

**CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2012 and 2011

## MANAGEMENT STATEMENT OF RESPONSIBILITY

The preparation and presentation of the accompanying consolidated financial statements of McCoy 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, McCoy 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 financial statements in accordance with International Financial Reporting Standards. The auditors' 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 re-appointment of the external auditors.

**(Signed) "Jim Rakievich"**  
President & Chief Executive Officer

**(Signed) "Jacob Coonan"**  
Interim Chief Financial Officer

March 14, 2013



March 14, 2013

## **Independent Auditor's Report**

### **To the Shareholders of McCoy Corporation**

We have audited the accompanying consolidated financial statements of McCoy Corporation, which comprise the consolidated statements of financial position as at December 31, 2012 and 2011 and the consolidated statements of earnings and comprehensive income, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

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

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

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of McCoy Corporation as at December 31, 2012 and 2011 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

**(Signed) "PricewaterhouseCoopers LLP"**

**Chartered Accountants**

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Stated in thousands of Canadian dollars)

As at	Note	December 31, 2012	December 31, 2011
		\$	\$
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		22,122	29,383
Trade and other receivables		17,257	16,326
Inventories	5	35,521	24,421
Income tax recoverable		1,007	-
Other current assets	6	840	1,916
		<b>76,747</b>	72,046
Property, plant and equipment	7	26,181	20,833
Intangible assets	8	13,941	12,738
Other assets	6	-	1,066
Deferred tax assets	12	814	758
<b>Total assets</b>		<b>117,683</b>	107,441
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	9	25,986	25,001
Provisions	10	1,731	1,103
Income tax payable		1,270	2,871
Current portion of borrowings	11	-	481
Current portion of finance lease obligations		133	253
		<b>29,120</b>	29,709
Borrowings	11	8,842	5,232
Finance lease obligations		-	226
Deferred tax liabilities	12	2,225	1,905
<b>Total liabilities</b>		<b>40,187</b>	37,072
<b>Shareholders' equity</b>			
	13		
Share capital		56,572	56,152
Contributed surplus		3,970	3,579
Accumulated other comprehensive loss		(942)	(268)
Retained earnings		17,896	10,906
<b>Total shareholders' equity</b>		<b>77,496</b>	70,369
Commitments	25		
<b>Total liabilities and shareholders' equity</b>		<b>117,683</b>	107,441

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

Approved by the Board of Directors

(Signed) "Jim Rakievich"  
Director

(Signed) "Kerry Brown"  
Director

## CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME

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

For the years ended	Note	December 31, 2012	December 31, 2011
		\$	\$
<b>Revenue</b>	15	<b>179,372</b>	153,797
<b>Cost of sales</b>		<b>131,918</b>	111,520
<b>Gross profit</b>		<b>47,454</b>	42,277
General and administration		22,044	18,786
Sales and marketing		8,246	7,101
Other losses (gains) (net)		128	(123)
Finance charges (net)	17	636	259
		<b>31,054</b>	26,023
<b>Earnings from continuing operations before income taxes</b>		<b>16,400</b>	16,254
<b>Income tax expense (recovery)</b>	18		
Current		4,354	4,651
Deferred		274	(90)
		<b>4,628</b>	4,561
<b>Earnings from continuing operations</b>		<b>11,772</b>	11,693
Earnings from discontinued operations (net of tax)	24	-	231
<b>Net earnings for the year</b>		<b>11,772</b>	11,924
<b>Other comprehensive (loss) income for the year</b>			
Translation (loss) gain of foreign operations		(674)	386
<b>Comprehensive income for the year</b>		<b>11,098</b>	12,310
<b>Earnings per share</b>	19		
Basic from continuing operations		0.44	0.44
Basic from discontinued operations		-	0.01
Basic from net earnings		0.44	0.45
Diluted from continuing operations		0.44	0.43
Diluted from discontinued operations		-	0.01
Diluted from net earnings		0.44	0.44

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 per share amounts)

	<u>Issued capital</u>		Contributed surplus	Accumulated other comprehensive loss	Retained earnings	Total equity
	Number of shares	Amount				
	#	\$	\$	\$	\$	\$
<b>Balances at January 1, 2011</b>	26,475,912	56,014	3,224	(654)	1,631	<b>60,215</b>
Net earnings	-	-	-	-	11,924	<b>11,924</b>
Translation gain on foreign operations	-	-	-	386	-	<b>386</b>
Employee share based compensation expense	-	-	396	-	-	<b>396</b>
Dividends	-	-	-	-	(2,649)	<b>(2,649)</b>
Common shares issued on exercise of stock options	33,333	138	(41)	-	-	<b>97</b>
<b>Balances at December 31, 2011</b>	<b>26,509,245</b>	<b>56,152</b>	<b>3,579</b>	<b>(268)</b>	<b>10,906</b>	<b>70,369</b>
Net earnings	-	-	-	-	11,772	<b>11,772</b>
Translation (loss) on foreign operations	-	-	-	(674)	-	<b>(674)</b>
Employee share based compensation expense	-	-	507	-	-	<b>507</b>
Dividends	-	-	-	-	(4,782)	<b>(4,782)</b>
Common shares issued on exercise of stock options	161,666	420	(116)	-	-	<b>304</b>
<b>Balances at December 31, 2012</b>	<b>26,670,911</b>	<b>56,572</b>	<b>3,970</b>	<b>(942)</b>	<b>17,896</b>	<b>77,496</b>

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

## CONSOLIDATED STATEMENTS OF CASH FLOW

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

For the years ended	Note	December 31, 2012	December 31, 2011
<b>Cash generated from (used in)</b>		\$	\$
<b>Operating activities</b>			
Earnings from continuing operations		11,772	11,693
Adjustments for:			
Depreciation of property, plant and equipment		3,660	3,162
Amortization of intangible assets		1,339	1,189
Current income tax expense		4,354	4,651
Deferred tax expense		274	(90)
Finance charges (net)		636	259
Impairment of assets held for sale		122	226
<b>EBITDA<sup>(1)</sup></b>		<b>22,157</b>	<b>21,090</b>
Loss (gain) on disposal of property, plant and equipment		6	(123)
Share based compensation expense	14	711	485
Changes in non-cash working capital balances	23	(10,080)	(252)
Interest paid		(624)	(345)
Interest received		83	128
Income taxes paid		(6,932)	(3,457)
Net cash generated from continuing operating activities		5,321	17,526
Net cash generated from discontinued operating activities		-	655
<b>Net cash generated from operating activities</b>		<b>5,321</b>	<b>18,181</b>
<b>Investing activities</b>			
Repayment of notes receivable		1,352	820
Proceeds from sale of assets held for sale		10	447
Purchases of property, plant and equipment		(9,211)	(4,426)
Proceeds from sale of property, plant and equipment		130	188
Additions to intangible assets		(2,681)	(870)
Disposal of subsidiary	24	-	(527)
Net cash used in continuing investing activities		(10,400)	(4,368)
Net cash generated from discontinued investing activities		-	1,584
<b>Net cash used in investing activities</b>		<b>(10,400)</b>	<b>(2,784)</b>
<b>Financing activities</b>			
Repayment of finance lease obligations		(345)	(360)
Proceeds from borrowings		9,427	586
Repayment of borrowings		(5,699)	(433)
Transaction costs	11	(621)	-
Proceeds from issuance of share capital on exercise of options		304	97
Dividends paid		(4,782)	(2,649)
<b>Net cash used in financing activities</b>		<b>(1,716)</b>	<b>(2,759)</b>
Effect of exchange rate changes on cash and cash equivalents		(466)	502
<b>(Decrease) increase in cash and cash equivalents</b>		<b>(7,261)</b>	<b>13,140</b>
<b>Cash and cash equivalents – beginning of the year</b>		<b>29,383</b>	<b>16,243</b>
<b>Cash and cash equivalents – end of the year</b>		<b>22,122</b>	<b>29,383</b>

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

<sup>(1)</sup> EBITDA is an additional GAAP measure defined as “earnings from continuing operations before impairment losses, finance charges, taxes, depreciation and amortization”



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2012 and 2011

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

### 1. NATURE OF OPERATIONS

McCoy Corporation ("McCoy") provides specialized equipment, service and replacement components to the global oil and gas sector. McCoy is incorporated and domiciled in Canada and has two operating segments: Energy Products & Service ("EP&S") and Mobile Solutions.

The EP&S segment is engaged in the manufacture of drilling and completions equipment, service and replacement parts for the global oil and gas industry, as well as a range of coatings and hydraulic manufacturing and repair services. The EP&S segment includes two divisions: Drilling & Completions and Coatings & Hydraulics.

Mobile Solutions manufactures specialized custom heavy-duty trailers primarily used in the oil and gas industry for pressure pumping, coil tubing and rig transport.

Set out below are McCoy's principal operations :

Operating Name	Country of Incorporation	Segment	Division
Superior Manufacturing & Hydraulics, Inc. ("Superior")	United States	EP&S	Drilling & Completions
McCoy Rig Parts, operating as a division of Superior	Not applicable	EP&S	Drilling & Completions
Farr Canada Corp.	Canada	EP&S	Drilling & Completions
Precision Die Technologies, L.L.C.	United States	EP&S	Drilling & Completions
Inotec Coating and Hydraulics Inc. ("Inotec")	Canada	EP&S	Coatings & Hydraulics
Peerless Limited	Canada	Mobile Solutions	Trailers

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

The address of the registered office of the Corporation is Suite 301, 9618-42 Avenue, Edmonton, Alberta. The Corporation is listed on the Toronto Stock Exchange 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 14, 2013.

### 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 noted.

#### 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 costs basis. Other measurement bases used are described in the applicable notes. The consolidated financial statements are prepared in Canadian dollars, rounded to the nearest thousand, except when otherwise indicated. The functional currency of the Corporation is the Canadian dollar. Subsidiaries incorporated in Canada have a functional currency of Canadian dollars and subsidiaries incorporated in the United States ("US") have a functional currency of US dollars.

Presentation of the consolidated statement of financial position differentiates between current and non-current assets and liabilities. The consolidated statement of earnings and comprehensive income is presented using the function classification for expenditures.

## **b) BASIS OF CONSOLIDATION**

Subsidiaries are those entities which the Corporation controls by having the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is obtained by the Corporation until the date that 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 statement of earnings and comprehensive income.

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

The preparation of the Corporation's consolidated financial statements requires management to make estimates and judgments about the future that affect the application of accounting policies and the reported 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.

Management regularly evaluates estimates and judgments, which are based on historical experience and other factors that are deemed reasonable under the circumstances. This involves varying degrees of uncertainty and, therefore, amounts currently reported in the consolidated financial statements could differ in the future.

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. Write-downs for inventory are recorded each period as required and updated based on management's judgment.

### **(ii) PROVISIONS**

Considerable judgment is used in measuring and recognizing provisions and the Corporation's exposure to contingent liabilities. Judgment is necessary to determine the likelihood and estimated future outflow of resources that may be required to settle any future or existing claims.

### **(iii) INCOME TAX**

The Corporation operates in several tax jurisdictions and is, therefore, required to estimate its income taxes in each of these tax jurisdictions in preparing its financial statements. The calculation of income taxes requires the use of judgment. If these judgments prove to be inaccurate, future earnings may be materially impacted.

### **(iv) IMPAIRMENT OF INDEFINITE LIFE INTANGIBLE ASSETS**

The Corporation performs an annual impairment test, in accordance with the accounting policy stated in note 3(j), to test whether indefinite life intangible assets have suffered any impairment. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (note 8).

**d) TRANSLATION OF FOREIGN CURRENCY**

**(i) FOREIGN CURRENCY TRANSACTIONS**

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

**(ii) FOREIGN OPERATIONS**

The assets and liabilities of foreign operations, including fair value adjustments arising on acquisition, are translated to Canadian dollars at exchange rates at the reporting date. The earnings and expenditures of foreign operations are translated to 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 as a translation gain or loss on foreign operations.

**e) FINANCIAL INSTRUMENTS**

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

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

The Corporation has designated its financial instruments as follows:

Financial Instrument	Category	Measurement
Cash and cash equivalents	Loans and receivables	Amortized Cost
Trade and other receivables	Loans and receivables	Amortized Cost
Trade and other payables	Other financial liabilities	Amortized Cost
Borrowings	Other financial liabilities	Amortized Cost
Finance lease obligations	Other financial liabilities	Amortized Cost

At the reporting date, the Corporation did not have any financial assets classified as financial assets at fair value through profit and loss, available-for-sale or held-to-maturity.

**(i) LOANS AND RECEIVABLES**

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

**(ii) OTHER FINANCIAL LIABILITIES**

Trade payables are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, trade payables are measured at amortized cost using the effective interest method. Other financial liabilities are initially recognized at fair value, net of any transaction costs incurred. Subsequently, trade payables and other financial liabilities are measured at amortized cost using the effective interest method. Other financial liabilities are classified as current liabilities if payment is due within twelve months.

**f) CASH AND CASH EQUIVALENTS**

Cash and cash equivalents are comprised of Canadian and US dollar cash on hand and other short-term investments with an original maturity of three months or less at the date of purchase.

## **g) INVENTORIES**

Raw materials, work-in-progress and finished goods inventories are recorded at the lower of cost, as determined on a first in, first out 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 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 write down 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 write-down is reversed (i.e. the reversal is limited to the amount of the original write-down) so that the new carrying amount is the lower of the cost and the revised net realizable value.

Finished goods consist of parts and equipment inventories that are available for sale to external parties. Finished goods-parts include inventories that can be further used in the manufacturing process.

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

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

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

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

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

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

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

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

### **(iii) DEPRECIATION**

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

Buildings	10 – 40 years
Machinery and office equipment	3 – 15 years
Automotive equipment	3 – 12 years
Computer equipment	1 – 5 years
Leasehold improvements	Term of related lease

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

**i) INTANGIBLE ASSETS**

**(i) INTERNALLY GENERATED INTANGIBLE ASSETS**

Expenditures on research are recognized as an expense in earnings or loss as incurred.

Costs incurred on product development are capitalized as intangible assets when it is probable that 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.

The Corporation incurs 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.

**(ii) OTHER INTANGIBLE ASSETS**

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

Intangible assets acquired in business combinations include customer relationships, trade name and intellectual property.

**(iii) AMORTIZATION**

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

Customer relationships	10 years
Intellectual property	5 - 15 years
Computer software	1 - 10 years

Trade name intangible assets have an indefinite life and are not amortized but are tested for impairment on an annual basis.

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

**j) IMPAIRMENT**

**(i) FINANCIAL ASSETS**

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

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

**(ii) NON-FINANCIAL ASSETS**

- **Non-financial assets with indefinite useful lives**

Intangible assets with indefinite lives are tested annually for impairment at the cash generating unit ("CGU") level. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

- **Non-financial assets with finite useful lives**

The carrying values of non-financial assets with finite useful lives, such as PP&E and intangible assets, are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. If any such indication exists, the recoverable amount of the asset must be determined. Such assets are impaired if their recoverable amount is lower than their carrying amount. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of the CGU to which the asset belongs is tested for impairment.

- **Recognition of impairment charge**

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use, which is the present value of the expected future cash flows of the relevant asset or CGU. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to that asset.

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

## **k) PROVISIONS**

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

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

## **l) LEASES**

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

The Corporation leases certain PP&E and where the Corporation has substantially all the risks and rewards of ownership these leases are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

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

## **m) INCOME TAX**

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

Current tax is the expected tax payable or receivable on the taxable income for the period, using the tax rates enacted, or substantively enacted, at the end of the reporting period and any adjustment to tax payable in respect of previous years. Current tax assets and liabilities are offset when they relate to taxes levied by the same tax authority on the same taxable entity and there is a legally enforceable right to offset the current tax assets and liabilities.

Deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax assets and liabilities are determined on a non-discounted basis using tax rates and laws that have been enacted, or substantively enacted at the statement of financial position date and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered. Deferred tax assets and liabilities are presented as non-current. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to taxes levied by the same tax authority on the same taxable entity.

**n) SHARE BASED COMPENSATION**

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

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

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

The Corporation grants deferred share units to certain directors of the Corporation which are cash settled. Fair value is measured at the date of grant using the Black-Scholes option pricing model. Compensation expense is recognized over the vesting period based on the number of awards expected to vest, by increasing or decreasing liabilities. The number of awards expected to vest is reviewed at least annually, with any impact being recognized immediately.

**o) DIVIDENDS**

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

**p) SHARE CAPITAL**

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

**q) EARNINGS PER SHARE**

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

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

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**

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Corporation's activities. Revenue is shown net of sales tax, returns and discounts and after eliminating sales within the Corporation. Sales of goods are recognized when the risk and rewards of ownership have transferred, which is typically when goods are shipped and the title has passed. Service revenue is recognized when the service is completed.

**s) OPERATING SEGMENTS**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity.

#### 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 effective for annual periods beginning after January 1, 2013. These have not been applied by the Corporation in preparing these consolidated financial statements. Those which may be relevant to the Corporation are set out below.

Proposed standards and amendments	Description	Anticipated impact	Effective date
IFRS 7 - Financial Instrument: Disclosures	Contains new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting arrangements or similar arrangements.	The new standard is not expected to have a significant impact on the Corporation.	January 1, 2013
IAS 1 - Financial Statement Presentation	Requires entities to present separately items of OCI that may be reclassified to profit or loss in the future from items that would never be reclassified to profit or loss.	The new standard is not expected to have a significant impact on the Corporation.	January 1, 2013
IFRS 13 - Fair value measurement and disclosure requirements	Sets out a single framework for measuring fair value and disclosure requirements surrounding the inputs and assumptions used in determining fair value.	The new standard is not expected to have a significant impact on the Corporation.	January 1, 2013
IFRS 10 - Consolidated Financial Statements	Builds on the existing principles of control and elaborates on the definition of control when determining whether an entity should be consolidated or not.	The new standard is not expected to have a significant impact on the Corporation.	January 1, 2013
IFRS 11 - Joint Arrangements	Focuses on the rights and obligations of an arrangement rather than its legal form and specified the method to account for interest in jointly controlled entities.	The new standard is not expected to have a significant impact on the Corporation.	January 1, 2013
IFRS 12 - Disclosure of Interest in Other Entities	Provides detail on disclosure requirements for all forms of interest in other entities, including joint arrangements, associates, special purpose entities and other off-statement of financial position vehicles.	The new standard is not expected to have a significant impact on the Corporation.	January 1, 2013
IAS 32 - Financial Instruments: Presentation	Clarifies that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties.	The new standard is not expected to have a significant impact on the Corporation.	January 1, 2014
IFRS 9 - Financial Instruments: Classification and Measurement	Specifies that financial assets will be classified into one of two categories on initial recognition: financial assets measured at amortized cost or financial assets measured at fair value. The classification and measurement of financial liabilities remain generally unchanged.	The new standard is not expected to have a significant impact on the Corporation.	January 1, 2015



Management continues to evaluate the potential measure and disclosure impacts of these new standards on the Corporation's financial statement measures and disclosures. The Corporation does not anticipate early adoption of these standards at this time.

## 5. INVENTORIES

	2012	2011
	\$	\$
Raw materials	4,597	6,247
Work-in-progress	8,832	7,084
Finished goods- parts	14,508	9,636
Finished goods- equipment	7,584	1,454
	<b>35,521</b>	<b>24,421</b>

During the year ended December 31, 2012, raw materials and changes in finished goods and work-in-progress inventories included in cost of sales amounted to \$120,306 (2011 - \$89,164).

During the year ended December 31, 2012, the net write down of inventories to net realisable value amounted to \$179 (2011 - net reversal of write down \$143). The net write-downs and reversals are included in cost of sales.

## 6. OTHER ASSETS

	2012	2011
	\$	\$
Prepaid expenses	696	1,133
Notes receivable	71	592
Other	73	-
Assets held for sale	-	191
<b>Total other current assets</b>	<b>840</b>	<b>1,916</b>
Notes receivable	-	833
Investments in joint ventures	-	233
<b>Total other assets</b>	<b>-</b>	<b>1,066</b>

## 7. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Machinery and office equipment	Automotive equipment	Computer equipment	Leasehold improvements	Total
	\$	\$	\$	\$	\$	\$	\$
<b>Cost</b>							
Balances at January 1, 2011	2,795	4,186	27,548	962	2,596	1,548	<b>39,635</b>
Additions	117	724	2,780	76	598	131	<b>4,426</b>
Disposals	-	-	(813)	(106)	-	-	<b>(919)</b>
Transfer to assets held for sale	-	-	(164)	-	-	-	<b>(164)</b>
Disposal of subsidiary	-	-	(344)	(32)	(36)	(261)	<b>(673)</b>
Exchange differences	-	41	68	7	10	5	<b>131</b>
Balances at December 31, 2011	2,912	4,951	29,075	907	3,168	1,423	<b>42,436</b>
Additions	-	2	7,845	159	796	409	<b>9,211</b>
Disposals	-	-	(862)	(33)	(47)	-	<b>(942)</b>
Exchange differences	(3)	(17)	(117)	(4)	(12)	(11)	<b>(164)</b>
<b>Balances at December 31, 2012</b>	<b>2,909</b>	<b>4,936</b>	<b>35,941</b>	<b>1,029</b>	<b>3,905</b>	<b>1,821</b>	<b>50,541</b>
<b>Accumulated depreciation</b>							
Balances, January 1, 2011	-	1,143	15,061	624	2,148	746	<b>19,722</b>
Depreciation	-	155	2,525	94	262	126	<b>3,162</b>
Depreciation from discontinued operations	-	-	1	1	1	19	<b>22</b>
Disposals	-	-	(753)	(101)	-	-	<b>(854)</b>
Transfer to assets held for sale	-	-	(50)	-	-	-	<b>(50)</b>
Disposal of subsidiary	-	-	(201)	(23)	(28)	(209)	<b>(461)</b>
Exchange differences	-	-	58	2	1	1	<b>62</b>
Balances at December 31, 2011	-	1,298	16,641	597	2,384	683	<b>21,603</b>
Depreciation	-	163	2,943	83	391	80	<b>3,660</b>
Disposals	-	-	(767)	(33)	(6)	-	<b>(806)</b>
Exchange differences	-	(1)	(87)	(2)	(5)	(2)	<b>(97)</b>
<b>Balances at December 31, 2012</b>	<b>-</b>	<b>1,460</b>	<b>18,730</b>	<b>645</b>	<b>2,764</b>	<b>761</b>	<b>24,360</b>
<b>Carrying amount</b>							
At December 31, 2011	2,912	3,653	12,434	310	784	740	<b>20,833</b>
<b>At December 31, 2012</b>	<b>2,909</b>	<b>3,476</b>	<b>17,211</b>	<b>384</b>	<b>1,141</b>	<b>1,060</b>	<b>26,181</b>

During the year ended December 31, 2012, depreciation included in cost of sales amounted to \$2,999 (2011 - \$2,720); depreciation in general and administration amounted to \$660 (2011 - \$434); and depreciation included in sales and marketing amounted to \$1 (2011 - \$8).

Included in PP&E is construction-in-progress of \$274 (2011 - \$144). While under construction, PP&E is not depreciated.

## 8. INTANGIBLE ASSETS

	Customer relationships	Intellectual property	Internally generated intellectual property	Software	Internally generated software	Trade names	Total
	\$	\$	\$	\$	\$	\$	\$
<b>Cost</b>							
Balances at January 1, 2011	3,136	9,351	-	1,738	294	3,557	18,076
Additions	-	-	26	663	181	-	870
Disposal of subsidiary	(237)	(91)	-	(53)	-	-	(381)
Exchange differences	-	-	-	58	-	-	58
Balances at December 31, 2011	2,899	9,260	26	2,406	475	3,557	18,623
Additions	-	-	1,528	343	810	-	2,681
Disposals	-	-	-	-	-	-	-
Exchange differences	-	(162)	-	(9)	-	-	(171)
<b>Balances at December 31, 2012</b>	<b>2,899</b>	<b>9,098</b>	<b>1,554</b>	<b>2,740</b>	<b>1,285</b>	<b>3,557</b>	<b>21,133</b>
<b>Accumulated amortization</b>							
Balances, January 1, 2011	1,276	2,375	-	1,193	-	-	4,844
Amortization	290	687	2	210	-	-	1,189
Amortization from discontinued operations	-	-	-	4	-	-	4
Disposal of subsidiary	(132)	-	-	(34)	-	-	(166)
Exchange differences	-	-	-	14	-	-	14
Balances at December 31, 2011	1,434	3,062	2	1,387	-	-	5,885
Amortization	290	673	17	359	-	-	1,339
Disposals	-	-	-	-	-	-	-
Exchange differences	-	(29)	-	(3)	-	-	(32)
<b>Balances at December 31, 2012</b>	<b>1,724</b>	<b>3,706</b>	<b>19</b>	<b>1,743</b>	<b>-</b>	<b>-</b>	<b>7,192</b>
<b>Carrying amounts</b>							
At December 31, 2011	1,465	6,198	24	1,019	475	3,557	12,738
<b>At December 31, 2012</b>	<b>1,175</b>	<b>5,392</b>	<b>1,535</b>	<b>997</b>	<b>1,285</b>	<b>3,557</b>	<b>13,941</b>

During the year ended December 31, 2012, amortization included in cost of sales amounted to \$873 (2011 - \$805); amortization in general and administration amounted to \$176 (2011 - \$94); and amortization included in sales and marketing amounted to \$290 (2011 - \$290).

Included in software is \$nil (2011- \$485) that relates to software under development. Included in internally generated software is \$1,285 (2011 - \$475) that relates to software under development. Software under development is not amortized until it is ready for its intended use.

Included in internally generated intellectual property is \$1,177 (2011 - \$nil) that relates to products under development. A product under development is not amortized until it has reached commercial production.

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

	2012	2011
Customer relationships	2 - 5 years	3 - 6 years
Intellectual property, including internally generated intellectual property	4 - 12 years	11 - 13 years
Software, including internally generated software	1 - 10 years	1 - 10 years

Trade names comprise the brands of Superior and Inotec and have indefinite lives. Indefinite lives were determined based on the long-standing brands of Superior and Inotec and their ability to generate cash flows into the foreseeable future.

The carrying amount of trade names with indefinite lives is included in the following CGUs:

	2012	2011
	\$	\$
Superior Manufacturing and Hydraulics, Inc.	2,900	2,900
Inotec Coatings and Hydraulics Inc.	657	657
	<b>3,557</b>	<b>3,557</b>

The recoverable amounts for CGU's that include indefinite life intangible assets are determined based on value-in-use calculations. These calculations use pre-tax cash flow projections, based on financial budgets approved by management, covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

The key assumptions used for value-in-use calculations are as follows:

	Growth rate		Pre-tax discount rate	
	2012	2011	2012	2011
Superior Manufacturing and Hydraulics, Inc.	2%	3%	20%	22%
Inotec Coatings and Hydraulics Inc.	2%	3%	16%	18%

The weighted average growth rates used are consistent with forecasts included in industry reports. The discount rates used are pre-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. The Corporation estimates that with a ten percent change in the assumptions disclosed above, the CGU's estimated recoverable amount would continue to exceed its carrying amount.

## 9. TRADE AND OTHER PAYABLES

	Note	2012	2011
		\$	\$
Trade payables		9,820	8,770
Accrued liabilities and other payables		9,153	10,206
Customer deposits		6,567	5,783
Cash-settled share based compensation	14 (b)	446	242
		<b>25,986</b>	<b>25,001</b>

## 10. PROVISIONS

	Warranty	Legal	Site remediation	Total
	\$	\$	\$	\$
Balances at January 1, 2011	439	150	150	739
Provisions made during the year	473	-	210	683
Provisions utilized during the year	(251)	-	-	(251)
Change in estimate	-	(60)	-	(60)
Amount pertaining to discontinued operations	(8)	-	-	(8)
Balances at December 31, 2011	653	90	360	1,103
Provisions made during the year	1,394	206	90	1,690
Provisions utilized during the year	(1,008)	(31)	(23)	(1,062)
<b>Balances at December 31, 2012</b>	<b>1,039</b>	<b>265</b>	<b>427</b>	<b>1,731</b>

It is expected that \$1,581 of the above provisions will be utilized in 2013.

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

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

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, including remediation of any deficiencies incurred as a result of carrying out business activities. The provision is based on management's estimate of the expected costs of restoring the location to a condition that is in accordance with the terms of the lease.

## 11. BORROWINGS

	2012	2011
	\$	\$
Revolving credit facility, bearing interest at prime plus 1.00%, repayable in Canadian currency	9,427	-
Term loan #1, repaid in 2012	-	4,426
Term loan #2, repaid in 2012	-	682
Term loan #3, repaid in 2012	-	605
Transaction costs	(585)	-
	8,842	5,713
Less current portion	-	481
	8,842	5,232

**a) REVOLVING CREDIT FACILITY**

On November 2, 2012, the Corporation entered into a \$50 million committed senior secured revolving credit facility with its lenders, maturing in three years with an option to extend annually. Under the terms of the credit facility, funds may be advanced in either Canadian or US currency and will bear interest at the Canadian Prime Rate, US Base Rate or LIBOR, plus a margin of between 1.00% and 2.50%. The credit facility requires the Corporation to meet certain covenants and is secured by a general security agreement over all property of the Corporation and its subsidiaries.

Transaction costs related to securing the revolving credit facility of \$621 were deferred and are being amortized over the term of the agreement. The amortization is recognized in finance charges in the consolidated statements of earnings and comprehensive income.

**b) LETTER OF CREDIT**

On November 2, 2012, the Corporation also entered into a credit agreement for a \$3 million committed senior letter of credit facility. As at December 31, 2012 the Corporation has committed \$612 of the facility through the issuance of letters of credit. The funds available under the revolving credit facility are reduced by any outstanding letters of credit.

**c) TERM LOANS**

In the current fiscal year, term loans under the previous credit agreements were repaid prior to contractual maturity. As a result of early repayment, the Corporation incurred early repayment penalties of \$284 (note 17).

**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:

	2012			2011		
	Assets	Liabilities	Net	Assets	Liabilities	Net
	\$	\$	\$	\$	\$	\$
PP&E	26	(4,089)	(4,063)	-	(3,479)	(3,479)
Intangible assets	957	(634)	323	822	(432)	390
Provisions	433	-	433	238	-	238
Inventories	1,046	-	1,046	291	-	291
Accrued liabilities	621	-	621	1,485	-	1,485
Share based compensation	112	-	112	-	-	-
Transaction costs	-	(21)	(21)	-	-	-
Other	146	(8)	138	4	(76)	(72)
<b>Deferred tax assets (liabilities)</b>	<b>3,341</b>	<b>(4,752)</b>	<b>(1,411)</b>	<b>2,840</b>	<b>(3,987)</b>	<b>(1,147)</b>
Set off of tax	(2,527)	2,527	-	(2,082)	2,082	-
<b>Net deferred tax assets (liabilities)</b>	<b>814</b>	<b>(2,225)</b>	<b>(1,411)</b>	<b>758</b>	<b>(1,905)</b>	<b>(1,147)</b>

With respect to deferred tax assets and liabilities presented above, \$2,238 of the net deferred tax assets (2011 - \$2,018), and \$nil (2011 - \$76) of the net deferred tax liabilities are expected to reverse within 12 months.

**b) UNRECOGNIZED DEFERRED TAX ASSETS**

Deferred tax assets have not been recognized in respect of \$526 (2011 - \$nil) in capital losses. 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) DIVIDENDS**

Dividend declared	Dividend paid	Total dividend	Amount per common share
		\$	\$
December 12, 2012	December 31, 2012	1,335	0.05
August 17, 2012	September 17, 2012	1,326	0.05
May 17, 2012	June 15, 2012	1,326	0.05
March 22, 2012	April 12, 2012	795	0.03
December 13, 2011	December 30, 2011	795	0.03
September 30, 2011	October 28, 2011	265	0.01
May 19, 2011	June 30, 2011	265	0.01
March 17, 2011	April 11, 2011	1,059	0.04
March 10, 2011	March 31, 2011	265	0.01

## 14. SHARE BASED COMPENSATION

### a) EQUITY-SETTLED SHARE BASED COMPENSATION

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

The aggregate number of common shares issuable under the plan can be no greater than 10% of the common shares issued and outstanding from time to time on a non-diluted basis. In addition, no more than 5% of outstanding shares may be reserved for options granted to any one person and no more than 10% of outstanding shares may be reserved for options granted to insiders. The options vest evenly over three years and the maximum term of options issued under the plan cannot exceed five years. 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:

	2012		2011	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
	#	\$	#	\$
Outstanding, as at January 1	1,141,667	2.77	1,115,000	3.29
Granted	800,000	3.32	350,000	3.49
Forfeited	(110,000)	3.36	(110,000)	2.98
Expired	(180,000)	5.62	(180,000)	7.25
Exercised	(161,666)	1.88	(33,333)	2.90
<b>Outstanding, December 31</b>	<b>1,490,001</b>	<b>2.77</b>	<b>1,141,667</b>	<b>2.77</b>
<b>Exercisable, December 31</b>	<b>463,328</b>	<b>2.00</b>	<b>511,665</b>	<b>3.16</b>

Options with the following exercise price ranges are outstanding as at December 31, 2012:

Exercise price range as at December 31, 2012	Options outstanding	Weighted average remaining contractual life
	#	years
\$1 to \$2	460,001	2.05
\$2 to \$3	-	-
\$3 to \$4	1,000,000	3.82
\$4 to \$5	30,000	4.95
	<b>1,490,001</b>	<b>3.30</b>



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

	2012	2011
Share price	\$3.32	\$3.49
Exercise price	\$3.32	\$3.49
Expected volatility	66%	67%
Risk-free interest rate	1%	2%
Annual dividend rate	4%	0%
Expected life of options in years	3.5 years	5.0 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 also not necessarily be the actual outcome.

The weighted average fair value of share options granted during the year was \$1.29 per share option (2011 - \$2.00 per share option) and the weighted average share price of options exercised during the year was \$3.65 (2011 - \$4.19).

#### b) CASH-SETTLED SHARE BASED COMPENSATION

The Corporation has a deferred share unit plan for Directors of the Corporation who are designated as participants by the Compensation and Human Resources Committee. The deferred share units vest at the end of three years, but can only be exercised upon exit from the Board of Directors. Upon exit from the Board of Directors, the deferred share units are redeemed for cash based on the market price of the shares. The liability relating to the units accumulated under this plan have been included in trade and other payables on the consolidated statement of financial position as disclosed in note 8.

	2012	2011
	#	#
Outstanding, as at January 1	117,815	114,018
Granted	26,671	3,797
<b>Outstanding, as at December 31</b>	<b>144,486</b>	<b>117,815</b>

#### c) SHARE BASED COMPENSATION EXPENSE

	2012	2011
	\$	\$
Equity-settled share based compensation	507	396
Cash-settled share based compensation	204	89
	<b>711</b>	<b>485</b>

This compensation expense has been included in general and administrative expenses in the consolidated statements of earnings and comprehensive income.

## 15. REVENUE

	2012	2011
	\$	\$
Sale of goods	164,417	139,577
Rendering of services	14,955	14,220
	<b>179,372</b>	<b>153,797</b>

## 16. EXPENSES BY NATURE

	2012	2011
	\$	\$
Wages and salaries expense	49,114	41,331
Depreciation of property, plant and equipment	3,660	3,162
Amortization of intangible assets	1,339	1,189
Research expense	1,087	677
Operating lease expense	2,277	2,009
Loss (gain) on foreign exchange	309	(82)

## 17. FINANCE CHARGES (NET)

	2012	2011
	\$	\$
Interest on borrowings	376	345
Interest on finance leases	23	42
Penalties incurred on early repayment of term loans	284	-
Amortization of transaction costs	36	-
Finance charges	719	387
Interest income on note receivable	46	65
Interest on cash and cash equivalents	37	63
Finance income	83	128
<b>Finance charges (net)</b>	<b>636</b>	<b>259</b>

## 18. INCOME TAX EXPENSE

### a) RECONCILIATION OF INCOME TAX EXPENSE

Income tax expense varies from the amounts that would be computed by applying the domestic statutory rate of 25% (2011 - 26.5%) to earnings from continuing operations before tax for the following reasons:

	2012	2011
	\$	\$
Earnings from continuing operations before income taxes	16,400	16,254
Computed income tax expense	4,100	4,307
Tax effects of:		
Jurisdictional tax rate differences	609	640
Effect of decreasing substantively enacted tax rates	-	(18)
Non-deductible expenses	181	12
Tax losses for which no deferred tax asset was recognized	107	-
Recognition of previously unrecognized deferred tax assets	-	(167)
Other items	(369)	(213)
<b>Income tax expense</b>	<b>4,628</b>	<b>4,561</b>

**b) INCOME TAX EXPENSE ON EARNINGS FROM CONTINUING OPERATIONS**

	2012	2011
	\$	\$
Current tax expense:		
Current tax expense on earnings for the year	4,354	4,651
Deferred tax expense		
Origination and reversal of temporary differences	274	77
Recognition of previously unrecognized deferred tax assets	-	(167)
Total deferred tax expense	274	(90)
<b>Income tax expense</b>	<b>4,628</b>	<b>4,561</b>

**19. EARNINGS PER SHARE**

	2012			2011		
	Earnings	Weighted average shares	Per share amount	Earnings	Weighted average shares	Per share amount
	\$	#	\$	\$	#	\$
<b>Basic earnings per share</b>						
Earnings from continuing operations available to common Shareholders	11,772	26,538,763	0.44	11,693	26,498,513	0.44
Earnings from discontinued operations available to common Shareholders	-	26,538,763	-	231	26,498,513	0.01
Earnings available to common shareholders	11,772	26,538,763	0.44	11,924	26,498,513	0.45
<b>Diluted earnings per share</b>						
Dilutive effect of options		333,605			336,381	
Earnings from continuing operations available to common Shareholders	11,772	26,872,368	0.44	11,693	26,834,894	0.43
Earnings from discontinued operations available to common Shareholders	-	26,872,368	-	231	26,834,894	0.01
Earnings available to common shareholders	11,772	26,872,368	0.44	11,924	26,834,894	0.44

## 20. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

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

The Corporation's financial instruments consist of cash and cash equivalents, trade and other receivables, trade and other payables, borrowings and finance lease obligations.

The fair value of cash and cash equivalents, trade and other receivables and trade and other payables approximate their carrying value due to their short-term nature.

The fair values of borrowings and finance lease obligations approximate carrying value as market rates of interest do not differ significantly for instruments with similar terms to maturity.

### 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

- **Foreign currency risk**

The Corporation is exposed to foreign exchange risks arising from fluctuations in exchange rates on its foreign dollar denominated monetary assets and liabilities. Foreign exchange risk is primarily with the US dollar. The Corporation attempts to match U.S. dollar cash flows and reported amounts for U.S. dollar revenues and expenditures on a period-to-period basis to mitigate a portion of foreign currency risk.

Based on the Corporation's US dollar denominated monetary assets and liabilities at December 31, 2012, the Corporation estimates that a one-cent change in the value of the US dollar would increase or decrease net earnings, net of tax, by \$110 (2011 - \$76).

- **Interest rate risk**

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates. The Corporation is primarily exposed to interest rate risk on cash and cash equivalents and borrowings, all of which have a component of interest that is variable. The Corporation estimates that a change of 100 basis points in the interest rate on its borrowings as at December 31, 2012, would have increased or decreased net earnings, net of tax, for the year ended December 31, 2012, by \$71 (2011 - \$40).

#### (ii) CREDIT RISK

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. The Corporation's credit risk exposure is primarily through its cash and cash equivalents and trade receivables.

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

The Corporation manages its trade receivable credit risk by following a program of credit evaluation, obtaining deposits on certain orders and by limiting the amount of customer credit. Further, on international sales, receipt of payment is often required prior to shipping. Impairment provisions are made for potential losses that may be incurred at the balance sheet date.

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

	2012	2011
	\$	\$
Fully performing	10,532	11,157
Past due but not impaired	5,943	3,643
Indications of impairment	85	265
<b>Trade receivables</b>	<b>16,560</b>	<b>15,065</b>

The credit quality of fully performing receivables is determined based on credit evaluations and management's past experience with the customers. Past due but not impaired trade receivables relate to a number of independent customers for whom there is no recent history of default. Trade receivables with indication of possible impairment primarily relate to customers which are in difficult financial situations. Management has determined on a customer by customer basis that impairment provisions of \$85 (2011 - \$265) are sufficient to cover credit risk.

The aging analysis of trade receivables is as follows:

As at December 31	2012	2011
	\$	\$
0 to 30 days	7,922	9,715
31 to 60 days	2,610	3,265
61 to 120 days	3,018	1,906
Over 120 days	3,010	179
	16,560	15,065
Provisions for impairment	(85)	(265)
Trade receivables	16,475	14,800
Other receivables	782	1,526
<b>Total trade and other receivables</b>	<b>17,257</b>	<b>16,326</b>

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

For the years ended	2012	2011
	\$	\$
Provision for impairment, as at January 1	265	211
Impairment loss recognized	48	81
Amounts written off	(44)	3
Amounts recovered	(184)	-
Impairment loss related to discontinued operations	-	(30)
<b>Provision for impairment, as at December 31</b>	<b>85</b>	<b>265</b>

### (iii) LIQUIDITY RISK

Liquidity risk is the risk that the Corporation will not be able to meet its obligations with financial liabilities as they become due. The Corporation maintains sufficient cash and cash equivalents and operating line of credit availability to meet financial obligations.

The following table shows a maturity analysis of the Corporation's undiscounted cash flows for its financial liabilities, including interest payments, based on remaining contractual maturities:

As at December 31, 2012	Trade and other payables	Finance lease obligations	Borrowings	Total
	\$	\$	\$	\$
Within 1 year	25,986	136	-	26,122
1-3 years	-	-	10,558	10,558
	25,986	133	10,558	36,680

### 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 and finance lease obligations (less current portion), as well as shareholders' equity as follows:

	2012	2011
	\$	\$
Borrowings	8,842	5,232
Finance lease liabilities	-	226
Shareholders' equity	77,496	70,369
<b>Total capital</b>	<b>86,338</b>	75,827

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 Corporation is subject to certain restrictive covenants under the revolving credit facility agreement with its lenders. These covenants are measured on a quarterly basis. Financial covenants stipulated by the agreement include maintenance of a:

- Minimum ratio of current assets to current liabilities;
- Trailing twelve month funded debt to EBITDA ratio as defined by the agreement; and
- Trailing twelve month fixed charge coverage ratio as defined by the agreement.

In addition to the financial covenants noted above, the Corporation is also subject to further covenants including, but not limited to, restrictions on:

- Mergers or acquisitions in excess of a certain dollar value;
- Borrowings outside the terms of the credit agreement in excess of a certain dollar value;
- Dispositions of the Corporation's assets in excess of a certain dollar value; and
- Investments with parties other than the lenders of the revolving credit facility, in excess of a certain dollar value.

Other than the restrictive covenants contained in the debt agreement, neither the Corporation nor any of its subsidiaries are subject to externally imposed capital requirements. As of December 31, 2012, the Corporation was in compliance with its debt covenants.

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.

## 21. RELATED PARTY TRANSACTIONS

### a) OPERATING LEASE EXPENSE

The Corporation has three lease agreements with companies controlled by individuals, who are also directors of Foundation Equity Corporation, a 43% shareholder of the Corporation. The following is a summary of each agreement:

- (i) Minimum annual lease payments are \$304 until April 2013. Subsequent to April 2013, the annual lease payments will be set at negotiated market rates until 2018. At the conclusion of the lease in 2018, the Corporation has the option to extend the lease for five years with annual lease payments negotiated at market rates.
- (ii) Minimum annual lease payments are \$520 until 2018. The Corporation has the option to extend the lease for five years at negotiated market rates.
- (iii) Minimum annual lease payments are \$256 until 2018.

During the year ended December 31, 2012 the Corporation recorded an operating lease expense of \$1,080 (2011 - \$1,080) with respect to related party operating leases disclosed above.

During the year ended December 31, 2012 the Corporation recorded revenue of \$162 (2011 - \$nil) from the sale of trailers to a company controlled by a member of the Corporation's Board of Directors. The transaction took place in the normal course of operations, at market rates and under normal commercial terms.

The Corporation has three lease agreements with a company whose principal was an officer of the Corporation. This officer retired from the Corporation on January 9, 2012 and therefore ceased to be a related party. Operating lease expense was \$840 in 2011 with respect to these lease arrangements.

### b) KEY MANAGEMENT PERSONNEL

Key management personnel include the directors and senior corporate officers of the Corporation whom 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, 2012 and 2011 are as follows:

	2012	2011
	\$	\$
Salaries and other short-term employee benefits	2,769	2,867
Termination benefit	471	-
Share-based payments	286	216
	<b>3,526</b>	<b>3,083</b>

## 22. SEGMENTED REPORTING

The Corporation operates its businesses through a number of subsidiaries and divisions operating in two segments. All subsidiaries are wholly owned by the Corporation.

**a) ENERGY PRODUCTS & SERVICES (“EP&S”)**

Business Unit	Division	Location	Description
Superior Manufacturing & Hydraulics, Inc. (“Superior”)	Drilling & Completions	Broussard, Louisiana	Manufactures and distributes standard and custom hydraulic power tongs, bucking units and make-break units Manufactures and distributes a line of hydraulic power equipment Offers service, repair, honing and testing of hydraulic equipment
McCoy Rig Parts, operating as a division of Superior	Drilling & Completions	Lafayette, Louisiana	Manufactures and distributes replacement parts used in power tongs, iron roughnecks and a wide variety of other handling tools
Farr Canada Corp.	Drilling & Completions	Edmonton, Alberta	Manufactures and distributes standard and custom model hydraulic power tongs and torque turn monitoring systems
Precision Die Technologies, L.L.C.	Drilling & Completions	Broussard, Louisiana	Manufactures and distributes dies and inserts used in power tongs, iron roughnecks and a wide variety of other handling tools
Inotec Coating and Hydraulics Inc.	Coatings & Hydraulics	Edmonton, Alberta	Application of materials for the prevention of wear, erosion and corrosion and the manufacturing and servicing of hydraulic cylinders

**b) MOBILE SOLUTIONS**

Business Unit	Division	Location	Description
Peerless Limited	Trailers	Penticton, British Columbia	Manufactures heavy duty trailers and specialized custom chassis

Mobile Solutions previously included Rebel Metal Fabricators Ltd. (“Rebel”) and the Corporation’s 50% joint venture interest in Prairie Truck Ltd. (“Prairie”). In 2011, Rebel was sold and the operating assets of Prairie Truck were sold.

The Corporation allocates certain overhead charges to its operating segments using either revenue or headcount as a cost driver depending on the nature of the cost being allocated.



**SEGMENT INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2012**

	External revenue	Gross profit	EBITDA	Earnings (loss) before income taxes
	\$	\$	\$	\$
EP&S	116,051	39,870	26,465	22,466
Mobile Solutions	63,321	7,584	1,852	1,424
Corporate	-	-	(6,160)	(7,490)
<b>Total</b>	<b>179,372</b>	<b>47,454</b>	<b>22,157</b>	<b>16,400</b>

**RECONCILIATION OF EBITDA FOR THE YEAR ENDED DECEMBER 31, 2012**

	EP&S	Mobile Solutions	Corporate	2012
	\$	\$	\$	\$
Earnings (loss) before income taxes	22,466	1,424	(7,490)	16,400
Finance charges (net)	383	-	253	636
Depreciation	2,976	399	285	3,660
Amortization	518	29	792	1,339
Impairment of assets held for sale	122	-	-	122
<b>EBITDA</b>	<b>26,465</b>	<b>1,852</b>	<b>(6,160)</b>	<b>22,157</b>

**SEGMENT INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2011**

	External revenue	Gross profit	EBITDA	Earnings (loss) from continuing operations before income taxes
	\$	\$	\$	\$
EP&S	84,668	28,962	18,509	14,662
Mobile Solutions	69,129	13,315	8,357	7,942
Corporate	-	-	(5,776)	(6,350)
<b>Total</b>	<b>153,797</b>	<b>42,277</b>	<b>21,090</b>	<b>16,254</b>

**RECONCILIATION OF EBITDA FOR THE YEAR ENDED DECEMBER 31, 2011**

	EP&S	Mobile Solutions	Corporate	2011
	\$	\$	\$	\$
Earnings (loss) before continuing operations before income taxes	14,662	7,942	(6,350)	16,254
Finance charges (net)	534	-	(275)	259
Depreciation	2,619	398	144	3,162
Amortization	468	17	704	1,189
Impairment of assets held for sale	226	-	-	226
<b>EBITDA</b>	<b>18,509</b>	<b>8,357</b>	<b>(5,776)</b>	<b>21,090</b>

**IDENTIFIABLE ASSETS AND LIABILITIES FOR THE YEAR ENDED DECEMBER 31, 2012**

	EP&S	Mobile Solutions	Corporate	2012
	\$	\$	\$	\$
Total identifiable assets	79,485	20,400	17,798	<b>117,683</b>
Total identifiable liabilities	20,995	6,068	13,124	<b>40,187</b>
Additions to PP&E	8,351	203	657	<b>9,211</b>
Additions to intangibles	309	25	2,347	<b>2,681</b>

**IDENTIFIABLE ASSETS AND LIABILITIES FOR THE YEAR ENDED DECEMBER 31, 2011**

	EP&S	Mobile Solutions	Corporate	2011
	\$	\$	\$	\$
Total identifiable assets	70,633	27,637	9,171	<b>107,441</b>
Total identifiable liabilities	18,096	11,532	7,444	<b>37,072</b>
Additions to PP&E	3,903	343	180	<b>4,426</b>
Additions to intangibles	269	70	531	<b>870</b>

**GEOGRAPHIC INFORMATION**

For the year ended	2012		2011	
	Revenue	PP&E	Revenue	PP&E
	\$	\$	\$	\$
United States	81,518	8,631	56,151	4,793
Canada	57,268	17,550	67,876	16,040
Europe	13,490	-	9,947	-
Middle East	11,464	-	7,967	-
Asia	10,561	-	3,634	-
South America	1,696	-	2,176	-
United Kingdom	1,579	-	4,307	-
Africa	1,039	-	774	-
Australasia	414	-	928	-
Mexico	343	-	37	-
	<b>179,372</b>	<b>26,181</b>	153,797	20,833

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.

**23. CHANGES IN WORKING CAPITAL BALANCES**

For the years ended	2012	2011
	\$	\$
Trade and other receivables	846	1,025
Inventories	11,121	11,021
Other assets	(505)	95
Trade and other payables	(756)	(11,555)
Provisions	(626)	(334)
	<b>10,080</b>	252

**24. DISCONTINUED OPERATIONS**

On October 31, 2011 the operating assets of Prairie were sold and the joint venture ceased operations. The joint venture is in the process of being wound up and the Corporation's share of earnings have been included in earnings from discontinued operations in the consolidated statement of earnings and comprehensive income.

On June 30, 2011, Rebel was sold by the Corporation. The operating results relating to Rebel have been included in earnings from discontinued operations in the consolidated statement of earnings and comprehensive income.

The net assets disposed on June 30, 2011 related to the sale of Rebel are as follows:

	June 30, 2011
	\$
Cash	50
Issuance of not receivable	1,013
Proceeds	1,063
Cash	577
Other current assets	2,255
Non-current assets	277
Total assets	3,109
Current liabilities	1,992
Non-current liabilities	54
Total liabilities	2,046
Net assets	1,063
Gain on sale of Rebel	-

The results related to discontinued operations are as follows:

For the year ended	December 31, 2011		
	Prairie Truck	Rebel	Total
	\$	\$	\$
Revenue	-	3,465	3,465
Cost of sales	-	(3,019)	(3,019)
Other expenses	-	(577)	(577)
Share of earnings from joint venture	375	-	375
Net earnings (loss) from discontinued operations before income tax	375	(131)	244
Income tax expense	-	13	13
Net earnings (loss) from discontinued operations	375	(144)	231

## 25. 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 are as follows:

	\$
Within 1 year	2,926
2 to 5 years	10,112
Over 5 years	1,168

The above includes commitments with related parties as disclosed in note 21.

The Corporation has sublet certain premises that are under operating lease. The future minimum lease payments to be received in the following year under non-cancellable leases are \$685 and \$2,432 thereafter.

## 26. SUBSEQUENT EVENTS

On January 25, 2013, the Corporation entered into a sublease agreement to lease a new Houston Service Center and subsequently executed a purchase and sales agreement for the sale of the current Houston Service Center for cash consideration of \$850. The transactions were undertaken to increase the available space in Houston to accommodate the Corporation's growth plans.

The sale of the current Houston Service Center resulted in a gain on disposal of \$40 and the sublease agreement on the new Houston Service Center is for the period commencing February 1, 2012 to September 30, 2016 with lease payments of \$203 per annum.