**585**	**585**
Impairment	**902**	**-**	**902**
Retirements	**(902)**	**(59)**	**(961)**
Foreign exchange	**-**	**4**	**4**
Balances at December 31, 2018	**1,915**	**3,465**	**5,380**
Carrying amounts			
At December 31, 2017	699	591	1,290
At December 31, 2018	**-**	**9**	**9**

During the year ended December 31, 2018, amortization included in cost of sales amounted to $nil (2017 - $136) and amortization in general and administration amounted to $585 (2017 - $683).

Management determined that the future economic benefits expected from the use of internally generated intellectual property were uncertain and no longer aligned with its strategic initiatives. As a result, an impairment charge of $902 (2017 - $31) was recognized.

Included in internally generated intellectual property is $nil (2017 - $699) 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:

	2018	2017
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. Upon completion of the review, it was determined that no triggering events were present as at December 31, 2018. Accordingly, no impairment charges were recognized, incremental to that described in note 7.

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	**2018**	2017
		$	$
Trade payables		**7,803**	3,915
Accrued liabilities and other payables		**1,646**	1,481
Cash settled share-based compensation	14(b)	**277**	167
		9,726	5,563

10. Provisions

	Warranty	Legal	Restructuring	Facility remediation	Total
	$	$	$	$	$
Balances at January 1, 2017	493	1,185	3,240	1,059	5,977
Provisions made during the year	480	165	3,729	-	4,374
Provisions utilized during the year	(333)	(1,047)	(4,767)	(10)	(6,157)
Foreign exchange	(23)	-	(142)	-	(165)
Balances at December 31, 2017	617	303	2,060	1,049	4,029
Provisions made during the year	**474**	**106**	**1,004**	**-**	**1,584**
Provisions utilized during the year	**(472)**	**(263)**	**(2,401)**	**(55)**	**(3,191)**
Change in estimate	**-**	**(146)**	**-**	**-**	**(146)**
Foreign exchange	**102**	**-**	**67**	**-**	**169**
Balances at December 31, 2018	**721**	**-**	**730**	**994**	**2,445**
Expected to be utilized within one year	721	-	186	994	1,901
Expected to be utilized thereafter	-	-	544	-	544

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. Although it is not always possible to estimate the extent of potential costs, if any, the ultimate resolution of all such pending matters is not anticipated to have a material adverse impact on the financial performance, financial position or liquidity of the Corporation.

c) Restructuring

In 2017 and 2018, 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 plans included:

i. transitioning McCoy's production facility in Edmonton, Alberta to Broussard, Louisiana. This resulted in the closure of operations in Edmonton and the ramp up of production capabilities in Broussard. Canadian customers continue to be supported through a service and rental facility in Edmonton; and

ii. consolidating McCoy's Eastern Hemisphere operations to the United Arab Emirates. McCoy continues to support the European and Asia Pacific regions with a lower cost structure model.

At December 31, 2018, 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 and restructuring provisions included in the consolidated statement of financial position.

	Onerous lease contracts	Inventory write-downs	Severance pay and benefits	Other direct costs	Restructuring provisions
	$	$	$	$	$
Balance at January 1, 2017	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)**
Balance at December 31, 2017	1,225	-	395	440	**2,060**
Costs recognized	99	146	278	481	**1,004**
Payments and allowances	(661)	(146)	(673)	(921)	**(2,401)**
Foreign exchange	67	-	-	-	**67**
Balance at December 31, 2018	**730**	**-**	**-**	**-**	**730**

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.

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

During the year ended December 31, 2018, the Corporation repaid all outstanding borrowings under the credit facility that was in place at December 31, 2017 and subsequently cancelled the facility. This resulted in a repayment of $4,930. Prior to the repayment, the Creditor required $2,500 to be held as security, which was presented as restricted cash on the statements of financial position.

Also in the current year, the Corporation entered into a $500 credit facility to support cash management. The credit facility is secured by $500 in cash and cash equivalents, which are to be held under the Creditor's authority as security. The $500 of cash and cash equivalents held as collateral is presented as restricted cash on the consolidated statements of financial position.

In the current year, the Corporation entered into a term loan agreement for $4.0 million USD. The loan has a term of four years and is repayable in equal quarterly payments of principal, plus interest. Interest is calculated at either LIBOR plus 5.05% or the US Prime Rate plus 3.55%, at the Corporation's option. The applicable rate was 7.82% as at December 31, 2018. Under the term loan agreement, the

Corporation's wholly owned subsidiary, McCoy Global USA, Inc. provided a general security agreement over all present and after acquired property and the Corporation provided a guarantee. As at December 31, 2018, the carrying amount of land and building pledged as security is $4,554. There are no financial covenants associated with the term loan agreement. The Corporation is subject to certain conditions under the term loan agreement, including a material adverse change clause.

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

	2018	2017
	$	$
Balance, January 1	**4,930**	-
Repayments of borrowings	**(4,930)**	-
Proceeds of borrowings	**5,147**	5,895
Scheduled repayments	**(655)**	(738)
Foreign exchange adjustment	**283**	(227)
Balance, December 31	**4,775**	4,930

Repayments under the term loan agreement are as follows:

	Repayments under term loan
	$
2019	**1,364**
2020	**1,364**
2021	**1,364**
2022	**683**
	4,775

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:

	2018			2017		
	Assets	**Liabilities**	**Net**	Assets	Liabilities	Net
	$	**$**	**$**	$	$	$
Provisions	-	-	-	408	-	408
PP&E	-	-	-	169	-	169
Net deferred tax assets	-	-	-	577	-	577

With respect to the deferred tax assets and liabilities presented above, $nil of the deferred tax assets (2017 - $408) is expected to reverse in 2019.

b) Unrecognized deferred tax assets

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

	2018	2017
	$	$
Deductible temporary differences	**-**	2,747
Tax losses	**10,485**	5,803
	10,485	8,550

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:

	2018		2017	
	Gross amount	**Tax effect**	Gross amount	Tax effect
	$	**$**	$	$
2037	**6,359**	**1,717**	8,074	2,180
2038	**10,941**	**2,954**	-	-
Indefinite	**13,355**	**2,640**	17,194	3,623
	30,655	**7,311**	25,268	5,803

Deferred tax assets have not been recognized in respect of capital losses of $3,174 (2017 - $778). 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

b) Repurchase of common shares

On May 30, 2018, the Corporation announced a normal course issuer bid ("NCIB"). The Corporation may purchase, for cancellation, up to a maximum 1,379,041 common shares, equal to five percent of the public float of 27,580,839 common shares as at May 23, 2018. The Corporation is also limited under the NCIB to purchasing no more than 2,241 common shares on any given day, subject to the block purchase exemption under the TSX rules. The NCIB will continue until May 19, 2019. 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.

In the prior year, the Corporation announced a NCIB. The Corporation was permitted to purchase, for cancellation, up to a maximum 1,385,212 common shares, equal to five percent of the public float of 27,704,239 common shares as at May 12, 2017. The Corporation was 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 continued until May 23, 2018. Purchases were to 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 were cancelled.

		2018	2017
Shares repurchased		**198,300**	20,000
Weighted average cost	$	**1.34**	2.07
Total cost	$	**265**	61

Total cost includes share repurchase amount and costs to implement the NCIB.

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 when combined with shares issued under the Restricted Share Plan as described below. 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:

	2018		2017	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
	#	$	#	$
Outstanding, as at January 1	**2,435,000**	**3.54**	2,125,001	3.87
Granted	**150,000**	**1.10**	540,000	2.04
Forfeited	**(1,000,000)**	**3.75**	(104,000)	1.96
Expired	**(230,000)**	**6.70**	(126,001)	4.59
Outstanding, December 31	**1,355,000**	**2.57**	2,435,000	3.54
Exercisable, December 31	**563,000**	**3.36**	1,040,000	5.10

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

	2018		2017	
Exercise price range	**Options outstanding**	**Weighted average remaining contractual life**	Options outstanding	Weighted average remaining contractual life
	#	**years**	#	years
< $2	**650,000**	**7.84**	725,000	8.25
$2 to $4	**565,000**	**7.20**	1,040,000	8.06
$4 to $6	**100,000**	**0.74**	245,000	1.75
> $6	**40,000**	**0.19**	425,000	0.95
	1,355,000	**6.83**	2,435,000	6.24

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

		2018	2017
Share price	$	**1.10**	2.04
Exercise price	$	**1.10**	2.04
Expected volatility		**48%**	48%
Risk-free interest rate		**1%**	1%
Annual dividend rate		**-**	-
Expected life of options in years		**5.0 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 $0.47 per share option (2017 - $1.02 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.

	2018	2017
	#	#
Outstanding, as at January 1	**151,150**	177,997
Granted	**25,635**	20,272
Forfeited	**-**	(12,784)
Redeemed	**-**	(34,335)
Outstanding, as at December 31	**176,785**	151,150
Vested, as at December 31	**130,689**	119,972

The Corporation has a Restricted Share plan for employees of the Corporation who are designated as participants by the Human Resources, Compensation & Governance Committee. 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 when combined with shares issued under the share option plan. In addition, no more than 5% of outstanding shares may be reserved for any one person and no more than 10% of outstanding shares may be reserved for insiders. The vesting arrangements under the plan are at the discretion of the Board of Directors, however the term of the vesting cannot be longer than ten years.

Upon vesting, the Restricted Shares are redeemed for cash based on the market price of any vested Restricted Shares at the time of vesting. The liability relating to the shares accumulated under this plan has been included in trade and other payables on the consolidated statements of financial position as disclosed in note 9.

	2018	2017
	#	#
Outstanding, as at January 1	**-**	-
Granted	**492,000**	-
Forfeited	**-**	-
Redeemed	**-**	-
Outstanding, as at December 31	**492,000**	-
Vested, as at December 31	**-**	-

Shares issued in 2018 under the Restricted Share plan vest evenly over two years from the grant date.

c) SHARE-BASED COMPENSATION EXPENSE (RECOVERY)

	2018	2017
	$	$
Equity settled share-based compensation	**93**	249
Cash settled share-based compensation	**110**	(31)
	203	218

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

15. Revenue

	2018	2017
	$	$
Sale of products	**43,050**	34,939
Rendering of services	**3,907**	3,417
Rental	**2,119**	1,689
	49,076	40,045

16. Expenses by Nature

	2018	2017
	$	$
Production costs to produce inventories and changes in inventories	**28,958**	20,605
Employee compensation and benefit expense	**13,299**	17,341
Facilities and other	**6,817**	5,613
Depreciation and amortization	**3,158**	3,154
Excess and obsolete inventory (recovery) expense	**(1,717)**	6,204
Total expenses	**50,515**	52,917
Allocated to:		
Cost of sales	**36,390**	37,061
General and administration	**8,434**	9,218
Sales and marketing	**2,688**	3,883
Research and development	**3,003**	2,755
Total expenses	**50,515**	52,917

17. Income Tax Expense (Recovery)

a) Reconciliation of Income Tax Expense (Recovery)

Income tax expense (recovery) varies from the amounts that would be computed by applying the domestic statutory rate of 27% (2017 - 27%) to loss before income taxes for the following reasons:

	2018	2017
	$	$
Loss before income taxes	**(3,472)**	(17,286)
Computed income tax recovery	**(937)**	(4,667)
Tax effects of:		
Jurisdictional tax rate differences	**(1,434)**	(190)
Effect of decreasing substantively enacted tax rates	**-**	1,561
(Non-taxable) non-deductible items	**(4,555)**	93
Tax losses for which no deferred tax asset was recognized	**6,839**	1,215
Other items	**406**	1,019
Income tax expense (recovery)	**319**	(969)

b) Income tax expense (recovery) on earnings

	2018	2017
	$	$
Current tax recovery	**(240)**	(521)
Deferred tax recovery:		
Origination and reversal of temporary differences	**(6,280)**	(1,663)
Tax losses for which no deferred tax asset was recognized	**6,839**	1,215
Total deferred tax expense (recovery)	**559**	(448)
Income tax expense (recovery)	**319**	(969)

18. Loss per Share

	2018			2017		
	Net loss	**Weighted average shares**	**Per share amount**	Net loss	Weighted average shares	Per share amount
	$	**#**	**$**	$	#	$
Basic loss per share						
Loss available to						
common shareholders	**(3,791)**	**27,485,939**	**(0.14)**	(16,317)	27,684,239	(0.59)
Diluted loss per share						
Loss available to						
common shareholders	**(3,791)**	**27,485,939**	**(0.14)**	(16,317)	27,684,239	(0.59)

The Corporation has excluded 1,355,000 share options and 492,000 restricted shares from the computation of diluted loss per share (2017 - 2,435,000 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 and current provisions approximate their carrying value due to their short-term nature. The fair value of non-current other receivables approximates the carrying amount as the receivables have been recorded using the effective interest rate method using a market rate of interest. The carrying value of onerous lease provisions has been discounted to reduce the provision to fair value. The fair value of borrowings approximates the carrying amount as the instrument carries interest rates that reflect the current market rates available to the Corporation.

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 gain of $48 in other (gains) losses, net (22017 - loss of $560). Based on the Corporation's US dollar denominated monetary assets and liabilities at December 31, 2018, the Corporation estimates that a ten cent change in the value of the US dollar would increase or decrease net earnings by $203 (2017 - $373).

- **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 2018 and 2017, 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, 2018 would have increased or decreased net earnings for the year ended December 31, 2018 by $122 (2017 - $166), primarily arising from interest expense incurred on borrowings offset by interest income earned on cash and cash equivalents.

(ii) CREDIT RISK

- **Impairment of financial assets**

  The Corporation's trade receivables are subject to the expected credit loss model. While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

- **Trade and other receivables**

  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.

  As at December 31, 2018, the Corporation had four customers that accounted for $3,207 (28%) of total trade receivables (2017 - four customers accounted for $2,327 (29%)).

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

	2018	2017
	$	$
Fully performing	**4,911**	4,988
Past due but not impaired	**5,764**	2,321
Indications of impairment	**555**	757
Trade receivables	**11,230**	8,066

  The Corporation applies the IFRS 9 simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The loss provision is based on the timing of the groups along with individual assessments on balances outstanding.

  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. Trade receivables with indications of possible impairment primarily relate to receivables that may not be collectible. Management has applied judgment after taking into account the expected credit loss model to determine impairment provisions of $555 (2017 - $757) are sufficient to cover credit risk.

The aging analysis of trade receivables is as follows:

As at December 31	2018	2017
	$	**$**
0 to 30 days	**2,913**	2,826
31 to 60 days	**2,030**	2,162
61 to 120 days	**3,399**	1,692
121 to 180 days	**1,545**	629
Over 180 days	**1,343**	757
Trade receivables	**11,230**	8,066
Loss allowance	**(555)**	(757)
Trade receivables, net of loss allowance	**10,675**	7,309
Other receivables	**1,354**	1,140
Total trade and other receivables	**12,029**	8,449

The movement in the Corporation's loss allowance for trade receivables is as follows:

For the years ended	2018	2017
	$	$
Loss allowance, as at January 1	**(757)**	**(919)**
Allowance reversal, net	**170**	**106**
Amounts written off	**81**	**-**
Foreign exchange	**(49)**	**56**
Loss allowance, as at December 31	**(555)**	**(757)**

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.

(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	Total
	$	$	**$**
Trade and other payables	9,726	-	**9,726**
Borrowings	1,680	3,736	**5,416**
Onerous lease provisions	186	544	**730**
Undiscounted cash flows for financial liabilities	**11,592**	**4,280**	**15,872**
Purchase commitments for inventory and operating supplies	4,335	-	**4,335**
As at December 31, 2018	**15,927**	**4,280**	**20,207**
	$	$	**$**
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
As at December 31, 2017	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 23.

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:

	2018	2017
	$	$
Borrowings	**4,775**	4,930
Shareholders' equity	**40,407**	41,206
Total capital	**45,182**	46,136

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.

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, 2018 and 2017 is as follows:

	2018	2017
	$	$
Salaries and other short-term employee benefits	**1,474**	1,730
Share-based compensation	**8**	158
	1,482	1,888
Number of full time equivalent senior corporate officers	**3.9**	4.0
Number of members of the Board of Directors	**4.0**	6.0

21. Segment Information

Geographic information

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

	2018		2017	
	Revenue	**PP&E & intangible assets**	Revenue	PP&E & intangible assets
	$	**$**	$	$
United States & Latin America	**27,074**	**6,901**	21,658	7,273
Middle East & Africa	**9,293**	**833**	7,128	485
Europe	**7,028**	**-**	6,782	494
Asia Pacific	**3,506**	**-**	1,490	576
Canada & Russia	**2,175**	**99**	2,987	1,504
	49,076	**7,833**	40,045	10,332

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 years ended December 31, 2018 and December 31, 2017, no individual customer accounted for greater than 10% of total revenue.

22. Changes in Working Capital Balances

	2018	2017
Cash received from (used in) operating activities due to changes in non-cash working capital balances:	**$**	$
Trade and other receivables	**(2,889)**	(3,248)
Inventories	**(6,260)**	10,510
Other current assets	**70**	805
Other non-current receivables	**(462)**	-
Trade and other payables	**3,401**	2,040
Customer deposits	**531**	1,286
Provisions, excluding restructuring	**(431)**	(590)
	(6,040)	10,803

Additions to rental fleet during 2018 and 2017 were comprised of equipment capitalized from inventory.

23. Commitments

The Corporation has committed to payments under operating leases for premises and equipment. 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
	$
Less than one year	**1,684**
Between one and five years	**3,653**
	5,337

As at December 31, 2018, the Corporation has commitments to purchase inventory and operating supplies of $4,335 (2017 - $1,794). Payments for these commitments are expected to be made in 2019.

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

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 was $817. This represented the gross contractual amounts as no amounts were 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.

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