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"

President & Chief Executive Officer

(signed) "Lindsay McGill"

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.

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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)

	Note	Issued capital 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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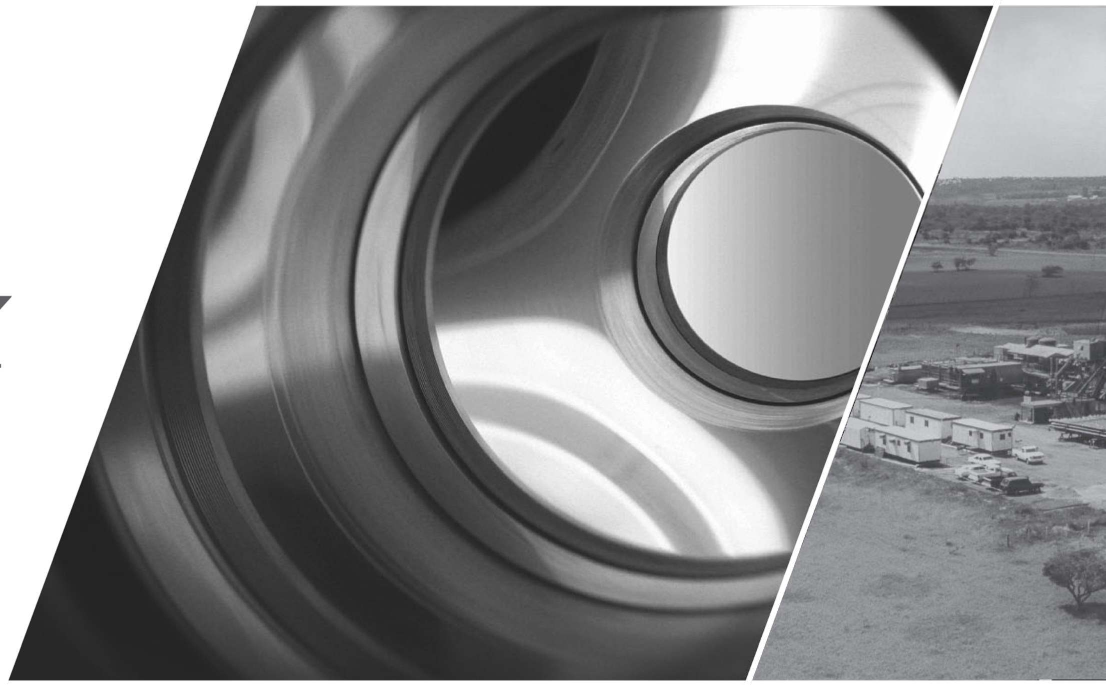

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