



# FORGING AHEAD

MD&A AND FINANCIAL REPORT 14





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# PRESIDENT'S MESSAGE

In 2014 we continued to deliver on our strategic plan, creating an organization that is financially stronger, better positioned to take advantage of less cyclical international markets and, for the first time in the Corporation's history, operating under one global brand supported by a common Enterprise Resource Planning (ERP) platform.

## **Realized our Goal of Becoming a Pure Play**

We achieved our goal of becoming a pure play in 2014 by divesting of our non-core businesses. In addition to significantly strengthening our balance sheet, the divestiture of the Mobile Solutions segment as well as the Coatings & Hydraulics division reduced our exposure to the more cyclical North American energy market and enabled the Corporation to focus our efforts on developing advanced equipment and software technologies in an evolving oil and gas industry.

## **Executed our International Expansion Strategy in the Eastern Hemisphere**

We continued to execute on our international expansion strategy in 2014 as we progressed the development of our regional locations in Aberdeen and Singapore and opened our third regional sales and service center in the Jebel Ali Free Zone located in Dubai, United Arab Emirates. Collectively, these three regional locations will support our customers across the Eastern Hemisphere.

We will continue to develop and support these locations as they continue to grow their presence. These efforts will assist global sales and marketing initiatives, increase regional and global customer support and enable the Corporation to gain market intelligence that will help forecast demand for new and existing products.

Our regional sales and service centers provide a platform to target increased aftermarket sales and deploy a rental fleet where equipment repair, maintenance and rental become more important to our customers in the current market environment.

### Strengthened the “McCoy Global” Brand

We completed our re-branding initiative in 2014 and officially changed our name to McCoy Global Inc. to reflect our growing presence in the global energy market. We have been working to establish the McCoy Global brand internationally and are beginning to see evidence of its association with expertise in making-up tubular connections. Building the McCoy Global brand remains a key Corporation initiative as we pursue our vision of becoming the global leader in tubular make-up and handling equipment solutions.

### Commercialized the weBUCK™ and Continued Development of the weHOLD™

McCoy Global commercialized the weBUCK™, the first electrically-powered bucking unit on the market, offering several advantages over conventional hydraulic-powered bucking units. We also made progress towards completing the development of the first piece of equipment under our weHOLD™ platform of handling tools, which are complementary to our line of power tong products.

Our overall investment in new product development remained consistent with prior years at approximately three percent of revenue. As McCoy Global strives to be a technology leader in tubular make-up and handling, continued investment in new product development remains a key part of our growth strategy.

### Looking Forward

2015 will be a challenging year in the global energy market. In response to expected near-term activity levels, we will be focused on reviewing our cost structure and supply chain. Although we anticipate the market will affect our financial performance, McCoy Global's strong balance sheet and significant international presence well-positions the Corporation in this environment.

The long-term industry outlook has not significantly changed and neither has our strategy. We remain committed to new product development initiatives, continued growth of our regional sales and service locations, including building a rental fleet to deploy to each region. Growing our international presence and developing or acquiring a more robust portfolio of advanced products for an evolving market remain key drivers of McCoy's long-term growth.



Jim Rakievich  
President & Chief Executive Officer

# MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended December 31, 2014

## EXPLANATORY NOTES

The following Management's Discussion and Analysis of Financial Results ("MD&A"), dated March 11, 2015, should be read in conjunction with the cautionary statement regarding forward-looking information and statements below, as well as the audited consolidated financial statements and notes thereto, for the years ended December 31, 2014 and 2013. The annual consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). All amounts in the following MD&A are in Canadian dollars unless otherwise stated. References to "McCoy," "McCoy Global," "the Corporation," "we," "us" or "our" mean McCoy Global Inc. and its subsidiaries, unless the context otherwise requires. Additional information relating to McCoy Global, including periodic quarterly and annual reports and Annual Information Forms ("AIF"), filed with Canadian securities regulatory authorities, is available on SEDAR at [sedar.com](http://sedar.com) and our website at [mccoyglobal.com](http://mccoyglobal.com).

### Forward-looking information and statements

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

Forward-looking statements relating to:

- the Corporation's acquisition strategy;
- the future development and growth prospects for the Corporation;
- the business strategy of the Corporation; and
- the competitive advantage of the Corporation.

Forward-looking statements respecting:

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

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

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

- inability to meet current and future obligations;
- inability to complete or effectively integrate strategic acquisitions;
- inability to implement the Corporation's business strategy effectively;
- access to capital markets;
- fluctuations in oil and gas prices;
- fluctuations in capital expenditures of the Corporation's target market;
- competition for, among other things, labour, capital, materials and customers;
- interest and currency exchange rates;
- technological developments;
- global political and economic conditions;
- global natural disasters or disease;
- inability to attract and retain key personnel; and
- the risk factors set forth under "Risk Factors".

Readers are cautioned that the foregoing list is not exhaustive.

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

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

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

### Description of additional GAAP measures and non-GAAP measures

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

EBITDA is an additional GAAP measure presented under IFRS defined as “net earnings from continuing operations, before finance charges (net), income tax expense, depreciation, and amortization.”

Adjusted EBITDA is a non-GAAP measure defined as “net earnings from continuing operations before finance charges (net), income tax expense, depreciation, amortization, impairment losses, net changes in fair value related to derivative financial instruments and share-based compensation”.

The Corporation reports on EBITDA and adjusted EBITDA because they are key measures used by management to evaluate performance. Adjusted EBITDA is used in making decisions relating to distributions to shareholders and is used in monitoring compliance with debt covenants. The Corporation believes adjusted EBITDA assists investors in assessing McCoy Global's performance on a consistent basis without regard to impairment losses, net changes in fair value related to derivative financial instruments, depreciation, amortization and share-based compensation expense, which are non-cash in nature and can vary significantly depending on accounting methods or non-operating factors.

Adjusted EBITDA is not considered an alternative to net earnings in measuring McCoy Global's performance. Adjusted EBITDA does not have a standardized meaning and is therefore not likely to be comparable to similar measures used by other issuers. However, McCoy Global calculates adjusted EBITDA consistently from period to period. Adjusted EBITDA should not be used as an exclusive measure of cash flow since it does not account for the impact of working capital changes, capital expenditures, debt changes and other sources and uses of cash, which are disclosed in the consolidated statement of cash flows.



## OUTLOOK AND FORWARD-LOOKING INFORMATION

Over the past several years McCoy Global has undertaken and successfully completed several strategic objectives that were intended to facilitate growth and to strongly position the Corporation in a historically cyclical market. This included divesting of non-core operations, building Eastern Hemisphere regional sales and service centers, rebranding and implementing a global Enterprise Resource Planning (ERP) system. These efforts have created a financially sound organization with reduced exposure to North American oil and gas market volatility.

Although the organization has made significant strides forward in the past several years, 2015 is expected to be a very challenging year for McCoy Global. McCoy Global enters 2015 with a backlog of \$26.9 million. This backlog, along with orders taken over the beginning of 2015, should support the Corporation's revenues through the first quarter of 2015 and provide some visibility into the second quarter. Beyond the first quarter of 2015, market conditions are such that the Corporation is anticipating a severe reduction in capital equipment revenues from North America, a significant decline from rig manufacturers and a more modest decline in several international markets to which McCoy Global is well positioned. In addition, Russian sanctions continue to impact the Corporation's ability to drive growth opportunities in this strategic market and geo-political events have the potential to further impact several international markets. It is also a challenging time to be introducing new products to the market. Anticipated 2015 revenues from the weBUCK™ and weHOLD™ are likely to be lower than originally anticipated. On a positive note, recently opened Eastern hemisphere regional sales and service centers continue to grow and realize incremental revenue. As capital equipment purchases retract, aftermarket revenue (service, consumables and replacement parts) is anticipated to offset some of the impact of the projected decline in capital equipment revenues. McCoy Global also remains committed to building a rental fleet which will be deployed to its regional sales and service locations. This will offer flexibility to customers who are constrained by capital expenditure limitations. The development of a rental fleet is currently in its initial stages and any meaningful impact of this investment to the consolidated financial results will likely be in the latter half of 2015 and into 2016.

McCoy Global has a strong leadership team and Board of Directors, who have successfully led businesses through several downturns. The Corporation is committed to evaluating its cost structure to reflect expected near-term activity levels by reducing discretionary spending and lowering supply chain costs. In addition, new regional sales and service center openings will be deferred until such time as the market shows signs of recovery. Although these actions will reduce the Corporation's overhead cost structure, margin contraction may occur in 2015. Management will continue to monitor the global oil and gas markets as they play out and will take all necessary and prudent steps to adjust business costs.

Anticipated working capital reductions in addition to McCoy Global's strong balance sheet, provide an opportunity to make strategic capital investments that will continue to strengthen the Corporation's overall market position. This includes continued commitment to new product development initiatives, the build-out of McCoy Global's rental fleet and supporting growth in established Eastern Hemisphere regional sales and service centers. Currently McCoy Global is evaluating acquisition opportunities with a focus on targets which would accelerate new product development efforts, complement current product or service offerings or provide an innovative or technological solution.

Although the length and severity of the downturn is uncertain, the long-term industry outlook has not significantly changed. McCoy Global's financial strength, experienced leadership and commitment to evaluating its cost structure will allow the Corporation to not only sustain a downturn but position the organization to make strategic capital investments to take advantage of future growth opportunities when commodity prices increase. The exposure to international markets, both land and offshore, as well as strong aftermarket revenue potential places McCoy Global in a stronger position than in past down cycles.

## MARKET CONDITIONS

### Rig and well counts

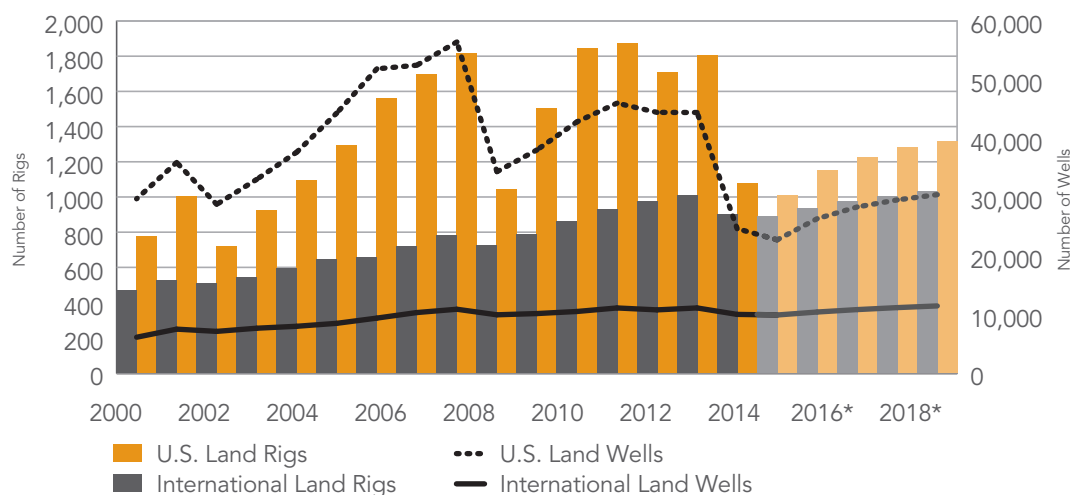
The demand for McCoy Global's products and services is ultimately driven by oil and natural gas prices. These commodity prices have historically been cyclical in nature and are difficult to forecast as they are influenced by many factors.

Higher oil and gas prices typically drive exploration and production companies to increase spending which in turn leads to an increase in drilling activity. As drilling activity increases, customers require capital equipment to meet drilling activity demand. Generally, rig counts and well completion activity are leading indicators of demand for McCoy Global's products and services, although there are many factors that may impact any correlation.

The current rig fleet is becoming more efficient which allows for more wells to be drilled per rig. A reduction in working rigs will impact McCoy Global, but the number of wells drilled is becoming a better indicator of future performance. The majority of McCoy Global's revenue is generated from capital equipment sales to service companies and not directly from supplying equipment that forms part of the rig package.

Management uses rig and well counts as a tool to monitor and set expectations of the future performance of the Corporation.

A summary of historical and forecasted rig and well counts is as follows<sup>1</sup>:



McCoy Global's focus on growing internationally offers geographic diversification, increased revenue opportunities and stability to withstand North American land market volatility which is currently being experienced. McCoy Global's international customers are now able to take advantage of regional support which the Corporation anticipates will increase aftermarket and rental revenues outside of North America.

### Footage drilled

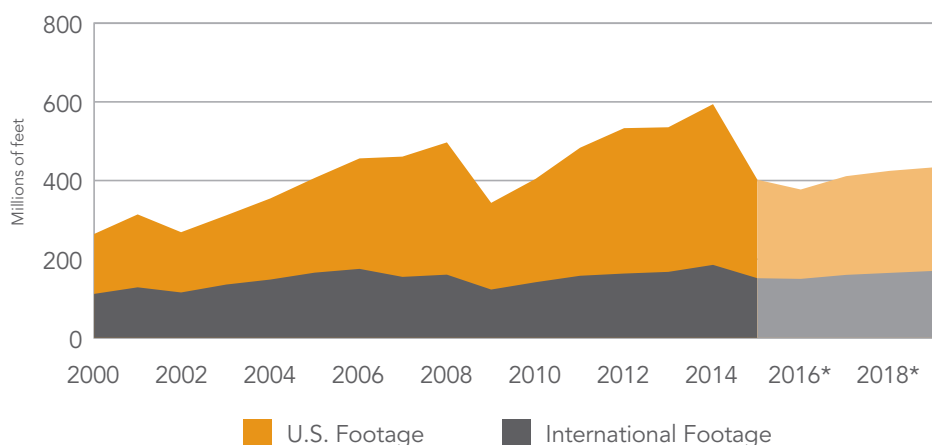
Unconventional drilling will be impacted by the current downturn but remains an important source of future global oil and natural gas supply. This has resulted in a trend towards more complex well construction and the increased use of premium connections. Investments made in new product development by the Corporation have increased McCoy Global's capabilities of producing high specification tubular make-up products and position McCoy Global to meet the technological challenges faced by customers in unconventional markets.

<sup>1</sup> Spears & Associates *Drilling and Production Outlook*, March 2015

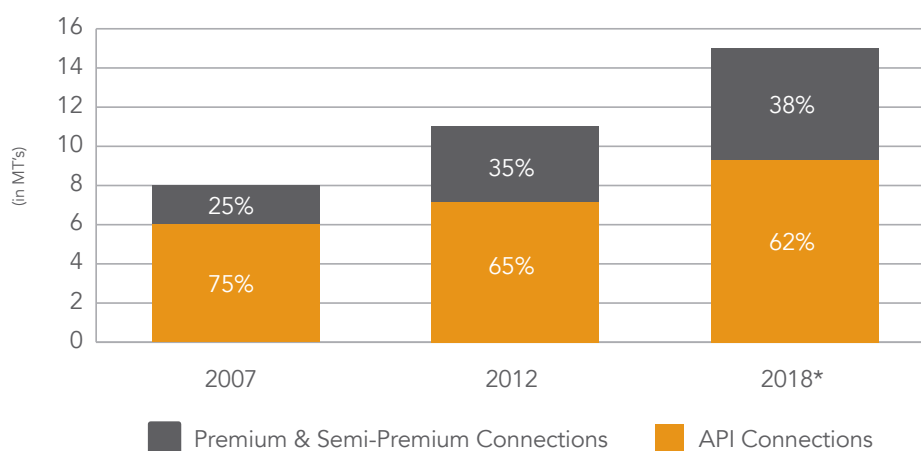
\* Estimated

A summary of historical and forecasted footage drilled as well as premium connection demand is set out below<sup>2</sup>:

#### Footage drilled<sup>2</sup>



#### Oil Country Tubular Goods Premium Demand<sup>3</sup>



#### Backlog

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

The Corporation defines backlog as work that has a high certainty of being performed and is measured on the basis of a firm customer commitment, such as the receipt of a purchase order. Customers may default on or cancel such commitments, but many are secured by a deposit and/or require reimbursement by the customer upon default or cancellation. Backlog reflects likely future revenues; however, cancellations or reductions may occur and there can be no assurance that backlog amounts will ultimately be realized as revenue, or that the Corporation will earn a profit on backlog work. Expected delivery dates for orders recorded in backlog usually span from one to six months, and thus may not translate into revenue in the consecutive quarter. McCoy Global's backlog as at December 31, 2014 totaled \$26.9 million, a decrease of \$5.7 million or 17% from September 30, 2014.

<sup>2</sup> Spears & Associates Drilling and Production Outlook, March 2015

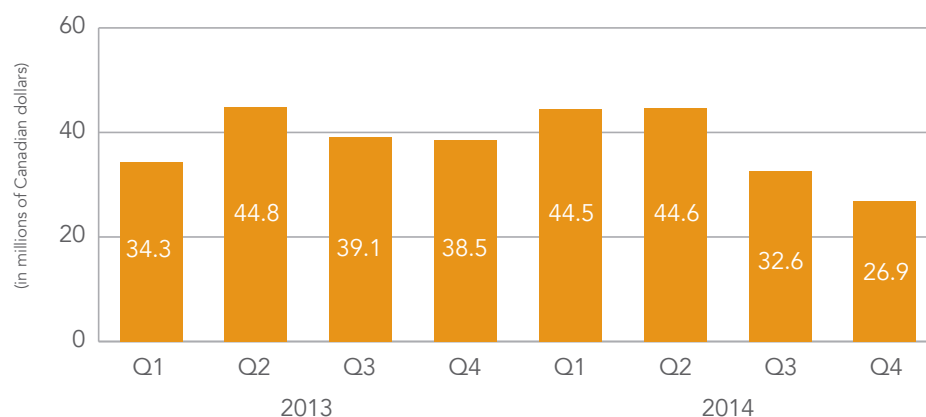
<sup>3</sup> Adapted from Vallourec Investor Presentation, September 2014

\* Estimated

For the quarter, McCoy Global received net sales orders of \$21.7 million (Q3 2014 – \$26.3 million) and recorded revenue of \$27.4 million (Q3 2014 – \$38.3 million).

Typically, capital equipment orders slow during the fourth quarter of the year as many of McCoy Global's large customers are in the midst of capital budgeting. This, compounded by the sharp decline in oil prices and recent uncertainty in market conditions, led to lower order intake during the quarter and is expected to result in reduced order intake throughout 2015.

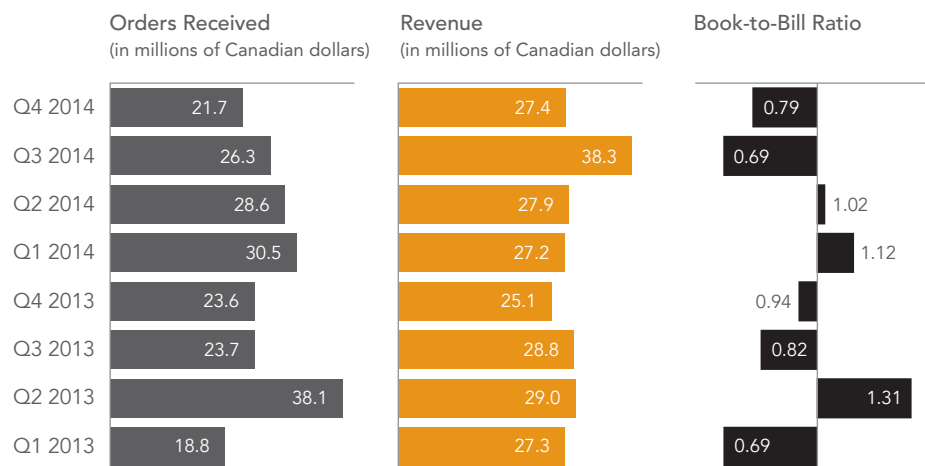
McCoy Global is working on several initiatives to reduce customer delivery times. As the Corporation progresses on these initiatives the overall level of backlog, in comparison to historical levels, will decline. Further, regional sales and service locations will continue to increase customer support and strengthen customer relationships, which, along with sales and marketing initiatives, will provide insight to assist in forecasting demand and building product based on demand forecasts.



### Book-to-Bill Ratio

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

The book-to-bill ratio for the Corporation's continuing operations during the three months ended December 31, 2014 was 0.79 (September 30, 2014 – 0.69). Set out below are orders received, revenue and the book-to-bill ratio:



## STRATEGY AND CORE BUSINESS VISION

### OUR VISION IS TO BE THE GLOBAL LEADER IN TUBULAR MAKE-UP AND HANDLING EQUIPMENT SOLUTIONS

McCoy Global is a leading provider of tubular handling, assembly and measurement equipment used for making up threaded connections in the global oil and gas industry. McCoy Global's core products are used during the well construction phase for both land and offshore wells and for both oil and gas well activities. The Corporation is engaged in the following:

- Design, manufacture and distribution of innovative capital equipment used in both off-shore and land drilling markets to handle, make-up and measure tubular products such as casing, and to support this capital equipment through the sale of aftermarket products such as technical service, consumables (dies and inserts), and replacement parts;
- Repair, maintenance, and calibration of drilling and completions equipment; and
- Rental of drilling and completions equipment.

Historically, the Corporation was divided into two operating segments: Energy Products & Service ("EP&S") and Mobile Solutions.

The EP&S segment was comprised of two divisions: Drilling & Completions and Coatings & Hydraulics. The Drilling & Completions division forms the Corporation's continuing operations.

Following a strategic decision to place greater focus on the Corporation's long-term core business in the fourth quarter of 2013, management committed to a formal process to sell the Mobile Solutions segment and the Coatings & Hydraulics division. On June 17, 2014, the Mobile Solutions segment was sold by the Corporation. On September 15, 2014, the Coatings & Hydraulics division was sold by the Corporation. A member of the Corporation's Board of Directors is the Chairman and Chief Executive Officer of, and holds an equity interest in, the corporation that purchased the Coatings & Hydraulics division.

Financial results related to these operations have been included in net earnings from discontinued operations in the consolidated financial statements.

Set out below are McCoy Global's<sup>3</sup> principal operations:

Operating Name	Country of Incorporation	Operating Region	Ownership Interest
McCoy Global Canada Corp. <sup>4</sup>	Canada	Canada	100%
McCoy Global S.à.r.l.	Luxembourg	Middle East	100%
McCoy Global Singapore Pte. Ltd.	Singapore	Asia Pacific	100%
McCoy Global UK Ltd.	United Kingdom	Europe, Africa & Russia	100%
McCoy Global USA, Inc. <sup>5</sup>	United States	United States	100%

Organic growth is being achieved in four ways:

- establishing regional sales and service centers to increase market share of aftermarket revenues (service, consumables and replacement parts) and incremental capital equipment sales in each region;
- deploying a rental fleet of capital equipment at regional sales and service centers;
- commercializing innovative new products by investing in research and development as well as product improvement; and
- increasing market share of existing products.

The Corporation has maintained a strong balance sheet to allow for strategic investments required to support its growth plans and to pursue strategic acquisitions.

<sup>3</sup> On July 7, 2014, McCoy Corporation changed its name to McCoy Global Inc.

<sup>4</sup> On December 31, 2013, FARR Canada Corp. changed its name to McCoy Global Canada Corp.

<sup>5</sup> On December 31, 2013, Precision Die Technologies, L.L.C. merged into Superior Manufacturing & Hydraulics, Inc. ("Superior") and Superior changed its name to McCoy Global USA, Inc.

## OPERATIONAL HIGHLIGHTS

for the year ended December 31, 2014

**We completed the final step in becoming a pure play and strengthened our balance sheet in the process**

In 2014, the Corporation completed the divestiture of the Coatings & Hydraulics division and Mobile Solutions segment. These divestitures represent the completion of McCoy Global's strategy to focus the Corporation's efforts on growing its tubular make-up and handling equipment business.

The proceeds from the Coatings and Hydraulics and Mobile Solutions divestitures have significantly strengthened McCoy Global's balance sheet and reduced exposure to Western Canadian market volatility. With \$29.9 million of cash and cash equivalents as well as access to a \$50 million committed credit facility, McCoy Global is well positioned to withstand a downturn as well as advance its strategic objectives.

**We continued to execute upon our strategic initiative to grow our international presence**

McCoy Global officially opened its third regional sales and service center in the Jebel Ali Free Zone ("JAFZA"), located in Dubai, United Arab Emirates. The opening of this regional center represents another significant milestone in completing the Corporation's strategic initiative to increase its international exposure and solidifies its Eastern Hemisphere presence.

McCoy Global has also continued to progress the development of regional locations in Aberdeen and Singapore which will become increasingly important regions to McCoy Global given anticipated near-term declines in North America.

**We progressed new product development initiatives**

McCoy Global commercialized the weBUCK™ and made significant progress towards completing the development of the first piece of equipment under its weHOLD™ platform of handling tools. Although the current downturn is a challenging environment for commercializing and marketing new products, both of these products represent important pieces of McCoy Global's long-term growth strategy.

**We announced our official name change to "McCoy Global"**

During 2014, the Corporation completed its re-branding efforts and officially changed its name to McCoy Global Inc. The name change is a reflection of the Corporation's growing international presence in the global oil and gas industry, a key element of its growth strategy.

## FINANCIAL RESULTS

### SUMMARY OF CONSOLIDATED ANNUAL RESULTS

For the year ended December 31 (\$000 except per share amounts)	2014	2013	2012
Total revenue from continuing operations	120,619	110,212	101,847
Net earnings from continuing operations	9,369	7,760	9,859
Per common share – basic	0.34	0.29	0.37
Per common share – diluted	0.34	0.28	0.37
Earnings from discontinued operations (net of tax) <sup>6</sup>	8,638	2,084	1,913
Net earnings	18,007	9,844	11,772
Per common share – basic	0.65	0.37	0.44
Per common share – diluted	0.65	0.36	0.44
Adjusted EBITDA	20,986	17,014	18,525
Per common share – basic	0.76	0.63	0.70
Per common share – diluted	0.76	0.62	0.69
Dividends per common share	0.20	0.20	0.18
Total assets	131,941	120,467	117,683
Total liabilities	29,568	34,464	40,187
Total non-current liabilities	4,081	1,919	11,067

EBITDA and adjusted EBITDA are calculated as follows:

For the year ended December 31 (\$000)	2014	2013	2012
Net earnings from continuing operations	9,369	7,760	9,859
Income tax expense	3,798	3,324	3,854
Finance charges (net)	374	677	636
Depreciation	3,679	3,093	2,335
Amortization	2,681	1,163	1,008
<b>EBITDA</b>	<b>19,901</b>	<b>16,017</b>	<b>17,692</b>
Share-based compensation	208	695	711
Impairment of intangible assets	202	–	–
Net changes in fair value related to derivative financial instruments	675	302	–
Impairment of assets held for sale	–	–	122
<b>Adjusted EBITDA</b>	<b>20,986</b>	<b>17,014</b>	<b>18,525</b>

<sup>6</sup> Earnings from discontinued operations (net of tax) for the year includes an estimated one-time gain on the sale of the Corporation's former Mobile Solutions segment and Coatings & Hydraulics division.

## Revenue

For the year ended December 31				
(\$000 except percentages)	2014	2013	Change	% Change
Revenue	120,619	110,212	10,407	9%

Revenue for the year ended December 31, 2014 was \$120.6 million, an increase of \$10.4 million, or 9%, from 2013.

The substantial majority of the Corporation's revenue is denominated in United States currency. In comparison to the prior year, revenues for the year ended December 31, 2014 largely benefited from the weakening Canadian dollar. Incremental revenues from McCoy Global's regional Eastern Hemisphere sales and service centers also contributed to the increase in revenue. In addition, the Corporation realized revenue on a significant order destined for Latin America.

### Geographic sales

The Corporation attributes revenue to a geographic region based on the location of the customer being invoiced. However, the geographic region where equipment is ultimately placed into service may significantly differ from the customer invoice location. Many of McCoy Global's customers are large multinational companies which may place an order in the United States, or another country, and redistribute the equipment. Further, McCoy Global invoices equipment to United States distributors who re-sell equipment both domestically and internationally. This revenue is attributed to the United States in the table below. Geographic revenues are calculated on a consistent basis from period to period; however, users are cautioned that this information may not reflect the actual geographic location where the equipment is placed into service.

In 2014, McCoy Global experienced strong demand in the Western Hemisphere, particularly the United States and Latin America. Regional Latin America revenues in the table below were impacted by orders that were destined to Latin America but invoiced to Europe. The Eastern Hemisphere experienced strong demand from the North Sea, Asia Pacific and parts of the Middle East and West Africa; however, geopolitical events in the Middle East and Russia also negatively impacted revenue generation opportunities in these locations.

Revenue growth in the Europe, Africa & Russia and Asia Pacific regions can be attributed, in part, to the establishment of McCoy Global's regional sales and service centers in the United Kingdom and Singapore, respectively. McCoy Global continues to build customer relationships through proximity to regional markets, and readily available product offerings.

For the year ended December 31				
(\$000 except percentages)	2014	% of total	2013	% of total
United States	63,896	53%	63,759	58%
Europe, Africa & Russia	33,761	28%	24,681	22%
Asia Pacific	8,436	7%	4,700	4%
Middle East	5,977	5%	9,300	9%
Canada	5,099	4%	4,123	4%
Latin America	3,450	3%	3,649	3%
Total	120,619	100%	110,212	100%

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.



## Gross profit

For the year ended December 31				
(\$000 except percentages)	2014	2013	Change	% Change
<b>Gross profit</b>	46,203	40,808	5,395	13%
Gross profit %	38%	37%	1%	

Gross profit percentage for the year ended December 31, 2014 was 38%, an increase of one percentage point from the 37% gross profit percentage realized in the comparative period.

The weakening of the Canadian dollar has had a positive impact on the gross profit of Canadian manufacturing operations where input costs are primarily in Canadian currency. The gross profit percentage also benefitted from higher sales of technical products, including proprietary software products realized in the first and second quarters of 2014.

This was offset by unfavorable shifts in product and customer mix in the third and fourth quarters of 2014. The second half of 2014 resulted in an increase in lower margin capital equipment sales, whereas higher margin software and aftermarket product sales did not increase at the same rate. Secondly, customer mix impacted margins in the latter half of 2014, where sales made through distributors were higher than previous quarters. As the margin earned on distributor sales is typically lower than a direct sale, the increased amount of distributor sales impacted overall profitability.

The Corporation has added costs to its overhead structure in anticipation of higher revenues which impacts overall margin performance when revenues are below budgetary expectations given that a large percentage of expenses in cost of sales are of a fixed nature.

## General and administration

For the year ended December 31				
(\$000 except percentages)	2014	2013	Change	% Change
<b>General and administration</b>	25,859	22,224	3,635	16%
General and administration as a % of revenue	21%	20%	1%	

For the year ended December 31, 2014, general and administrative expense totaled \$25.9 million, a \$3.6 million or 16% increase in comparison to the prior year. As a percentage of revenue, general and administrative expense was 21% for the year ended December 31, 2014, or an increase of one percentage point from the comparative period.

The Corporation's strategic growth initiatives required ongoing investment in many areas of the organization throughout 2014. Developing international locations has required a robust support network and upfront investment. To date, McCoy Global has opened locations in Aberdeen, Singapore and Dubai, all of which were greenfield initiatives. The establishment of new locations requires initial investment outlays, and also requires ongoing expenditures to develop the back-office support needed to run an international operation and meet local regulatory and statutory compliance requirements. For 2014, this incrementally added to the Corporation's overhead structure without an equivalent increase in revenue.

In 2014, general and administration expenses were also impacted by foreign exchange as a significant portion of these expenses are denominated in United States dollars. The weakening Canadian dollar has negatively impacted general and administrative expense.

General and administrative expense also includes a one-time charge of \$0.8 million in severance, which was incurred in the first quarter of 2014. Throughout 2014, the Corporation continued to deploy resources to enhance the functionality and efficiency of its Enterprise Resource Planning (ERP) system and began amortizing capitalized ERP costs.

The nature of the Corporation's operations requires a minimum level of overhead support to meet statutory and regulatory obligations regardless of the revenues generated by the organization. With the recent declines in the price of oil, management continues to closely monitor discretionary spending and will continue to review the Corporation's overhead structure to reduce expenses where possible.

### Sales and marketing

For the year ended December 31				
(\$000 except percentages)	2014	2013	Change	% Change
<b>Sales and marketing</b>	5,199	5,851	(652)	(11%)
Sales and marketing as a % of revenue	4%	5%	(1%)	

Sales and marketing expense for the year ended December 31, 2014 was \$5.2 million, a decrease of \$0.7 million from the prior year. As a percentage of revenue, sales and marketing expense was 4% for the year ended December 31, 2014, a decrease of one percentage point from 2013. Although revenues in 2014 increased, the \$0.6 million decline in sales and marketing expense is attributable to efforts made to strategically reposition aspects of the Corporation's sales and marketing team in 2014.

### Research and development

For the year ended December 31				
(\$000 except percentages)	2014	2013	Change	% Change
<b>Research and development expense</b>	1,374	1,504	(130)	(9%)
<b>Capitalized development expenditures</b>	2,565	1,559	1,006	65%
<b>Total research and development</b>	3,939	3,063	876	29%
Research and development as a % of revenue	3%	3%		

Research and development (including amounts expensed on the Statement of Earnings and capitalized as intangible assets on the Statement of Financial Position) for the year ended December 31, 2014 was \$3.9 million, an increase of 29% from the comparative period. The increase is a result of progress made during the year on several of new products in the "we" product pipeline, including the weBUCK™ and weHOLD™. Total research and development expenditures, as a percentage of revenue, were consistent with the prior year.

### Finance charges (net)

For the year ended December 31				
(\$000 except percentages)	2014	2013	Change	% Change
<b>Finance charges (net)</b>	374	677	(303)	(45%)

For the year ended December 31, 2014, finance charges (net) were \$0.4 million. The difference is a result of repayment of the Corporation's debt in the fourth quarter of 2013. Finance charges for the year ended December 31, 2014 include stand-by fees and the amortization of deferred financing charges.

### Other gains and losses (net)

For the year ended December 31				
(\$000 except percentages)	2014	2013	Change	% Change
<b>Other (gains) and losses (net)</b>	230	(532)	762	(143%)

Other gains and losses (net) consist primarily of foreign exchange gains or losses on the Corporation's United States denominated financial instruments held by Canadian entities.

### Adjusted EBITDA

For the year ended December 31				
(\$000 except percentages)	2014	2013	Change	% Change
<b>Adjusted EBITDA</b>	20,986	17,014	3,972	23%
Adjusted EBITDA as a % of revenue	17%	15%	2%	

For the year ended December 31, 2014, adjusted EBITDA increased by \$4.0 million or 23% from the prior year. As a percentage of revenue, adjusted EBITDA increased by two percentage points, to 17%, in comparison to 2013.

On an annual basis, gross profit increased by \$5.4 million year over year and depreciation and amortization increased by \$2.1 million. This was partially offset by \$3.7 million in additional overhead costs.

### Earnings from discontinued operations (net of tax)

For the year ended December 31				
(\$000 except percentages)	2014	2013	Change	% Change
<b>Earnings from discontinued operations (net of tax)</b>	8,638	2,084	6,554	314%

Earnings from discontinued operations (net of tax) increased by \$6.5 million or 314% from the prior year. This was primarily the result of a one-time gain on the sale of the Corporation's Mobile Solutions segment and Coatings & Hydraulics division in 2014.

## SUMMARY OF CONSOLIDATED FOURTH QUARTER RESULTS

For the three months ended December 31 (\$000 except per share amounts)	2014	2013
Total revenue	27,209	25,105
Net earnings from continuing operations	1,753	372
Per common share – basic	0.06	0.02
Per common share – diluted	0.06	0.02
Net earnings	1,477	701
Per common share – basic	0.05	0.03
Per common share – diluted	0.05	0.03
Adjusted EBITDA	4,957	2,317
Per common share – basic	0.18	0.09
Per common share – diluted	0.18	0.08

EBITDA and adjusted EBITDA are calculated as follows:

For the three months ended December 31 (\$000)	2014	2013
Net earnings from continuing operations	1,753	372
Income tax expense	1,190	216
Finance charges (net)	78	113
Depreciation	976	878
Amortization	666	339
<b>EBITDA</b>	<b>4,663</b>	<b>1,918</b>
Impairment of assets held for sale	202	
Net changes in fair value related to derivative financial instruments	139	302
Share-based compensation	(47)	97
<b>Adjusted EBITDA</b>	<b>4,957</b>	<b>2,317</b>

## SUMMARY OF QUARTERLY RESULTS

### Revenue

For the three months ended December 31				
(\$000 except percentages)	2014	2013	Change	% Change
<b>Revenue</b>	27,209	25,105	2,104	8%

Revenue for the three months ended December 31, 2014 was \$27.2 million, an increase of \$2.1 million, or 8%, from 2013.

Revenue for the three months ended December 31, 2014 increased in comparison to the fourth quarter of 2013 but was impacted by shipping delays caused by challenges with customer availability in the latter part of December. Further, a noticeable decline in order intake impacted revenues in the United States.

As previously disclosed in 2013, results for the fourth quarter of 2013 were negatively impacted by a large custom order of capital equipment destined for Latin America as well as the Corporation's ERP implementation.

### Gross profit

For the three months ended December 31				
(\$000 except percentages)	2014	2013	Change	% Change
<b>Gross profit</b>	9,195	8,082	1,113	14%
<b>Gross profit %</b>	34%	32%	2%	

Gross profit percentage for the three months ended December 31, 2014 was 34%, an increase of 2 percentage points from comparative period.

During the quarter, gross profit was impacted by an inventory write-down that was taken in the fourth quarter of 2014. In response to ongoing engineering improvements to legacy products the organization undertook a detailed review of its current inventory and determined that a portion of its production inventory was at risk of obsolescence. Inventory adjustments resulted in an approximately 3 percentage point decline in gross profit percentage. The Corporation is continuing to monitor its overall inventory levels and make-up in relation to continuing engineering improvement and near-term market activity levels. If market activity continues to decline or there is a shift in customer order mix as a result of the downturn, additional write-downs may be required.

The Corporation added costs to its overhead structure in anticipation of higher revenues which impacts overall margin performance when revenues are below budgetary expectations given that a large percentage of expenses in cost of sales are of a fixed nature.

Profitability for the quarter ended December 31, 2013 was negatively impacted by the Corporation's transition of its two largest manufacturing facilities to its new ERP platform and by an additional provision for warranty that was accrued during the quarter to fund identified product quality issues, which were isolated and resolved in 2014.

## General and administration

For the three months ended December 31				
(\$000 except percentages)	2014	2013	Change	% Change
<b>General and administration</b>	5,319	5,850	(531)	(9%)
General and administration as a % of revenue	20%	23%	(3%)	

For the three months ended December 31, 2014, general and administrative expense totaled \$5.3 million, a \$0.5 million or 9% decrease in comparison to the prior year. As a percentage of revenue, general and administrative expense was 20% for the three months ended December 31, 2014, or a decrease of 3 percentage points from the comparative period.

General and administrative expense declined primarily as a result of reductions to the previously accrued 2014 management short-term incentive plan that were recorded in the fourth quarter. The cost savings were partially offset by additional overheads associated with the opening of McCoy Global's Middle East region sales and service center and the foreign exchange impact of the weakening Canadian dollar on US dollar overheads.

## Sales and marketing

For the three months ended December 31				
(\$000 except percentages)	2014	2013	Change	% Change
<b>Sales and marketing</b>	1,233	1,610	(377)	(23%)
Sales and marketing as a % of revenue	5%	6%	(1%)	

Sales and marketing expense for the three months ended December 31, 2014 was \$1.2 million, a decrease of \$0.4 million from the prior year. As a percentage of revenue, sales and marketing expense was 5% for the three months ended December 31, 2014, a decrease of one percentage point from 2013.

For the three months ended December 31, 2014, the \$0.4 million decline in sales and marketing expense can be attributable to efforts made to reposition aspects of the Corporation's sales and marketing team over the last several quarters.

## Research and development

For the three months ended December 31				
(\$000 except percentages)	2014	2013	Change	% Change
<b>Research and development expense</b>	226	255	(29)	(11%)
<b>Capitalized development expenditures</b>	474	256	218	85%
<b>Total research and development</b>	700	511	189	37%
Research and development as a % of revenue	3%	2%	1%	

Research and development (including amounts expensed on the Statement of Earnings and capitalized as intangible assets on the Statement of Financial Position) for the three months ended December 31, 2014 was \$0.7 million, an increase of 37% from the comparative period. The increase is a result of progress made towards the commercialization of the weBUCK™ and weHOLD™ during the quarter.

## Finance charges (net)

For the three months ended December 31				
(\$000 except percentages)	2014	2013	Change	% Change
Finance charges (net)	78	113	(35)	(31%)

For the three months ended December 31, 2014, finance charges (net) were \$0.1 million and were consistent with the comparative period.

## Other gains and losses (net)

For the year ended December 31				
(\$000 except percentages)	2014	2013	Change	% Change
Other (gains) and losses (net)	(604)	(334)	270	81%

Other gains and losses (net) consist primarily of foreign exchange gains on the Corporation's United States denominated financial instruments held by Canadian entities.

## Adjusted EBITDA

For the three months ended December 31				
(\$000 except percentages)	2014	2013	Change	% Change
Adjusted EBITDA	4,957	2,317	2,640	114%
Adjusted EBITDA as a % of revenue	18%	9%	9%	

For the three months ended December 31, 2014, adjusted EBITDA increased by \$2.6 million or 114% from the prior year. As a percentage of revenue, adjusted EBITDA increased by 9%, to 18%, in comparison to 2013.

The increase in adjusted EBITDA for the fourth quarter of 2014 resulted from increased gross profit and decreased overhead expenditures in comparison to the fourth quarter of 2013.

## Earnings from discontinued operations (net of tax)

For the three months ended December 31				
(\$000 except percentages)	2014	2013	Change	% Change
Earnings from discontinued operations (net of tax)	(276)	329	(605)	(184%)

Earnings from discontinued operations (net of tax) decreased by \$0.6 million or 184% from the prior year. Earnings from discontinued operations reflect changes in estimates relating to certain working capital and other adjustments defined by the share purchase agreement related to 2014 divestitures.

## Summary of quarterly results

(\$000 except per share amounts)	2014				2013			
	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
Revenue	27,209	38,275	27,915	27,220	25,105	28,804	29,019	27,284
Earnings from continuing operations	1,753	4,163	2,258	1,195	372	3,458	2,351	1,579
Basic earnings per share from continuing operations	0.06	0.15	0.08	0.04	0.02	0.13	0.09	0.06
Diluted earnings per share from continuing operations	0.06	0.15	0.08	0.04	0.02	0.13	0.09	0.06
Net earnings	1,477	5,747	8,262	2,521	701	4,031	3,051	2,061
Basic earnings per share	0.05	0.21	0.30	0.09	0.03	0.15	0.11	0.08
Diluted earnings per share	0.05	0.21	0.30	0.09	0.03	0.15	0.11	0.08

## LIQUIDITY AND CAPITAL RESOURCES

### CASH FLOW

At December 31, 2014, the Corporation has \$29.9 million in cash and cash equivalents and access to \$50.0 million in committed funds under its \$50.0 million revolving credit facility. As of December 31, 2014, the Corporation has no debt.

Selected cash flow and capitalization information is as follows:

For the year ended December 31 (\$000)	2014	2013
Cash generated from operating activities	7,640	12,188
Cash generated from (used in) investing activities	13,735	(7,761)
Cash used in financing activities	(4,702)	(13,332)
Debt to equity ratio	0.29 to 1	0.40 to 1

Cash generated from operating activities for the year ended December 31, 2014 was \$7.6 million compared to \$12.2 million generated from the year ended December 31, 2013. Operating cash flow from continuing operations increased by \$3.1 million. Cash flow generated from continuing operations was impacted by a \$15.0 million investment in working capital (2013 – \$7.0 million). Working capital was impacted by an increase in trade receivable balances as at December 31, 2014 resulting from the delayed payment of certain invoices due from several of the Corporation's larger customers. The majority of these balances were received in full subsequent to year-end. Further, McCoy Global continued to build inventories at each of its international sales and service centers to meet regional customer demand. The cashflow impact of these increases in working capital was offset by a \$4.0 million increase in adjusted EBITDA from the comparative period. 2014 cash flows were also impacted by a decline in cash tax payments as tax receivable balances were drawn down to minimize 2014 cash tax payments. In addition, the Corporation had lower interest payments in 2014 resulting from the repayment of senior debt obligations in 2013. Operating cash flow from discontinued operations decreased by \$7.7 million.

Cash generated from investing activities for the year ended December 31, 2014 was \$13.7 million compared to \$7.8 million used in investing activities in the comparative period. For the year ended December, 2014, the Corporation received \$20.6 million of the proceeds from the sales of the Mobile Solutions segment and the Coatings & Hydraulics division. Cash flows were also impacted by \$1.0 million decrease in capital equipment purchases and a \$0.6 million decrease in intangible asset additions. In the comparative period, the Corporation sold its Houston technical service center for proceeds of \$0.9 million.

Cash flows used in financing activities for the year ended December 31, 2014 were \$4.7 million compared to \$13.3 million in prior year. In the comparative period, the Corporation fully repaid its \$9.4 million in borrowings

Management believes that with the projected level of operations for 2015 and the availability of cash and cash equivalents along with funds available under the established credit facility, McCoy Global will have sufficient capital to fund its operations and strategic growth plans. Historically, capital expansion has been financed by cash provided from operating activities, or by utilizing existing credit facilities. Management may also consider raising proceeds through equity or debt offerings. Management consistently monitors economic conditions and will manage capital spending accordingly.

The debt to equity ratio may fluctuate as McCoy Global completes acquisitions and alternate forms of financing are used.



## 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.

### Non-derivative financial instruments

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

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

Financial Instrument	Category	Measurement
Cash and cash equivalents	Loans and receivables	Amortized Cost
Trade and other receivables	Loans and receivables	Amortized Cost
Other assets	Loans and receivables	Amortized Cost
Trade and other payables	Other financial liabilities	Amortized Cost

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

- **Loans and receivables**

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

- **Other financial liabilities**

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.

### Derivative financial instruments

Foreign currency forward contracts are used by the Corporation to manage foreign exchange exposures, consisting mainly of US dollar exposures, resulting from anticipated transactions denominated in foreign currencies.

All derivative financial instruments are classified as held-for-trading and are initially recognized at fair value, with any directly attributable transaction costs recognized in earnings or loss as they are incurred. Subsequent to initial recognition, derivative financial instruments are measured at fair value with changes in fair value recognized in earnings or loss.

The fair value of derivative financial instruments reflects changes in the foreign exchange rates. Fair value is determined based on exchange or over-the-counter price quotations by reference to bid or asking price, as appropriate, in active markets. Fair value amounts reflect management's best estimates using external readily observable market data, such as future prices, foreign exchange rates and discount rates for time value

## 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 that 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 uses 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 currencies of the Corporation's subsidiaries. Foreign currency risk is primarily with the US dollar. The Corporation uses forward exchange contracts with maturities of less than one year from the reporting date to manage the foreign currency risk.

Based on the Corporation's US dollar denominated monetary assets and liabilities at December 31, 2014, 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 \$0.2 million (2013 – \$nil).

#### 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. In 2013, the Corporation was primarily exposed to interest rate risk on cash and cash equivalents. The Corporation estimates that a change of 100 basis points in the interest rate as at December 31, 2014, would have increased or decreased net earnings, net of tax, for the year ended December 31, 2014, by \$nil (2013 – \$nil).

### (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, derivative financial instruments, 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 Schedule I US financial institutions. The Corporation's derivative financial instruments are entered into with a Canadian chartered bank as the counterparty.

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 statement of financial position date

The aging analysis of trade receivables is as follows:

As at December 31 (\$000)	2014	2013
	\$	\$
0 to 30 days	6,866	4,857
31 to 60 days	3,508	3,844
61 to 120 days	3,657	4,171
Over 120 days	7,641	920
	21,672	13,792
Provisions for impairment	(287)	–
Trade receivables	21,385	13,792
Other receivables	1,318	366
Total trade and other receivables	22,703	14,158

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

For the year ended December 31 (\$000)	2014	2013
	\$	\$
Provision for impairment, as at January 1	–	85
Impairment loss recognized	287	–
Amounts recovered	–	(60)
Impairment loss related to discontinued operations	–	(25)
Provision for impairment, as at December 31	287	–

### (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 revolving credit facility availability to meet financial obligations. Based on remaining contractual maturities, the undiscounted cash flows for its financial liabilities including interest payments, consists of \$15.1 million (2013 – \$15.3 million) of trade and other payables and \$1.0 million (2013 – \$0.3 million) of derivative financial instruments which mature within one year of the statement of financial position date.

## 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:

As at December 31 (\$000)	2014	2013
	\$	\$
Borrowings	–	–
Shareholders' equity	102,373	86,003
Total capital	86,003	86,003

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, the disposition of the Corporation's assets, distributions, financial instruments and changes to the nature of the Corporation's business or operations.

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.

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.

## OTHER FINANCIAL INFORMATION

### CONTRACTUAL OBLIGATIONS AND OFF BALANCE SHEET ARRANGEMENTS

In its continuing operations, McCoy Global has, from time to time, entered into long-term contractual arrangements for its operational facilities and debt financing. The following table presents contractual obligations, including interest, arising over the next five years from the arrangements currently in force:

As at December 31, 2014 (\$000)	Trade and other payables	Derivative financial instruments	Total
	\$	\$	\$
Within 1 year	15,119	977	16,096

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:

(\$000)	\$
Within 1 year	2,936
2 to 5 years	6,172
Over 5 years	694

The above includes commitments with related parties disclosed below.

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 \$0.7 million and \$2.2 million thereafter.

### RELATED PARTY TRANSACTIONS

#### Operating lease expense

The Corporation has three lease agreements with companies controlled by individuals, who are directors of the Corporation's board that are also directors of Foundation Equity Corporation ("Foundation"), a 22% shareholder of the Corporation. The following is a summary of each agreement:

- (i) Minimum annual lease payments of \$0.4 million 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 of \$0.7 million until 2018. The Corporation has the option to extend the lease for five years with annual lease payments negotiated at market rates.
- (iii) Minimum annual lease payments of \$0.3 million until 2018.

During the year ended December 31, 2014 the Corporation recorded operating lease expense of \$1.4 million (2013 – \$1.3 million) with respect to related party operating leases disclosed above. In addition to regularly scheduled lease payments, the Corporation paid an additional \$0.2 million to one of the companies controlled by the related parties to reimburse the related parties for certain facility expenses.

#### Divestiture of Coatings & Hydraulics division

On September 15, 2014 the Corporation sold the Coatings & Hydraulics division to Corrosion and Abrasion Solutions Ltd. ("CASL"). To facilitate the sale and minimize any potential conflicts of interest, the Corporation engaged a third party brokerage firm to solicit offers within the market place, manage the sales process and assist in negotiating the definitive agreements. A member of the Corporation's Board of Directors is the Chairman and Chief Executive Officer of, and holds an equity interest in, CASL, the purchaser of the Coatings & Hydraulics division.

### Payment of short form prospectus fees

On December 17, 2013, Foundation completed the sale of 5,200,000 common shares of the Corporation. The offering as completed on a bought deal basis by an underwriting syndicate. The Corporation paid fees of \$0.3 million on behalf of Foundation related to the short-form prospectus that was issued in conjunction with the offering. Foundation subsequently reimbursed the Corporation for these fees.

### Key management personnel

Key management personnel include 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, 2014 and 2013 are as follows:

For the years ended (\$000)	2014	2013
	\$	\$
Salaries and other short-term employee benefits	3,539	3,886
Termination benefit	656	–
Share-based payments	460	579
	4,655	4,465

### OUTSTANDING SHARE DATA

As at March 11, 2015 the following class of shares and equity securities potentially convertible into common shares were outstanding:

Common shares	27,694,239
Stock options	1,078,337

The stock options are exercisable into an equal number of common shares.

### Dividends

A summary of historical dividend information is as follows:

Dividend declared	Dividend paid	Amount per common share
March 11, 2015	April 13, 2015	\$0.05
December 4, 2014	December 31, 2014	\$0.05
September 9, 2014	October 8, 2014	\$0.05
May 23, 2014	June 20, 2014	\$0.05
March 14, 2014	April 14, 2014	\$0.05
December 10, 2013	December 31, 2013	\$0.05
September 26, 2013	October 25, 2013	\$0.05
May 16, 2013	June 14, 2013	\$0.05
March 14, 2013	April 12, 2013	\$0.05
December 12, 2012	December 31, 2012	\$0.05
August 17, 2012	September 17, 2012	\$0.05
May 17, 2012	June 15, 2012	\$0.05
March 22, 2012	April 12, 2012	\$0.03

## 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.

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

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

**(i) 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 estimates and judgments are 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 or contingencies obligations.

**(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) Recoverability of intangible assets**

The Corporation performs an impairment test, in accordance with the accounting policy stated in note 3(k), to test whether intangible assets under development 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 3(k) and Note 9).

## 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, 2015. 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 11 – Accounting for acquisitions of interests in joint operations	Outlines specific guidance on accounting for the acquisition of an interest in a joint operation that is a business.	The new standard is not expected to have a significant impact on the Corporation.	January 1, 2016
IFRS 15 – Revenue from contracts with customers	Outlines a new revenue recognition model for contracts with customers based on the underlying principle that revenue is recognized at the amount the Corporation expects to be entitled to in exchange for goods or services under contract. Additional disclosure is also specified.	A formal assessment of the transitional implication to the Corporation will be completed in the future.	January 1, 2017
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, 2018
IFRS 7 – Financial instruments: disclosures	Specifies that additional disclosure is required upon implementation of IFRS 9.	The new standard is not expected to have a significant impact on the Corporation.	January 1, 2018

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



## CONTROLS AND PROCEDURES

### DISCLOSURE CONTROLS AND PROCEDURES (“DC&P”)

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

An evaluation of the design and operating effectiveness of our DC&P was conducted, as at December 31, 2014, by management under the supervision of the CEO and the CFO. Based on this evaluation, the CEO and the CFO have concluded that, as at December 31, 2014, our DC&P, as in National Instrument 52-109, Certification of Disclosure in Issuers’ Annual and Interim Filings (NI 52-109), was effective.

### INTERNAL CONTROLS OVER FINANCIAL REPORTING (“ICFR”)

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

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

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

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

Management, under the supervision of the CEO and CFO, has evaluated the design and operating effectiveness of our ICFR using the framework and criteria established in Internal Controls – Integrated Framework of 2013, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, the CEO and the CFO have concluded that as at December 31, 2014, ICFR (as defined in NI 52-109) were effective. There were no changes in our ICFR during the year ended December 31, 2014 that have materially affected, or are reasonably likely to affect, our ICFR.

## RISK AND UNCERTAINTIES RELATED TO THE BUSINESS

As at December 31, 2014, there have been no changes in the Corporation's risks or risk management activities since December 31, 2013. The Corporation's results of operations, business prospects, financial condition, cash distributions to shareholders and the trading price of the Corporation's shares are subject to a number of risks. These risk factors include:

- Oil and natural gas price fluctuations;
- Political unrest;
- Technology risks;
- Economic downturns;
- Cyclicalities;
- Reliance on key persons and labour shortages;
- Domestic and foreign competition;
- International sales;
- Business acquisitions;
- Growth strategy risk;
- Hydrocarbon demand risk;
- Insurance sufficiency, availability and rate risk;
- Supply chain risk; and
- Legal compliance risk.

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

### RISK FACTORS

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

#### Oil and natural gas fluctuations

A downturn in oil and gas prices worldwide has a direct impact on activities of the Corporation's customers. Low commodity prices for an extended period of time will result in reduced demand for many of McCoy Global's manufactured products. This in turn will result in lowered revenues and earnings. To mitigate some of this risk, management has focused on growing its less volatile recurring revenue businesses such as consumables, replacement parts, service and rental related to drilling equipment as well as new product development which will diversify the Corporation's product offering. In addition, the Corporation's strategy to increase revenue outside of North America and in extreme and adverse well conditions is intended to provide less revenue volatility, as such contracts are typically longer in term.

Management is able to mitigate some of the financial impact of a downturn in activity by reducing its discretionary spending, capital spending and reduce headcount.

### Political unrest

The Corporation markets its products into certain countries which may experience political unrest from time to time. Political unrest could result in a disruption in revenues generated by those countries and reduced revenues potentially short and long term. In addition, this may lead to an inability to collect on accounts for products and services sold. To mitigate this risk, McCoy Global ensures it is operating in the global marketplace where reliance on revenues from one country or another outside of North America is not expected to result in significant revenue shortfalls.

### Technology risks

McCoy Global's ability to meet customer demands in respect of performance and cost will depend upon continuous improvements in products, and there can be no assurance that McCoy Global will be successful in this regard or that McCoy Global will have resources available to meet this continuing demand. Failure to meet this demand could have a material adverse effect on McCoy Global's business, financial condition, results of operations and cash flows. No assurances can be given that McCoy Global's competitors will not achieve technological advantages.

McCoy Global is continually researching the market and trends in order to best manage technology risks. As the Corporation becomes knowledgeable of trends that may require different or disruptive technologies, it reviews the opportunity under various measures and determines if it is a viable research and development project.

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

### Economic downturns

Economic downturns may have a negative impact on the Corporation's business since its customers may curtail their capital spending or may experience difficulty in paying for products purchased. By situating the Corporation to adapt to changing market conditions, exposure to such risk may be lessened. This has and will continue to be achieved by cost management strategies and expansion into other sectors through new targeted marketing strategies.

### Cyclicalities

As a significant percentage of the Corporation's consolidated revenues are tied, directly or indirectly, to the oil and gas industry, both in Western Canada and globally, the Corporation's overall financial performance is subject to any cyclicalities in this sector.

### Reliance on Key Persons and Labour Shortages

The potential loss of key personnel is another risk area the Corporation faces. The Corporation's future and growth is dependent on retaining qualified employees at all levels of the organization. In order to address this risk, the Corporation is proactive in its human resource management with the ultimate goal of providing an attractive work environment for all employees.

## Domestic and Foreign Competition

The Corporation has competitors. If the Corporation does not respond effectively to competitors' new products, geographic expansion, quality, delivery, pricing and marketing strategies, the Corporation may lose market share. Foreign and domestic competition presents a risk for the hydraulic power tong market. The Corporation invests a significant amount of time and effort on new product development to ensure that this risk is mitigated. Most importantly, the Corporation is a customer focused business and long term, trusted relationships are key to maintaining a competitive edge. Customers are more reluctant to change suppliers if their expectations are met or exceeded. Lastly, drillers and operators are constantly evolving the means of extracting hydrocarbons, with an emphasis on safety. Although McCoy Global has a robust new product development program, the Corporation is at risk of not keeping up with the end users' demand for safer, more efficient products.

The Corporation has begun differentiating itself from competitors by expanding its physical operations into international regions of concentrated activity. These international regional locations will increase customer responsiveness by providing customers with regional technical service support, product training, technical sales, capital equipment for sale or rent and warehouses for consumables and replacement parts.

## International Sales

The Corporation sells a significant amount of its product into foreign countries. International sales are subject to inherent risks such as changes in governing bodies, regulatory requirements, import and export delays, sanctions and other trade barriers. The Corporation may not extend credit to certain customers, however, many international customers are given credit terms and there is inherent risk related to any situation, such as terrorism, regime change, war and civil insurrection that could disrupt the payment of monies owed to the Corporation.

## Business Acquisitions

The Corporation intends to identify, evaluate and acquire new businesses that are complementary to its overall business strategy. In certain situations, the Corporation may find itself competing for targets with other strategic and non-strategic buyers which may have the desire or ability to value targets at a higher purchase price than McCoy Global. In addition, if integration of any new businesses does not occur as expected, or their performance is less than expected, the Corporation's revenues may be lower and operational costs higher than expected.

## Growth Strategy Risk

The Corporation's Board has approved a robust growth strategy for the Corporation. There is a risk that access to capital may be reduced in both the debt and equity markets resulting in delays to the implementation of the growth strategy, both organically and by acquisitions. In addition, there is competition for acquiring high-quality companies which can result in unsuccessful acquisition attempts. In order to mitigate this risk, the executive team has a structured and disciplined process for identifying and evaluating opportunities.

## Hydrocarbon Demand Risk

Global demand for hydrocarbon related products such as gasoline and natural gas directly impacts the level of worldwide drilling activity. Reduction in drilling activity results in lower demand for many of McCoy Global's manufactured products. To help alleviate some of this risk, management is continuing to grow its consumable, service and replacement parts business for drilling equipment. Growing the Corporation's exposure to the recurring revenue maintenance cycles of existing capital equipment is a key part of the long term business strategy.

### **Insurance Sufficiency, Availability and Rate Risk**

Although the Corporation believes its insurance coverage to be appropriate for the nature of the risks relative to the costs of coverage, such coverage may not be adequate. Furthermore, the Corporation's ability to procure effective insurance at favorable rates is dependent on various operational factors including the number of claims and amounts paid out. To this end, the Corporation attempts to mitigate its risks through various commercial agreements, whereby the risk is appropriately shared.

### **Supply Chain Risk**

The Corporation relies on various key suppliers and their risks and costs are ultimately borne by the Corporation. The Corporation continuously pursues the most efficient and effective suppliers in order to mitigate any one supplier having a material adverse effect on the Corporation's ability to provide its product. However, there are several suppliers whom the Company relies upon within its supply chain and if something adverse were to happen to one of these suppliers the Company's ability to meet customer demand may be impacted in the short-term until another supplier can be sourced or the part designed internally.

The Corporation uses steel as the major component in its products. Disruption in the supply of steel may affect the Corporation's ability to fill orders in a timely fashion and volatility of steel prices may affect gross margins. The Corporation has several steel suppliers which may assist in the mitigation of disruption of the supply of steel, provided however, a disruption of the overall steel market will have an impact on the Corporation which it may not be able to mitigate.

### **Legal Compliance Risk**

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

### **Other Information**

Additional information relating to the Corporation, including the Corporation's Annual Information Form for the year end December 31, 2014 is available on SEDAR at [www.sedar.com](http://www.sedar.com).



# CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2014

## 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 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 reappointment of the external auditors.

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

(Signed) "Jacob Coonan"  
Chief Financial Officer

March 11, 2015



March 11, 2015

## **Independent Auditor's Report**

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

We have audited the accompanying consolidated financial statements of McCoy Global Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2014 and 2013 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.

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

*PricewaterhouseCoopers LLP  
TD Tower, 10088 102 Avenue NW, Suite 1501, Edmonton, Alberta, Canada T5J 3N5  
T: +1 780 441 6700, F: +1 780 441 6776*

\*PwC\* refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of McCoy Global Inc. and its subsidiaries as at December 31, 2014 and 2013 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

*PricewaterhouseCoopers LLP*

**Chartered Accountants**

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Stated in thousands of Canadian dollars)

As at	Note	December 31, 2014	December 31, 2013
		\$	\$
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		29,876	13,332
Trade and other receivables	21	22,703	14,158
Inventories	6	41,430	34,607
Income tax recoverable		–	3,496
Other current assets	7	3,012	1,790
		97,021	67,383
Assets of disposal groups held-for-sale	25	–	21,760
		97,021	89,143
Property, plant and equipment	8	16,738	15,569
Intangible assets	9	14,443	14,657
Deferred tax assets	13	2,297	1,098
Other assets	7	1,442	–
<b>Total assets</b>		<b>131,941</b>	<b>120,467</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	10	15,119	15,293
Customer deposits		5,997	7,436
Derivative financial instruments		977	302
Provisions	11	1,761	1,587
Income tax payable		1,633	45
		25,487	24,663
Liabilities of disposal groups held-for-sale	25	–	7,882
		25,487	32,545
Provisions	11	2,360	–
Deferred tax liabilities	13	1,721	1,919
<b>Total liabilities</b>		<b>29,568</b>	<b>34,464</b>
<b>Shareholders' equity</b>	14		
Share capital		60,137	58,849
Contributed surplus		3,778	3,593
Accumulated other comprehensive income (loss)		3,632	1,212
Retained earnings		34,826	22,349
<b>Total shareholders' equity</b>		<b>102,373</b>	<b>86,003</b>
Commitments	26		
<b>Total liabilities and shareholders' equity</b>		<b>131,941</b>	<b>120,467</b>

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 EARNINGS AND COMPREHENSIVE INCOME

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

For the years ended	Note	December 31, 2014	December 31, 2013
		\$	\$
<b>Revenue</b>	16	120,619	110,212
<b>Cost of sales</b>		74,416	69,404
<b>Gross profit</b>		46,203	40,808
General and administration		25,859	22,224
Sales and marketing		5,199	5,851
Research and development		1,374	1,504
Other losses (gains) (net)		230	(532)
Finance charges (net)	18	374	677
		33,036	29,724
<b>Earnings from continuing operations before income taxes</b>		13,167	11,084
<b>Income tax expense (recovery)</b>	19		
Current		5,063	2,199
Deferred		(1,265)	1,125
		3,798	3,324
<b>Earnings from continuing operations</b>		9,369	7,760
Earnings from discontinued operations (net of tax)	25	8,638	2,084
<b>Net earnings</b>		18,007	9,844
<b>Other comprehensive income for the year</b>			
Translation gain of foreign operations		2,420	2,154
<b>Comprehensive income for the year</b>		20,427	11,998
<b>Earnings per share</b>	20		
Basic from continuing operations		0.34	0.29
Basic from discontinued operations		0.31	0.08
Basic from net earnings		0.65	0.37
Diluted from continuing operations		0.34	0.28
Diluted from discontinued operations		0.31	0.08
Diluted from net earnings		0.65	0.36

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

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

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

	Issued capital		Contributed surplus	Accumulated other comprehensive income (loss)	Retained earnings	Total equity
	Number of shares	Share capital				
	#	\$	\$	\$	\$	\$
<b>Balances at January 1, 2013</b>	26,670,911	56,572	3,970	(942)	17,896	77,496
Net earnings	–	–	–	–	9,844	9,844
Translation gain on foreign operations	–	–	–	2,154	–	2,154
Employee share-based compensation expense	–	–	281	–	–	281
Dividends	–	–	–	–	(5,391)	(5,391)
Common shares issued on exercise of stock options	733,328	2,277	(658)	–	–	1,619
<b>Balances at December 31, 2013</b>	27,404,239	58,849	3,593	1,212	22,349	86,003
Net earnings	–	–	–	–	18,007	18,007
Translation gain on foreign operations	–	–	–	2,420	–	2,420
Employee share-based compensation expense	–	–	508	–	–	508
Dividends	–	–	–	–	(5,530)	(5,530)
Common shares issued on exercise of stock options	290,000	1,288	(323)	–	–	965
<b>Balances at December 31, 2014</b>	27,694,239	60,137	3,778	3,632	34,826	102,373

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, 2014	December 31, 2013
<b>Cash generated from (used in)</b>		\$	\$
<b>Operating activities</b>			
Earnings from continuing operations		9,369	7,760
Adjustments for:			
Depreciation of property, plant and equipment	17	3,679	3,093
Amortization of intangible assets	17	2,681	1,163
Current income tax expense		5,063	2,199
Deferred income tax (recovery) expense		(1,265)	1,125
Finance charges (net)		374	677
<b>EBITDA<sup>(1)</sup></b>		<b>19,901</b>	<b>16,017</b>
Share-based compensation expense	15(c)	208	695
Unrealized loss on derivative financial instruments		675	302
Impairment of intangible asset		202	–
Loss (gain) on disposal of property, plant and equipment		65	(104)
Changes in non-cash working capital balances	24	(14,953)	(6,933)
Finance costs paid		(44)	(449)
Income taxes paid, net		(88)	(6,692)
Net cash generated from continuing operating activities		5,966	2,836
Net cash generated from discontinued operating activities		1,674	9,392
<b>Net cash generated from operating activities</b>		<b>7,640</b>	<b>12,228</b>
<b>Investing activities</b>			
Proceeds from sale of assets held-for-sale		20,624	–
Purchases of property, plant and equipment		(4,387)	(5,358)
Proceeds from sale of property, plant and equipment		250	1,252
Additions to intangible assets		(2,658)	(3,261)
Net cash generated from (used in) continuing investing activities		13,829	(7,367)
Net cash used in discontinued investing activities		(94)	(434)
<b>Net cash generated from (used in) investing activities</b>		<b>13,735</b>	<b>(7,801)</b>
<b>Financing activities</b>			
Repayment of finance lease obligations		–	(133)
Repayment of borrowings		–	(9,427)
Deferred financing costs		(137)	–
Proceeds from issuance of share capital on exercise of options		965	1,619
Dividends paid		(5,530)	(5,391)
<b>Net cash used in continuing financing activities</b>		<b>(4,702)</b>	<b>(13,332)</b>
Effect of exchange rate changes on cash and cash equivalents		(129)	115
<b>Increase (decrease) in cash and cash equivalents</b>		<b>16,544</b>	<b>(8,790)</b>
<b>Cash and cash equivalents – beginning of the year</b>		<b>13,332</b>	<b>22,122</b>
<b>Cash and cash equivalents – end of the year</b>		<b>29,876</b>	<b>13,332</b>

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2014 and 2013

(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 provides tubular handling, assembly and measurement equipment used for making up threaded connections in the global oil and gas industry. McCoy's continuing operations are engaged in the:

- design, manufacture and distribution of capital equipment used in both off-shore and land drilling markets to handle, make-up and measure tubular products, such as casing, and to support this capital equipment through the sale of aftermarket products, such as technical service, consumables (dies and inserts) and replacement parts;
- repair, maintenance and calibration of drilling and completions equipment; and
- rental of drilling and completions equipment.

Historically, McCoy was divided into two operating segments: Energy Products & Service ("EP&S") and Mobile Solutions.

The EP&S segment was comprised of two divisions: Drilling & Completions and Coatings & Hydraulics. The Drilling & Completions division forms the Corporation's continuing operations.

Management committed to a formal process to sell the Mobile Solutions segment and the Coatings & Hydraulics division in the fourth quarter of 2013 following a strategic decision to place greater focus on the Corporation's key competencies (note 25). On June 17, 2014, the Mobile Solutions segment was sold by the Corporation. On September 15, 2014, the Coatings & Hydraulics division was sold by the Corporation. A member of the Corporation's Board of Directors is the Chairman and Chief Executive Officer of, and holds an equity interest in, the corporation that purchased the Coatings & Hydraulics division. Results of the discontinued operations have been presented separately in the consolidated statements of earnings and comprehensive income and the consolidated statements of cash flows for the current and comparative year.

Set out below are McCoy's principal operations:

Operating Name	Country of Incorporation	Operating Region	Ownership Interest	Former Operating Segment	Former Division
Continuing Operations					
McCoy Global Canada Corp.	Canada	Canada	100%	EP&S	Drilling & Completions
McCoy Global S.à.r.l.	Luxembourg	Middle East	100%	EP&S	Drilling & Completions
McCoy Global Singapore Pte. Ltd.	Singapore	Asia Pacific	100%	EP&S	Drilling & Completions
McCoy Global UK Ltd.	United Kingdom	Europe, Asia and Russia	100%	EP&S	Drilling & Completions
McCoy Global USA, Inc.	United States	United States	100%	EP&S	Drilling & Completions
Discontinued Operations					
Inotec Coating and Hydraulics Inc.	Canada	Canada	100%	EP&S	Coatings & Hydraulics
Peerless Limited	Canada	Canada	100%	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 Davis LLP, Livingston Place, 1000 – 250 2nd Street SW, Calgary, Alberta. The Corporation is listed on the Toronto Stock Exchange under the symbol "MCB" and on the OTCQB under the symbol "MCCRF."

## 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 11, 2015.

## 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 prepared in Canadian dollars, rounded to the nearest thousand, except when otherwise indicated. Subsidiaries incorporated in Canada have a functional currency of Canadian dollars. Subsidiaries incorporated in the United States ("US"), have a functional currency of US dollars. The Corporation's principal operations in the United Kingdom ("UK"), Singapore ("SG"), and the United Arab Emirates ("UAE") 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 earnings and comprehensive income are presented using the function classification for expenditures.

## **b) Basis of consolidation**

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

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

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

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. Write downs for inventory are recorded each period as required and updated based on management's judgment. Further information regarding this judgement is described in Note 3(g) and Note 6.

### **(ii) Provisions**

Considerable estimates and judgments are 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 or contingent obligations. Further information regarding these estimates and judgments are described in Note 3(l) and Note 11.

### **(iii) Income tax**

The Corporation operates in several tax jurisdictions and is required to estimate its income taxes in each of these tax jurisdictions in preparing its consolidated financial statements. The calculation of income taxes requires the use of judgment. If these judgments prove to be inaccurate, future earnings may be materially impacted. Further information regarding the judgement used is described in Note 3(n) and Note 19.

### **(iv) Recoverability of intangible assets**

The Corporation performs an impairment test, in accordance with the accounting policy stated in note 3(k), to test whether intangible assets under development 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 3(k) and Note 9).



## d) Translation of foreign currency

### (i) Foreign currency transactions

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

### (ii) Foreign operations

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

## e) Financial instruments

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

### (i) Non-derivative financial instruments

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

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

Financial Instrument	Category	Measurement
Cash and cash equivalents	Loans and receivables	Amortized Cost
Trade and other receivables	Loans and receivables	Amortized Cost
Other assets	Loans and receivables	Amortized Cost
Trade and other payables	Other financial liabilities	Amortized Cost

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

- Loans and receivables

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

- Other financial liabilities

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.

### (ii) Derivative financial instruments

Foreign currency forward contracts are used by the Corporation to manage foreign exchange exposures, consisting mainly of US dollar exposures, resulting from anticipated transactions denominated in foreign currencies.

All derivative financial instruments are classified as held-for-trading and are initially recognized at fair value, with any directly attributable transaction costs recognized in earnings or loss as they are incurred. Subsequent to initial recognition, derivative financial instruments are measured at fair value with changes in fair value recognized in earnings or loss.

The fair value of derivative financial instruments reflects changes in the foreign exchange rates. Fair value is determined based on exchange or over-the-counter price quotations by reference to bid or asking price, as appropriate, in active markets. Fair value amounts reflect management's best estimates using external readily observable market data, such as future prices, foreign exchange rates and discount rates for time value of money.

#### **f) Cash and cash equivalents**

Cash and cash equivalents are comprised of Canadian dollar, US dollar, Singapore dollar, euro and UK pound sterling 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 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 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, up 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. Certain parts, classified as finished goods, may be used in the manufacturing process.

#### **h) Assets and liabilities held-for-sale**

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such assets, or disposal groups, are measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a prorata basis, except that no loss is allocated to inventories, financial assets, or deferred tax assets, which continue to be measured in accordance with the Corporation's other accounting policies. Impairment losses on initial classification as held-for-sale and subsequent gains and losses on re-measurement are recognized in earnings or loss.

Once classified as held-for-sale, intangible assets and property, plant and equipment are no longer amortized or depreciated.

#### **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 associated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bring the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located. General and specific borrowing costs directly

attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

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

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

**(ii) Subsequent costs**

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

**(iii) Depreciation**

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

Machinery and office equipment	3–15 years
Rental 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.

**j) 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 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 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. Subsequent to initial recognition, software development expenditures are measured at cost less accumulated amortization and any accumulated impairment losses.

**(ii) Other intangible assets**

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

Intangible assets acquired in business combinations include customer relationships, trade names 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	3–10 years
Trade names	3 years
Intellectual property	5–15 years
Computer 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 assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets carried at amortized cost is impaired. If there is objective evidence, such as significant financial difficulty of the obligor, breach of contract or it becomes probable the debtor will enter bankruptcy, the asset is tested for impairment.

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

### (ii) Non-financial assets

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

For impairment testing, assets are grouped together into cash generating units ("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 a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets or CGU.

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

## 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.

## **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 or loss on a straight-line basis over the period of the lease.

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

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

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

**p) 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.

**q) Share capital**

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

**r) 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.

**s) Revenue**

**(i) Sale of goods**

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

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

**(ii) Rendering of services**

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

**(iii) Rental**

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

#### **t) Discontinued operations**

A discontinued operation is a component of the Corporation's business that either has been disposed of or is classified as held-for-sale and:

- comprises operations and cash flows that can be clearly distinguished from the rest of the Corporation;
- represents a separate major line of business or geographical area of operations; and
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations.

When a component is classified as a discontinued operation, the comparative consolidated statement of earnings or loss and OCI is represented as if the operation had been discontinued from the start of the comparative year.

#### **4. CHANGES IN ACCOUNTING POLICIES**

The Corporation has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of January 1, 2014. The nature and effects of the changes are explained below.

##### **a) IFRS 10, IFRS 12 and IAS 27 – Investment Entities**

The Corporation has applied the amendments to IFRS 10, IFRS 12, and IAS 27 effective January 1, 2014. The amendments to IFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements. Amendments have been made to IFRS 12 and IAS 27 to introduce new disclosure requirements for investment entities. As the Corporation is not an investment entity (assessed based on the criteria set out in IFRS 10 as at January 1, 2014), the application of the amendments has had no impact on the disclosures or the amounts recognized in the Corporation's consolidated financial statements.

##### **b) IAS 32 – Financial Instruments – Presentation**

The Corporation has adopted the amendments to IAS 32 effective January 1, 2014. This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. The amendment did not have a significant effect on the Corporation's consolidated financial statements.

## 5. 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, 2015. These standards and amendments 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 11 – Accounting for Acquisitions of Interests in Joint Operations	Outlines specific guidance on accounting for the acquisition of an interest in a joint operation that is a business.	The new standard is not expected to have a significant impact on the Corporation.	January 1, 2016
IFRS 15 – Revenue from Contracts with Customers	Outlines a new revenue recognition model for contracts with customers based on the underlying principle that revenue is recognized at the amount the Corporation expects to be entitled to in exchange for goods or services under contract. Additional disclosure is also specified.	A formal assessment of the transitional implication to the Corporation will be completed in the future.	January 1, 2017
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, 2018
IFRS 7 – Financial Instruments – Disclosures	Specifies that additional disclosure is required on implementation of IFRS 9.	The new standard is not expected to have a significant impact on the Corporation.	January 1, 2018

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



## 6. INVENTORIES

	2014	2013
	\$	\$
Raw materials	1,997	2,421
Work-in-progress	5,667	5,533
Finished goods	33,766	26,653
	41,430	34,607

During the year ended December 31, 2014, raw materials and changes in finished goods and work-in-progress inventories included in cost of sales amounted to \$71,753 (2013 – \$68,083).

During the year ended December 31, 2014, the net write down of inventories to net realizable value amounted to \$956 (2013 – \$196). The net write down is included in cost of sales.

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

## 7. OTHER ASSETS

	Note	2014	2013
		\$	\$
Prepaid expenses, deposits and other		1,939	1,395
Deferred financing costs	12	253	395
Amounts held in escrow on business divestitures	25	2,262	–
<b>Total other assets</b>		<b>4,454</b>	<b>1,790</b>
<b>Current portion of other assets</b>		<b>3,012</b>	<b>1,790</b>
<b>Other assets</b>		<b>1,442</b>	<b>–</b>

Amounts held in escrow relate to the consideration to be received on the sale of businesses as described in Note 25. Escrow funds are to be received based on scheduled dates as per the relevant purchase and sale agreement. As at December 31, 2014, \$930 of amounts held in escrow are classified as long-term to reflect uncertainty over the timing of collection as the consideration is still subject to finalization with one of the purchasers.

## 8. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Machinery and office equipment	Automotive equipment	Rental equipment	Computer equipment	Leasehold improvements	Total
<b>Cost</b>	\$	\$	\$	\$	\$	\$	\$	\$
Balances at January 1, 2013	2,909	4,936	35,941	1,029	–	3,905	1,821	50,541
Additions	–	–	3,810	165	48	1,148	187	5,358
Additions								
– discontinued operations	–	13	435	–	–	–	–	448
Disposals	(121)	(773)	(1,737)	(43)	–	(1,146)	(78)	(3,898)
Disposals								
– discontinued operations	–	–	(98)	–	–	(167)	–	(265)
Transfers to assets of disposal groups held-for sale	(2,794)	(4,199)	(14,812)	(633)	–	(630)	(949)	(24,017)
Foreign exchange	6	23	817	19	–	48	70	983
Balances at December 31, 2013	–	–	24,356	537	48	3,158	1,051	29,150
Additions	–	–	2,392	66	1,603	91	235	4,387
Disposals	–	–	(252)	(17)	(110)	(257)	–	(636)
Foreign exchange	–	–	1,211	28	7	95	85	1,426
Balances at December 31, 2014	–	–	27,707	614	1,548	3,087	1,371	34,327
<b>Accumulated depreciation</b>								
Balances at January 1, 2013	–	1,460	18,730	645	–	2,764	761	24,360
Depreciation	–	4	2,372	82	–	546	89	3,093
Depreciation								
– discontinued operations	–	134	1,061	28	–	82	13	1,318
Disposals	–	(53)	(1,437)	(43)	–	(1,145)	(72)	(2,750)
Disposals								
– discontinued operations	–	–	(88)	–	–	(167)	–	(255)
Transfers to assets of disposal groups held-for sale	–	(1,548)	(9,344)	(489)	–	(614)	(545)	(12,540)
Foreign exchange	–	3	307	11	–	23	11	355
Balances at December 31, 2013	–	–	11,601	234	–	1,489	257	13,581
Depreciation	–	–	2,688	99	35	724	133	3,679
Disposals	–	–	(51)	(17)	(3)	(256)	–	(327)
Foreign exchange	–	–	563	15	–	50	28	656
Balances at December 31, 2014	–	–	14,801	331	32	2,007	418	17,589
<b>Carrying amount</b>								
At December 31, 2013	–	–	12,755	303	48	1,669	794	15,569
At December 31, 2014	–	–	12,906	283	1,516	1,080	953	16,738

During the year ended December 31, 2014, depreciation included in cost of sales amounted to \$2,610 (2013 – \$2,170); depreciation in general and administration amounted to \$1,032 (2013 – \$900); depreciation in research and development amounted to \$37 (2013 – \$nil) and depreciation included in sales and marketing amounted to \$nil (2013 – \$23). Included in PP&E is PP&E not available for use of \$978 (2013 – \$170). While not available for use, PP&E is not depreciated.

## 9. INTANGIBLE ASSETS

	Acquired customer relationships	Acquired intellectual property	Internally generated intellectual property	Software	Internally generated software	Acquired trade names	Total
<b>Cost</b>	\$	\$	\$	\$	\$	\$	\$
Balances at January 1, 2013	2,899	9,098	1,554	2,740	1,285	3,557	21,133
Additions	–	–	1,559	265	1,437	–	3,261
Additions – discontinued operations	–	–	–	5	–	–	5
Disposals	–	–	–	(217)	–	–	(217)
Transfers to assets of disposal groups held-for-sale	(1,536)	(227)	–	(748)	–	(657)	(3,168)
Foreign exchange	–	29	–	35	–	–	64
Balances at December 31, 2013	1,363	8,900	3,113	2,080	2,722	2,900	21,078
Additions	–	–	2,565	80	13	–	2,658
Foreign exchange	–	–	–	41	–	–	41
<b>Balances at December 31, 2014</b>	<b>1,363</b>	<b>8,900</b>	<b>5,678</b>	<b>2,201</b>	<b>2,735</b>	<b>2,900</b>	<b>23,777</b>
<b>Accumulated amortization</b>							
Balances, January 1, 2013	1,724	3,706	19	1,743	–	–	7,192
Amortization	136	553	113	321	–	40	1,163
Amortization – discontinued operations	153	77	–	43	–	–	273
Disposals	–	–	–	(217)	–	–	(217)
Transfers to assets of disposal groups held-for-sale	(1,139)	(211)	–	(679)	–	–	(2,029)
Foreign exchange	–	10	–	29	–	–	39
Balances at December 31, 2013	874	4,135	132	1,240	–	40	6,421
Amortization	139	564	137	329	545	967	2,681
Impairment	–	–	202	–	–	–	202
Foreign exchange	–	–	–	30	–	–	30
<b>Balances at December 31, 2014</b>	<b>1,013</b>	<b>4,699</b>	<b>471</b>	<b>1,599</b>	<b>545</b>	<b>1,007</b>	<b>9,334</b>
<b>Carrying amounts</b>							
At December 31, 2013	489	4,765	2,981	840	2,722	2,860	14,657
<b>At December 31, 2014</b>	<b>350</b>	<b>4,201</b>	<b>5,207</b>	<b>602</b>	<b>2,190</b>	<b>1,893</b>	<b>14,443</b>

During the year ended December 31, 2014, amortization included in cost of sales amounted to \$128 (2013 – \$183); amortization in general and administration amounted to \$1,448 (2013 – \$803); and amortization included in sales and marketing amounted to \$1,105 (2013 – \$177).

Included in internally generated intellectual property is \$4,732 (2013 – \$2,369) 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:

	2014	2013
Customer relationships	1–3 years	1–4 years
Intellectual property, including internally generated intellectual property	3–10 years	3–11 years
Software, including internally generated software	1–4 years	1–5 years
Trade name	2 years	3 years

Trade name comprises brands acquired on acquisition of Superior Manufacturing and Hydraulics Inc. ("Superior"). The useful life of the Superior brands was reassessed in December 2013 as a result of the Corporation's rebranding. It was determined that the useful life of the trade name was finite.

## 10. TRADE AND OTHER PAYABLES

	Note	2014	2013
		\$	\$
Trade payables		8,007	7,214
Accrued liabilities and other payables		6,552	7,219
Cash-settled share-based compensation	15 (b)	560	860
		15,119	15,293

## 11. PROVISIONS

	Warranty	Legal	Site remediation	Total
	\$	\$	\$	\$
Balances at January 1, 2013	1,039	265	427	1,731
Provisions made during the year	2,440	–	–	2,440
Provisions made during the year – discontinued operations	316	65	850	1,231
Provisions utilized during the year	(1,518)	–	(13)	(1,531)
Provisions utilized during the year – discontinued operations	(420)	–	–	(420)
Change in estimate	–	(65)	(200)	(265)
Change in estimate – discontinued operations	–	(100)	–	(100)
Amounts transferred to liabilities of disposal groups held-for-sale	(334)	(165)	(1,000)	(1,499)
Balances at December 31, 2013	1,523	–	64	1,587
Provisions made during the year	1,330	150	1,400	2,880
Provisions utilized during the year	(1,426)	–	(104)	(1,530)
Amounts transferred from liabilities of disposal groups held-for-sale	–	–	1,000	1,000
Foreign exchange	184	–	–	184
<b>Balances at December 31, 2014</b>	<b>1,611</b>	<b>150</b>	<b>2,360</b>	<b>4,121</b>
Expected to be utilized within one year	1,611	150	–	1,761
Expected to be utilized thereafter	–	–	2,360	2,360

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 or has leased 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 site remediation provision is based on management's estimate of the expected costs of restoring its 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 be completed.

## **12. BORROWINGS**

### **a) Revolving credit facility**

The Corporation has a \$50.0 million committed senior secured revolving credit facility with its lenders, maturing on November 2, 2015. On March 14, 2014, the Corporation amended and restated its existing credit agreement to revise certain covenants imposed under the original agreement. 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 0.75% and 2.00% (2013 – 1.00% to 2.50%). The terms of the amended and restated credit facility reduce the standby fee to 0.4% (2013 – 0.5%). The credit facility requires the Corporation to meet certain covenants and is secured by a general security agreement over all subsidiaries that have provided security. The Corporation is currently in negotiations with its lenders to negotiate its committed facility requirements subsequent to November 2, 2014. In the previous fiscal year, the Corporation repaid the balance drawn against the revolving credit facility.

Transaction costs related to securing and subsequent amendment of the revolving credit facility of \$759 (2013 – \$621) (note 7) were deferred and are being amortized over the term of the credit facility. Amortization of \$280 (2013 – \$228) is recognized in finance charges in the consolidated statements of earnings and comprehensive income.

### **b) Letter of credit**

The Corporation has a \$5.0 million committed senior letter of credit facility. As at December 31, 2014, the Corporation has committed \$76 (2013 – \$1,262) 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.

### 13. 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:

	2014			2013		
	Assets	Liabilities	Net	Assets	Liabilities	Net
	\$	\$	\$	\$	\$	\$
PP&E	42	(2,823)	(2,781)	–	(2,547)	(2,547)
Intangible assets	1,161	(1,857)	(696)	898	(1,808)	(910)
Provisions	601	–	601	522	–	522
Inventories	1,841	–	1,841	981	–	981
Accrued liabilities	498	–	498	610	–	610
Share-based compensation	140	–	140	215	–	215
Carryforward tax losses	1,372	–	1,372	286	–	286
Other	12	(411)	(399)	26	(4)	22
Deferred tax assets (liabilities)	5,667	(5,091)	576	3,538	(4,359)	(821)
Set off of tax	(3,370)	3,370	–	(2,440)	2,440	–
Net deferred tax assets (liabilities)	2,297	(1,721)	576	1,098	(1,919)	(821)

With respect to deferred tax assets and liabilities presented above, \$2,940 of the deferred tax assets (2013 – \$2,113), and \$625 (2013 – \$484) of the deferred tax liabilities are expected to reverse in 2015.

#### b) Unrecognized deferred tax assets

Deferred tax assets have not been recognized in respect of \$996 (2013 – \$392) 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.

### 14. SHAREHOLDERS' EQUITY

#### a) Share capital

##### Authorized

- Unlimited number of common, voting shares
- Unlimited number of preferred, non-voting shares

#### b) Dividends

Dividend declared	Dividend paid	Total dividend	Amount per common share
		\$	\$
December 4, 2014	December 31, 2014	1,383	0.05
September 9, 2014	October 8, 2014	1,383	0.05
May 23, 2014	June 20, 2014	1,383	0.05
March 14, 2014	April 14, 2014	1,381	0.05
December 10, 2013	December 31, 2013	1,369	0.05
September 26, 2013	October 25, 2013	1,346	0.05
May 16, 2013	June 14, 2013	1,339	0.05
March 14, 2013	April 12, 2013	1,337	0.05

## 15. 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:

	2014		2013	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
	#	\$	#	\$
Outstanding, as at January 1	1,271,672	4.98	1,490,001	2.77
Granted	450,000	5.81	615,000	6.70
Forfeited	(346,669)	5.12	(66,668)	3.30
Expired	(6,666)	3.49	(33,333)	2.42
Exercised	(290,000)	3.32	(733,328)	2.21
Outstanding, December 31	1,078,337	5.74	1,271,672	4.98
Exercisable, December 31	311,663	5.24	156,662	3.39

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

	2014		2013	
Exercise price range	Options outstanding	Weighted average remaining contractual life	Options outstanding	Weighted average remaining contractual life
	#	years	#	years
\$2 to \$4	193,337	1.81	626,672	3.05
\$4 to \$6	330,000	4.61	30,000	3.96
\$6 to \$8	555,000	3.94	615,000	4.93
	1,078,337	3.76	1,271,672	3.98

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

	2014	2013
Share price	\$5.81	\$6.70
Exercise price	\$5.81	\$6.70
Expected volatility	38%	46%
Risk-free interest rate	2%	2%
Annual dividend rate	3%	3%
Expected life of options in years	3.5 years	3.5 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 \$1.32 per share option (2013 – \$1.89 per share option) and the weighted average share price of options exercised during the year was \$6.11 (2013 – \$6.27).

#### b) Cash settled share-based compensation

The Corporation has a deferred share unit ("DSU") plan for Directors of the Corporation who are designated as participants by the Compensation and Human Resources 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 deferred share units can only be exercised on exiting from the Board of Directors.

On exiting 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 statements of financial position as disclosed in note 10.

	2014	2013
	#	#
Outstanding, as at January 1	153,318	144,486
Granted	15,544	8,832
Outstanding, as at December 31	168,862	153,318
Vested, as at December 31	129,069	118,170

#### c) Share-based compensation expense

	2014	2013
	\$	\$
Equity-settled share-based compensation	508	281
Cash-settled share-based compensation	(300)	414
	208	695

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



## 16. REVENUE

	2014	2013
	\$	\$
Sale of goods	115,341	108,056
Rendering of services	5,278	2,156
	120,619	110,212

## 17. EXPENSES BY NATURE

	2014	2013
	\$	\$
Wages and salaries expense	32,468	35,476
Depreciation of property, plant and equipment	3,679	3,093
Amortization of intangible assets	2,681	1,163
Operating lease expense, net of sub-lease recoveries	2,551	2,211
Gain on foreign exchange	(1,003)	(784)

## 18. FINANCE CHARGES (NET)

	2014	2013
	\$	\$
Interest on borrowings	–	331
Stand by fees on credit facility	227	209
Amortization of deferred financing costs	280	228
Finance charges	507	768
Finance income	(133)	(91)
<b>Finance charges (net)</b>	<b>374</b>	<b>677</b>

## 19. 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% (2013 – 25%) to earnings from continuing operations before tax for the following reasons:

	2014	2013
	\$	\$
Earnings from continuing operations before income taxes	13,167	11,084
Computed income tax expense	3,292	2,771
Tax effects of:		
Jurisdictional tax rate differences	753	764
Non-deductible expenses	15	62
Recognition of previously unrecognized deferred tax assets	(285)	(133)
Other items	23	(140)
<b>Income tax expense</b>	<b>3,798</b>	<b>3,324</b>

### b) Income tax expense on earnings from continuing operations

	2014	2013
	\$	\$
Current tax expense	5,063	2,199
Deferred tax expense:		
Origination and reversal of temporary differences	(980)	1,258
Recognition of previously unrecognized deferred tax assets	(285)	(133)
Total deferred tax expense	(1,265)	1,125
<b>Income tax expense</b>	<b>3,798</b>	<b>3,324</b>

## 20. EARNINGS PER SHARE

	2014			2013		
	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	9,369	27,618,939	0.34	7,760	26,850,272	0.29
Earnings from discontinued operations available to common shareholders	8,638	27,618,939	0.31	2,084	26,850,272	0.08
Earnings available to common shareholders	18,007	27,618,939	0.65	9,844	26,850,272	0.37
<b>Diluted earnings per share</b>						
Dilutive effect of options		124,881			477,218	
Earnings from continuing operations available to common shareholders	9,369	27,743,820	0.34	7,760	27,327,490	0.28
Earnings from discontinued operations available to common shareholders	8,638	27,743,820	0.31	2,084	27,327,490	0.08
Earnings available to common shareholders	18,007	27,743,820	0.65	9,844	27,327,490	0.36

## 21. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

### a) Fair values of financial assets and liabilities

#### (i) Non-derivative financial instruments

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

#### (ii) Derivative financial instruments

At December 31, 2014, the Corporation had forward foreign exchange contracts outstanding to purchase US\$12,000 (2013 – \$18,000) at a rate of 1.083 with maturities ranging from one to twelve months from the consolidated statements of financial position date. The Corporation's derivative financial instruments related to forward foreign exchange contracts are recorded at fair value in the consolidated statements of financial position. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The forward foreign exchange contracts are classified as Level 2 and the fair value is determined based on exchange or over-the-counter price quotations by reference to bid or asking price, as appropriate, in active markets. Fair value amounts reflect management's best estimates using external readily observable market data, such as future prices, foreign exchange rates and discount rates for the time value of money. The unrealized loss of \$675 (2013 – \$302) on the forward foreign exchange contracts was recorded in other (gains) losses (net).

At December 31, 2014, the Corporation had financial instruments recorded as a fair value liability in the statement of financial position in the amount of \$977 (2013 – \$302).

### 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 currencies of the Corporation's subsidiaries. Foreign currency risk is primarily with the US dollar. The Corporation uses forward exchange contracts with maturities of less than one year from the reporting date to manage the foreign currency risk.

Based on the Corporation's US dollar denominated monetary assets and liabilities at December 31, 2014, 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 \$229 (2013 – \$43).

- 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 2014 and 2013, the Corporation is primarily exposed to interest rate risk on cash and cash equivalents. The Corporation estimates that a change of 100 basis points in the interest rate as at December 31, 2014, would have increased or decreased net earnings, net of tax, for the year ended December 31, 2014, by \$nil (2013 – \$nil).

(ii) **Credit risk**

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

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. The Corporation's derivative financial instruments are entered into with a Canadian chartered bank as the counterparty.

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. Furthermore, on international sales, receipt of payment may be required prior to shipping. Impairment provisions are made for potential losses that may be incurred at the consolidated statements of financial position dates.

The aging analysis of trade receivables is as follows:

As at December 31	2014	2013
	\$	\$
0 to 30 days	6,866	4,857
31 to 60 days	3,508	3,844
61 to 120 days	3,657	4,171
Over 120 days	7,641	920
	21,672	13,792
Provisions for impairment	(287)	–
Trade receivables	21,385	13,792
Other receivables	1,318	366
<b>Total trade and other receivables</b>	<b>22,703</b>	<b>14,158</b>

Trade receivables with indications of possible impairment primarily relate to customers that are in difficult financial situations. Management has determined on a customer by customer basis that impairment provisions of \$287 (2013 – \$nil) are sufficient to cover credit risk.

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

For the years ended	2014	2013
	\$	\$
Provision for impairment, as at January 1	–	85
Impairment loss recognized	(287)	–
Amounts recovered	–	(60)
Movements related to discontinued operations	–	(25)
<b>Provision for impairment, as at December 31</b>	<b>(287)</b>	<b>–</b>

### (iii) Liquidity risk

Liquidity risk is the risk the Corporation will not be able to meet its obligations with financial liabilities as they come due. The Corporation maintains sufficient cash and cash equivalents and revolving credit facility availability to meet financial obligations. Based on remaining contractual maturities, the undiscounted cash flows for its financial liabilities including interest payments, consist of \$15,119 (2013 – \$15,293) of trade and other payables and \$977 (2013 – \$302) of derivative financial instruments, which mature within one year of the consolidated statements of financial position date.

## 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:

	2014	2013
	\$	\$
Borrowings	–	–
Shareholders' equity	102,373	86,003
Total capital	102,373	86,003

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, the disposition of the Corporation's assets, distributions, financial instruments and changes to the nature of the Corporation's business or operations.

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.

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.

## 22. RELATED PARTY TRANSACTIONS

### a) Operating lease expense

The Corporation has three lease agreements with companies controlled by individuals, who are Directors of the Corporation's Board that are also Directors of Foundation Equity Corporation ("Foundation"), a 22% shareholder of the Corporation. The following is a summary of each agreement:

- (i) Minimum annual lease payments of \$384 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 of \$717 until 2018. The Corporation has the option to extend the lease for five years with annual lease payments negotiated at market rates.
- (iii) Minimum annual lease payments of \$256 until 2018.

During the year ended December 31, 2014 the Corporation recorded operating lease expense of \$1,357 (2013 – \$1,265) with respect to related party operating leases disclosed above. In addition to regularly scheduled lease payments, the Corporation paid an additional \$196 to one of the companies controlled by the related parties to reimburse the related parties for certain facility expenses.

### b) Divestiture of Coatings & Hydraulics division

On September 15, 2014 the Corporation sold the Coating & Hydraulics division to Corrosion and Abrasion Solutions Ltd. ("CASL"). 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. A member of the Corporation's Board of Directors is the Chairman and Chief Executive Officer of, and holds an equity interest in, CASL, the purchaser of the Coatings & Hydraulics division.

### c) Payment of short form prospectus fees

On December 17, 2013, Foundation completed the sale of 5,200,000 common shares of the Corporation. The offering was completed on a bought deal basis by an underwriting syndicate. The Corporation paid fees of \$275 on behalf of Foundation related to the short form prospectus that was issued in conjunction with the offering. Foundation subsequently reimbursed the Corporation for these fees.

### d) Key management personnel

Key management personnel include 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, 2014 and 2013 are as follows:

	2014	2013
	\$	\$
Salaries and other short-term employee benefits	3,539	3,886
Termination benefit	656	–
Share-based compensation	460	579
	4,655	4,465

## 23. SEGMENT INFORMATION

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

The Corporation previously reported two operating segments – Energy Products & Services (EP&S) and Mobile Solutions. In the fourth quarter of 2013, the assets and liabilities of Mobile Solutions and the Coatings & Hydraulics division of the EP&S segment were transferred to assets and liabilities of disposal groups held-for-sale and the results are presented in discontinued operations. In 2014, these operations were sold. Since the measure of segment assets and liabilities excludes assets and liabilities of disposal groups held-for-sale and the measure of segment performance excludes discontinued operations, there is only one reportable segment.

### Geographic information

	2014		2013	
For the years ended	Revenue	PP&E & Intangible assets	Revenue	PP&E & Intangible assets
	\$	\$	\$	\$
United States	63,896	9,370	63,759	9,508
Europe, Africa and Russia	33,761	1,345	24,681	96
Asia Pacific	8,436	1,007	4,700	36
Middle East	5,977	121	9,300	–
Canada	5,099	19,338	4,123	20,586
Latin America	3,450	–	3,649	–
	120,619	31,181	110,212	30,226

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.

## 24. CHANGES IN WORKING CAPITAL BALANCES

For the years ended	2014	2013
<b>Cash (used in) operating activities due to changes in non-cash working capital balances:</b>	\$	\$
Trade and other receivables	(7,161)	(2,349)
Inventories	(4,939)	(6,932)
Other current assets	(538)	(665)
Trade and other payables	(667)	267
Customer deposits	(1,710)	2,083
Provisions	62	663
	(14,953)	(6,933)

## 25. DISCONTINUED OPERATIONS AND DISPOSAL GROUPS HELD-FOR-SALE

Management committed to a formal process to sell the Mobile Solutions segment and the Coating & Hydraulics division in the fourth quarter of 2013 following a strategic decision to place greater focus on the Corporation's key competencies. The assets and liabilities of both operations were reclassified to discontinued operations in 2013.

### a) Disposal of Mobile Solutions segment

On June 17, 2014, the Mobile Solutions segment was sold by the Corporation. The operating results and gain on sale relating to Mobile Solutions have been included in earnings from discontinued operations in the consolidated statements of earnings and comprehensive income.

The net assets disposed of on June 17, 2014 related to the sale of Mobile Solutions is as follows:

	June 17, 2014
	\$
Cash consideration received, net of working capital and other adjustments	12,029
Bank indebtedness transferred	151
Amount held in escrow	1,332
<b>Total consideration</b>	<b>13,512</b>
Current assets, excluding bank indebtedness transferred	7,240
Property, plant and equipment	6,528
Intangible assets	51
Current liabilities	(5,043)
Deferred tax liabilities	(1,067)
<b>Net assets and liabilities</b>	<b>7,709</b>
<b>Costs to sell</b>	<b>547</b>
<b>Gain on disposal</b>	<b>5,256</b>

### b) Disposal of Coating & Hydraulics division

On September 15, 2014, the Coatings & Hydraulics division was sold by the Corporation. A member of the Corporation's Board of Directors is the Chairman and Chief Executive Officer of, and holds an equity interest in, the corporation that purchased the Coatings & Hydraulics division. The operating results and gain on sale relating to Coatings & Hydraulics have been included in earnings from discontinued operations in the consolidated statements of earnings and comprehensive income. The final net proceeds received and the gain recognized on the sale is subject to change, pending the finalization of net working capital balances as defined by the share purchase agreement.

The net assets disposed of on September 15, 2014 related to the sale of Coatings & Hydraulics is as follows:

	September 15, 2014
	\$
Cash consideration received	8,340
Bank indebtedness transferred	103
Amount held in escrow	930
Other receivables	512
<b>Total consideration, subject to change</b>	<b>9,885</b>
Current assets, excluding bank indebtedness transferred	3,038
Property, plant and equipment	5,026
Intangible assets	1,087
Current liabilities	(1,147)
Deferred tax liabilities	(1,324)
<b>Net assets and liabilities</b>	<b>6,680</b>
<b>Costs to sell</b>	<b>1,031</b>
<b>Gain on disposal</b>	<b>2,174</b>



### c) Results of discontinued operations

For the years ended	2014	2013
	\$	\$
Revenue	29,949	53,381
Cost of sales	22,356	44,161
Other expenses	5,235	6,551
Operating earnings from discontinued operations before income tax	2,358	2,669
Income tax expense	1,150	585
Operating earnings from discontinued operations	1,208	2,084
Gain on disposal	7,430	–
	8,638	2,084

There are no cumulative income or expenses included in OCI relating to the disposal groups.

### 26. 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	2,936
2 to 5 years	6,172
Over 5 years	694

The above includes commitments with related parties as disclosed in note 22.

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 \$688 and \$1,542 (2013 – \$735 and \$2,231) thereafter.

### 27. COMPARATIVE FIGURES

Certain comparative figures have been reclassified from statements previously presented to conform to the presentation of the current year consolidated financial statements.



# CORPORATE INFORMATION

## DIRECTORS

Kerry Brown, CA	John Irwin
Frank Burdzy, MBA	Carmen Loberg
Terry Chalupa	Jim Rakievich, ICD.D
T.D. (Terry) Freeman, FCA, ICD.D	Chris Seaver, MBA, J.D. – Chair
John Howard, CA	

## EXECUTIVE TEAM

Jim Rakievich, ICD.D – President and Chief Executive Officer  
Jacob Coonan, MPAcc, CA – Chief Financial Officer  
Kenny Watt – Senior Vice President  
Peter Watson, Esq. – General Counsel and Corporate Secretary

## TRANSFER AGENT AND REGISTRAR

Valiant Trust Company  
Edmonton, Alberta

## STOCK EXCHANGES

The Toronto Stock Exchange: MCB  
OTCQB: MCCRF

## INVESTOR RELATIONS

Abby Garfunkel  
The Equicom Group  
T 403.218.2887  
E [agarfunkel@tmxequicom.com](mailto:agarfunkel@tmxequicom.com)

## AUDITORS

PricewaterhouseCoopers LLP  
Edmonton, Alberta

## ANNUAL GENERAL MEETING

The 2015 annual meeting of shareholders will be held on May 14, 2015, at 4:00 p.m. MDT, at The Sutton Place Hotel, Winter Lake Room, 10235 101 Street, Edmonton, Alberta.

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