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MD&A AND FINANCIAL REPORT 17





MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended December 31, 2017



EXPLANATORY NOTES

The following Management's Discussion and Analysis of Financial Results ("MD&A"), dated March 8, 2018, should be read in conjunction with the cautionary statement regarding forward-looking information and statements below, as well as the audited consolidated financial statements and notes thereto, for the years ended December 31, 2017 and 2016. The annual consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). All amounts in the following MD&A are in Canadian dollars unless otherwise stated. References to "McCoy," "McCoy Global," "the Corporation," "we," "us" or "our" mean McCoy Global Inc. and its subsidiaries, unless the context otherwise requires. Additional information relating to McCoy Global, including periodic quarterly and annual reports and Annual Information Forms ("AIF"), filed with Canadian securities regulatory authorities, is available on SEDAR at sedar.com and our website at mccoysglobal.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:

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

Forward-looking statements respecting:

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

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

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

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

Readers are cautioned that the foregoing list is not exhaustive.

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

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

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

DESCRIPTION OF GAAP MEASURES AND NON-GAAP MEASURES

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

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

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

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

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

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

Adjusted EBITDA is not considered an alternative to net (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. For comparative purposes, in previous financial disclosures 'adjusted EBITDA' was defined as "net (loss) earnings 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 revised its definition of adjusted EBITDA in the fourth quarter of 2016, as management believes the revised metric provides a better measure for assessing McCoy Global's current operating performance without regard to inventory excess and obsolete charges and other gains or losses, net; which are non-cash or non-recurring in nature. 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 statements of cash flows.

OUTLOOK AND FORWARD-LOOKING INFORMATION

In 2017, McCoy increased revenue by 48% and customer bookings by 72%, as compared to 2016. This growth primarily resulted from:

- (i) the strategic acquisition of 3PS, Inc. ("3PS") announced in January 2017;
- (ii) positive Western Hemisphere demand; and
- (iii) focus on responsiveness to customers.

2018 appears to be another year of growth, although it remains difficult to forecast the extent and timing of that growth. The Eastern Hemisphere, including offshore markets, are showing signs of improvement. The Western Hemisphere remains a robust market, but subject to increased competition and competitive pricing. McCoy's engineering capabilities and technology offerings position the Corporation to partner with customers as a solutions provider to address complex challenges and drive new revenue opportunities. In addition, McCoy offers the most comprehensive platform of our leading product lines, with product support globally.

In 2017, a strategic focus of McCoy was to deliver significant operational efficiencies and re-align the Corporation's cost structure to a lower revenue environment. The execution of several restructuring initiatives resulted in a reduction to McCoy's overall cost structure, a shift to a more agile operating model with flexibility to better scale up and down with demand and an operating structure that requires lower capital expenditures to support. This was the result of several decisions and included:

- (i) the consolidation of McCoy's production in two production centers; wellbore construction products in Louisiana, USA and data acquisition products in Texas, USA. This resulted in the closure of the Corporation's Edmonton production facility in the fourth quarter of 2017.
- (ii) the transition of the Corporation's production model to an assembly only model (with the exception of the Corporation's die and insert product line). The shift away from in-house manufacturing will result in a lower production cost structure and reduced capital expenditures; and,
- (iii) the consolidation of McCoy's Eastern Hemisphere operations in the UAE in the first quarter of 2018. McCoy will continue to support the European and Asia Pacific regions with a lower cost structure model.

Restructuring efforts undertaken in 2017, in combination with revenue growth, resulted in an improvement in adjusted EBITDA of \$9.7 million as compared to 2016. Several of the restructuring actions taken were in the second half of 2017 with the annual impact to be realized in 2018.

In 2018, revenue growth remains a priority. McCoy will focus on introducing new technologies and strategic acquisition opportunities that complement the Corporation's technology platforms, and which will deliver both value and innovative solutions to customer challenges. In addition, cost discipline will be a focus and the Corporation will continue to drive supply chain improvements and the optimization of the assembly production model to achieve production cost improvements and a reduction in lead times and delivery times for standard products.

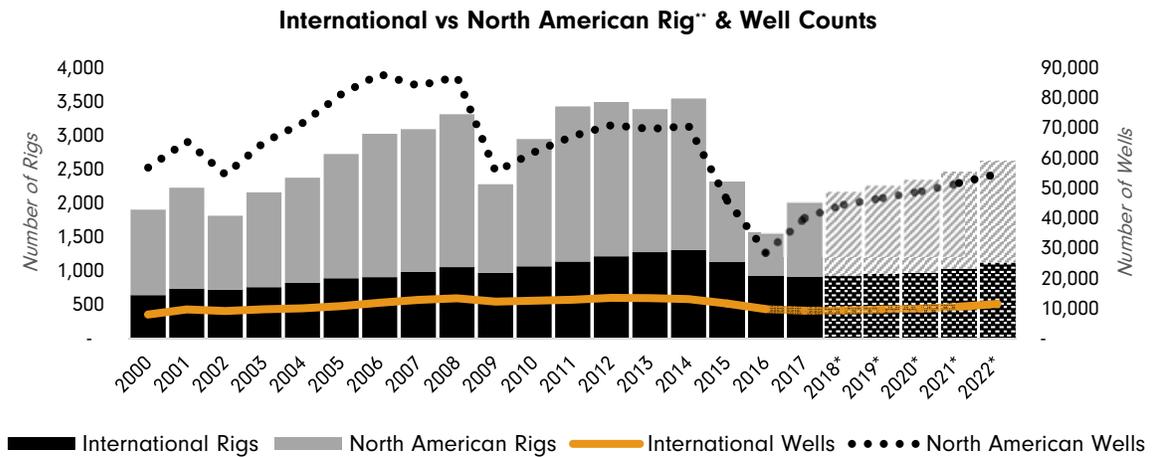
McCoy ended 2017 with \$17.5 million in cash and cash equivalents, and \$4.9 million in borrowings. Subsequent to year-end, the Corporation repaid these borrowings and is in negotiations with another lender to borrow an equivalent amount. McCoy remains in a strong balance sheet position to evaluate strategic growth opportunities and the cost reductions in 2017 will result in an appropriate cost base and will generate improved profitability at higher revenue levels. This will allow McCoy to participate in the evolving technological shift taking place throughout the oil and gas industry as well as to take advantage of potentially improving market conditions.

MARKET CONDITIONS

The demand for McCoy Global’s products and services is ultimately driven by oil and natural gas prices. Oil and natural gas prices drive exploration and production companies to increase or decrease capital spending which in turn leads to a corresponding increase or decrease in drilling and completions activity. The Corporation has higher leverage to drilling activity and as this activity increases or decreases, customers adjust purchasing of capital equipment and aftermarket products and services to meet demand of exploration and production companies. The acquisition of the 3PS in the first quarter of 2017 provides diversity to McCoy’s revenue stream and advanced real-time data acquisition expertise. 3PS is also primarily leveraged to oil and gas activity.

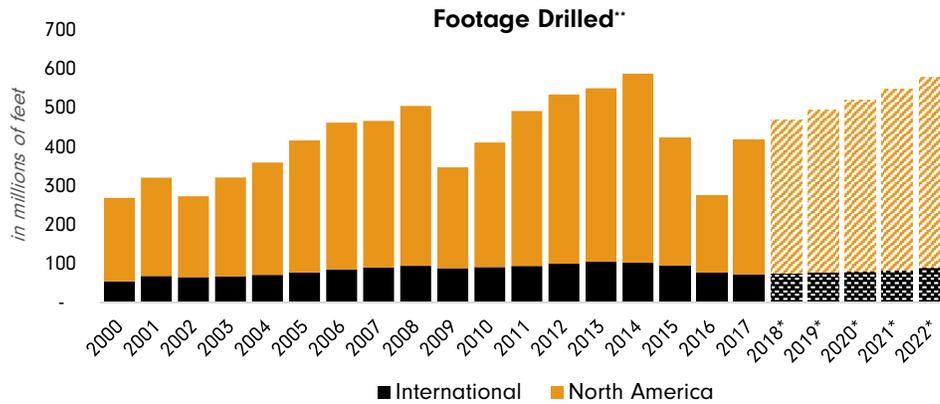
Management uses active rig counts as well as number and length of wells being drilled as data points to monitor and set expectations of the future performance of the Corporation. Generally, these metrics are leading indicators of demand for McCoy Global’s products and services, although there are many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

A summary of historical and forecasted rig and well counts, which includes both land and offshore, obtained from Spears & Associates Drilling and Production Outlook, December 2017, is as follows:



*Forecasted
**Cumulative

A summary of historical and forecasted footage drilled, which includes both land and offshore, obtained from Spears & Associates Drilling and Production Outlook, December 2017, is as follows:



Market conditions improved in 2017 but remain subject to instability and pricing pressure. Customers continue to be cash-constrained and continue to defer well-construction capital equipment purchases when possible. When purchase decisions are made, many customers are targeting those suppliers which can provide just-in-time purchasing options or rental options.

Well construction continues to become more complex and there is greater emphasis within the industry on data acquisition and automation technologies. The strategic acquisition of 3PS contributes valuable design and engineering expertise for the ongoing development of technology platforms which provide solutions to customer challenges.

As McCoy Global’s customers work to achieve profitability in a moderate oil price environment, they have been required to quickly shift investment from one geographic region to another to take advantage of all areas of activity. McCoy is positioned to support customers geographically as well as for both land and off-shore application.

Backlog

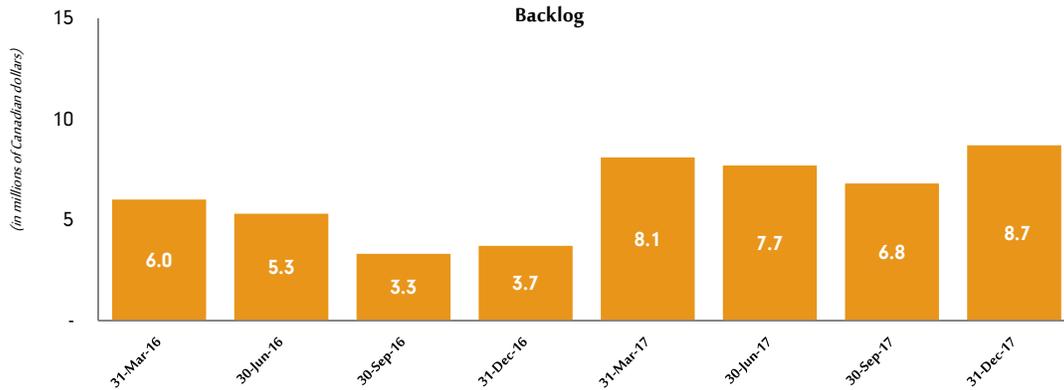
Backlog is a measure of the amount of customer orders the Corporation has received and is therefore an indicator of a base level of future revenue potential. Backlog is not a GAAP measure and, as a result, the definition and determination of backlog will vary among other issuers reporting a backlog figure.

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 may be secured by a deposit and/or require reimbursement by the customer upon default or cancellation. Backlog reflects likely future revenues; however, cancellations or reductions may occur and there can be no assurance that backlog amounts will ultimately be realized as revenue, or that the Corporation will earn a profit on backlog once fulfilled.

Expected delivery dates for orders recorded in backlog historically spanned from one to six months. Under current market conditions, many customers have shifted their purchasing towards just-in-time buying.

McCoy Global’s backlog as at December 31, 2017 totaled \$8.7 million, an increase of \$1.9 million or 28% from September 30, 2017.

*Forecasted
**Cumulative



Book-to-Bill Ratio

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

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



STRATEGY AND CORE BUSINESS VISION

McCoy Global's vision is to be the leading provider of critical data acquisition and wellbore integrity solutions for the global energy industry

McCoy Global is a leading provider of equipment and technologies designed to support wellbore integrity and assist with collecting critical data for the global energy industry. McCoy Global's core products are used predominantly during the well construction phase for both land and offshore wells during both oil and gas exploration and development.

The Corporation is engaged in the following:

- design, production and distribution of capital equipment to support wellbore integrity and to support capital equipment sales through aftermarket products and services such as technical support, consumables, and replacement parts;
- design, production and distribution of data collection technologies used in rugged applications for the global energy industry as well as in construction, marine and aerospace;
- repair, maintenance, and calibration of the Corporation's capital equipment and similar competitor products; and
- rental of the Corporation's capital equipment.

Set out below are McCoy Global's principal operations:

Operating Name	Country of Incorporation	Operating Region	Ownership Interest
McCoy Global Canada Corp.	Canada	Canada & Russia	100%
McCoy Global FZE	United Arab Emirates	Middle East & Africa	100%
McCoy Global Singapore Pte. Ltd.	Singapore	Asia Pacific	100%
McCoy Global UK Ltd.	United Kingdom	Europe	100%
McCoy Global USA, Inc.	United States	United States & Latin America	100%

FINANCIAL RESULTS

SUMMARY OF CONSOLIDATED ANNUAL RESULTS

For the year ended December 31 (\$000 except per share amounts)	2017	2016	2015
Revenue	40,045	26,999	81,776
Net loss	(16,317)	(35,926)	(10,977)
Per common share – basic	(0.59)	(1.30)	(0.40)
Per common share – diluted	(0.59)	(1.30)	(0.40)
Adjusted EBITDA	(3,296)	(13,192)	4,103
Per common share – basic	(0.12)	(0.48)	0.15
Per common share – diluted	(0.12)	(0.48)	0.14
Dividends per common share	-	-	0.10
Total assets	57,438	69,895	110,567
Total liabilities	16,232	10,090	13,098
Total non-current liabilities	666	3,630	454

EBITDA and adjusted EBITDA are calculated as follows:

For the year ended December 31 (\$000)	2017	2016	2015
Net loss	(16,317)	(35,926)	(10,977)
Depreciation of property, plant and equipment	2,335	3,465	4,438
Amortization of intangible assets	819	1,226	3,173
Income tax recovery	(969)	(3,735)	(61)
Finance charges, net	183	116	604
EBITDA	(13,949)	(34,854)	(2,823)
Provisions for excess and obsolete inventory	6,204	2,665	1,597
Other losses (gains), net	915	2,463	(2,239)
Restructuring charges	2,710	9,557	1,277
Share-based compensation	218	332	393
Impairment charges	606	6,645	5,898
Adjusted EBITDA	(3,296)	(13,192)	4,103

REVENUE

(\$000 except percentages)	For the year ended December 31			
	2017	2016	Change	% Change
Revenue	40,045	26,999	13,046	48%

Overall industry fundamentals have improved in 2017, resulting in an increase in revenue from 2016. The majority of this increase was driven by aftermarket opportunities, strength in the Western Hemisphere, and increased revenues from the acquisition of 3PS.

GROSS PROFIT (LOSS)

(\$000 except percentages)	For the year ended December 31			
	2017	2016	Change	% Change
Gross profit (loss)	2,984	(5,709)	8,693	(152%)
<i>Gross profit (loss) as a % of revenue</i>	<i>7%</i>	<i>(21%)</i>	<i>28%</i>	

Gross profit increased from the comparative period as a result of restructuring measures undertaken by the Corporation to reduce its production cost structure and from higher revenues which increased the absorption of fixed production costs.

Included in gross profit is a non-cash charge for excess and obsolete inventory of \$6.1 million (2016 - \$2.7 million). The inventory charge is primarily related to components for non-standard product models which have seen limited customer demand.

Customer pricing pressure remains strong which has placed pressure on margins. In addition, the Corporation incurred some transitional impacts of moving production to an assembly only production model. This was partially offset by favourable product mix resulting from data acquisition revenues and aftermarket revenues, including rental and service.

GENERAL AND ADMINISTRATION EXPENSE (G&A)

(\$000 except percentages)	For the year ended December 31			
	2017	2016	Change	% Change
G&A	9,218	11,040	(1,822)	(17%)
<i>G&A as a % of revenue</i>	<i>23%</i>	<i>41%</i>	<i>(18%)</i>	

The decline in G&A from 2016 is a result of restructuring initiatives as well as discipline around overhead spend.

The Corporation has remained focused on implementing process improvements and operational efficiencies which will position McCoy Global as a leaner and more efficient organization that can increase scale when market conditions improve. In 2017 revenue increased by 48% while G&A decreased by 17%, as compared to 2016.

SALES AND MARKETING EXPENSE (SALES & MARKETING)

(\$000 except percentages)	For the year ended December 31			
	2017	2016	Change	% Change
Sales & Marketing	3,883	3,092	791	26%
<i>Sales & Marketing as a % of revenue</i>	10%	11%	(1%)	

Sales & Marketing remained consistent year over year as a percentage of revenue. Overall, Sales & Marketing increased by \$0.8 million, which is a result of the 3PS acquisition and strategic sales efforts in targeted markets.

Customer responsiveness continues to be a key priority for McCoy Global. While restructuring initiatives have reduced the workforce and contained discretionary spend, a strong technical sales team remains in place and will continue to be a focus for the Corporation as growth opportunities are explored.

RESEARCH AND DEVELOPMENT (R&D)

(\$000 except percentages)	For the year ended December 31			
	2017	2016	Change	% Change
R&D expense	2,755	1,039	1,716	165%
Capitalized development expenditures	659	52	607	1,167%
R&D expenditures	3,414	1,091	2,323	213%
<i>R&D expenditures as a % of revenue</i>	9%	4%	5%	

R&D expenditures increased as a result of the 3PS acquisition, which added a strong engineering team to McCoy and increased R&D capabilities and expense. In addition, strategic investments were made to allocate capital to develop and prototype several key technology projects.

OTHER ITEMS

(\$000 except percentages)	For the year ended December 31			
	2017	2016	Change	% Change
Restructuring charges	2,710	9,557	(6,847)	(72%)
Impairment charges	606	6,645	(6,039)	(91%)
Other losses, net	915	2,463	(1,548)	(63%)
Finance charges, net	183	116	67	58%

Restructuring charges relate to restructuring initiatives to reduce the Corporation's cost structure. The charges associated with restructuring initiatives in 2017 were lower than in 2016.

Impairment charges are directly a result of restructuring initiatives which impaired certain property, plant and equipment and intellectual property. In 2016, an impairment charge was recorded on certain new product development projects which resulted in an increased impairment charge as compared to 2017.

Other losses, net, primarily includes costs associated with foreign exchange fluctuations, merger and acquisition costs and any acquisition or divestiture gains or losses, and any gains or losses on the disposal of property, plant and equipment. The decrease from 2016 is largely the result of higher foreign exchange losses recorded in 2016 as compared to 2017.

Finance charges, net, includes borrowing costs offset by interest income on cash and cash equivalents. In 2017, the Corporation borrowed a portion of the purchase price to acquire 3PS which increased finance charges.

SUMMARY OF CONSOLIDATED FOURTH QUARTER RESULTS

For the three months ended December 31 (\$000 except per share amounts)	2017	2016
Revenue	10,054	6,120
Net loss	(6,254)	(4,359)
Per common share - basic	(0.23)	(0.16)
Per common share - diluted	(0.23)	(0.16)
Adjusted EBITDA	(898)	(1,620)
Per common share - basic	(0.03)	(0.06)
Per common share - diluted	(0.03)	(0.06)

EBITDA and adjusted EBITDA are calculated as follows:

For the three months ended December 31 (\$000)	2017	2016
Net loss	(6,254)	(4,359)
Depreciation of property, plant and equipment	502	621
Amortization of intangible assets	188	335
Income tax recovery	(140)	(264)
Finance charges, net	56	11
EBITDA	(5,648)	(3,656)
Provisions for excess and obsolete inventory	3,656	924
Other (gains) losses, net	(190)	1,029
Restructuring charges (reversals)	1,030	(54)
Share-based compensation	(4)	137
Impairment charges	258	-
Adjusted EBITDA	(898)	(1,620)

REVENUE

(\$000 except percentages)	For the three months ended December 31			
	2017	2016	Change	% Change
Revenue	10,054	6,120	3,934	64%

Overall industry fundamentals have improved, resulting in an increase in revenue from comparative period. The majority of this increase was driven by aftermarket opportunities, strength in the Western Hemisphere and increased revenues from the acquisition of 3PS.

GROSS LOSS

(\$000 except percentages)	For the three months ended December 31			
	2017	2016	Change	% Change
Gross profit (loss)	(1,416)	(586)	(830)	(142%)
<i>Gross profit (loss) as a % of revenue</i>	<i>(14%)</i>	<i>(10%)</i>	<i>(4%)</i>	

Gross profit (loss) declined in comparison to the comparative quarter. In the three months ended December, 31, 2017 the Corporation recorded a provision for excess and obsolete inventory of \$3.5 million. This was offset by the impact of restructuring initiatives.

Further cost reductions were implemented in the three months ended December 31, 2017 which will result in additional cost synergies in 2018.

GENERAL AND ADMINISTRATION EXPENSE (G&A)

(\$000 except percentages)	For the three months ended December 31			
	2017	2016	Change	% Change
G&A	2,299	2,444	(145)	(6%)
<i>G&A as a % of revenue</i>	<i>23%</i>	<i>40%</i>	<i>(17%)</i>	

G&A spend was consistent between periods; however, G&A as a percentage of revenue declined. The Corporation continues to review its processes and overhead spend with an emphasis on agile costs that offer flexibility to increases or decreases in revenue demand; however, a base level of overhead is needed to support the international nature of the Corporation's operations.

SALES AND MARKETING EXPENSE (SALES & MARKETING)

(\$000 except percentages)	For the three months ended December 31			
	2017	2016	Change	% Change
Sales & marketing	1,009	536	473	88%
<i>Sales & marketing as a % of revenue</i>	<i>10%</i>	<i>9%</i>	<i>1%</i>	

Sales & Marketing increased because of the 3PS acquisition and strategic sales efforts in targeted markets. As a percentage of revenue, Sales & Marketing remained consistent.

RESEARCH AND DEVELOPMENT (R&D)

(\$000 except percentages)	For the three months ended December 31			
	2017	2016	Change	% Change
R&D expense	516	71	445	627%
Capitalized development expenditures	74	42	32	76%
R&D expenditures	590	113	477	422%
<i>R&D expenditures as a % of revenue</i>	6%	2%	4%	

R&D expenditures increased as a result of the 3PS acquisition, which added a strong engineering team to McCoy and increased R&D capabilities and expense. In addition, strategic investments were made to allocate capital to develop and prototype several key technology projects.

OTHER ITEMS

(\$000 except percentages)	For the three months ended December 31			
	2017	2016	Change	% Change
Restructuring charges	1,030	(54)	1,084	2,007%
Impairment charges	258	-	258	100%
Other (gains) and losses, net	(190)	1,029	(1,219)	(118%)
Finance charges, net	56	11	45	409%

Restructuring charges relate to restructuring initiatives to reduce the Corporation's cost structure. The Corporation did not implement any restructuring initiatives in the comparative period but did revise an estimate previously made which resulted in a small reversal of restructuring costs.

Impairment charges are directly a result of restructuring initiatives which impaired certain property, plant and equipment and intellectual property. There were no impairment charges in the comparative period.

Other losses, net, primarily includes costs associated with foreign exchange fluctuations, merger and acquisition costs and any associated gains or losses, and gains or losses on the disposal of property, plant and equipment. The current quarter included a gain on the sale of property, plant and equipment offset by costs recognized in relation to a previous business divestiture. In the comparative period, the amount primarily includes the recognition of expenses related to a previous business divestiture.

Finance charges, net, includes borrowing costs offset by interest income on cash and cash equivalents. In 2017, the Corporation borrowed a portion of the purchase price to acquire 3PS which increased finance charges.

SUMMARY OF QUARTERLY RESULTS

(\$000 except per share amounts)	2017				2016			
	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
Revenue	10,054	10,563	9,214	10,214	6,120	7,137	6,583	7,159
Impairment and restructuring charges (reversals)	1,288	319	365	1,344	(54)	(415)	12,244	4,427
Net loss	(6,254)	(3,390)	(3,097)	(3,576)	(4,359)	(3,094)	(19,096)	(9,377)
Basic loss per share	(0.23)	(0.12)	(0.11)	(0.13)	(0.16)	(0.11)	(0.69)	(0.34)
Diluted loss per share	(0.23)	(0.12)	(0.11)	(0.13)	(0.16)	(0.11)	(0.69)	(0.34)
EBITDA	(5,648)	(2,915)	(2,452)	(2,933)	(3,656)	(2,894)	(18,146)	(10,158)
Adjusted EBITDA	(898)	(1,494)	(919)	15	(1,620)	(2,322)	(5,068)	(4,137)

LIQUIDITY AND CAPITAL RESOURCES

For the year ended December 31 (\$000)	2017	2016
Cash and cash equivalents	14,972	22,176
Restricted cash, as per credit facility	2,500	-
Borrowings	(4,930)	-
Net cash	12,542	22,176

As a result of the extended downturn in the oil and gas industry, the Corporation generated a net loss for 11 consecutive quarters. The Corporation has managed through this period by taking a number of actions to reduce its cost structure. This has included, but is not limited to, restructuring of the business, consolidation of product lines, moving to an assembly only production model (with the exception of dies and inserts), reductions in the workforce, reducing overhead and discretionary spend, selling assets, reducing working capital and recovering tax losses. Although net cash has declined over this period, these actions have allowed the Corporation to maintain a positive net cash position and provided the flexibility to make strategic investments with a longer-term view.

The Corporation's borrowings were repaid subsequent to year-end. Management is in discussion with another lender to replace these borrowings with a similar amount.

Anticipated capital spending in 2018 includes:

- a nominal amount of capital expenditures to support production facilities;
- rental equipment to satisfy increasing customer demand. The procurement of rental assets has been mostly non-cash in nature as this investment has primarily come from utilizing finished product in inventory and moving this to a rental fleet;
- comparable amount of R&D expenditures as 2017. The Corporation has invested in R&D during this down cycle as technology is an important aspect of the Corporation's longer-term strategy and will continue to do so in 2018; and,
- settling several provisions in 2018, all of which are included in current liabilities as at December 31, 2017.

Market uncertainty continues to be a challenge in developing longer term forecasts for the Corporation. Although the Corporation initiated further restructuring efforts in the fourth quarter of 2017, the Corporation may be required to raise capital to meet cash flow requirements in the future.

Selected cash flow and capitalization information is as follows:

For the year ended December 31 (\$000)	2017	2016
Cash used in operating activities	(1,273)	(7,200)
Cash (used in) generated from investing activities	(8,079)	1,485
Cash generated from financing activities	2,596	-

Cash used in operating activities improvements are primarily a result of adjusted EBITDA increasing by \$9.7 million in 2017 as compared to 2016 and the collection of tax recoveries of \$3.2 million as compared to \$1.7 million in 2016. This was offset by working capital reductions which were lower in 2017 than in 2016.

Cash (used in) generated from investing activities was impacted by the \$8.0 million acquisition of 3PS in 2017. In 2016, there were no acquisitions. In both 2017 and 2016 redundant equipment was sold as restructuring initiatives were carried out, which contributed positive cash flow in each year. In 2017, as compared to 2016, there were higher cashflows associated with the purchase of PPE (primarily rental equipment) and intangible assets related to the development of certain R&D projects.

Cash generated from financing activities in 2017 primarily relates to the acquisition of 3PS. A portion of the purchase price was borrowed to finance the acquisition, which was offset by restricted cash amounts as per the terms of the credit facility. In 2016 there were no financing activities.

For the three months ended December 31 (\$000)	2017	2016
Cash generated from operating activities	2,006	3,185
Cash generated from (used in) investing activities	1,510	(586)
Cash used in financing activities	(241)	-

Cash generated in operating activities for both the three months ended December 31, 2017 and 2016, was primarily generated through a reduction in working capital and receipt of corporate tax refunds; offset by negative adjusted EBITDA.

Cash generated from (used in) investing activities for the three months ended December 31, 2017 was the result of the sale of redundant assets as restructuring initiatives were carried out. In the comparative period, cash was primarily used for PPE purchases.

Cash used in financing activities in the current quarter relate to principal repayments under the Corporation's credit facility.

FINANCIAL RISK MANAGEMENT

The Corporation's activities are exposed to a variety of financial risks of varying degrees of significance, which could affect the Corporation's ability to achieve strategic objectives. Overall, risk management programs focus on the unpredictability of financial and economic markets and seek to minimize potential adverse effects on financial performance. The principal financial risks to which the Corporation is exposed are described in note 19 of the Consolidated Annual Financial Statements for the year ended December 31, 2017.

OTHER FINANCIAL INFORMATION

CONTRACTUAL OBLIGATIONS

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

As at December 31 (\$000)	Due in less than one year	Due between one and five years	Due later than five years	Total
Borrowings	4,930	-	-	4,930
Trade and other payables	5,563	-	-	5,563
Legal provisions	303	-	-	303
Onerous lease provisions	560	665	-	1,225
Undiscounted cash flows for financial liabilities	11,356	665	-	12,021
Minimum lease payments, excluding onerous lease contracts	2,021	4,193	-	6,214
Sublease payments to be (received)	(266)	-	-	(266)
Future aggregate minimum lease payments under non-cancellable operating leases	1,755	4,193	-	5,948
Purchase commitments for inventory and operating supplies	1,794	-	-	1,794
	14,905	4,858	-	19,763

RELATED PARTY TRANSACTIONS

Divestiture

On September 15, 2014, the Corporation divested the Coating & Hydraulics division. A member of the Corporation's Board of Directors is the Chairman of, and holds an equity interest in, the purchaser of the Coatings & Hydraulics division. To facilitate the sale and minimize any potential conflicts of interest, the Corporation engaged a third party brokerage firm to solicit offers within the marketplace, manage the sales process and assist in negotiating the definitive agreements. In 2016, the Corporation reached an agreement with the purchaser of the Coatings & Hydraulics division regarding closing adjustments resulting in cash proceeds of \$0.2 million and a gain of \$nil.

The Corporation has entered into agreements indemnifying the purchaser with respect to certain leased premises associated with the Coatings & Hydraulics division. These remediation cost estimates are described in note 10(d) of the Consolidated Annual Financial Statements for the year ended December 31, 2017.

OUTSTANDING SHARE DATA

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

Common shares	27,684,239
Convertible equity securities:	
Stock options	2,185,000

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

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

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

(i) *Trade and other receivables*

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

(ii) *Inventories*

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

(iii) *Provisions*

Estimates and judgments are used in measuring and recognizing provisions and the Corporation's exposure to contingent liabilities and onerous contracts. Judgment is necessary to determine the likelihood and estimated future outflow of resources that may be required to settle any future or existing claims, onerous contracts or contingent obligations.

(iv) *Income tax*

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

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

(v) *Impairment of financial assets*

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

(vi) *Impairment of non-financial assets*

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

The recoverable amounts of cash-generating units are determined based on value-in-use calculations. These calculations require the use of estimates and judgments, including an estimation of the future cash flows from the CGU or group of CGUs and judgment is required in determining the appropriate discount

rate. In deriving the underlying projected cash flows, assumptions must also be made about the impact of future drilling activity on sales, operating margins and market conditions over the useful life of the assets or CGUs. Although estimates are consistent with current industry reports, internal planning and expected future operations, such estimations are subject to significant uncertainty and judgment.

FUTURE ACCOUNTING PRONOUNCEMENTS

The International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") have issued a number of new standards, amendments to standards and interpretations that are not effective for December 31, 2017 reporting periods. These standards and amendments have not been applied by the Corporation in preparing these consolidated financial statements. The new standards and amendments, and their anticipated impact on the Corporation's financial statements once they are adopted, are as follows:

a. IFRS 9 – FINANCIAL INSTRUMENTS & IFRS 7 – FINANCIAL INSTRUMENT DISCLOSURES

IFRS 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The Corporation has decided not to adopt IFRS 9 until it becomes mandatory on January 1, 2018.

The Corporation has substantially completed its analysis and does not expect the new guidance to have a significant impact on the classification and measurement of its financial instruments for the following reasons:

- i) The Corporation does not currently hold any financial assets that would be accounted for differently under the new standard;
- ii) The Corporation does not have any financial liabilities designated at fair value through profit or loss, which are the only liabilities impacted by the new standard; and
- iii) The Corporation does not currently have, or anticipate having any outstanding hedges that would require re-assessment under the updated hedge accounting rules.

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under IAS 39. This will apply to the Corporation's trade and other accounts receivable and is not expected to have a material impact on the financial statements. Management is currently finalizing the evaluation of the impact of this, as well as the new presentation and disclosure rules on its financial reporting.

b. IFRS 15 – REVENUE FROM CONTRACTS WITH CUSTOMERS

IFRS 15 will replace IAS 18 which covers revenue arising from the sale of goods and the rendering of services and IAS 11 which covers construction contracts.

The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption. The Corporation will adopt the new standard beginning January 1, 2018. Management is in the process of completing an evaluation of its various revenue streams in the context of the new standard and does not expect implementation to have a material impact on the financial statements.

c. IFRS 16 – LEASES

IFRS 16 was issued in January, 2016. It will result in almost all leases being recognized on the statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Corporation's operating leases. The Corporation has not yet determined the extent to which these lease commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Corporation's profit and classification of cash flows.

Some of the commitments may be evaluated under the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

The standard is mandatory for first interim periods within annual reporting periods beginning on or after January 1, 2019. The Corporation does not intend to adopt the standard before its effective date.

Management continues to evaluate the potential measurement and disclosure impacts of these new standards on the Corporation's consolidated financial statements.

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

CONTROLS AND PROCEDURES

DISCLOSURE CONTROLS AND PROCEDURES ("DC&P")

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

An evaluation of the design and operating effectiveness of our DC&P was conducted, as at December 31, 2017, 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, 2017, 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, 2017, ICFR (as defined in NI 52-109) were effective. There were no changes in our ICFR during the year ended December 31, 2017 that have materially affected, or are reasonably likely to affect, our ICFR.

RISK AND UNCERTAINTIES RELATED TO THE BUSINESS

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

- Oil and natural gas price fluctuations;
- Domestic and foreign competition;
- Technology;
- Replacement or reduced use of products and services;
- International operations;
- Business mergers and acquisitions;
- Supply chain;
- Reliance on key persons and labour shortages;
- Legal compliance;
- Litigation;
- Breach of confidentiality;
- Safety performance;
- Foreign exchange;
- Restrictive covenants on credit facility;
- Availability of financing;
- Selling additional common shares;
- Customers' inability to obtain credit/financing
- Material differences between actual results and management estimates and assumptions;
- Greenhouse Gas regulations;
- Change in U.S. administration;
- Conservation measures and technological advances;
- Terrorist attack or armed conflict;
- Sufficiency of internal controls;
- Insurance sufficiency, availability and rate risk;
- Information security; and
- Challenges by taxation authorities.

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

RISK FACTORS

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

OIL AND NATURAL GAS FLUCTUATIONS

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

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

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

McCoy Global has trade receivables with customers in the oil and natural gas industry and their revenues may be affected by fluctuations in commodity prices. The Corporation's ability to collect receivables may be adversely affected by any prolonged weakness in oil and natural gas prices.

DOMESTIC AND FOREIGN COMPETITION

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

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

TECHNOLOGY

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

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

REPLACEMENT OR REDUCED USE OF PRODUCTS AND SERVICES

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

INTERNATIONAL OPERATIONS

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

- an uncertain political and economic environment;
- the loss of revenue or property and equipment as a result of expropriation, confiscation, nationalization, contract deprivation and force majeure;
- war, terrorist acts or threats, civil insurrection, and geopolitical and other political risks;
- fluctuations in foreign currency and exchange controls;
- restrictions on the repatriation of income or capital;
- increases in duties, taxes and governmental royalties;
- changes in laws and policies governing operations of foreign-based companies; and
- trade restrictions or embargoes imposed by the U.S. or other countries.

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

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

While the Corporation has developed policies and procedures designed to achieve compliance with applicable international laws, McCoy Global could be exposed to potential claims, economic sanctions, or other restrictions for alleged or actual violations of international laws related to the Corporation's international operations, including anti-corruption and anti-bribery legislation, trade laws and trade sanctions. The Canadian government, the U.S. Department of Justice, the Securities and Exchange Commission, the U.S. Office of Foreign Assets Control, and similar agencies and authorities in other jurisdictions have a broad range of civil and criminal penalties they may seek to impose against corporations and individuals for such violations, including injunctive relief, disgorgement, fines, penalties and modifications to business practices and compliance programs, among other things. While the impact

of any of these factors, if any of those risks materialize, cannot be accurately predicted, it could have a material adverse effect on the Corporation's reputation, business, financial condition, results of operations and cash flow.

ABILITY TO EFFECTIVELY MANAGE GROWTH

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

BUSINESS MERGERS AND ACQUISITIONS

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

If McCoy Global is successful in integrating current or future acquisitions into its operations, the full benefits, such as operational or administrative synergies, expected from acquisitions may not be realized, which may result in the Corporation committing capital resources and not receiving the expected returns. In addition, McCoy Global may not be able to continue to identify attractive acquisition opportunities or successfully acquire identified targets. In certain situations, the Corporation may find itself competing for targets with other strategic and non-strategic buyers which may have the desire or ability to value targets at a higher purchase price than McCoy Global.

SUPPLY CHAIN

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

RELIANCE ON KEY PERSONS AND WORKFORCE AVAILABILITY

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

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

LEGAL COMPLIANCE

The Corporation does business in, and sells goods into, many countries and its operations are subject to many different laws, customs and cultures. Business is conducted by both McCoy Global personnel and third party representatives. The Corporation is required to comply with applicable anti-corruption laws, including the Canadian Corruption of Foreign Public Officials Act, the U.S. Foreign Corrupt Practices Act and the United Kingdom Bribery Act

2010, as well as local laws in all countries in which the corporation does business. Furthermore, certain products and services are subject to the export control laws of the United States, Canada, the United Kingdom, Singapore, the United Arab Emirates and other countries where its products are sold. Failure to comply with the laws and regulations governing exports may result in monetary fines for individuals as well as McCoy Global, loss of McCoy Global's export privileges, imprisonment, and other sanctions. The Corporation has established policies and procedures that McCoy Global personnel must follow to ensure compliance with those laws and regulations.

LITIGATION

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

BREACH OF CONFIDENTIALITY

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

SAFETY PERFORMANCE

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

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

FOREIGN EXCHANGE

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

AVAILABILITY OF FINANCING

McCoy Global may need to obtain additional debt or equity financing in the future to support ongoing operations, undertake capital expenditures, repay existing or future debt, or pursue acquisitions or other business combination transactions. Volatility or uncertainty in the credit markets may increase costs associated with issuing debt or equity, and there is no assurance that the Corporation will be able to access additional financing when needed, or on acceptable or favourable terms. If the Corporation is unable to obtain financing to support ongoing operations or

to fund capital expenditures, acquisitions, debt repayments, or other business combination transactions, it could limit growth and may have a material adverse effect on the Corporation's revenue, cash flow and profitability.

SELLING ADDITIONAL COMMON SHARES

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

CUSTOMERS' INABILITY TO OBTAIN CREDIT/FINANCING

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

MATERIAL DIFFERENCES BETWEEN ACTUAL RESULTS AND MANAGEMENT ESTIMATES AND ASSUMPTIONS

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

GREENHOUSE GAS REGULATIONS

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

In addition, on December 9, 2016, the Government of Canada formally announced the Pan-Canadian Framework on Clean Growth and Climate Change. As a result, the federal government will implement a Canada wide carbon

pricing scheme beginning in 2018. This may be implemented through either a cap and trade system or a carbon tax regime at the option of each province or territory. The federal government will impose a price on carbon of \$10 per tonne on any province or territory which fails to implement its own system by 2018. This amount will increase by \$10 annually until it reaches \$50 per tonne in 2022 at which time the program will be reviewed.

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

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

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

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

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

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

CHANGE IN U.S. ADMINISTRATION

As a result of the 2016 U.S. presidential election and the related change in political agenda, coupled with the transition of administration, there is uncertainty as to the position the United States will take with respect to world affairs and events. This uncertainty may include issues such as U.S. support for existing treaty and trade relationships with other countries, including Canada. In particular, efforts by the U.S., Canada and Mexico to renegotiate the North American Free Trade Agreement may result in changes to tax treatment on goods imported to the U.S. and could, if implemented, have a significant impact on Canadian companies that do business in the U.S. Implementation by the U.S. of new legislative or regulatory regimes could impose additional costs on the Corporation, decrease U.S. demand for the Corporation's services or otherwise negatively impact the Corporation, which may have a material adverse effect on the Corporation's business, financial condition and operations.

CONSERVATION MEASURES AND TECHNOLOGICAL ADVANCES

Fuel conservation measures, alternative fuel requirements, increasing consumer demand for alternatives to oil and natural gas, and technological advances in fuel economy and energy generation devices could reduce the demand for crude oil and other hydrocarbons. The Corporation cannot predict the impact of changing demand for oil and natural gas products, and any major changes could have a material adverse effect on its business, financial condition, results of operations and cash flows.

TERRORIST ATTACK OR ARMED CONFLICT

Terrorist activities (including environmental terrorism), anti-terrorist efforts and other armed conflicts involving the jurisdictions in which McCoy Global operates may adversely affect global economies and could prevent the Corporation from meeting its financial and other obligations. If any of these events occur, the resulting political instability and societal disruption could reduce overall demand for oil, natural gas and natural gas liquids, potentially putting downward pressure on demand for the Corporation's services and causing a reduction in the Corporation's revenues. Oil and natural gas related facilities could be direct targets of terrorist attacks, and the Corporation's operations could be adversely impacted if infrastructure integral to the Corporation's clients' operations is destroyed or damaged. Costs for insurance and other security may increase as a result of these threats, and some insurance coverage may become more difficult to obtain, if available at all.

SUFFICIENCY OF INTERNAL CONTROLS

Effective internal controls are necessary for the Corporation to provide reliable financial reports and to help prevent fraud. Although the Corporation has undertaken and will undertake a number of procedures in order to help ensure the reliability of its financial reports, including those that may be imposed on it under applicable securities laws, the Corporation cannot be certain that such measures will ensure that the Corporation will maintain adequate control over financial processes and reporting. Failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm the Corporation's results of operations or cause it to fail to meet its reporting obligations. Additionally, implementing and monitoring effective internal controls can be costly. If the Corporation or its independent auditors discover a material weakness, the disclosure of that fact, even if quickly remedied, could reduce the market's confidence in the Corporation's financial statements and harm the trading price of the Common Shares.

INSURANCE SUFFICIENCY, AVAILABILITY AND RATE

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.

INFORMATION SECURITY

The efficient operation of McCoy Global's business is dependent on computer hardware and software systems. In the ordinary course of McCoy's business, McCoy collects and stores sensitive data, including intellectual property,

TSX:MCB

www.mccoyglobal.com

proprietary business information and identifiable personal information of its employees and customers. The Corporation's information technology and infrastructure may be vulnerable to attacks by hackers and cyberterrorists motivated by, among others, geopolitical, financial or activist reasons, or breached due to employee error, malfeasance or other disruptions. Any such attack or breach could compromise McCoy's networks and the information McCoy stores could be accessed, publicly disclosed, lost, stolen or compromised. Any such attack, breach, access, disclosure or loss of information could result in legal claims or proceedings, liability under laws that protect the privacy of personal information, regulatory penalties, disruptions to McCoy's operations, decreased performance, increased costs and damage to McCoy's reputation, which could have a material adverse effect on its business, financial condition, results of operations and cash flow.

If any programs or systems were to fail or create erroneous information in the Corporation's hardware or software network infrastructure, possible consequences include a loss of communication links and inability to automatically process commercial transactions or engage in similar automated or computerized business activities. Any such consequence could have a material adverse effect on the Corporation's business.

CHALLENGES BY TAXATION AUTHORITIES

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

OTHER INFORMATION

Additional information relating to the Corporation, including the Corporation's Annual Information Form for the year end December 31, 2017 is available on SEDAR at www.sedar.com.



CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016



MANAGEMENT STATEMENT OF RESPONSIBILITY

The preparation and presentation of the accompanying consolidated financial statements of McCoy Global Inc. (the "Corporation"), which have been prepared in accordance with International Financial Reporting Standards, are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements include certain amounts that are based on the best estimates and judgments of management and in their opinion present fairly, in all material respects, the Corporation's financial position, financial performance and cash flows. The Corporation's accounting procedures and related systems of internal controls are designed to provide reasonable assurance that its assets are safeguarded and its financial information is reliable.

The consolidated financial statements have been audited by PricewaterhouseCoopers LLP, the Corporation's external auditors. The external auditors are responsible for examining the consolidated financial statements and expressing their opinion on the fairness of the consolidated financial statements in accordance with International Financial Reporting Standards. The auditor's report outlines the scope of their audit examination and states their opinion.

The Board of Directors, through the Audit Committee, is responsible for overseeing management's responsibility for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Audit Committee meets regularly with management and the external auditors to satisfy itself that each group is discharging its responsibilities with respect to internal controls and financial reporting. The Audit Committee reports its findings to the Board of Directors for their consideration when approving the consolidated financial statements for issuance to the shareholders. The external auditors have full and open access to the Audit Committee, with and without the presence of management. The Audit Committee also considers, for review by the Board of Directors and approval by the shareholders, the engagement or reappointment of the external auditors.

(signed) "Jim Rakievich"

President & Chief Executive Officer

March 7, 2018

(signed) "Jacob Coonan"

Senior Vice President & Chief Financial Officer



March 7, 2018

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, 2017 and 2016 and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

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



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, 2017 and 2016 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, 2017	December 31, 2016
		\$	\$
Assets			
Current assets			
Cash and cash equivalents		14,972	22,176
Restricted cash	11	2,500	-
Trade and other receivables	19	8,449	5,362
Inventories	5	18,330	28,197
Income taxes recoverable		1,513	4,370
Prepaid expenses and deposits		765	1,109
		46,529	61,214
Property, plant and equipment	6	9,042	7,113
Intangible assets	7	1,290	1,439
Deferred tax assets	12	577	129
Total assets		57,438	69,895
Liabilities			
Current liabilities			
Trade and other payables	9	5,563	3,655
Customer deposits		1,710	458
Provisions	10	3,363	2,347
Borrowings	11	4,930	-
		15,566	6,460
Provisions	10	666	3,630
Total liabilities		16,232	10,090
Shareholders' equity	13		
Share capital		60,126	60,187
Contributed surplus		4,866	4,617
Accumulated other comprehensive income		7,378	9,848
Accumulated deficit		(31,164)	(14,847)
Total shareholders' equity		41,206	59,805
Commitments	23		
Total liabilities and shareholders' equity		57,438	69,895

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

Approved by the Board of Directors

(signed) "Jim Rakievich"
Director

(signed) "Chris Seaver"
Director

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

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

For the years ended	Note	December 31, 2017	December 31, 2016
		\$	\$
Revenue	15	40,045	26,999
Cost of sales		37,061	32,708
Gross profit (loss)		2,984	(5,709)
General and administration		9,218	11,040
Sales and marketing		3,883	3,092
Research and development		2,755	1,039
Restructuring charges	10	2,710	9,557
Other losses, net		915	2,463
Impairment charges	6, 7	606	6,645
Finance charges, net	11	183	116
		20,270	33,952
Loss before income taxes		(17,286)	(39,661)
Income tax (recovery) expense	17		
Current		(521)	(3,925)
Deferred		(448)	190
		(969)	(3,735)
Net loss		(16,317)	(35,926)
Other comprehensive loss			
Translation loss of foreign operations		(2,470)	(2,049)
Comprehensive loss		(18,787)	(37,975)
Loss per share	18		
Basic from net loss		(0.59)	(1.30)
Diluted from net loss		(0.59)	(1.30)

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

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

	Note	Issued capital		Contributed surplus	Accumulated other comprehensive income	Retained earnings (deficit)	Total equity
		Number of shares	Share capital				
		#	\$	\$	\$	\$	\$
Balances at January 1, 2016		27,704,239	60,187	4,306	11,897	21,079	97,469
Net loss		-	-	-	-	(35,926)	(35,926)
Translation loss on foreign operations		-	-	-	(2,049)	-	(2,049)
Employee share-based compensation expense		-	-	311	-	-	311
Balances at December 31, 2016		27,704,239	60,187	4,617	9,848	(14,847)	59,805
Net loss		-	-	-	-	(16,317)	(16,317)
Translation loss on foreign operations		-	-	-	(2,470)	-	(2,470)
Employee share-based compensation expense		-	-	249	-	-	249
Repurchase of shares	25	(20,000)	(61)	-	-	-	(61)
Balances at December 31, 2017		27,684,239	60,126	4,866	7,378	(31,164)	41,206

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, 2017	December 31, 2016
Cash (used in) generated from		\$	\$
Operating activities			
Net loss		(16,317)	(35,926)
Adjustments for:			
Depreciation of property, plant and equipment	6	2,335	3,465
Amortization of intangible assets	7	819	1,226
Income tax recovery		(969)	(3,735)
Finance charges, net		183	116
EBITDA		(13,949)	(34,854)
Share-based compensation expense	14	218	332
Impairment charges	6, 7	606	6,645
Changes in non-cash working capital balances	22	10,803	15,976
Changes in restructuring provision	10	(1,180)	3,204
Income taxes recovered		3,218	1,723
Finance costs paid, net		(186)	(86)
Gain on disposal of property, plant and equipment		(803)	(140)
Net cash used in operating activities		(1,273)	(7,200)
Investing activities			
Purchases of property, plant and equipment		(1,222)	(862)
Proceeds from sale of property, plant and equipment		1,829	2,399
Additions to intangible assets		(701)	(52)
Business combination, net	24	(7,985)	-
Net cash (used in) generated from investing activities		(8,079)	1,485
Financing activities			
Proceeds from borrowings, net	11	5,157	-
Repurchase of shares	25	(61)	-
Funds transferred to restricted cash		(2,500)	-
Net cash generated from financing activities		2,596	-
Effect of exchange rate changes on cash and cash equivalents		(448)	441
Decrease in cash and cash equivalents		(7,204)	(5,274)
Cash and cash equivalents – beginning of the year		22,176	27,450
Cash and cash equivalents – end of the year		14,972	22,176

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2017 and 2016

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

1. NATURE OF OPERATIONS

McCoy Global Inc. ("McCoy", "McCoy Global" or the "Corporation") is incorporated and domiciled in Canada and is a leading provider of equipment and technologies designed to support wellbore integrity and assist with collecting critical data for the global energy industry. McCoy Global's core products are used predominantly during the well construction phase for both land and offshore wells during both oil and gas exploration and development.

The Corporation is engaged in the following:

- i. design, production and distribution of capital equipment to support wellbore integrity and to support capital equipment sales through aftermarket products and services such as technical support, consumables, and replacement parts;
- ii. design, production and distribution of data collection technologies used in rugged applications for the global energy industry as well as in construction, marine and aerospace;
- iii. repair, maintenance, and calibration of the Corporation's capital equipment and similar competitor products; and
- iv. rental of the Corporation's capital equipment.

Set out below are McCoy's principal operations:

Operating Name	Country of Incorporation	Operating Region	Ownership Interest
McCoy Global Canada Corp.	Canada	Canada & Russia	100%
McCoy Global FZE	United Arab Emirates	Middle East & Africa	100%
McCoy Global Singapore Pte. Ltd.	Singapore	Asia Pacific	100%
McCoy Global UK Ltd.	United Kingdom	Europe	100%
McCoy Global USA, Inc.	United States	United States & Latin America	100%

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

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

2. STATEMENT OF COMPLIANCE

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Certain comparative balances have been reclassified to conform to the presentation adopted in the current year.

These consolidated financial statements were approved by the Board of Directors on March 7, 2018.

3. SIGNIFICANT ACCOUNTING POLICIES

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

a) BASIS OF PRESENTATION

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

The consolidated financial statements have been prepared mainly under the historical cost basis. Other measurement bases used are described in the applicable notes. The consolidated financial statements are presented in Canadian dollars, rounded to the nearest thousand, except when otherwise indicated. The Corporation operations 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 loss and comprehensive loss 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 loss and comprehensive loss.

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 amounts of assets, liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. If these estimates and judgments prove to be inaccurate, future (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. Inventory writedowns, or reversals of previous writedowns, are recorded each period as required and updated based on management's judgment. Further information regarding this judgment is described in note 3(g) and note 5.

(ii) TRADE AND OTHER RECEIVABLES

The Corporation records trade and other receivables at amortized cost. Writedowns for trade and other receivables are recorded each period as required and updated based on management's judgment. Further information regarding this judgment is described in note 3(e) and note 19(b)(ii).

(iii) PROVISIONS

Estimates and judgments are used in measuring and recognizing provisions and the Corporation's exposure to contingent liabilities and onerous contracts. Judgment is necessary to determine the likelihood and estimated future outflow of resources that may be required to settle any future or existing claims, onerous contracts or contingent obligations. Further information regarding these estimates and judgments are described in note 3(k) and note 10.

(iv) INCOME TAX

The Corporation operates in several tax jurisdictions and is required to estimate its income taxes in each of these tax jurisdictions in preparing its consolidated financial statements. The calculation of income taxes requires the use of judgment. Further information regarding the judgment used is described in note 3(m) and note 17.

Deferred tax assets are recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Judgment and estimation are necessary to determine the likelihood and availability of future taxable profits against which tax losses and tax credits carried forward can be used. Further information regarding this judgment is described in note 3(m) and note 12.

(v) IMPAIRMENT OF FINANCIAL ASSETS

The Corporation assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets carried at amortized cost is impaired. Judgment is used in determining whether any indications of impairment over the loan or receivable are present and in determining the likelihood, timing and estimated future cash inflows related to the loan or receivable. Further information regarding the judgment used is described in note 19.

(vi) 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 CGUs 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 uncertainty and judgment. Further information regarding the estimates and judgment used is described in note 8.

d) TRANSLATION OF FOREIGN CURRENCY

(i) FOREIGN CURRENCY TRANSACTIONS

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

(ii) FOREIGN OPERATIONS

The assets and liabilities of foreign operations, including fair value adjustments arising on acquisition, are translated 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
Trade and other payables	Other financial liabilities	Amortized cost
Borrowings	Other financial liabilities	Amortized cost
Onerous lease and legal provisions	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**

Other financial liabilities are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, other financial liabilities are measured at amortized cost using the effective interest method.

f) CASH AND CASH EQUIVALENTS

Cash and cash equivalents primarily comprise Canadian dollar and US dollar cash on deposit. The Corporation holds local currency for each location and 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 and manufactured production parts inventories includes raw materials, direct labour and an estimated share of production overheads based on normal operating capacity. If the carrying value exceeds net realizable value, a writedown is recognized. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the writedown is reversed. The reversal is up to the amount of the original writedown, 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:

Buildings	15 years
Machinery and office equipment	3 – 15 years
Rental equipment	3 – 8 years
Computer equipment	1 – 3 years
Leasehold improvements	Term of related lease

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

i) INTANGIBLE ASSETS

(i) INTERNALLY GENERATED INTANGIBLE ASSETS

Expenditures on research are recognized as an expense 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.

(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	3 – 5 years
Software	1 – 5 years

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

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 an after-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets or CGU.

An impairment loss is recognized in earnings 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.

A restructuring provision is recognized when the Corporation has developed a detailed formal plan for restructuring and has formally announced the plan's main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the Corporation.

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 ("DSUs") 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 PRODUCTS

Revenues from the sale of products 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 products 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.

4. FUTURE ACCOUNTING PRONOUNCEMENTS

The International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") have issued a number of new standards, amendments to standards and interpretations that are not effective for December 31, 2017 reporting periods. These standards and amendments have not been applied by the Corporation in preparing these consolidated financial statements. The new standards and amendments, and their anticipated impact on the Corporation's financial statements once they are adopted, are as follows:

a. IFRS 9 – FINANCIAL INSTRUMENTS & IFRS 7 – FINANCIAL INSTRUMENT DISCLOSURES

IFRS 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The Corporation has decided not to adopt IFRS 9 until it becomes mandatory on January 1, 2018.

The Corporation has substantially completed its analysis and does not expect the new guidance to have a significant impact on the classification and measurement of its financial instruments for the following reasons:

- i) The Corporation does not currently hold any financial assets that would be accounted for differently under the new standard;
- ii) The Corporation does not have any financial liabilities designated at fair value through profit or loss, which are the only liabilities impacted by the new standard; and
- iii) The Corporation does not currently have, or anticipate having any outstanding hedges that would require re-assessment under the updated hedge accounting rules.

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under IAS 39. This will apply to the Corporation's trade and other accounts receivable and is not expected to have a material impact on the financial statements. Management is currently finalizing the evaluation of the impact of this, as well as the new presentation and disclosure rules on its financial reporting.

b. IFRS 15 – REVENUE FROM CONTRACTS WITH CUSTOMERS

IFRS 15 will replace IAS 18 which covers revenue arising from the sale of goods and the rendering of services and IAS 11 which covers construction contracts.

The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption. The Corporation will adopt the new standard beginning January 1, 2018. Management is in the process of completing an evaluation of its various revenue streams in the context of the new standard and does not expect implementation to have a material impact on the financial statements.

c. IFRS 16 – LEASES

IFRS 16 was issued in January, 2016. It will result in almost all leases being recognized on the statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Corporation's operating leases. The Corporation has not yet determined the extent to which these lease commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Corporation's profit and classification of cash flows.

Some of the commitments may be evaluated under the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

The standard is mandatory for first interim periods within annual reporting periods beginning on or after January 1, 2019. The Corporation does not intend to adopt the standard before its effective date.

Management continues to evaluate the potential measurement and disclosure impacts of these new standards on the Corporation's consolidated financial statements.

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

5. INVENTORIES

	2017	2016
	\$	\$
Raw materials	1,245	2,127
Work-in-progress	1,509	536
Parts to be used in production	3,881	8,421
Production inventory	6,635	11,084
Finished goods available for sale	11,695	17,113
	18,330	28,197

Production parts are purchased or produced for the use in the production of finished goods. Finished goods available for sale consist of parts and equipment inventories that are available to external parties.

Included in cost of sales for the year ended December 31, 2017, is a net writedown of inventories to net realizable value of \$6,204 (2016 - \$2,665).

Inventory writedowns relating to the Corporation's restructuring plan, as described in note 10(c), amounted to \$1,163 (2016 - \$3,977) and are included in restructuring charges.

The net realizable value of capital equipment and related accessories included in finished goods available for sale, was assessed on a product line basis. Judgment was used in assessing the net realizable value of each item of capital equipment, including accessories. All other items in inventory were assessed for obsolescence at a distinct part level. A writedown is taken if management determines that the carrying value of the inventory items exceeds the net recoverable value. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the writedown is reversed. The reversal is up to the amount of the original writedown, so that the new carrying amount is the lower of the cost and the revised net realizable value.

6. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Machinery and office equipment	Rental equipment	Computer equipment	Leasehold improvements	Total
	\$	\$	\$	\$	\$	\$	\$
Cost							
Balances at January 1, 2016	-	-	24,210	3,272	3,245	3,927	34,654
Additions	-	-	41	821	-	-	862
Transfers to inventory	-	-	-	(774)	-	-	(774)
Disposals	-	-	(7,224)	(391)	-	-	(7,615)
Foreign exchange	-	-	(684)	(119)	(46)	(40)	(889)
Balances at December 31, 2016	-	-	16,343	2,809	3,199	3,887	26,238
Acquisition of subsidiary	1,396	3,374	112	5	16	-	4,903
Additions	-	146	64	911	101	-	1,222
Transfers from inventory	-	-	-	328	-	-	328
Disposals	-	-	(7,175)	(278)	(3)	-	(7,456)
Foreign exchange	(78)	(197)	(588)	(265)	(78)	(93)	(1,299)
Balances at December 31, 2017	1,318	3,323	8,756	3,510	3,235	3,794	23,936
Accumulated depreciation							
Balances at January 1, 2016	-	-	13,653	543	2,512	2,541	19,249
Depreciation	-	-	2,141	456	364	504	3,465
Impairment	-	-	2,098	-	-	262	2,360
Transfers to inventory	-	-	-	(210)	-	-	(210)
Disposals	-	-	(5,280)	(76)	-	-	(5,356)
Foreign exchange	-	-	(324)	(14)	(27)	(18)	(383)
Balances at December 31, 2016	-	-	12,288	699	2,849	3,289	19,125
Depreciation	-	228	1,203	443	138	323	2,335
Impairment	-	-	333	-	-	242	575
Disposals	-	-	(6,368)	(81)	(3)	-	(6,452)
Foreign exchange	-	(7)	(430)	(100)	(60)	(92)	(689)
Balances at December 31, 2017	-	221	7,026	961	2,924	3,762	14,894
Carrying amount							
At December 31, 2016	-	-	4,055	2,110	350	598	7,113
At December 31, 2017	1,318	3,102	1,730	2,549	311	32	9,042

During the year ended December 31, 2017, depreciation included in cost of sales amounted to \$2,224 (2016 - \$3,113); depreciation in general and administration amounted to \$107 (2016 - \$329); depreciation in research and development amounted to \$4 (2016 - \$23).

As a result of the restructuring plan described in note 10(c), certain PPE was identified, which would no longer be utilized to support revenue generating activities. It was determined through external appraisals and other assessments that the recorded net book value of certain assets exceeded the recoverable value (higher of fair value less costs to sell and value in use). Accordingly, the Corporation recognized an impairment charge of \$575 (2016 - \$2,360) against PPE specific to the restructuring plan.

7. INTANGIBLE ASSETS

	Internally generated intellectual property	Software and internally generated software	Total
	\$	\$	\$
Cost			
Balances at January 1, 2016	7,149	4,894	12,043
Additions	52	-	52
Retirements	(4,507)	(902)	(5,409)
Foreign exchange	-	(56)	(56)
Balances at December 31, 2016	2,694	3,936	6,630
Additions	659	42	701
Retirements	(739)	(450)	(1,189)
Foreign exchange	-	(2)	(2)
Balances at December 31, 2017	2,614	3,526	6,140
Accumulated amortization			
Balances, January 1, 2016	2,398	2,749	5,147
Amortization	316	910	1,226
Retirements	(4,507)	(902)	(5,409)
Impairment	4,285	-	4,285
Foreign exchange	-	(58)	(58)
Balances at December 31, 2016	2,492	2,699	5,191
Amortization	131	688	819
Retirements	(739)	(450)	(1,189)
Impairment	31	-	31
Foreign exchange	-	(2)	(2)
Balances at December 31, 2017	1,915	2,935	4,850
Carrying amounts			
At December 31, 2016	202	1,237	1,439
At December 31, 2017	699	591	1,290

During the year ended December 31, 2017, amortization included in cost of sales amounted to \$136 (2016 - \$322) and amortization in general and administration amounted to \$683 (2016 - \$904).

Management determined that the future economic benefits expected from the use of internally generated intellectual property are uncertain and recognized an impairment charge of \$31 (2016 - \$4,285).

Included in internally generated intellectual property is \$699 (2016 - \$42) that relates to products under development. While in development, internally generated intellectual property is not amortized until it has reached commercial production.

The cost and accumulated amortization of assets with no remaining economic lives were retired when determined.

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

	2017	2016
Internally generated intellectual property	-	1 - 2 years
Software	1 year	1 - 2 years

8. IMPAIRMENT OF NON-FINANCIAL ASSETS

The Corporation reviews the carrying value of its non-financial assets at each reporting period for indicators of impairment. During the year ended December 31, 2017, the Corporation determined that low commodity prices and the prolonged down-cycle in drilling and completions activity levels an indicator of impairment and performed an assessment of the carrying values of non-financial assets. The recoverable amounts of non-financial assets were estimated based on their value in use, determined by discounting estimated future cash flows expected to be generated by the assets or Cash Generating Unit ("CGU") to which it was assigned. Due to the nature of the prolonged global market down-cycle, all identified CGUs, were assessed as part of the impairment assessment.

Key assumptions used in the estimation of value in use included the after-tax discount rate of 13% and management expectation of future outcomes and market conditions, including forecasted North American and international rig and well counts. Based on industry forecasts, average projected annual revenue growth over the next five years was estimated at 8%. No terminal value growth rate was used due to the finite lives of the underlying assets of the CGU. Discount rates were derived from the Corporation's estimated weighted average cost of capital, adjusted for risk factors specific to the CGUs.

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

Upon completion of the impairment assessment, it was determined that no impairment, incremental to that described in notes 6 and 7, was to be recognized on the Corporation's non-financial assets. No significant changes in any of the key assumptions would have resulted in an impairment charge in any CGU.

9. TRADE AND OTHER PAYABLES

	Note	2017	2016
		\$	\$
Trade payables		3,915	2,272
Accrued liabilities and other payables		1,481	1,111
Cash settled share-based compensation	14(b)	167	272
		5,563	3,655

10. PROVISIONS

	Warranty	Legal	Restructuring	Facility remediation	Total
	\$	\$	\$	\$	\$
Balances at January 1, 2016	993	150	-	2,360	3,503
Provisions made during the year	276	1,075	9,557	89	10,997
Provisions utilized during the year	(756)	(40)	(6,353)	(1,390)	(8,539)
Foreign exchange	(20)	-	36	-	16
Balances at December 31, 2016	493	1,185	3,240	1,059	5,977
Provisions made during the year	480	165	3,729	-	4,374
Provisions utilized during the year	(333)	(1,047)	(4,767)	(10)	(6,157)
Foreign exchange	(23)	-	(142)	-	(165)
Balances at December 31, 2017	617	303	2,060	1,049	4,029
Expected to be utilized within one year	617	303	1,394	1,049	3,363
Expected to be utilized thereafter	-	-	666	-	666

a) WARRANTY

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

b) LEGAL

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

c) RESTRUCTURING

In 2016 and 2017, as a direct response to the prolonged market down-cycle for oilfield equipment and services, the Corporation initiated two separate restructuring plans. These changes have provided more agility to respond to industry cycles.

The restructuring plan for 2017 included:

- i. the consolidation of McCoy Global's wellbore integrity solutions product line to Louisiana, USA, resulting in the closure of its Edmonton, Alberta production facility;
- ii. the transition of hydraulic power tong production from in-house manufacturing to an assembly production model; and
- iii. the relocation of its WINCATT® and weCATT™ torque turn technology production from Edmonton, Alberta to Austin, Texas to consolidate production of complimentary products.

The restructuring plan for 2016 included:

- iv. the consolidation of McCoy Global's hydraulic power tong product line to Edmonton, Alberta;
- v. the closure of the Corporation's warehouse and service facility in Houston, USA;
- vi. the relocation and downsizing of operations in Aberdeen, UK;
- vii. the relocation and downsizing of operations in Singapore, Republic of Singapore; and
- viii. further significant reductions in both operational, functional and management positions.

Restructuring charges have been included on the consolidated statements of loss and comprehensive loss as restructuring charges. At December 31, 2017, accrued restructuring costs are included in provisions on the consolidated statement of financial position. Non-current restructuring provisions were discounted using a pre-tax risk-free discount rate of 0.5%. The table below summarizes restructuring charges recorded on the consolidated statement of loss and comprehensive loss for the year ended December 31, 2017 and restructuring provisions included in the consolidated statement of financial position at December 31, 2017:

	Onerous lease contracts	Inventory writedowns	Severance pay and benefits	Other direct costs	Restructuring provisions
	\$	\$	\$	\$	\$
Balance at January 1, 2016	-	-	-	-	-
Costs recognized	3,991	3,977	1,114	475	9,557
Payments and allowances	(787)	(3,977)	(1,114)	(475)	(6,353)
Foreign exchange	36	-	-	-	36
Balance at December 31, 2016	3,240	-	-	-	3,240
Costs recognized	(1,514)	1,163	1,839	1,222	2,710
Payments and allowances	(359)	(1,163)	(1,444)	(782)	(3,748)
Foreign exchange	(142)	-	-	-	(142)
Balance at December 31, 2017	1,225	-	395	440	2,060

Provisions for onerous lease contracts include estimated future facility costs for facilities under lease for which the Corporation will receive nominal future economic benefits as a result of the restructuring plans. The provision includes facilities lease payments and estimated direct costs to maintain the facilities over the remaining lease term. In 2017, a \$1,749 reversal of a portion of an onerous lease contract provision was recorded. This relates to an onerous lease contract which, based on management's best estimate of the percentage of the leased premises that will be used for current and future operations, was partially put back into use as part of 2017 restructuring initiatives.

Inventory writedowns include inventory impacted as a direct result of the restructuring plans. Identified inventory is recorded at the lower of cost and net realizable value and is in excess of the Corporation's inventory provision policy. Inventory writedowns have been included within the obsolescence provision in inventory on the consolidated statements of financial position.

Severance pay and benefits include committed severance payments for workforce reductions as a result of the restructuring plans.

Other direct costs include freight, legal and other expenses required to complete the restructuring plans and are recorded as restructuring charges as incurred.

Judgment related to the provision is based on uncertainties regarding the amount and timing of estimated cash flows related to restructuring provisions.

d) FACILITY REMEDIATION

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

11. BORROWINGS

At December 31, 2017, the Corporation had borrowings of \$4,930. The credit facility (the "Facility") consisted of the following components:

- i. CAD \$2,000 operating line bearing interest at the Creditor's Canadian Prime Rate or US Base Rate plus a margin of 2.50% or LIBOR plus a margin of 4.00%. At December 31, 2017, \$878 was outstanding.
- ii. USD \$3,800 non-revolving term loan bearing interest at the Creditor's US Base Rate plus a margin of 2.50% or LIBOR plus a margin of 4.00%. At December 31, 2017, \$4,052 (USD \$3,230) was outstanding.

As required under the terms of the Facility, CAD \$2,500 is held under the Creditor's authority as security and is presented as restricted cash on the consolidated statements of financial position. The Facility is further secured by the Corporation's Canadian assets and the Corporation must maintain a minimum cash balance on hand with the Creditor.

Subsequent to year-end the Facility was repaid. Management is exploring options to replace the borrowings with another credit facility.

During the year ended December 31, 2017, the Corporation recognized \$183 in finance charges, net (2016 - \$116).

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

	Borrowings
	\$
Balance, December 31, 2016	-
Borrowings, net of repayments	5,157
Foreign exchange adjustment	(227)
Amortization of deferred financing costs	-
Balance, December 31, 2017	4,930

12. DEFERRED TAXES

a) RECOGNIZED DEFERRED TAX ASSETS AND LIABILITIES

The income tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities are presented below:

	2017			2016		
	Assets	Liabilities	Net	Assets	Liabilities	Net
	\$	\$	\$	\$	\$	\$
Inventories	-	-	-	330	-	330
Provisions	408	-	408	86	-	86
PP&E	169	-	169	5	(292)	(287)
Deferred tax assets (liabilities)	577	-	577	421	(292)	129
Set-off of tax	-	-	-	(292)	292	-
Net deferred tax assets	577	-	577	129	-	129

With respect to the deferred tax assets and liabilities presented above, \$408 of the deferred tax assets (2016 - \$416) is expected to reverse in 2018.

b) UNRECOGNIZED DEFERRED TAX ASSETS

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

	2017	2016
	\$	\$
Deductible temporary differences	2,747	3,387
Tax losses	5,803	6,286
	8,550	9,673

Based on management's current estimates of future taxable earnings, the recoverability of these items is indeterminable and as such, deferred tax assets have not been recognized in respect of these amounts.

c) TAX LOSSES CARRIED FORWARD

Unrecognized deferred tax assets derived from tax losses expire as follows:

	2017		2016	
	Gross amount	Tax effect	Gross amount	Tax effect
	\$	\$	\$	\$
2037	8,074	2,180	8,657	2,683
Indefinite	17,194	3,623	16,738	3,603
	25,268	5,803	25,395	6,286

Deferred tax assets have not been recognized in respect of capital losses of \$778 (2016 - \$771). It is not probable that future taxable capital gains will be available against which the Corporation can utilize the benefits of these losses. These losses do not expire.

13. SHAREHOLDERS' EQUITY

a) SHARE CAPITAL

AUTHORIZED

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

14. SHARE-BASED COMPENSATION

a) EQUITY SETTLED SHARE-BASED COMPENSATION

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

The aggregate number of common shares issuable under the plan can be no greater than 10% of the common shares issued and outstanding from time to time on a non-diluted basis. In addition, no more than 5% of outstanding shares may be reserved for options granted to any one person and no more than 10% of outstanding shares may be reserved for options granted to insiders. The maximum term of options granted under the plan is ten years and the vesting period of option grants is at the discretion of the Board of Directors. The options vest evenly over the vesting period. The exercise price of options is determined by the Board of Directors, but cannot be lower than the market price of shares on the last trading day preceding the grant date.

The following reflects activity under the employee share option plan:

	2017		2016	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
	#	\$	#	\$
Outstanding, as at January 1	2,125,001	3.87	1,680,003	4.90
Granted	540,000	2.04	860,000	1.88
Forfeited	(104,000)	1.96	(251,001)	3.48
Expired	(126,001)	4.59	(164,001)	4.58
Exercised	-	-	-	-
Outstanding, December 31	2,435,000	3.54	2,125,001	3.87
Exercisable, December 31	1,040,000	5.10	809,999	5.65

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

Exercise price range	2017		2016	
	Options outstanding	Weighted average remaining contractual life	Options outstanding	Weighted average remaining contractual life
	#	years	#	years
< \$2	725,000	8.25	760,000	9.22
\$2 to \$4	1,040,000	8.06	665,001	7.20
\$4 to \$6	245,000	1.75	245,000	2.75
> \$6	425,000	0.95	455,000	1.94
	2,435,000	6.24	2,125,001	6.28

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

	2017	2016
Share price	\$2.04	\$1.88
Exercise price	\$2.04	\$1.88
Expected volatility	48%	48%
Risk-free interest rate	1%	1%
Annual dividend rate	-	-
Expected life of options in years	7.0 years	7.0 years

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not be the actual outcome.

The weighted average fair value of share options granted during the year, calculated under the Black-Scholes option pricing model, was \$1.02 per share option (2016 - \$0.52 per share option) and there were no options exercised during the year.

b) CASH SETTLED SHARE-BASED COMPENSATION

The Corporation has a DSU plan for Directors of the Corporation who are designated as participants by the Human Resources, Compensation & Governance Committee. The DSU plan has two components: an "appointment grant" and a "continuous grant." The appointment grant is provided to each newly appointed Director. The appointment grant fully vests on the third anniversary of the grant date. The continuous grant provides for an annual issue of DSUs to eligible Directors. One-third of the continuous grant vests annually on the anniversary of the grant date. The DSUs can only be exercised on exiting from the Board of Directors.

On exiting from the Board of Directors, the DSUs are redeemed for cash based on the market price of any vested DSUs at the time of exit. The liability relating to the units accumulated under this plan have been included in trade and other payables on the consolidated statements of financial position as disclosed in note 9.

	2017	2016
	#	#
Outstanding, as at January 1	177,997	152,995
Granted	20,272	25,002
Forfeited	(12,784)	-
Redeemed	(34,335)	-
Outstanding, as at December 31	151,150	177,997
Vested, as at December 31	119,972	138,457

c) SHARE-BASED COMPENSATION EXPENSE

	2017	2016
	\$	\$
Equity settled share-based compensation	249	311
Cash settled share-based compensation	(31)	21
	218	332

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

15. REVENUE

	2017	2016
	\$	\$
Sale of products	34,939	24,540
Rendering of services	3,417	1,992
Rental	1,689	467
	40,045	26,999

16. EXPENSES BY NATURE

	2017	2016
	\$	\$
Employee compensation and benefit expense	17,341	15,872
Production costs to produce inventories and changes in inventories	20,605	17,471
Excess and obsolete inventory expense	6,204	2,665
Depreciation and amortization	3,154	4,691
Facilities and other	5,613	7,180
Total expenses	52,917	47,879
Allocated to:		
Cost of sales	37,061	32,708
General and administration	9,218	11,040
Sales and marketing	3,883	3,092
Research and development	2,755	1,039
Total expenses	52,917	47,879

17. INCOME TAX RECOVERY

a) RECONCILIATION OF INCOME TAX RECOVERY

Income tax recovery varies from the amounts that would be computed by applying the domestic statutory rate of 27% (2016 – 27%) to loss before income taxes for the following reasons:

	2017	2016
	\$	\$
Loss before income taxes	(17,286)	(39,661)
Computed income tax recovery	(4,667)	(10,708)
Tax effects of:		
Jurisdictional tax rate differences	(190)	(710)
Effect of decreasing substantively enacted tax rates	1,561	-
Non-deductible expenses	93	118
Tax losses for which no deferred tax asset was recognized	1,215	7,989
Other items	1,019	(424)
Income tax recovery	(969)	(3,735)

b) INCOME TAX RECOVERY ON EARNINGS

	2017	2016
	\$	\$
Current tax recovery	(521)	(3,925)
Deferred tax recovery:		
Origination and reversal of temporary differences	(1,663)	(7,799)
Tax losses for which no deferred tax asset was recognized	1,215	7,989
Total deferred tax (recovery) expense	(448)	190
Income tax recovery	(969)	(3,735)

18. LOSS PER SHARE

	2017			2016		
	Net loss	Weighted average shares	Per share amount	Net loss	Weighted average shares	Per share amount
	\$	#	\$	\$	#	\$
Basic loss per share						
Loss available to common shareholders	(16,317)	27,684,239	(0.59)	(35,926)	27,704,239	(1.30)
Diluted loss per share						
Loss available to common shareholders	(16,317)	27,684,239	(0.59)	(35,926)	27,704,239	(1.30)

The Corporation has excluded 2,435,000 share options from the computation of diluted loss per share (2016 – 2,125,001 share options) because they are anti-dilutive for the period presented.

19. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

a) FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The fair value of cash and cash equivalents, trade and other receivables, trade and other payables, borrowings and current provisions approximate their carrying value due to their short-term nature. The carrying value of onerous lease provisions has been discounted to reduce the provision to fair value.

b) FINANCIAL RISK MANAGEMENT

The Corporation's activities are exposed to a variety of financial risks of varying degrees of significance, which could affect the Corporation's ability to achieve strategic objectives. Overall, risk management programs focus on the unpredictability of financial and economic markets and seek to minimize potential adverse effects on financial performance. Risk management is carried out by financial management in conjunction with overall corporate governance. The principal financial risks to which the Corporation is exposed are described below:

(i) MARKET RISK

Market risk is the risk changes in market prices, such as foreign exchange rates and interest rates, will affect the Corporation's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing return. The Corporation may use derivatives to manage certain market risks.

- **Foreign currency risk**

The Corporation is exposed to foreign currency risk to the extent that there is a mismatch between the currencies in which revenues, purchases and monetary assets and liabilities are denominated and the respective functional currency of the Corporation's subsidiaries. Foreign currency risk is primarily with the US dollar. The Corporation may use forward exchange contracts to manage foreign currency risk.

The Corporation recognized a foreign currency exchange loss of \$560 in other losses (gains), net (2016 - loss of \$1,293). Based on the Corporation's US dollar denominated monetary assets and liabilities at December 31, 2017, the Corporation estimates that a ten cent change in the value of the US dollar would increase or decrease net earnings by \$468 (2016 - \$478).

- **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 2017 and 2016, the Corporation was primarily exposed to interest rate risk on cash and cash equivalents and borrowings. The Corporation estimates that a change of 100 basis points in the interest rate as at December 31, 2017 would have increased or decreased net earnings for the year ended December 31, 2017 by \$166 (2016 - \$164), primarily arising from interest income earned on cash and cash equivalents offset by interest expense incurred on borrowings.

(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.

Trade receivables include balances due from customers primarily operating in the oil and gas industry. The Corporation manages credit risk by assessing the creditworthiness of its customers before providing products or services and monitoring customer credit and balances on an ongoing basis. In some instances, the Corporation will take additional measures to reduce credit risk including obtaining letters of credit or prepayments from customers. Writedowns for trade and other receivables are recorded each period as required and updated based on management's judgment.

As at December 31, 2017, the Corporation had four customers that accounted for \$2,327 (29%) of total trade receivables (2016 - two customers accounted for \$1,190, 23%).

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

	2017	2016
	\$	\$
Fully performing	4,988	2,348
Past due but not impaired	2,321	2,159
Indications of impairment	757	919
Trade receivables	8,066	5,426

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 receivables aged greater than 180 days. Management has determined on a customer by customer basis that impairment provisions of \$757 (2016 - \$919) are sufficient to cover credit risk.

The aging analysis of trade receivables is as follows:

As at December 31	2017	2016
	\$	\$
0 to 30 days	2,826	1,473
31 to 60 days	2,162	875
61 to 120 days	1,692	1,425
121 to 180 days	629	734
Over 180 days	757	919
Trade receivables	8,066	5,426
Provisions for impairment	(757)	(919)
Trade receivables, net of impairment	7,309	4,507
Other receivables	1,140	855
Total trade and other receivables	8,449	5,362

Included in other receivables is \$nil (2016 - \$485) of escrow funds held in trust with legal counsel in relation to consideration on the sale of a business. There is uncertainty as to the collectability of this amount and therefore a provision has been recorded.

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

For the years ended	2017	2016
	\$	\$
Provision for impairment, as at January 1	(919)	(229)
Impairment reversal (loss), net	106	(773)
Amounts written off	-	88
Foreign exchange	56	(5)
Provision for impairment, as at December 31	(757)	(919)

(iii) LIQUIDITY RISK

Liquidity risk is the risk the Corporation will not be able to meet its obligations with financial liabilities as they come due. The Corporation maintains sufficient cash and cash equivalents to meet financial obligations. Based on remaining contractual maturities, the undiscounted cash flows for the Corporation's financial liabilities, including interest payments, are as follows:

	Due in less than one year	Due between one and five years	Due later than five years	Total
	\$	\$	\$	\$
Borrowings	4,930	-	-	4,930
Trade and other payables	5,563	-	-	5,563
Legal provisions	303	-	-	303
Onerous lease provisions	560	665	-	1,225
Undiscounted cash flows for financial liabilities	11,356	665	-	12,021
Purchase commitments for inventory and operating supplies	1,794	-	-	1,794
	13,150	665	-	13,815

The Corporation also has commitments under operating leases for premises and equipment that mature in over one year as described in note 23.

c) CAPITAL MANAGEMENT

The Corporation's objectives when managing its capital are to safeguard assets and continue as a going concern while, at the same time, maximizing the growth of the business and return to shareholders. The Corporation views its capital as the combination of borrowings as well as shareholders' equity as follows:

	2017	2016
	\$	\$
Borrowings	4,930	-
Shareholders' equity	41,206	59,805
Total capital	46,136	59,805

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

The Board of Directors reviews and approves any material transactions out of the ordinary course of business including proposals on acquisitions or other major investments or divestitures, as well as annual capital and operating budgets.

20. RELATED PARTY TRANSACTIONS

a) DIVESTITURE OF COATINGS & HYDRAULICS DIVISION

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

In 2016, the Corporation reached an agreement with the purchaser of the Coatings & Hydraulics division regarding closing adjustments resulting in cash proceeds of \$205 and a gain of \$nil.

The Corporation has entered into agreements indemnifying the purchaser with respect to certain leased premises associated with the Coatings & Hydraulics division. These remediation cost estimates are included in facility remediation provisions, as disclosed in note 10(d).

b) KEY MANAGEMENT PERSONNEL

Key management personnel includes the Directors and senior corporate officers of the Corporation who are primarily responsible for planning, directing and controlling the Corporation's business activities.

Compensation awarded to key management personnel for employee services for the years ended December 31, 2017 and 2016 is as follows:

	2017	2016
	\$	\$
Salaries and other short-term employee benefits	1,730	1,907
Share-based compensation	158	262
Termination benefit	-	502
	1,888	2,671

21. SEGMENT INFORMATION

GEOGRAPHIC INFORMATION

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

	2017		2016	
	Revenue	PP&E & intangible assets	Revenue	PP&E & intangible assets
	\$	\$	\$	\$
United States & Latin America	21,658	7,273	9,656	2,666
Middle East & Africa	7,128	485	7,629	222
Europe	6,782	494	5,957	481
Canada & Russia	2,987	1,504	1,636	3,809
Asia Pacific	1,490	576	2,121	1,374
	40,045	10,332	26,999	8,552

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, 2017, no individual customer accounted for greater than 10% of total revenue (2016 – no individual customer accounted for greater than 10% of total revenue).

22. CHANGES IN WORKING CAPITAL BALANCES

	2017	2016
Cash received from (used in) operating activities due to changes in non-cash working capital balances:	\$	\$
Trade and other receivables	(3,248)	3,976
Inventories	10,510	14,336
Other current assets	805	1,998
Trade and other payables	2,040	(2,729)
Customer deposits	1,286	(817)
Provisions, excluding restructuring	(590)	(788)
	10,803	15,976

23. 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, excluding onerous lease contracts, are as follows:

	Minimum lease payment, excluding onerous lease contracts	Sublease payments to be received	Net obligation
	\$	\$	\$
Less than one year	2,021	(266)	1,755
Between one and five years	4,193	-	4,193
Later than five years	-	-	-
	6,214	(266)	5,948

As at December 31, 2017, the Corporation has commitments to purchase inventory and operating supplies of \$1,794 (2016 - \$477). Payments for these commitments are expected to be made in 2018.

24. BUSINESS COMBINATION

Effective January 4, 2017, the Corporation acquired the assets and business of 3PS Inc. ("3PS"). 3PS specializes in sensors, systems and services for heavy industrial applications, including Torque and Tension Sub technology.

The aggregate consideration given and fair values of net assets acquired in the acquisition of 3PS are as follows:

	January 4, 2017
	\$
Consideration transferred:	
Cash consideration, net	7,985
Total consideration	7,985
Identifiable assets acquired:	
Trade and other receivables	817
Inventories	2,490
Property, plant and equipment	4,903
Identifiable liabilities assumed:	
Trade and other payables	162
Total net identifiable assets	8,048
Gain on business combination	63

The Corporation incurred due diligence and closing costs of \$310 in 2017 to complete the acquisition. The gain on business combination is included in other losses, net on the consolidated statements of loss and comprehensive loss and arose principally due to the acquired business having relatively more value to the Corporation than the seller.

The fair value of acquired trade receivables is \$817. This also represents the gross contractual amounts as no amounts are expected to be uncollectible.

The Corporation took steps to integrate 3PS with the Corporation's consolidated operating results and, therefore, revenue and net earnings are not reported on a stand-alone basis.

25. EQUITY

On May 19, 2017, the Corporation announced a normal course issuer bid ("NCIB"). The Corporation may purchase, for cancellation, up to a maximum 1,385,212 common shares, equal to 5 percent of the public float of 27,704,239 common shares as at May 12, 2017. The Corporation is also limited under the NCIB to purchasing no more than 4,496 common shares on any given day, subject to the block purchase exemption under the TSX rules. The NCIB will continue until May 23, 2018. Purchases will be made on the open market through the TSX or alternative platforms at the market price of such shares. All shares purchased under the NCIB will be cancelled.

The Corporation purchased 20,000 common shares pursuant to its NCIB at a weighted average price of \$2.07 per share. The share repurchase and costs to implement the NCIB were \$61.



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