



# FORGING AHEAD

MD&A AND FINANCIAL REPORT 15





# MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended December 31, 2015



## EXPLANATORY NOTES

The following Management's Discussion and Analysis of Financial Results ("MD&A"), dated March 9, 2016, 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, 2015 and 2014. 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 McCoy Global's:

- merger and acquisition strategy;
- future development and organic growth prospects;
- business strategy; and
- competitive advantage.

Forward-looking statements respecting:

- the business opportunities for the Corporation that are based on the views of management of the Corporation and current and anticipated market conditions; and
- the perceived benefits of the growth 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 mergers or acquisitions effectively;
- inability to effectively integrate mergers or acquisitions effectively;
- 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 rates;
- 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 or non-GAAP measures presented under IFRS.

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

Adjusted EBITDA is a non-GAAP measure defined as “net (loss) earnings from continuing operations before finance charges, net, income tax expense (recovery), depreciation, amortization, impairment losses, restructuring charges, non-cash 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, restructuring charges, non-cash 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 (loss) 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

The persistent global oversupply of oil and gas has resulted in a significant, prolonged down cycle without visibility for a recovery in the foreseeable future.

With some exceptions, McCoy Global's main areas of activity continued to experience a significant reduction in activity throughout the fourth quarter. The western hemisphere remains depressed as a result of severe reductions in drilling activity, both on land and offshore. There are pockets of positive activity in the eastern hemisphere in regions such as the Middle East, but drilling activity in the eastern hemisphere is also in decline due to little demand for new exploration or development projects.

These weak industry fundamentals have continued to place increasing financial pressure on customers who are taking actions to preserve cash in this time of uncertainty. Customers continue to defer purchase decisions for capital equipment and utilize surplus internal capacity to service their existing requirements. It has also become difficult to secure service work or sell spare parts as customer activity and equipment utilization is low and customers draw down their aftermarket parts and consumables inventories.

McCoy Global is entering the year with significantly reduced backlog and order intake. Expectations are now such that the market will not improve in 2016. Although the Corporation's longer term strategy to be the global market leader in tubular make-up and handling equipment solutions remains unchanged, near-term priorities have shifted to cost management and cash preservation in order to endure this phase in the cycle. All areas of the business continue to be scrutinized for cost reductions and operating efficiencies necessary to navigate through this difficult period.

Cost containment actions undertaken throughout 2015 and into 2016 have included reductions to global headcount levels by 49% since January 1, 2015, the consolidation of US production facilities in Louisiana and containing existing production facility expenses at bare minimum operating levels. Overhead expenses have also been reduced resulting in general and administrative expenses declining by \$5.9 million, or 23%, year over year. Despite these efforts, under absorption of production capacity is a significant issue at these low levels of activity. It will remain challenging to align overhead expenses with recent order intake.

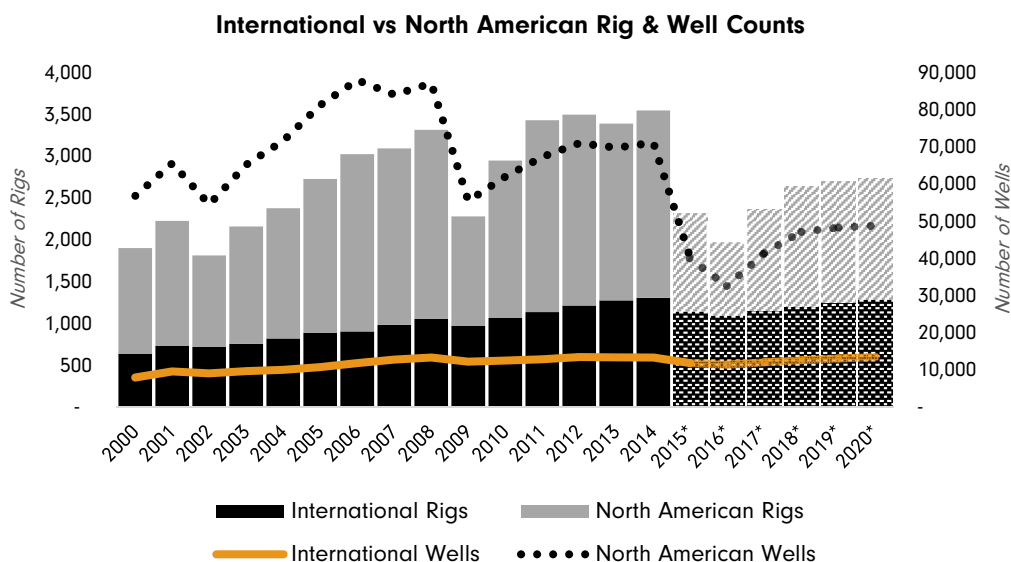
Although the fourth quarter of 2015 was difficult on many fronts, cost containment efforts, along with an organizational emphasis on preserving cash helped generate positive cash flow from operating activities of \$3.7 million, largely a result of a reduction in working capital. This allowed McCoy to enter 2016 with no debt and a cash position of \$27.5 million. Over the upcoming quarters, it will be increasingly challenging to maintain positive cash flow as low levels of revenue are likely to persist. The Corporation's balance sheet strength will support it in the near term while management continues to evaluate operational capabilities and further restructuring options.

Strategically, management remains committed to investing in several important product technology initiatives. Although scaled back over 2015, McCoy Global's technology development has shifted focus to product enhancement, fast to market projects and technology support for customers. These projects will ensure the Corporation can provide its customers with technology solutions that will be important to their long term success and are anticipated to result in both short-term and longer-term revenue generation opportunities.

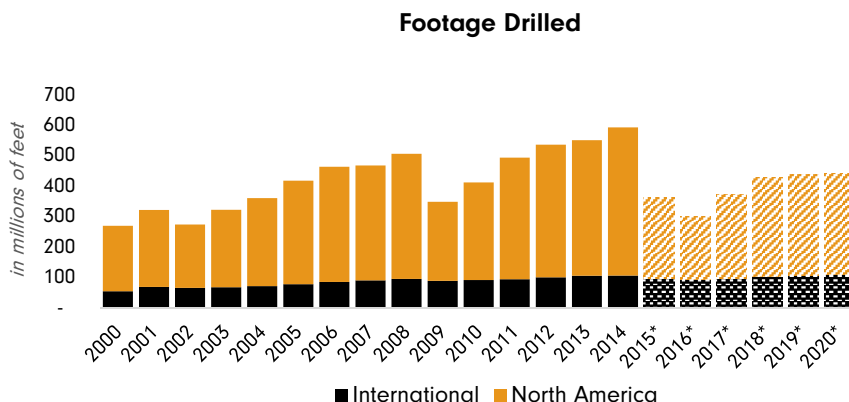
## MARKET CONDITIONS

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 capital spending which in turn leads to an increase in drilling and completions activity. As this activity increases, customers require capital equipment to meet activity demand. Management uses active rig counts as well as number and length of wells being drilled as data points to monitor and set expectations of the future performance of the Corporation. Generally, these metrics are leading indicators of demand for McCoy Global's products and services, although there are many factors that may impact any correlation.

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



A summary of historical and forecasted footage drilled is as follows<sup>1</sup>:



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

\*Estimated

McCoy Global's international revenues provide geographic diversification and some stability to withstand North American land market volatility which is currently being experienced. As is typical in a down cycle, international revenues generally declined at a slower rate over the course of 2015, however the severity of this down cycle has now impacted most international markets.

During this down cycle, orders for high specification tubular make-up equipment have been negatively impacted as capital intensive drilling activities are cancelled or deferred. However, this higher margin equipment used for horizontal, directional and deep-water drilling remains an important source of future global oil and natural gas supply over the longer term. As an eventual recovery occurs, this should result in a long-term trend towards more complex well construction and the increased use of premium connections. Investments made in new product technologies by McCoy Global have increased its capabilities of producing high specification tubular make-up products and position the Corporation to meet the future technological challenges faced by customers. McCoy continues to invest in the development of new technologies to meet the changing requirements for better efficiency and safety.

### ***Backlog***

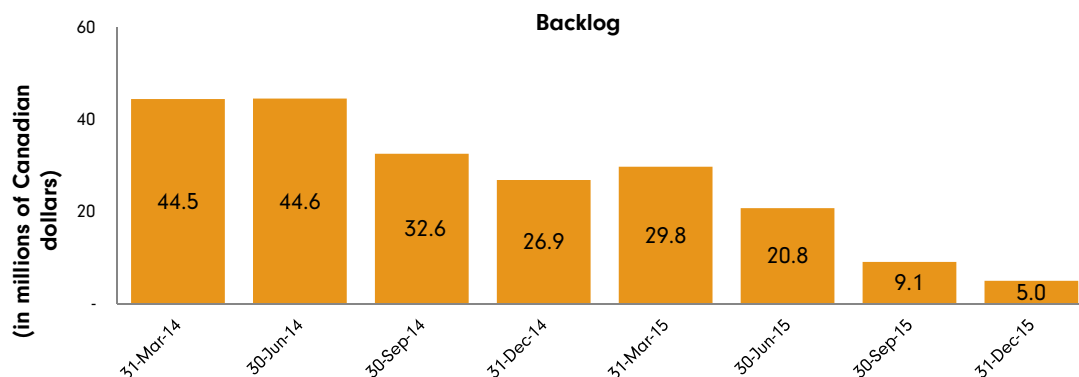
Backlog is a measure of the amount of customer orders the Corporation has received and is therefore an indicator of a base level of future revenue potential. Backlog is not a GAAP measure and, as a result, the definition and determination of backlog will vary among other issuers reporting a backlog figure.

The Corporation defines backlog as orders that have a high certainty of being delivered and is measured on the basis of a firm customer commitment, such as the receipt of a purchase order. Customers may default on or cancel such commitments, 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 historically spanned from one to six months, however under current market conditions customers are shifting their purchasing habits towards a just-in-time model. McCoy Global's backlog as at December 31, 2015 totaled \$5.0 million, a decrease of \$4.1 million or 45% from September 30, 2015.

For the quarter, McCoy Global received net sales orders of \$7.7 million (Q3 2015 - \$8.5 million) and recorded revenue of \$11.6 million (Q3 2015 - \$21.4 million). Lower oil prices and drilling and completions activity substantially impacted demand for capital equipment in the quarter. Backlog as at December 31, 2015, was favorably impacted by the weakening Canadian dollar as substantially all of the Corporation's backlog is denominated in US currency.

Backlog is also impacted by finished goods inventory and aftermarket sales. The Corporation has built out a finished goods inventory of standard product at regional locations which can shorten the sales cycle and reduce the overall level of backlog as customer orders are fulfilled from finished goods inventory. Product mix also impacts the Corporation's backlog as rental and aftermarket orders tend to cycle through backlog more quickly than customized capital equipment orders which typically require longer lead times. As a percentage of overall revenue, aftermarket revenues are typically higher in a down cycle as customers defer capital equipment spend.

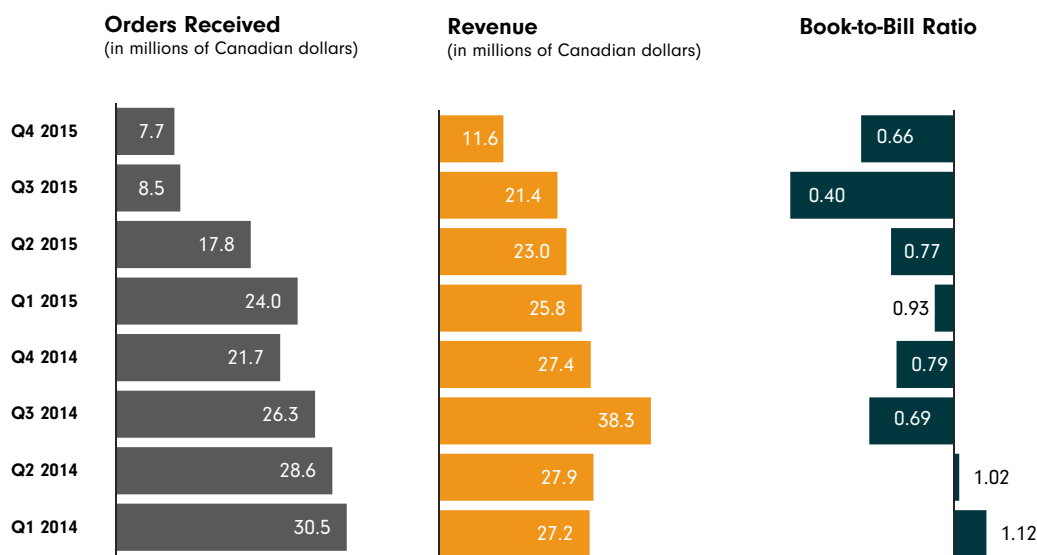




#### **Book-to-Bill Ratio**

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 during the three months ended December 31, 2015 was 0.66 (September 30, 2015 – 0.40). 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 equipment and technologies used for making up threaded connections in the global oil and gas industry. McCoy Global's core products are used predominantly during the well construction phase for both land and offshore wells during both oil and gas exploration. 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 product and services such as technical support, 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 divest both the Mobile Solutions segment and the Coatings & Hydraulics division. On June 17, 2014, the Mobile Solutions segment was divested by the Corporation. On September 15, 2014, the Coatings & Hydraulics division was divested 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 principal operations:

Operating Name	Country of Incorporation	Operating Region	Ownership Interest
<b>Continuing Operations</b>			
McCoy Global Canada Corp.	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 and Russia	100%
McCoy Global USA, Inc.	United States	United States and Latin America	100%
<b>Discontinued Operations</b>			
Inotec Coating and Hydraulics Inc.	Canada	Canada	-
Peerless Limited	Canada	Canada	-

## FINANCIAL RESULTS

### SUMMARY OF CONSOLIDATED ANNUAL RESULTS

For the year ended December 31 (\$000 except per share amounts)	2015	2014	2013
Revenue	81,776	120,619	110,212
Net (loss) earnings from continuing operations	(10,977)	9,369	7,760
Per common share – basic	(0.40)	0.34	0.29
Per common share – diluted	(0.40)	0.34	0.28
Earnings from discontinued operations (net of tax) <sup>2</sup>	-	8,638	2,084
Net (loss) earnings	(10,977)	18,007	9,844
Per common share – basic	(0.40)	0.65	0.37
Per common share – diluted	(0.40)	0.65	0.36
Adjusted EBITDA	3,768	20,986	17,014
Per common share – basic	0.14	0.76	0.63
Per common share – diluted	0.14	0.76	0.62
Dividends per common share	0.10	0.20	0.20
Total assets	110,567	131,941	120,467
Total liabilities	13,098	29,568	34,464
Total non-current liabilities	454	4,081	1,919

EBITDA and adjusted EBITDA are calculated as follows:

For the year ended December 31 (\$000)	2015	2014	2013
Net (loss) earnings from continuing operations	(10,977)	9,369	7,760
Income tax (recovery) expense	(61)	3,798	3,324
Finance charges, net	604	374	677
Depreciation	4,438	3,679	3,093
Amortization	3,173	2,681	1,163
<b>EBITDA</b>	<b>(2,823)</b>	<b>19,901</b>	<b>16,017</b>
Share-based compensation	393	208	695
Impairment of intangible assets	5,898	202	-
Non-cash changes in fair value related to derivative financial instruments	(977)	675	302
Restructuring charges	1,277	-	-
<b>Adjusted EBITDA</b>	<b>3,768</b>	<b>20,986</b>	<b>17,014</b>

<sup>2</sup> Earnings from discontinued operations (net of tax) for the year ended December 31, 2014 includes an estimated one-time gain on the sale of the Corporation's former Mobile Solutions segment and Coatings & Hydraulics division.

## REVENUE

(\$000 except percentages)	For the year ended December 31			
	2015	2014	Change	% Change
<b>Revenue</b>	<b>81,776</b>	120,619	(38,843)	(32%)

As industry fundamentals deteriorated throughout the year, drilling and completions activity declined. This has led to pricing pressure and significant reductions in demand for capital equipment. Depressed commodity prices have continued to constrain customer capital equipment spending and as anticipated, customers are shifting their purchasing habits towards a just-in-time model.

Aftermarket revenue, as a percentage of overall revenue, is typically higher in a down cycle as customers defer capital equipment spend and maintain their existing equipment fleet. The percentage of aftermarket revenues in comparison to overall revenue has increased in 2015, however it has not increased to the level anticipated. Throughout 2015, many customers implemented a robust inventory destocking process, which included drawing down any on-hand aftermarket and consumable inventories and cannibalizing any excess equipment. Many customers have also either deferred equipment maintenance or have serviced equipment internally, where possible.

Revenues have been favorably impacted by foreign exchange, offsetting the rapid decline to some extent, as primarily all of the Corporations revenue is denominated in United States dollars.

As is typical in a down cycle, international revenues generally declined at a slower rate over the course of 2015, however the severity of this down cycle has now impacted most international markets.

### 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.

(\$000 except percentages)	For the year ended December 31			
	2015	% of total	2014	% of total
United States	<b>30,997</b>	<b>38%</b>	63,896	53%
Europe, Africa & Russia	<b>26,321</b>	<b>32%</b>	33,761	28%
Middle East	<b>8,761</b>	<b>11%</b>	5,977	5%
Asia Pacific	<b>6,831</b>	<b>8%</b>	8,436	7%
Canada	<b>5,704</b>	<b>7%</b>	5,099	4%
Latin America	<b>3,162</b>	<b>4%</b>	3,450	3%
<b>Total</b>	<b>81,776</b>	<b>100%</b>	120,619	100%

Activity levels remain relatively stable in the Middle East region. Some revenue generation opportunities also exist in parts of Africa, China, Argentina and Russia. Russian sanctions continue to hinder revenue generation in this region. The United States, Europe, Canada, Latin America and most of Asia Pacific have been significantly impacted by the down cycle.

## GROSS PROFIT

	For the year ended December 31			
(\$000 except percentages)	2015	2014	Change	% Change
<b>Gross profit</b>	<b>20,681</b>	46,203	(25,522)	(55%)
<i>Gross profit %</i>	<b>25%</b>	38%	(13%)	

Gross profit was impacted by the 32% decline in revenues realized as a result of the down cycle. Lower levels of activity resulted in a decline in required production hours, which has driven significant under-absorption of production facility costs. The Corporation's production facility variable expenses were reduced to minimum levels in 2015, however the overall decline in production activity outpaced the reduction in costs. Compounding this were efforts to reduce McCoy's inventories, which placed additional downward pressure on production facility hours as finished goods inventories were not replaced by manufactured products.

Current market conditions have also resulted in pricing pressure and fewer higher margin capital equipment orders. Product mix also impacted gross profit percentage as in 2014 McCoy Global benefitted from higher sales of technical products, including proprietary software product revenues.

To a lesser extent, the weakening of the Canadian dollar has had a positive impact on the gross profit of Canadian production facilities where input costs are primarily in \$CAD and revenues are in \$USD.

The Corporation's fixed costs of its current production footprint are too high to support current levels of activity. In the first quarter of 2016, additional actions were taken to reduce production facility overhead costs which resulted in a further reduction to the Corporation's workforce.

## GENERAL AND ADMINISTRATION

	For the year ended December 31			
(\$000 except percentages)	2015	2014	Change	% Change
<b>General and administration</b>	<b>20,004</b>	25,859	(5,855)	(23%)
<i>General and administration as a % of revenue</i>	<b>24%</b>	21%	3%	

Cost containment initiatives, including workforce reductions and continued discipline over discretionary spending were a high priority throughout 2015 and contributed to the overall decrease in overhead expenditures. This was offset to some extent by general and administration ("G&A") costs added to support Eastern hemisphere regional locations and by the impact of foreign exchange as a significant portion of G&A expenses are denominated in United States dollars.

McCoy will continue to evaluate its overhead structure and exhibit spending restraint. Many of the cost reductions that have been made have been gained through process improvement and operational efficiencies, and will largely be permanent in nature. This has positioned McCoy Global as a leaner and more efficient organization.

## SALES AND MARKETING

	For the year ended December 31			
(\$000 except percentages)	2015	2014	Change	% Change
<b>Sales and marketing</b>	<b>4,811</b>	5,199	(388)	(7%)
<i>Sales and marketing as a % of revenue</i>	<b>6%</b>	4%	2%	

The decline in sales and marketing expense is a result of cost containment initiatives. This was partially offset by the foreign exchange impact of the strengthening \$USD in 2015, as the majority of sales and marketing expenses are denominated in \$USD.

## RESEARCH AND DEVELOPMENT

	For the year ended December 31			
(\$000 except percentages)	2015	2014	Change	% Change
<b>Research and development expense</b>	<b>1,364</b>	1,374	(10)	(1%)
<b>Capitalized development expenditures</b>	<b>1,129</b>	2,565	(1,436)	(56%)
<b>Total research and development</b>	<b>2,493</b>	3,939	(1,446)	(37%)
<i>Research and development as a % of revenue</i>	<b>3%</b>	3%	-	

In response to declining market conditions, McCoy Global's product technology and development team was re-organized in 2015 and the investment in research and development ("R&D") reduced. McCoy remains committed to R&D efforts during the down cycle, however investment has shifted to developing technologies that are less capital intensive and that can be commercialized quickly. These efforts will continue to expand the Corporation's current product offering and develop future revenue opportunities.

Offsetting some of the decline in R&D investment is that R&D expenditures are substantially denominated in \$USD and the strengthening of the \$USD in 2015 resulted in higher reported R&D costs.

Management continues to closely monitor and evaluate R&D expenditures, balancing the short-term impact of R&D expenditures on cash preservation with the longer-term implications on strategy and shareholder value creation.

## OTHER ITEMS

	For the year ended December 31			
(\$000 except percentages)	2015	2014	Change	% Change
<b>Impairment of intangible assets</b>	<b>5,898</b>	202	5,696	2,820%
<b>Restructuring charges</b>	<b>1,277</b>	-	1,277	100%
<b>Finance charges, net</b>	<b>604</b>	374	230	61%
<b>Other (gains) losses, net</b>	<b>(2,239)</b>	28	(2,267)	(8,096%)

As a result of current market conditions, combined with changes to the Corporation's business processes, product mix and customer base, the Corporation recognized an impairment charge of \$4.8 million against certain acquired intangible assets.

In response to current market conditions, McCoy Global's product technology and development team was re-organized in 2015. As part of this process, the Corporation reviewed projects currently under development to address customer needs in the current market. This review resulted in the recognition of a \$1.1 million impairment charge.

Restructuring charges include outlays incurred relating to workforce reductions and the consolidation of United States production facilities.

Finance charges, net are primarily comprised of standby fees and amortization of deferred financing charges, offset by interest income. Deferred financing costs of \$0.3 million were written off in the current year.

Other (gains) losses, net consist primarily of foreign exchange gains or losses on the Corporation's United States denominated financial instruments held by Canadian entities. The \$2.2 million gain recognized in 2015 primarily arose from favorable foreign currency gains on the Corporation's US dollar denominated financial instruments held by Canadian entities, as a result of a strengthening United States dollar.

## ADJUSTED EBITDA

(\$000 except percentages)	For the year ended December 31			
	2015	2014	Change	% Change
<b>Adjusted EBITDA</b>	<b>3,768</b>	20,986	(17,218)	(82%)
<i>Adjusted EBITDA as a % of revenue</i>	<i>5%</i>	17%	(12%)	

Adjusted EBITDA was impacted by the global reduction in drilling and completions activity which has resulted in a sharp decline in revenues. Although the Corporation adjusted its cost structure throughout 2015 to reflect the near-term business environment which has resulted in a significant reduction in gross profit. Overhead expenses were reduced in response to the decline in gross profit, however, reductions to overhead expenses did not offset the reduction in gross profit.

## EARNINGS FROM DISCONTINUED OPERATIONS (NET OF TAX)

(\$000 except percentages)	For the year ended December 31			
	2015	2014	Change	% Change
<b>(Loss) earnings from discontinued operations (net of tax)</b>	<b>-</b>	8,638	(8,638)	(100%)

In the prior year, earnings from discontinued operations included partial year operating earnings of \$1.2 million and one-time gains of \$7.4 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)	2015	2014
Revenue	11,648	27,209
Net (loss) earnings from continuing operations	(10,792)	1,753
Per common share – basic	(0.39)	0.06
Per common share – diluted	(0.39)	0.06
Net (loss) earnings	(10,792)	1,477
Per common share – basic	(0.39)	0.05
Per common share – diluted	(0.39)	0.05
Adjusted EBITDA	(4,526)	4,957
Per common share – basic	(0.16)	0.18
Per common share – diluted	(0.16)	0.18

EBITDA and adjusted EBITDA are calculated as follows:

For the three months ended December 31 (\$000)	2015	2014
Net (loss) earnings from continuing operations	(10,792)	1,753
Income tax (recovery) expense	(117)	1,190
Finance charges, net	326	78
Depreciation	1,225	976
Amortization	749	666
<b>EBITDA</b>	<b>(8,609)</b>	<b>4,663</b>
Share-based compensation	60	(47)
Impairment of intangible assets	4,765	139
Non-cash changes in fair value related to derivative financial instruments	(756)	202
Restructuring charges	14	-
<b>Adjusted EBITDA</b>	<b>(4,526)</b>	<b>4,957</b>

## SUMMARY OF QUARTERLY RESULTS

### REVENUE

(\$000 except percentages)	For the three months ended December 31			
	2015	2014	Change	% Change
<b>Revenue</b>	<b>11,648</b>	27,209	(15,561)	(57%)

Market conditions continued to deteriorate in the fourth quarter of 2015 resulting in a steep decline in customer demand. This has included the deferral of purchase decisions for capital equipment and has placed pressure on aftermarket revenue. It has become increasingly difficult to secure service work or sell spare parts as customers cannibalize excess equipment, service equipment internally and draw down aftermarket parts and consumables inventories.

### GROSS PROFIT

(\$000 except percentages)	For the three months ended December 31			
	2015	2014	Change	% Change
<b>Gross profit</b>	<b>(456)</b>	9,195	(9,651)	(105%)
<i>Gross profit %</i>	<i>(4%)</i>	34%	(38%)	

Although the Corporation has experienced customer pricing pressure and fewer higher margin capital equipment and software sales, the gross profit earned on product sales has remained relatively stable through the down cycle. The decline in gross profit was largely due to significant under absorption of production capacity as a result of lower activity levels.

### GENERAL AND ADMINISTRATION

(\$000 except percentages)	For the three months ended December 31			
	2015	2014	Change	% Change
<b>General and administration</b>	<b>4,106</b>	5,319	(1,213)	(23%)
<i>General and administration as a % of revenue</i>	<i>35%</i>	20%	15%	

Continued efforts to reduce overhead expenses resulted in a significant decrease in general and administration expenses in the fourth quarter of 2015.

Further, as compared to the third quarter of 2015, general and administrative expense declined 17% or \$0.9 million sequentially.

### SALES AND MARKETING

(\$000 except percentages)	For the three months ended December 31			
	2015	2014	Change	% Change
<b>Sales and marketing</b>	<b>1,033</b>	1,233	(200)	(16%)
<i>Sales and marketing as a % of revenue</i>	<i>9%</i>	5%	4%	

The reduction in sales and marketing expense can be attributed to continued discipline over discretionary spending, while balancing strategic sales and marketing initiatives.

## RESEARCH AND DEVELOPMENT

	For the three months ended December 31			
(\$000 except percentages)	2015	2014	Change	% Change
<b>Research and development expense</b>	<b>494</b>	226	268	119%
<b>Capitalized development expenditures</b>	<b>30</b>	474	(444)	(94%)
<b>Total research and development</b>	<b>524</b>	700	(176)	(25%)
<i>Research and development as a % of revenue</i>	<b>4%</b>	3%	1%	

In response to declining market conditions, McCoy Global's product technology and development team was re-organized in 2015 and the investment in R&D reduced.

## OTHER ITEMS

	For the three months ended December 31			
(\$000 except percentages)	2015	2014	Change	% Change
<b>Impairment of intangible assets</b>	<b>4,765</b>	202	4,563	2,260%
<b>Restructuring charges</b>	<b>14</b>	-	14	100%
<b>Finance charges, net</b>	<b>326</b>	78	248	318%
<b>Other (gains) and losses, net</b>	<b>(285)</b>	(604)	319	(53%)

As a result of current market conditions combined with changes to the Corporation's business processes, product mix and customer base, the Corporation recognized an impairment charge of \$4.8 million against certain acquired intangible assets. In the prior year, an impairment charge was recognized in the fourth quarter when a decision was made to no longer proceed with a certain R&D project under development.

Restructuring charges include costs incurred relating to headcount reductions.

Finance charges, net, are consistent with the prior year and are primarily comprised of standby fees and amortization of deferred financing charges, offset by interest income. Deferred financing costs of \$0.3 million were written off in the fourth quarter of 2015.

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)	2015	2014	Change	% Change
<b>Adjusted EBITDA</b>	<b>(4,526)</b>	4,957	(9,483)	(191%)
<i>Adjusted EBITDA as a % of revenue</i>	<i>(39%)</i>	18%	(57%)	

Adjusted EBITDA was impacted by the global reduction in drilling and completions activity which has resulted in a sharp decline in revenues. Although the Corporation adjusted its cost structure throughout 2015 to reflect the near-term business environment which has resulted in a significant reduction in gross profit. Overhead expenses were reduced in response to the decline in gross profit, but reductions to overhead expenses did not offset the reduction in gross profit.

## EARNINGS FROM DISCONTINUED OPERATIONS (NET OF TAX)

	For the three months ended December 31			
(\$000 except percentages)	2015	2014	Change	% Change
<b>Earnings from discontinued operations (net of tax)</b>	<b>-</b>	(276)	276	(100%)

2014 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

	2015				2014			
(\$000 except per share amounts)	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
Revenue	11,648	21,376	22,952	25,800	27,209	38,275	27,915	27,220
(Loss) earnings from continuing operations	(10,792)	(1,963)	(451)	2,229	1,753	4,163	2,258	1,195
Basic (loss) earnings per share from continuing operations	(0.39)	(0.07)	(0.02)	0.08	0.06	0.15	0.08	0.04
Diluted (loss) earnings per share from continuing operations	(0.39)	(0.07)	(0.02)	0.08	0.06	0.15	0.08	0.04
Net (loss) earnings	(10,792)	(1,963)	(451)	2,229	1,477	5,747	8,262	2,521
Basic (loss) earnings per share	(0.39)	(0.07)	(0.02)	0.08	0.05	0.21	0.30	0.09
Diluted (loss) earnings per share	(0.39)	(0.07)	(0.02)	0.08	0.05	0.21	0.30	0.09
Adjusted EBITDA	(4,526)	922	1,538	5,834	4,957	7,998	3,852	4,179

## LIQUIDITY AND CAPITAL RESOURCES

### CASH FLOW

At December 31, 2015, the Corporation has \$27.5 million in cash and cash equivalents and no debt. The Corporation has a credit facility, which expires on May 31, 2018. However, as a result of the decline in adjusted EBITDA in 2015, the Corporation is not in compliance with a financial covenant specified in the credit facility. The Corporation is in ongoing discussions with its lenders to obtain a waiver, however, it is unlikely that the Corporation will be able to access its credit facility in the near term. Subsequent to December 31, 2015, the credit facility was reduced from \$50.0 million to \$25.0 million to decrease commitment fees.

Selected cash flow and capitalization information is as follows:

For the year ended December 31 (\$000)	2015	2014
Cash generated from operating activities	3,705	7,640
Cash (used in) generated from investing activities	(2,001)	13,735
Cash used in financing activities	(2,735)	(4,702)
Debt to equity ratio	0.13 to 1	0.29 to 1

Cash generated from operating activities was primarily impacted by a \$17.2 million decline in adjusted EBITDA, a year over year change in working capital which increased cash by \$19.0 million and a cash tax payment of \$2.9 million as a result of paying 2014 tax balances outstanding.

Cash (used in) generated from investing activities was impacted by the sale of the Mobile Solutions segment and Coatings and Hydraulics division in 2014 which generated net proceeds of \$20.6 million offset by year over year decreases in purchases of property, plant and equipment of \$2.9 million and intangible assets related to investments in product technology and development initiatives of \$1.2 million.

Cash used in financing activities decreased as a result of the suspension of the Corporation's dividend in the third quarter of 2015.

It has become increasingly challenging in this down cycle to access debt and equity markets. However, the Corporation has \$27.5 million of cash at December 31, 2015, a strong working capital position and no debt. In addition, management continues to review the Corporation's cost structure to reduce spending in 2016. Management believes the Corporation has sufficient capital to fund its operations in the near term. If the down cycle persists for an extended period of time, the Corporation may be required to review options to raise capital.

For the three months ended December 31 (\$000)	2015	2014
Cash generated from operating activities	<b>3,952</b>	3,144
Cash used in investing activities	<b>(883)</b>	(2,708)
Cash used in financing activities	-	(2,667)

Cash generated from operating activities was primarily impacted by a \$9.5 million decline in adjusted EBITDA, offset by a change in working capital from the comparative quarter which increased cash by \$11.3 million.

Cash used in investing activities was impacted by a decrease in purchases of property, plant and equipment of \$1.0 million and intangible assets related to investments in product technology and development initiatives of \$0.7 million in comparison to the fourth quarter of 2014.

Cash used in financing activities for the three months ended December 31, 2015 was \$nil as a result of the suspension of the Corporation's dividend, which comprised the majority of the quarterly comparative.

## 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
Amounts held in escrow on business divestitures	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 may be 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 the time value of money.

## 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 may use forward exchange contracts with maturities of less than one year from the reporting date to manage the foreign currency risk.

The Corporation recognized a foreign currency exchange gain of \$2.3 million in other (gains) losses, net (2014 – gain of \$1.0 million). Based on the Corporation's US dollar denominated monetary assets and liabilities at December 31, 2015, 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 \$0.1 million (2014 – \$0.2 million).

#### *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. In 2015 and 2014, 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, 2015 would have increased or decreased net earnings, net of tax, for the year ended December 31, 2015 by \$0.2 million (2014 - \$0.2 million), primarily arising from interest income earned on cash and cash equivalents.

### (ii) CREDIT RISK

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

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

The credit risk associated with amounts held in escrow on business divestitures is minimized as the funds are held in trust with third party legal counsel at Canadian chartered banks. The Corporation has assessed the credit risk associated with the estimated proceeds related to working capital balances associated with the business divestiture, and has reviewed the balance for indication of impairment. Based on management's judgement, no provision for impairment is considered necessary at the present time.

Trade receivables include balances due from customers primarily operating in the oil and gas industry. The Corporation manages credit risk by assessing the creditworthiness of its customers before providing products or services and on an ongoing basis as well as monitoring the amount and age of balances outstanding. In some instances, the Corporation will take additional measures to reduce credit risk including obtaining letters of credit and prepayments from customers.



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

(\$000)	2015	2014
	\$	\$
Fully performing	5,391	10,374
Past due but not impaired	3,110	11,011
Indications of impairment	229	287
<b>Trade receivables</b>	<b>8,730</b>	<b>21,672</b>

The credit quality of fully performing receivables is determined based on credit evaluations and management's past experience with the customers. Past due but not impaired trade receivables relate to a number of independent customers for whom there is no recent history of default. Management reviews trade receivable balances periodically for indications of possible impairment. Trade receivables with indications of possible impairment primarily relate to balances past due from customers that are no longer deemed to be creditworthy. Management has determined on a customer by customer basis that impairment provisions of \$0.2 million (2014 - \$0.3 million) are sufficient to cover credit risk.

The aging analysis of trade receivables is as follows:

<b>As at December 31</b> (\$000)	2015	2014
	\$	\$
0 to 30 days	2,654	6,866
31 to 60 days	2,737	3,508
61 to 120 days	3,130	3,657
Over 120 days	209	7,641
	<b>8,730</b>	<b>21,672</b>
Provisions for impairment	(229)	(287)
Trade receivables	<b>8,501</b>	<b>21,385</b>
Other receivables	<b>602</b>	<b>1,318</b>
<b>Total trade and other receivables</b>	<b>9,103</b>	<b>22,703</b>

As at December 31, 2015, the Corporation had one customer that accounted for \$1.1 million (13%) of total trade accounts receivable (2014 - \$6.6 million, 30%).

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

<b>For the year ended December 31</b> (\$000)	2015	2014
	\$	\$
Provision for impairment, as at January 1	(287)	-
Impairment loss recognized	(111)	(287)
Amounts written off	197	-
Foreign exchange	(28)	-
<b>Provision for impairment, as at December 31</b>	<b>(229)</b>	<b>(287)</b>

### (iii) LIQUIDITY RISK

Liquidity risk is the risk that the Corporation will not be able to meet its obligations with financial liabilities as they come due. The Corporation maintains sufficient cash and cash equivalents to meet financial obligations. Based on remaining contractual maturities, the undiscounted cash flows for its financial liabilities including interest payments, consists of \$6.5 million (2014 - \$15.1 million) of trade and other payables and \$nil (2014 - \$1.0 million) of derivative financial instruments which mature within one year of the statement of financial position date. As at December 31, 2015, the Corporation has commitments to purchase inventory and operating supplies of \$0.8 million (2014 - \$3.1 million). Payments for these commitments are expected to be made in 2016.

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

As at December 31 (\$000)	2015	2014
	\$	\$
Less than one year	3,138	2,936
Between one and five years	3,827	6,172
Later than five years	455	694
	7,420	9,802

## 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)	2015	2014
	\$	\$
Borrowings	-	-
Shareholders' equity	97,469	102,373
<b>Total capital</b>	<b>97,469</b>	<b>102,373</b>

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

The 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:

- 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.

As at December 31, 2015, the Corporation is not in compliance with the trailing twelve-month fixed charge coverage ratio and is unable to access the credit facility. The Corporation is in ongoing discussions with its lenders to obtain a waiver, however, it is unlikely that the Corporation will be able to access its credit facility in the near term even if a waiver is obtained.

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. Contractual obligations, including interest, arising over the next five years from the arrangements currently in force include \$6.5 million of trade and other payables due within one year of December 31, 2015. As at December 31, 2015, the Corporation has commitments to purchase inventory and operating supplies of \$0.8 million. Payments for these commitments are expected to be made in 2016.

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	3,138
2 to 5 years	3,827
Over 5 years	455

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 \$1.0 million thereafter.

### RELATED PARTY TRANSACTIONS

#### *Divestiture of Coatings & Hydraulics division*

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

The 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 amount held in escrow and estimated proceeds relating to working capital balances associated with the divestiture are included in other assets.

The Corporation has entered into agreements indemnifying the purchaser with respect to certain leased premises associated with the Coatings & Hydraulics division.

The Corporation has also guaranteed certain leases as part of the divestiture of the Coating & Hydraulics division should the purchaser be unable to satisfy obligations under the leases. Minimum aggregate future lease payments of the guaranteed leases are \$0.3 million. The lease agreement expires in July of 2016 and the purchaser has the option to extend the lease for five years with annual lease payments negotiated at market rates.

### *Operating lease expense*

The Corporation has three lease agreements with companies controlled by individuals who were Directors of the Corporation's Board until May 14, 2015. These individuals are also Directors of Foundation Equity Corporation ("Foundation"), a 22% shareholder from January 1, 2015 to May 20, 2015 and a 19% shareholder from May 21, 2015 to December 15, 2015. Foundation divested of all remaining shareholdings of the Corporation on December 15, 2015. 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.

The Corporation recorded an annual operating lease expense of \$1.1 million (during the year ended December 31, 2014 - \$1.4 million) with respect to related party operating leases disclosed above. In addition to regularly scheduled lease payments, the Corporation paid \$nil (2014 - \$0.2 million) to one of the companies controlled by the related parties to reimburse the related parties for certain facility expenses.

### *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, 2015 and 2014 are as follows:

For the years ended (\$000)	2015	2014
	\$	\$
Salaries and other short-term employee benefits	2,311	2,400
Termination benefit	334	(6)
Share-based payments	-	656
	2,645	3,050

## OUTSTANDING SHARE DATA

As at March 9, 2016 the following class of shares and equity securities potentially convertible into common shares were outstanding:

Common shares	27,704,239
Stock options	1,650,001

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
May 15, 2015	June 11, 2015	\$0.05
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

On September 3, 2015, the Corporation announced that the Board of Directors approved the suspension of the quarterly dividend payment. Future declarations of dividends is at the sole discretion of the Board and will continue to be evaluated on a quarterly basis.

## CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

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

(i) *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*

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 required to estimate its income taxes in each of these tax jurisdictions in preparing its consolidated financial statements. The calculation of income taxes requires the use of judgment.

Deferred tax assets are recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Judgment and estimation is necessary to determine the likelihood and availability of future taxable profits against which tax losses and tax credits carried forward can be used.

(iv) *Impairment of financial assets*

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

(v) *Impairment of non-financial assets*

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

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

## FUTURE ACCOUNTING PRONOUNCEMENTS

The International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") have issued a number of new standards, amendments to standards and interpretations effective for annual periods beginning after January 1, 2016. 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, 2018
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
IFRS 16 – Leases	Specifies that lessees are to recognize leases that were traditionally recorded as operating leases in a similar way to finance leases under existing IAS 17.	A formal assessment of the transitional implications to the Corporation will be completed in the future.	January 1, 2019

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, 2015, 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, 2015, 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, 2015, ICFR (as defined in NI 52-109) were effective. There were no changes in our ICFR during the year ended December 31, 2015 that have materially affected, or are reasonably likely to affect, our ICFR.

## RISK AND UNCERTAINTIES RELATED TO THE BUSINESS

As at December 31, 2015, there have been no changes in the Corporation's risks or risk management activities since December 31, 2014. 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;
- Reliance on key persons and labour shortages;
- Domestic and foreign competition;
- International sales;
- Mergers and acquisitions;
- Strategy implementation 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:

### 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 or introduce disruptive technologies.

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.

## **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 may identify, evaluate and merge or 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.

### **STRATEGY IMPLEMENTATION RISK**

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 Corporation's strategy, both organically or by mergers and/or acquisitions, if capital is required. 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.

Steel is as a component of the Corporation's products and a component of many of the parts purchased by the Corporation for the production of 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, 2015 is available on SEDAR.



# CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 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 8, 2016



March 8, 2016

## **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, 2015 and 2014 and the consolidated statements of (loss) 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.

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*PricewaterhouseCoopers LLP*  
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"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, 2015 and 2014 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

**(Signed) “PricewaterhouseCoopers LLP”**

**Chartered Professional Accountants**

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Stated in thousands of Canadian dollars)

As at	Note	December 31, 2015	December 31, 2014
		\$	\$
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		27,450	29,876
Trade and other receivables	21	9,103	22,703
Inventories	5	43,776	41,430
Income tax recoverable		3,680	-
Other current assets	6	3,621	3,012
		87,630	97,021
Property, plant and equipment	7	15,405	16,738
Intangible assets	8	6,896	14,443
Deferred tax assets	13	636	2,297
Other assets	6	-	1,442
<b>Total assets</b>		<b>110,567</b>	<b>131,941</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	10	6,532	15,119
Customer deposits		1,289	5,997
Derivative financial instruments		-	977
Provisions	11	3,353	1,761
Income tax payable		1,470	1,633
		12,644	25,487
Provisions	11	150	2,360
Deferred tax liabilities	13	304	1,721
<b>Total liabilities</b>		<b>13,098</b>	<b>29,568</b>
<b>Shareholders' equity</b>	14		
Share capital		60,187	60,137
Contributed surplus		4,306	3,778
Accumulated other comprehensive income		11,897	3,632
Retained earnings		21,079	34,826
<b>Total shareholders' equity</b>		<b>97,469</b>	<b>102,373</b>
Commitments	26		
<b>Total liabilities and shareholders' equity</b>		<b>110,567</b>	<b>131,941</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 (LOSS) EARNINGS AND COMPREHENSIVE INCOME

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

For the years ended	Note	December 31, 2015	December 31, 2014
		\$	\$
<b>Revenue</b>	16	<b>81,776</b>	120,619
<b>Cost of sales</b>		<b>61,095</b>	74,416
<b>Gross profit</b>		<b>20,681</b>	46,203
General and administration		20,004	25,859
Sales and marketing		4,811	5,199
Research and development		1,364	1,374
Impairment of intangible assets	8	5,898	202
Restructuring charges		1,277	-
Finance charges, net	18	604	374
Other (gains) losses, net		(2,239)	28
		31,719	33,036
<b>(Loss) earnings from continuing operations before income taxes</b>		<b>(11,038)</b>	13,167
<b>Income tax (recovery) expense</b>	19		
Current		(668)	5,063
Deferred		607	(1,265)
		(61)	3,798
<b>(Loss) earnings from continuing operations</b>		<b>(10,977)</b>	9,369
Earnings from discontinued operations, net of tax	25	-	8,638
<b>Net (loss) earnings</b>		<b>(10,977)</b>	18,007
<b>Other comprehensive income</b>			
Translation gain of foreign operations		8,265	2,420
<b>Comprehensive income</b>		<b>(2,712)</b>	20,427
<b>(Loss) earnings per share</b>	20		
Basic from continuing operations		(0.40)	0.34
Basic from discontinued operations		-	0.31
Basic from net earnings		(0.40)	0.65
Diluted from continuing operations		(0.40)	0.34
Diluted from discontinued operations		-	0.31
Diluted from net earnings		(0.40)	0.65

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					
	Number of shares	Share capital	Contributed surplus	Accumulated other comprehensiv e income	Retained earnings	Total equity
	#	\$	\$	\$	\$	\$
<b>Balances at January 1, 2014</b>	<b>27,404,239</b>	<b>58,849</b>	<b>3,593</b>	<b>1,212</b>	<b>22,349</b>	<b>86,003</b>
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>	<b>27,694,239</b>	<b>60,137</b>	<b>3,778</b>	<b>3,632</b>	<b>34,826</b>	<b>102,373</b>
Net loss	-	-	-	-	(10,977)	(10,977)
Translation gain on foreign operations	-	-	-	8,265	-	8,265
Employee share-based compensation expense	-	-	543	-	-	543
Dividends	-	-	-	-	(2,770)	(2,770)
Common shares issued on exercise of stock options	10,000	50	(15)	-	-	35
<b>Balances at December 31, 2015</b>	<b>27,704,239</b>	<b>60,187</b>	<b>4,306</b>	<b>11,897</b>	<b>21,079</b>	<b>97,469</b>

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, 2015	December 31, 2014
<b>Cash generated from (used in)</b>		\$	\$
<b>Operating activities</b>			
(Loss) earnings from continuing operations		(10,977)	9,369
Adjustments for:			
Depreciation of property, plant and equipment	7	4,438	3,679
Amortization of intangible assets	8	3,173	2,681
Income tax (recovery) expense		(61)	3,798
Finance charges, net		604	374
<b>EBITDA<sup>1</sup></b>		<b>(2,823)</b>	<b>19,901</b>
Share-based compensation expense	15(c)	393	208
Non-cash change in value of derivative financial instruments	21(a)	(977)	675
Impairment of intangible assets	8	5,898	202
Loss on disposal of property, plant and equipment		354	65
Changes in non-cash working capital balances	24	4,021	(14,953)
Finance costs paid, net		(264)	(44)
Income taxes paid, net		(2,897)	(88)
Net cash generated from continuing operating activities		3,705	5,966
Net cash generated from discontinued operating activities		-	1,674
<b>Net cash generated from operating activities</b>		<b>3,705</b>	<b>7,640</b>
<b>Investing activities</b>			
Proceeds from sale of subsidiaries		848	20,624
Purchases of property, plant and equipment		(1,516)	(4,387)
Proceeds from sale of property, plant and equipment		172	250
Additions to intangible assets		(1,505)	(2,658)
Net cash (used in) generated from continuing investing activities		(2,001)	13,829
Net cash used in discontinued investing activities		-	(94)
<b>Net cash (used in) generated from investing activities</b>		<b>(2,001)</b>	<b>13,735</b>
<b>Financing activities</b>			
Financing costs paid		-	(137)
Proceeds from issuance of share capital on exercise of options		35	965
Dividends paid	14(b)	(2,770)	(5,530)
<b>Net cash used in continuing financing activities</b>		<b>(2,735)</b>	<b>(4,702)</b>
Effect of exchange rate changes on cash and cash equivalents		(1,395)	(129)
<b>(Decrease) increase in cash and cash equivalents</b>		<b>(2,426)</b>	<b>16,544</b>
<b>Cash and cash equivalents – beginning of the year</b>		<b>29,876</b>	<b>13,332</b>
<b>Cash and cash equivalents – end of the year</b>		<b>27,450</b>	<b>29,876</b>

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

<sup>1</sup> EBITDA is an additional GAAP measure presented under IFRS defined as "net (loss) earnings from continuing operations before finance charges, net, income tax (recovery) expense, depreciation and amortization."

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2015 and 2014

(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 equipment and technologies used for making up threaded connections in the global oil and gas industry. McCoy Global's core products are used predominantly during the well construction phase for both land and offshore wells during both oil and gas exploration. The Corporation is engaged in the:

- design, production 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 and services; such as technical support, 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 comprised two divisions: Drilling & Completions and Coatings & Hydraulics. The Drilling & Completions division forms the Corporation's continuing operations.

Management committed to a formal process to divest both 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. On June 17, 2014, the Mobile Solutions segment was divested by the Corporation. On September 15, 2014, the Coatings & Hydraulics division was divested 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 (loss) earnings and comprehensive income and the consolidated statements of cash flows for the current and comparative years.

Set out below are McCoy's principal operations:

Operating Name	Country of Incorporation	Operating Region	Ownership Interest
<b>Continuing Operations</b>			
McCoy Global Canada Corp.	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 and Russia	100%
McCoy Global USA, Inc.	United States	United States and Latin America	100%
<b>Discontinued Operations</b>			
Inotec Coating and Hydraulics Inc.	Canada	Canada	-
Peerless Limited	Canada	Canada	-

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

The address of the registered office of the Corporation is DLA Piper (Canada) LLP, Livingston Place, 1000 - 250 2nd Street SW, Calgary, Alberta. The Corporation is listed on the Toronto Stock Exchange 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 8, 2016.

## 3. SIGNIFICANT ACCOUNTING POLICIES

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

### a) BASIS OF PRESENTATION

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

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

Presentation of the consolidated statements of financial position differentiates between current and non-current assets and liabilities. The consolidated statements of earnings (loss) 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 (loss) 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. If these estimates and judgements prove to be inaccurate, future (loss) earnings may be materially impacted.

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

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

**(i) INVENTORIES**

The Corporation records inventories at the lower of cost and net realizable value. Write downs for inventories 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 5.

**(ii) PROVISIONS**

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(k) 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. Further information regarding the judgement used is described in note 3(m) and note 19.

Deferred tax assets are recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Judgment and estimation is necessary to determine the likelihood and availability of future taxable profits against which tax losses and tax credits carried forward can be used. Further information regarding this judgement is described in note 3(m) and note 13.

**(iv) IMPAIRMENT OF FINANCIAL ASSETS**

The Corporation assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets carried at amortized cost is impaired. Judgment is used in determining whether any indications of impairment over the loan or receivable are present and in determining the likelihood, timing and estimated future cash inflows related to the loan or receivable. Further information regarding the judgement used is described in note 21(b).

**(v) IMPAIRMENT OF NON-FINANCIAL ASSETS**

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

The recoverable amounts of cash-generating units are determined based on value-in-use calculations. These calculations require the use of estimates and judgements, including an estimation of the future cash flows from the CGU or group of CGUs and judgment is required in determining the appropriate discount rate. In deriving the underlying projected cash flows, assumptions must also be made about the impact of future drilling activity on sales, operating margins and market conditions over the useful life of the assets or CGUs. Although estimates are consistent with current industry reports, internal planning and expected future operations, such estimations, are subject to uncertainty and judgment. Further information regarding the estimates and judgement used is described in note 9.

**d) TRANSLATION OF FOREIGN CURRENCY****(i) FOREIGN CURRENCY TRANSACTIONS**

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



## (ii) FOREIGN OPERATIONS

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

## e) FINANCIAL INSTRUMENTS

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

### (i) NON-DERIVATIVE FINANCIAL INSTRUMENTS

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

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

Financial Instrument	Category	Measurement
Cash and cash equivalents	Loans and receivables	Amortized cost
Trade and other receivables	Loans and receivables	Amortized cost
Amounts held in escrow on business divestitures	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 may be 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 the time value of money.

## f) CASH AND CASH EQUIVALENTS

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

## g) INVENTORIES

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

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of work-in-progress and finished goods 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 also be used in the production of finished goods.

## h) PROPERTY, PLANT AND EQUIPMENT

### (i) RECOGNITION AND MEASUREMENT

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

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

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

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

### (ii) SUBSEQUENT COSTS

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

### (iii) DEPRECIATION

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

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

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

## i) INTANGIBLE ASSETS

### (i) INTERNALLY GENERATED INTANGIBLE ASSETS

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

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

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

### (ii) OTHER INTANGIBLE ASSETS

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

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:

Internally generated intellectual property	5 – 10 years
Acquired intellectual property	13 – 15 years
Internally generated software	5 years
Acquired trade names	3 years
Software	1 – 6 years
Acquired customer relationships	10 years

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

## j) IMPAIRMENT

### (i) FINANCIAL ASSETS

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

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

**(ii) NON-FINANCIAL ASSETS**

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

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

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

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

**k) PROVISIONS**

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

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

**l) LEASES**

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

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

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

**m) INCOME TAX**

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

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

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

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

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

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

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

**o) DIVIDENDS**

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

**p) SHARE CAPITAL**

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

**q) EARNINGS PER SHARE**

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

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

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

**r) REVENUE****(i) SALE OF 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, and 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.

**s) 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 (loss) and other comprehensive income ("OCI") is represented as if the operation had been discontinued from the start of the comparative year.

#### 4. FUTURE ACCOUNTING PRONOUNCEMENTS

The International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") have issued a number of new standards, amendments to standards and interpretations effective for annual periods beginning after January 1, 2016. These standards and amendments have not been applied by the Corporation in preparing these consolidated financial statements. Those that 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, 2018
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
IFRS 16 – Leases	Specifies that lessees are to recognize leases that were traditionally recorded as operating leases in a similar way to finance leases under existing IAS 17.	A formal assessment of the transitional implication to the Corporation will be completed in the future.	January 1, 2019

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.

## 5. INVENTORIES

	2015	2014
	\$	\$
Raw materials	2,837	1,997
Work-in-progress	4,963	5,667
Finished goods	35,976	33,766
	43,776	41,430

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 production of finished goods.

During the year ended December 31, 2015, raw materials and changes in finished goods and work-in-progress inventories included in cost of sales amounted to \$44,612 (2014 - \$69,398).

During the year ended December 31, 2015, the net write down of inventories to net realizable value amounted to \$1,597 (2014 - \$956). The net write down is included in cost of sales. Inventory was assessed for obsolescence at a distinct part type level. If a distinct part type was not sold externally or consumed internally in the production process within two years prior to the statement of financial position date, the inventory was provided for during the year. Judgement was used in establishing the two year time frame to determine the estimated net realizable value of inventories on hand.

## 6. OTHER ASSETS

	Note	2015	2014
		\$	\$
Prepaid expenses, deposits and other		2,206	1,939
Deferred financing costs		-	253
Amounts held in escrow on business divestitures	25	1,415	2,262
<b>Total other assets</b>		<b>3,621</b>	<b>4,454</b>
<b>Current portion of other assets</b>		<b>3,621</b>	<b>3,012</b>
<b>Other assets</b>		<b>-</b>	<b>1,442</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 held in trust with legal counsel and are to be released to the Corporation based on scheduled dates as per the relevant purchase and sale agreement. Of the \$1,415 held in escrow, \$950 is past the scheduled payment dates per the share purchase agreements. The Corporation is working with the respective purchasers to facilitate the release of the funds from escrow. It is management's judgement that proceeds will be released from escrow within twelve months of the statement of financial position date.

Included in prepaid expenses, deposits and other is estimated proceeds relating to working capital balances associated with the Coatings & Hydraulics division divestiture (note 22). It is management's judgement that proceeds relating to working capital balances will be released within twelve months of the statement of financial position date.

Certain amounts within other assets are due from related party transactions as disclosed in note 22.



## 7. PROPERTY, PLANT AND EQUIPMENT

	Machinery and office equipment	Rental equipment	Computer equipment	Leasehold improvements	Automotive equipment	Total
	\$	\$	\$	\$	\$	\$
<b>Cost</b>						
Balances at January 1, 2014	24,356	48	3,158	1,051	537	29,150
Additions	2,392	1,603	91	235	66	4,387
Disposals	(252)	(110)	(257)	-	(17)	(636)
Foreign exchange	1,211	7	95	85	28	1,426
Balances at December 31, 2014	27,707	1,548	3,087	1,371	614	34,327
Additions	657	499	225	135	-	1,516
Disposals	(4,803)	(16)	(354)	(169)	(93)	(5,435)
Foreign exchange	3,026	366	223	191	77	3,883
<b>Balances at December 31, 2015</b>	<b>26,587</b>	<b>2,397</b>	<b>3,181</b>	<b>1,528</b>	<b>598</b>	<b>34,291</b>
<b>Accumulated depreciation</b>						
Balances at January 1, 2014	11,601	-	1,489	257	234	13,581
Depreciation	2,688	35	724	133	99	3,679
Disposals	(51)	(3)	(256)	-	(17)	(327)
Foreign exchange	563	-	50	28	15	656
Balances at December 31, 2014	14,801	32	2,007	418	331	17,589
Depreciation	2,960	312	641	419	106	4,438
Disposals	(4,423)	(2)	(313)	(78)	(93)	(4,909)
Foreign exchange	1,469	32	146	79	42	1,768
<b>Balances at December 31, 2015</b>	<b>14,807</b>	<b>374</b>	<b>2,481</b>	<b>838</b>	<b>386</b>	<b>18,886</b>
<b>Carrying amount</b>						
At December 31, 2014	12,906	1,516	1,080	953	283	16,738
<b>At December 31, 2015</b>	<b>11,780</b>	<b>2,023</b>	<b>700</b>	<b>690</b>	<b>212</b>	<b>15,405</b>

During the year ended December 31, 2015, depreciation included in cost of sales amounted to \$3,710 (2014 - \$2,610); depreciation in general and administration amounted to \$674 (2014 - \$1,032); depreciation in research and development amounted to \$54 (2014 - \$37). At December 31, 2015, PP&E of \$27 (2014 - \$978) is under development or construction and not available for use. While not available for use, PP&E is not depreciated.

## 8. INTANGIBLE ASSETS

	Internally generated intellectual property	Acquired intellectual property	Internally generated software	Acquired trade names	Acquired customer relationships	Software	Total
	\$	\$	\$	\$	\$	\$	\$
<b>Cost</b>							
Balances at January 1, 2014	3,113	8,900	2,722	2,900	1,363	2,080	21,078
Additions	2,565	-	13	-	-	80	2,658
Foreign exchange	-	-	-	-	-	41	41
Balances at December 31, 2014	5,678	8,900	2,735	2,900	1,363	2,201	23,777
Additions	1,129	-	-	-	-	376	1,505
Disposals	-	(671)	-	-	-	(303)	(974)
Foreign exchange	-	-	-	-	-	112	112
<b>Balances at December 31, 2015</b>	<b>6,807</b>	<b>8,229</b>	<b>2,735</b>	<b>2,900</b>	<b>1,363</b>	<b>2,386</b>	<b>24,420</b>
<b>Accumulated amortization</b>							
Balances, January 1, 2014	132	4,135	-	40	874	1,240	6,421
Amortization	137	564	545	967	139	329	2,681
Impairment	202	-	-	-	-	-	202
Foreign exchange	-	-	-	-	-	30	30
Balances at December 31, 2014	471	4,699	545	1,007	1,013	1,599	9,334
Amortization	529	569	548	967	143	417	3,173
Disposals	-	(671)	-	-	-	(303)	(974)
Impairment	1,133	3,632	-	926	207	-	5,898
Foreign exchange	-	-	-	-	-	93	93
<b>Balances at December 31, 2015</b>	<b>2,133</b>	<b>8,229</b>	<b>1,093</b>	<b>2,900</b>	<b>1,363</b>	<b>1,806</b>	<b>17,524</b>
<b>Carrying amounts</b>							
At December 31, 2014	5,207	4,201	2,190	1,893	350	602	14,443
<b>At December 31, 2015</b>	<b>4,674</b>	<b>-</b>	<b>1,642</b>	<b>-</b>	<b>-</b>	<b>580</b>	<b>6,896</b>

During the year ended December 31, 2015, amortization included in cost of sales amounted to \$1,198 (2014 - \$818); amortization in general and administration amounted to \$865 (2014 - \$757); and amortization included in sales and marketing amounted to \$1,110 (2014 - \$1,106).

Included in internally generated intellectual property is \$3,161 (2014 - \$4,732) 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:

	2015	2014
Internally generated intellectual property	1 – 7 years	2 – 8 years
Acquired intellectual property	-	8 – 9 years
Internally generated software	3 years	4 years
Acquired customer relationships	-	1 – 3 years
Acquired trade names	-	2 years
Software	1 – 2 years	1 – 3 years

**a) INTERNALLY GENERATED INTELLECTUAL PROPERTY**

In response to declining industry trends, the Corporation reviewed new product technology projects currently under development. Management has determined that there are no future economic benefits expected from the use of certain of these assets. Accordingly, the Corporation recognized an impairment charge of \$1,133 (2014 - \$202) against internally generated intellectual property.

**b) ACQUIRED INTELLECTUAL PROPERTY**

Acquired intellectual property comprises engineering designs, drawings, patents, and know-how obtained through the acquisition of McCoy Global USA Inc., formerly, Superior Manufacturing and Hydraulics Inc. and Precision Die Technologies LLC ("Superior"), in 2007. At December 31, 2015, it was determined that the acquired intellectual property had no future economic benefits as a result of current market conditions combined with changes to the Corporation's production processes, engineering drawings, equipment and product mix that have occurred since the time of acquisition. Accordingly, the Corporation recognized an impairment charge of \$3,632 (2014 - \$nil) against acquired intellectual property.

**c) ACQUIRED TRADE NAMES**

Acquired trade names comprise the brands obtained through the acquisition of Superior. The useful life of the Superior trade name was re-assessed in December 2013 as a result of the Corporation's re-branding. At that time, the useful life of the trade name was adjusted to three years. Management re-assessed the trade name and determined that no future economic benefits are expected from the use of the asset. Accordingly, the Corporation recognized an impairment charge of \$926 (2014 - \$nil) against acquired trade names.

**d) ACQUIRED CUSTOMER RELATIONSHIPS**

Acquired customer relationships comprise the customer lists obtained through the acquisition of Superior. At December 31, 2015, it was determined that the acquired customer relationships had no expected future economic benefits from its use as a result of both current market conditions combined with changes to the make-up of the Corporation's customer base that have occurred since the time of acquisition. Accordingly, the Corporation recognized an impairment charge of \$207 (2014 - \$nil) against acquired customer relationships.

**9. IMPAIRMENT OF NON-FINANCIAL ASSETS**

The Corporation reviews the carrying value of its non-financial assets at each reporting period for indicators of impairment. During the year ended December 31, 2015 the Corporation determined that low commodity prices and the industry decline in drilling and completions activity levels was an indicator of impairment and performed a comprehensive assessment of the carrying values of non-financial assets. The recoverable amounts of non-financial assets were estimated based on their value in use, determined by discounting estimated future cash flows expected to be generated by the assets or CGU to which it was assigned. Due to the nature of the decline, all identified CGUs, including all geographical components, were assessed as part of the impairment assessment.

Key assumptions used in the estimation of value in use included the after-tax discount rate of 13% and management expectation of future outcomes and market conditions, including forecasted North American and international rig and well counts. Based on industry forecasts, average projected annual revenue growth over the next five years was estimated at 5%. No terminal value growth rate was used due to the finite lives of the underlying assets of the CGU. Discount rates were derived from the Corporation's estimated weighted average cost of capital, adjusted for risk factors specific to the CGUs.

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

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

## 10. TRADE AND OTHER PAYABLES

	Note	2015	2014
		\$	\$
Trade payables		3,370	8,007
Accrued liabilities and other payables		2,911	6,552
Cash settled share-based compensation	15(b)	251	560
		6,532	15,119

## 11. PROVISIONS

	Warranty	Legal	Site remediation	Total
	\$	\$	\$	\$
Balances at January 1, 2014	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
Balances at December 31, 2014	1,611	150	2,360	4,121
Provisions made during the year	402	12	-	414
Provisions utilized during the year	(1,177)	(12)	-	(1,189)
Foreign exchange	157	-	-	157
<b>Balances at December 31, 2015</b>	<b>993</b>	<b>150</b>	<b>2,360</b>	<b>3,503</b>
Expected to be utilized within one year	993	-	2,360	3,353
Expected to be utilized thereafter	-	150	-	150

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

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

The Corporation leases premises which are required to be returned to the landlord at the end of the lease in accordance with the terms of the lease agreement, including remediation of any deficiencies incurred as a result of carrying out business activities. In addition, as part of the business divestitures disclosed in note 25, the Corporation has indemnified the purchasers with respect to certain leased premises associated with businesses sold by the Corporation as described in note 22(a) and 25. The site remediation provision is based on management's estimate of the expected costs of restoring its locations or former locations to a condition that is in accordance with lease terms. When available, costs are estimated based on management's assessment of third party quotations to complete the required remediation efforts. If third party quotations are not available, management has used the best information available to assess the future costs to be incurred by the Corporation. Judgment related to these future costs is based on uncertainty regarding the full extent of the required costs to be completed.

## 12. BORROWINGS

### a) REVOLVING CREDIT FACILITY

As at December 31, 2015, the Corporation has a \$50.0 million committed senior secured revolving credit facility with its lenders, maturing on May 31, 2018. On July 13, 2015, the Corporation amended the credit agreement to revise certain covenants imposed under the original agreement and extended its maturity date to May 31, 2018. The credit facility includes an accordion feature, which provides for an increase of the credit facility of up to \$30 million at the option of the Corporation, subject to approval of the lenders. 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 0.50% and 2.75% (2014 – 0.75% to 2.00%). The terms of the amended and restated credit facility changed the standby fee to a variable percentage between 0.34% and 0.62% (2014 – 0.4%) dependent on certain financial covenants. 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.

As at December 31, 2015, the Corporation is not in compliance with certain of the financial covenants specified in the credit facility agreement (note 21(c)) and is currently unable to access the credit facility. The Corporation is in ongoing discussions with its lenders to obtain a waiver. Subsequent to December 31, 2015, the Corporation reduced the maximum principal outstanding under the revolving credit facility from \$50.0 million to \$25.0 million, effective February 5, 2016 (note 27).

Amortization of \$432 (2014 – \$280) is recognized in finance charges, net in the consolidated statements of (loss) earnings and comprehensive income.

### b) LETTER OF CREDIT

The Corporation's revolving credit facility includes a \$5.0 million committed senior letter of credit facility. As at December 31, 2015, the Corporation has committed \$56 (2014 – \$76) 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:

	2015			2014		
	Assets	Liabilities	Net	Assets	Liabilities	Net
	\$	\$	\$	\$	\$	\$
Intangible assets	2,403	(1,437)	966	1,161	(1,857)	(696)
Accrued liabilities	893	-	893	498	-	498
Inventories	597	-	597	1,841	-	1,841
Provisions	360	-	360	601	-	601
Other	205	-	205	152	(411)	(259)
PP&E	43	(2,732)	(2,689)	42	(2,823)	(2,781)
Carryforward tax loss	-	-	-	1,372	-	1,372
Deferred tax assets (liabilities)	4,501	(4,169)	332	5,667	(5,091)	576
Set off of tax	(3,865)	3,865	-	(3,370)	3,370	-
<b>Net deferred tax assets (liabilities)</b>	<b>636</b>	<b>(304)</b>	<b>332</b>	<b>2,297</b>	<b>(1,721)</b>	<b>576</b>

With respect to deferred tax assets and liabilities presented above, \$1,850 of the deferred tax assets (2014 – \$2,940), and \$411 (2014 – \$625) of the deferred tax liabilities are expected to reverse in 2016.

## b) UNRECOGNIZED DEFERRED TAX ASSETS

Deferred tax assets have not been recognized in respect of \$12,961 (2014 – \$nil) in tax loss carryforwards of subsidiaries in certain foreign jurisdictions. Based on management's current estimates of future taxable earnings in these jurisdictions, the recoverability of tax losses is undeterminable. As a result, the deferred tax asset associated with these tax losses has not been recognized. These losses can be carried forward indefinitely and do not expire.

Deferred tax assets have not been recognized in respect of \$750 (2014 – \$7,966) 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

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

### b) DIVIDENDS

Dividend declared	Dividend paid	Total dividend	Amount per common share
		\$	\$
May 15, 2015	June 11, 2015	1,385	0.05
March 11, 2015	April 13, 2015	1,385	0.05
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

On September 3, 2015, the Board of Directors approved the suspension of quarterly dividend payments. Future declarations of dividends is at the sole discretion of the Board of Directors and will continue to be evaluated on a quarterly basis.

## 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. On March 11, 2015, the Board of Directors amended the share option plan to extend the maximum term of options granted under the plan from five to ten years and extend the vesting period of option grants from three to five years for options granted on or after March 11, 2015. Options granted prior to March 11, 2015 vest over three years with a maximum term of five years. The options vest evenly over the vesting period. The exercise price of options is determined by the Board of Directors, but cannot be lower than the market price of shares on the last trading day preceding the grant date.

The following reflects activity under the employee share option plan:

	2015		2014	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
	#	\$	#	\$
Outstanding, as at January 1	1,078,337	5.74	1,271,672	4.98
Granted	695,000	3.65	450,000	5.81
Forfeited	(33,334)	6.70	(346,669)	5.12
Expired	(50,000)	4.56	(6,666)	3.49
Exercised	(10,000)	3.49	(290,000)	3.32
<b>Outstanding, December 31</b>	<b>1,680,003</b>	<b>4.90</b>	<b>1,078,337</b>	<b>5.74</b>
<b>Exercisable, December 31</b>	<b>596,662</b>	<b>5.57</b>	<b>311,663</b>	<b>5.24</b>

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

Exercise price range	2015		2014	
	Options outstanding	Weighted average remaining contractual life	Options outstanding	Weighted average remaining contractual life
	#	years	#	years
\$2 to \$4	845,003	7.81	193,337	1.81
\$4 to \$6	330,000	3.61	330,000	4.61
\$6 to \$8	505,000	2.95	555,000	3.94
	<b>1,680,003</b>	<b>5.52</b>	<b>1,078,337</b>	<b>3.76</b>

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

	2015	2014
Share price	\$3.65	\$5.81
Exercise price	\$3.65	\$5.81
Expected volatility	58%	38%
Risk-free interest rate	1%	2%
Annual dividend rate	6%	3%
Expected life of options in years	7.0 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 \$1.23 per share option (2014 – \$1.32 per share option) and the weighted average share price of options exercised during the year was \$4.97 (2014 – \$6.11).

## 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.

	2015	2014
	#	#
Outstanding, as at January 1	168,862	153,318
Granted	32,451	15,544
Forfeited	(9,819)	-
Exercised	(38,499)	-
<b>Outstanding, as at December 31</b>	<b>152,995</b>	<b>168,862</b>
<b>Vested, as at December 31</b>	<b>112,225</b>	<b>129,069</b>

## c) SHARE-BASED COMPENSATION EXPENSE

	2015	2014
	\$	\$
Equity settled share-based compensation	543	508
Cash settled share-based compensation	(150)	(300)
	<b>393</b>	<b>208</b>

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

## 16. REVENUE

	2015	2014
	\$	\$
Sale of goods	77,468	115,341
Rendering of services	3,842	4,984
Rental	466	294
	<b>81,776</b>	<b>120,619</b>



## 17. EXPENSES BY NATURE

	2015	2014
	\$	\$
Wages and salaries expense	31,914	32,468
Depreciation of property, plant and equipment	4,438	3,679
Amortization of intangible assets	3,173	2,681
Operating lease expense, net of sub lease recoveries	2,353	2,551
Gain on foreign exchange	(2,265)	(1,003)

## 18. FINANCE CHARGES, NET

	2015	2014
	\$	\$
Standby fees on credit facility	238	227
Amortization of deferred financing costs	431	280
Finance charges	669	507
Finance income	(65)	(133)
<b>Finance charges, net</b>	<b>604</b>	<b>374</b>

## 19. INCOME TAX (RECOVERY) EXPENSE

### a) RECONCILIATION OF INCOME TAX (RECOVERY) EXPENSE

Income tax (recovery) expense varies from the amounts that would be computed by applying the domestic statutory rate of 26% (2014 - 25%) to (loss) earnings from continuing operations before tax for the following reasons:

	2015	2014
	\$	\$
(Loss) earnings from continuing operations before income taxes	(11,038)	13,167
Computed income tax (recovery) expense	(2,870)	3,292
Tax effects of:		
Jurisdictional tax rate differences	1,275	753
Non-deductible expenses	172	15
Recognition of previously unrecognized deferred tax assets	(895)	(285)
Tax losses for which no deferred tax asset was recognized	2,324	-
Other items	(67)	23
<b>Income tax (recovery) expense</b>	<b>(61)</b>	<b>3,798</b>

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

	2015	2014
	\$	\$
Current tax (recovery) expense	(668)	5,063
Deferred tax (recovery) expense:		
Origination and reversal of temporary differences	(822)	(980)
Recognition of previously unrecognized deferred tax assets	(895)	(285)
Tax losses for which no deferred tax asset was previously recognized	2,324	-
Total deferred tax expense (recovery)	607	(1,265)
<b>Income tax (recovery) expense</b>	<b>(61)</b>	<b>3,798</b>

**20. (LOSS) EARNINGS PER SHARE**

	2015			2014		
	Loss	Weighted average shares	Per share amount	Earnings	Weighted average shares	Per share amount
	\$	#	\$	\$	#	\$
<b>Basic earnings per share</b>						
(Loss) earnings from continuing operations available to common shareholders	(10,977)	27,699,499	(0.40)	9,369	27,618,939	0.34
Earnings from discontinued operations available to common shareholders	-	27,699,499	-	8,638	27,618,939	0.31
(Loss) earnings available to common shareholders	(10,977)	27,699,499	(0.40)	18,007	27,618,939	0.65
<b>Diluted earnings per share</b>						
Dilutive effect of options		-			124,881	
(Loss) earnings from continuing operations available to common shareholders	(10,977)	27,699,499	(0.40)	9,369	27,743,820	0.34
Earnings from discontinued operations available to common shareholders	-	27,699,499	-	8,638	27,743,820	0.31
(Loss) earnings available to common shareholders	(10,977)	27,699,499	(0.40)	18,007	27,743,820	0.65

The Corporation has excluded 1,680,003 share options from the computation of diluted earnings per share (2014 – nil share options) because they are anti-dilutive for the period presented.

## 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 and trade and other payables approximate their carrying value due to their short-term nature.

#### (ii) DERIVATIVE FINANCIAL INSTRUMENTS

At December 31, 2015, the Corporation had financial instruments recorded as a fair value liability in the statements of financial position in the amount of \$nil (2014 – \$977).

At December 31, 2014, the Corporation had forward foreign exchange contracts outstanding to purchase US\$12,000 at a rate of 1.083. All contracts matured within one to twelve months of December 31, 2014. 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 were 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 were classified as Level 2 and the fair value was 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 reflected 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 change in value of the derivative financial instruments at the consolidated statements of financial position dates resulted in a decrease in the liability of \$977 (2014 – increase of \$675). The change in the value of the derivative financial instruments was recorded in other (gains) losses, net.

### 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 may use forward exchange contracts with maturities of less than one year from the reporting date to manage the foreign currency risk.

The Corporation recognized a foreign currency exchange gain of \$2,265 in other (gains) losses, net (2014 – gain of \$1,003). Based on the Corporation's US dollar denominated monetary assets and liabilities at December 31, 2015, 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 \$142 (2014 – \$229).

- **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 2015 and 2014, 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, 2015 would have increased or decreased net earnings, net of tax, for the year ended December 31, 2015 by \$204 (2014 - \$224), primarily arising from interest income earned on cash and cash equivalents.

**(ii) CREDIT RISK**

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

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

The credit risk associated with amounts held in escrow on business divestitures is minimized as the funds are held in trust with third party legal counsel, in Canadian chartered banks. The Corporation has assessed the credit risk associated with the estimated proceeds related to working capital balances associated with the business divestiture, and has reviewed the balance for indication of impairment. Based on management's judgement, no provision for impairment is considered necessary at the present time.

Trade receivables include balances due from customers primarily operating in the oil and gas industry. The Corporation manages credit risk by assessing the creditworthiness of its customers before providing products or services and on an ongoing basis as well as monitoring the amount and age of balances outstanding. In some instances, the Corporation will take additional measures to reduce credit risk including obtaining letters of credit and prepayments from customers.

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

	2015	2014
	\$	\$
Fully performing	5,391	10,374
Past due but not impaired	3,110	11,011
Indications of impairment	229	287
<b>Trade receivables</b>	<b>8,730</b>	<b>21,672</b>

The credit quality of fully performing receivables is determined based on credit evaluations and management's past experience with the customers. Past due but not impaired trade receivables relate to a number of independent customers for whom there is no recent history of default. Management reviews trade receivable balances periodically for indications of possible impairment. Trade receivables with indications of possible impairment primarily relate to balances past due from customers that are no longer deemed to be creditworthy. Management has determined on a customer by customer basis that impairment provisions of \$229 (2014 - \$287) are sufficient to cover credit risk.

As at December 31, 2015, the Corporation had one customer that accounted for \$1,111 (13%) of total trade receivables (2014 - \$6,560, 30%).

The aging analysis of trade receivables is as follows:

As at December 31	2015	2014
	\$	\$
0 to 30 days	2,654	6,866
31 to 60 days	2,737	3,508
61 to 120 days	3,130	3,657
Over 120 days	209	7,641
Trade receivables	8,730	21,672
Provisions for impairment	(229)	(287)
Trade receivables, net of impairment	8,501	21,385
Other receivables	602	1,318
<b>Total trade and other receivables</b>	<b>9,103</b>	<b>22,703</b>

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

For the years ended	2015	2014
	\$	\$
Provision for impairment, as at January 1	(287)	-
Impairment loss recognized	(111)	(287)
Amounts written off	197	-
Foreign exchange	(28)	-
<b>Provision for impairment, as at December 31</b>	<b>(229)</b>	<b>(287)</b>

### (iii) LIQUIDITY RISK

Liquidity risk is the risk the Corporation will not be able to meet its obligations with financial liabilities as they come due. The Corporation maintains sufficient cash and cash equivalents to meet financial obligations. Based on remaining contractual maturities, the undiscounted cash flows for the Corporation's financial liabilities, including interest payments, consist of \$6,532 (2014 - \$15,119) of trade and other payables and \$nil (2014 - \$977) of derivative financial instruments, which mature within one year of the consolidated statements of financial position dates. As at December 31, 2015, the Corporation has commitments to purchase inventory and operating supplies of \$795 (2014 - \$3,135). Payments for these commitments are expected to be made in 2016.

The Corporation also has commitments under operating leases for premises and equipment that mature in over one year as described in note 26.

### 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:

	2015	2014
	\$	\$
Borrowings	-	-
Shareholders' equity	97,469	102,373
<b>Total capital</b>	<b>97,469</b>	<b>102,373</b>

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

The 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:

- 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.

As at December 31, 2015, the Corporation is not in compliance with the trailing twelve-month fixed charge coverage ratio and is unable to access the credit facility. The Corporation is in ongoing discussions with its lenders to obtain a waiver, however, it is unlikely that the Corporation will be able to access its credit facility in the near term even if a waiver is obtained.

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) DIVESTITURE OF COATINGS & HYDRAULICS DIVISION

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

The 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 amount held in escrow and estimated proceeds relating to working capital balances associated with the divestiture is included in other assets (note 6).

The Corporation has entered into agreements indemnifying the purchaser with respect to certain leased premises associated with the Coatings & Hydraulics division as described in note 11.

The Corporation has also guaranteed certain leases as part of the divestiture of the Coating & Hydraulics division should the purchaser be unable to satisfy obligations under the leases as disclosed in note 26. Minimum aggregate future lease payments of the guaranteed leases are \$299. The lease agreements expire in July of 2016 and the purchaser has the option to extend the lease for five years with annual lease payments negotiated at market rates.

### b) OPERATING LEASE EXPENSE

The Corporation has three lease agreements with companies controlled by individuals who were Directors of the Corporation's Board until May 14, 2015. These individuals are also Directors of Foundation Equity Corporation ("Foundation"), a 22% shareholder from January 1, 2015 to May 20, 2015 and a 19% shareholder from May 21, 2015 to December 15, 2015. Foundation divested of its 19% shareholdings of the Corporation on December 15, 2015. 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 \$733 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.

The Corporation recorded an annual operating lease expense of \$1,117 (during the year ended December 31, 2014 - \$1,357) with respect to related party operating leases disclosed above. In addition to regularly scheduled lease payments, the Corporation paid \$nil (2014 - \$196) to one of the companies controlled by the related parties to reimburse the related party for certain facility expenses.

### c) 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, 2015 and 2014 are as follows:

	2015	2014
	\$	\$
Salaries and other short-term employee benefits	2,311	2,400
Share-based compensation (recovery)	334	(6)
Termination benefit	-	656
	2,645	3,050

## 23. SEGMENT INFORMATION

### GEOGRAPHIC INFORMATION

	2015		2014	
	Revenue	PP&E & intangible assets	Revenue	PP&E & intangible assets
	\$	\$	\$	\$
United States	30,997	8,931	63,896	9,370
Europe, Africa and Russia	26,321	1,464	33,761	1,345
Middle East	8,761	291	5,977	121
Asia Pacific	6,831	1,096	8,436	1,007
Canada	5,704	10,519	5,099	19,338
Latin America	3,162	-	3,450	-
	81,776	22,301	120,619	31,181

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

During the year ended December 31, 2015, one customer accounted for 12% (2014 - 11%) of the Corporation's total revenue.

## 24. CHANGES IN WORKING CAPITAL BALANCES

	2015	2014
Cash (used in) operating activities from continuing operations due to changes in non-cash working capital balances:	\$	\$
Trade and other receivables	15,899	(7,161)
Inventories	3,864	(4,939)
Other current assets	(224)	(538)
Trade and other payables	(9,526)	(667)
Customer deposits	(5,171)	(1,710)
Provisions	(821)	62
	4,021	(14,953)

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

Management committed to a formal process to divest 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 and divested in 2014.

### a) DISPOSAL OF MOBILE SOLUTIONS SEGMENT

On June 17, 2014, the Mobile Solutions segment was divested 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 (loss) earnings and comprehensive income.

The net assets disposed of on June 17, 2014 related to the sale of the Mobile Solutions segment 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 divested 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 the Coatings & Hydraulics division have been included in earnings from discontinued operations in the consolidated statements of (loss) 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 the Coatings & Hydraulics division 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</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

	2015	2014
	\$	\$
Revenue	-	29,949
Cost of sales	-	22,356
Other expenses	-	5,235
Operating earnings from discontinued operations before income tax	-	2,358
Income tax expense	-	1,150
Operating earnings from discontinued operations	-	1,208
Gain on disposal	-	7,430
	-	8,638

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 and has also sublet certain premises that are under operating lease. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2015	2014
	\$	\$
Less than one year	3,138	2,936
Between one and five years	3,827	6,172
Later than five years	455	694
	7,420	9,802

The above includes commitments with related parties as disclosed in note 22. The Corporation has guaranteed certain payments under a lease agreement associated with the sale of its Coatings and Hydraulics division in 2014. The future aggregate minimum lease payments under this guarantees in the following year are \$299. The lease agreement expires in July of 2016 with the purchaser having the option to extend the lease for five years.

The Corporation has sublet certain premises that are under operating lease. Future minimum lease payments to be received in the following year and thereafter under non-cancellable leases are \$733 and \$977 (2014 - \$688 and \$1,542).

As at December 31, 2015, the Corporation has commitments to purchase inventory and operating supplies of \$795 (2014 - \$3,135). Payments for these commitments are expected to be made in 2016.

## 27. SUBSEQUENT EVENTS

Effective February 5, 2016, the Corporation reduced the maximum principal outstanding under the revolving credit facility from \$50.0 million to \$25.0 million.



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