# Consolidated Statements of Operations

***For the years ended April 30, 2019 and 2018***
**(in thousands of Canadian dollars, except per share information)**

| | | 2019 | | 2018 |
|---|---|---|---|---|
| **TOTAL REVENUE** | $ | **384,822** | $ | 342,326 |
| **DIRECT COSTS** | | **293,824** | | 268,043 |
| **GROSS PROFIT** | | **90,998** | | 74,283 |
| **OPERATING EXPENSES** | | | | |
| General and administrative | | **46,595** | | 47,716 |
| Other expenses | | **4,228** | | 3,504 |
| Gain on disposal of property, plant and equipment | | **(342)** | | (206) |
| Foreign exchange loss (gain) | | **1,295** | | (1,390) |
| Finance costs | | **775** | | 782 |
| Depreciation of property, plant and equipment (note 7) | | **40,909** | | 47,496 |
| Amortization of intangible assets (note 9) | | **-** | | 657 |
| Restructuring charge (note 19) | | **7,874** | | - |
| | | **101,334** | | 98,559 |
| **LOSS BEFORE INCOME TAX** | | **(10,336)** | | (24,276) |
| **INCOME TAX - PROVISION (RECOVERY) (note 12)** | | | | |
| Current | | **7,761** | | 7,824 |
| Deferred | | **(13)** | | (9,648) |
| | | **7,748** | | (1,824) |
| **NET LOSS** | $ | **(18,084)** | $ | (22,452) |
| **LOSS PER SHARE (note 14)** | | | | |
| **Basic** | $ | **(0.23)** | $ | (0.28) |
| **Diluted** | $ | **(0.23)** | $ | (0.28) |

# Consolidated Statements of Comprehensive Loss

***For the years ended April 30, 2019 and 2018***
**(in thousands of Canadian dollars)**

| | | 2019 | | 2018 |
|---|---|---|---|---|
| **NET LOSS** | **$** | **(18,084)** | $ | (22,452) |
| **OTHER COMPREHENSIVE LOSS** | | | | |
| Items that may be reclassified subsequently to profit or loss | | | | |
| Unrealized gain (loss) on foreign currency translations (net of tax) | | **8,762** | | (16,766) |
| Unrealized loss on derivatives (net of tax) | | **(606)** | | (127) |
| **COMPREHENSIVE LOSS** | **$** | **(9,928)** | $ | (39,345) |

# Consolidated Statements of Changes in Equity

***For the years ended April 30, 2019 and 2018***
**(in thousands of Canadian dollars)**

| | Share capital | Reserves | Share-based payments reserve | Retained earnings | Foreign currency translation reserve | Total |
|---|---|---|---|---|---|---|
| **BALANCE AS AT MAY 1, 2017** | $ 239,751 | $ 163 | $ 19,250 | $ 63,812 | $ 86,787 | $ 409,763 |
| Exercise of stock options (note 13) | 1,513 | - | (310) | - | - | 1,203 |
| Share-based compensation (note 13) | - | - | 781 | - | - | 781 |
| | 241,264 | 163 | 19,721 | 63,812 | 86,787 | 411,747 |
| **Comprehensive earnings:** | | | | | | |
| Net loss | - | - | - | (22,452) | - | (22,452) |
| Unrealized loss on foreign currency translations | - | - | - | - | (16,766) | (16,766) |
| Unrealized loss on derivatives | - | (127) | - | - | - | (127) |
| Total comprehensive loss | - | (127) | - | (22,452) | (16,766) | (39,345) |
| **BALANCE AS AT APRIL 30, 2018** | **241,264** | **36** | **19,721** | **41,360** | **70,021** | **372,402** |
| Share-based compensation (note 13) | **-** | **-** | **526** | **-** | **-** | **526** |
| | **241,264** | **36** | **20,247** | **41,360** | **70,021** | **372,928** |
| **Comprehensive earnings:** | | | | | | |
| Net loss | **-** | **-** | **-** | **(18,084)** | **-** | **(18,084)** |
| Unrealized gain on foreign currency translations | **-** | **-** | **-** | **-** | **8,762** | **8,762** |
| Unrealized loss on derivatives | **-** | **(606)** | **-** | **-** | **-** | **(606)** |
| Total comprehensive loss | **-** | **(606)** | **-** | **(18,084)** | **8,762** | **(9,928)** |
| **BALANCE AS AT APRIL 30, 2019** | **$ 241,264** | **$ (570)** | **$ 20,247** | **$ 23,276** | **$ 78,783** | **$363,000** |

# Consolidated Statements of Cash Flows

***For the years ended April 30, 2019 and 2018***
**(in thousands of Canadian dollars)**

| | | 2019 | | 2018 |
|---|---|---|---|---|
| **OPERATING ACTIVITIES** | | | | |
| Loss before income tax | $ | (10,336) | $ | (24,276) |
| Operating items not involving cash | | | | |
| Depreciation and amortization | | 40,909 | | 48,153 |
| Gain on disposal of property, plant and equipment | | (342) | | (206) |
| Share-based compensation (note 13) | | 526 | | 781 |
| Restructuring charge (non-cash portion) (note 19) | | 7,274 | | - |
| Finance costs recognized in loss before income tax | | 775 | | 782 |
| | | 38,806 | | 25,234 |
| Changes in non-cash operating working capital items (note 16) | | (7,345) | | (8,397) |
| Finance costs paid | | (775) | | (782) |
| Income taxes paid | | (9,724) | | (5,883) |
| Cash flow from operating activities | | 20,962 | | 10,172 |
| **FINANCING ACTIVITIES** | | | | |
| Repayment of long-term debt | | (2,137) | | (3,207) |
| Proceeds from draw on long-term debt | | - | | 15,000 |
| Issuance of common shares due to exercise of stock options | | - | | 1,203 |
| Cash flow (used in) from financing activities | | (2,137) | | 12,996 |
| **INVESTING ACTIVITIES** | | | | |
| Payment of consideration for previous business acquisition (note 18) | | - | | (5,135) |
| Acquisition of property, plant and equipment | | | | |
| (net of direct financing) (note 7) | | (25,487) | | (22,510) |
| Proceeds from disposal of property, plant and equipment | | 11,933 | | 2,662 |
| Cash flow used in investing activities | | (13,554) | | (24,983) |
| Effect of exchange rate changes | | 839 | | (2,904) |
| **INCREASE (DECREASE) IN CASH** | | 6,110 | | (4,719) |
| **CASH, BEGINNING OF THE YEAR** | | 21,256 | | 25,975 |
| **CASH, END OF THE YEAR** | $ | 27,366 | $ | 21,256 |

# Consolidated Balance Sheets

***As at April 30, 2019 and 2018***
**(in thousands of Canadian dollars)**

| | | 2019 | | 2018 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **CURRENT ASSETS** | | | | |
| Cash | $ | **27,366** | $ | 21,256 |
| Trade and other receivables | | **88,029** | | 88,372 |
| Note receivable | | **516** | | 495 |
| Income tax receivable | | **3,978** | | 4,517 |
| Inventories (note 6) | | **90,325** | | 82,519 |
| Prepaid expenses | | **5,099** | | 2,924 |
| | | **215,313** | | 200,083 |
| **NOTE RECEIVABLE** | | **44** | | 559 |
| **PROPERTY, PLANT AND EQUIPMENT (note 7)** | | **164,266** | | 185,364 |
| **DEFERRED INCOME TAX ASSETS (note 12)** | | **23,374** | | 23,196 |
| **GOODWILL (note 8)** | | **58,300** | | 57,851 |
| | $ | **461,297** | $ | 467,053 |
| **LIABILITIES** | | | | |
| **CURRENT LIABILITIES** | | | | |
| Trade and other payables | $ | **63,376** | $ | 55,906 |
| Income tax payable | | **1,209** | | 3,794 |
| Current portion of long-term debt (note 11) | | **1,060** | | 1,934 |
| | | **65,645** | | 61,634 |
| **LONG-TERM DEBT (note 11)** | | **16,298** | | 17,407 |
| **DEFERRED INCOME TAX LIABILITIES (note 12)** | | **16,354** | | 15,610 |
| | | **98,297** | | 94,651 |
| **SHAREHOLDERS' EQUITY** | | | | |
| Share capital (note 13) | | **241,264** | | 241,264 |
| Reserves | | **(570)** | | 36 |
| Share-based payments reserve | | **20,247** | | 19,721 |
| Retained earnings | | **23,276** | | 41,360 |
| Foreign currency translation reserve | | **78,783** | | 70,021 |
| | | **363,000** | | 372,402 |
| | $ | **461,297** | $ | 467,053 |

Contingencies and commitments (notes 20 and 21)

Approved by the Board of Directors

*"David Tennant"*
David Tennant
Chair of the Board

*"Janice Rennie"*
Janice Rennie
Chair of the Audit Committee

## 1. NATURE OF ACTIVITIES

Major Drilling Group International Inc. (the "Company") is incorporated under the Canada Business Corporations Act and has its head office at 111 St. George Street, Suite 100, Moncton, NB, Canada. The Company's common shares are listed on the Toronto Stock Exchange ("TSX"). The principal source of revenue consists of contract drilling for companies primarily involved in mining and mineral exploration. The Company has operations in Canada, the United States, Mexico, South America, Asia, Africa and Europe.

## 2. BASIS OF PRESENTATION

***Statement of compliance***
These Consolidated Financial Statements present the Company's and its subsidiaries' financial results of operations and financial position in accordance with International Financial Reporting Standards ("IFRS") and using the accounting policies described herein.

On June 6, 2019, the Board of Directors authorized these Consolidated Financial Statements for issue.

***Basis of consolidation***
These Consolidated Financial Statements incorporate the financial statements of the Company and entities controlled by the Company. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The results of subsidiaries acquired or disposed of during the period are included in the Consolidated Statements of Operations from the effective date of acquisition or up to the effective date of disposal, as appropriate. All subsidiaries of the Company are wholly owned.

Intra-group transactions, balances, income and expenses are eliminated on consolidation.

***Basis of preparation***
The Consolidated Financial Statements have been prepared based on the historical cost basis except for certain financial instruments that are measured at fair value, as explained in the related accounting policies presented in note 4.

## 3. APPLICATION OF NEW AND REVISED IFRS

The following IASB standards, adopted as of May 1, 2018, have had no material impact on the Company's Consolidated Financial Statements:

- IFRS 2 Share-based Payment
- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers

The Company has not applied the following IASB standard that has been issued, but is not yet effective:

***IFRS 16 Leases ("IFRS 16")***
IFRS 16, issued in January 2016, replaces IAS 17, Leases. IFRS 16 specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize right-of-use assets and lease liabilities for all leases. For short-term leases (lease term of 12 months or less) and leases of low-value assets, the Company will opt to recognize a lease expense on a straight-line basis as permitted by IFRS 16. Lessor accounting remains substantially unchanged as they continue to classify leases as operating or finance. IFRS 16 is effective for periods beginning on or after January 1, 2019.

## 3. APPLICATION OF NEW AND REVISED IFRS (Continued)

The Company has undertaken and completed a detailed review of existing contracts against the IFRS 16 criteria and has completed the calculation of lease liabilities for contracts that have been identified as containing right-of-use assets. The Company has elected to apply the modified transition approach whereby no restatement of comparative periods is required. Right-of-use assets will be recognized at the amount of the lease liability on transition. The Company will make use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to apply to those leases entered or modified before May 1, 2019. Leases with terms that end within 12 months of the mandatory transition date will be accounted for by the Company as short-term leases with payments made under the lease recognized as operating expenses.

It is expected that the transition to IFRS 16 on May 1, 2019 will result in increases to assets and liabilities of approximately $3 million, as well as increases of approximately $0.8 million to depreciation expense and $0.2 million to finance costs and a reduction of operating costs of approximately $1 million.

## 4. SIGNIFICANT ACCOUNTING POLICIES

***Cash***
Cash is comprised of cash on hand and demand deposits in banks.

***Financial instruments***
Financial assets and financial liabilities are recognized in the balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Financial assets are classified into the following specified categories: financial assets at fair value through profit or loss ("FVTPL"), financial assets at fair value through other comprehensive income ("FVTOCI"), and financial assets at amortized cost. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in the Statement of Operations.

Subsequent to initial recognition, the treatment of financial assets depends on their classification. Those recognized as FVTPL and FVTOCI are carried on the balance sheet at fair value with changes in fair value recognized in the Statement of Operations, and Statement of Other Comprehensive Income, respectively. Financial assets at amortized cost are measured at amortized cost using the effective interest method, less impairment.

Financial liabilities are classified as either financial liabilities at FVTPL or financial liabilities at amortized cost. Subsequent to initial recognition, the treatment of financial liabilities depends on their classification. Those recognized as FVTPL are carried on the balance sheet at fair value with changes in fair value recognized in the Statement of Operations. Financial liabilities at amortized cost are measured at amortized cost using the effective interest method.

Financial assets are derecognized when the contractual rights to the cash flows from the asset expire, or the Company transfers the rights to receive the contractual cash flows or the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. On de-recognition of a financial asset measured at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in the Statement of Operations.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities are derecognized when, and only when, the Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in the Statement of Operations.

The Company classifies cash, trade and other receivables, trade and other payables, and long-term debt as amortized cost.

The Company has entered into certain derivative financial instruments to manage its exposure to interest rate and market risks, including an interest rate swap, and a share price forward contract. Derivatives are recognized initially at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each reporting date. Given these derivatives have been designated as effective hedging instruments, the timing of the recognition in profit or loss depends on the nature of the hedge relationship, as described in the hedge accounting policy below.

***Impairment of financial assets***

The Company recognizes a loss allowance for expected credit losses ("ECL") on financial assets measured at amortized cost or at FVTOCI. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Company always recognizes lifetime ECL for trade receivables. The expected credit losses on these financial assets are estimated based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Company recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Company measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

***Revenue recognition***

The Company performs various types of drilling services within the mining and minerals industry. Contracts entered into cover services that involve different processes and continuous drilling services activities in a sequential set of mobilization, drilling, and demobilization activities, which are invoiced to the customer as those activities progress. These activities and processes are accounted for as separate performance obligations.

Revenue from services rendered is recognized in the Statement of Operations over time. The Company has a contractual right to consideration from a customer for an amount that corresponds directly with the value to the customer of the performance completed to date. As a result, the Company recognizes revenue based on the actual activities performed at the related contract rate.

Revenue is measured at the fair value of the consideration received or receivable, net of discounts and value-added taxes.

Customers are generally invoiced on a semi-monthly or monthly basis. Payment is received according to standard payment terms, which are generally between 30 to 60 days. There are no significant financing components.

Contract prepayments are recorded as deferred revenue until performance is achieved and are credited against contract billings in accordance with the contract terms.

(in thousands of Canadian dollars, except per share information)

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

***Inventories***

The Company maintains an inventory of operating supplies, drill rods and drill bits. Inventories are valued at the lower of cost and net realizable value, determined on a first in, first out ("FIFO") basis. The value of used inventory items is considered minimal therefore they are not valued, except for drill rods, which, if still considered usable, are valued at 50% of cost.

***Property, plant and equipment***

Property, plant and equipment ("PP&E") are measured at cost, less accumulated depreciation and impairment losses. Depreciation, calculated using the straight-line method, is charged to operations at rates based upon the estimated useful life of each depreciable asset. When significant components of an item of PP&E have different useful lives, they are accounted for as separate assets. The following rates apply to those assets being depreciated using the straight-line method:

| | Residual value (%) | Useful life (years) |
|---|---|---|
| Buildings | 0-15 | 15-20 |
| Drilling equipment | 0-15 | 5-15 |
| Automotive and off-road equipment | 0-10 | 5-10 |
| Other (office, computer and shop equipment) | 0 | 5-15 |

Land and assets under construction not available for use are not depreciated. Costs for repairs and maintenance are charged to operations as incurred. Subsequent costs are included in the asset's carrying value when it is probable that future economic benefits associated with such costs will flow to the Company. Depreciation begins when the asset is ready for its intended use. Subsequent costs are depreciated over the useful life of the asset and replaced components are de-recognized. An item of PP&E is de-recognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Gain or loss arising on the disposal or retirement is determined as the difference between the sale proceeds and the carrying amount of the asset, and is recognized in profit or loss. Depreciation methods, residual values and useful lives are re-assessed, at minimum, on an annual basis.

***Leases***

The Company determines the classification of leases as finance or operating based on the risks and rewards of ownership of the underlying assets. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract.

***Business combinations***

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination, in exchange for control of the acquiree, is measured at fair value. At acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair values. Results of operations of a business acquired are included in the Company's Consolidated Financial Statements from the date of the business acquisition. Business acquisition and integration costs are expensed in profit or loss as incurred.

When the consideration transferred by the Company in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments applied against goodwill. Contingent consideration that is classified as an asset or a liability is re-measured at subsequent reporting dates in accordance with IFRS 9, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date fair value of the identifiable assets acquired and the liabilities assumed.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

***Goodwill***
Goodwill represents the excess of the purchase price of business acquisitions over the fair value of the identifiable net assets acquired. The value of goodwill is tested for impairment at least annually. Any impairment loss identified by this test would be reported in profit or loss for the period during which the loss occurred.

For the purposes of impairment testing, goodwill is allocated to each of the Company's cash-generating units ("CGUs") or groups of cash-generating units that are expected to benefit from the synergies of the combination. Any impairment loss recognized for goodwill is not reversed in subsequent periods.

***Intangible assets***
Intangible assets that are acquired in a business combination are recognized separately from goodwill and are initially recognized at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses. Intangible assets include customer relationships/contracts and non-compete agreements, which are amortized on a straight-line basis over a three and five-year period, respectively.

***Impairment of long-lived assets***
At the end of each reporting period, the Company assesses whether there are any indicators that the carrying values of its long-lived assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). The recoverable amount of an asset is first tested on an individual basis, if determinable, or otherwise at the CGU level. A CGU is the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Corporate level assets are allocated to the respective CGUs where an allocation can be done on a reasonable and consistent basis.

The recoverable amount is the higher of the fair value less costs of disposal and the value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

At the end of each reporting period, the Company assesses whether there is any indication that an impairment loss recognized in prior periods for a long-lived asset, other than goodwill, may no longer exist or may have decreased. If any such indication exists, the Company estimates the recoverable amount of that asset.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

***Income taxes***
Current - The tax currently receivable or payable is based on taxable profit for the year and any adjustments resulting from prior years. Taxable profit differs from profit as reported in the Consolidated Statement of Operations because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

**4. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Deferred - The Company follows the asset and liability method of accounting for deferred taxes. This method takes a balance sheet approach and focuses on the amount of income taxes payable or receivable that will arise if an asset is realized or a liability is settled for its carrying amount. These resulting assets and liabilities, referred to as "deferred income tax assets and liabilities", are computed and recognized based on carry forwards of unused tax losses, unused tax credits and the differences between the carrying amount of balance sheet items and their corresponding tax values using the enacted, or substantively enacted, income tax rates in effect when the assets are expected to be realized or the liabilities are expected to be settled.

The Company's primary temporary differences arise between the tax carrying value and net book value of PP&E. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

***Translation of foreign currencies***
The Consolidated Financial Statements are presented in Canadian dollars, which is the Company's presentation currency, and the functional currency of the parent company.

Financial statements of foreign operations are translated using the rate in effect at the balance sheet date for assets and liabilities, and using the average exchange rates during the period for revenue and expenses. Adjustments arising from foreign currency translation are recorded in other comprehensive income and foreign currency translation reserve.

Foreign currency transactions are transactions in a currency other than the Company's functional currency. Foreign currency transactions are translated to the functional currency by applying the exchange rate prevailing at the date of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Translation gains and losses on assets and liabilities denominated in a foreign currency are included in the Statement of Operations. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Additionally, foreign exchange gains and losses related to certain intercompany loans that are permanent in nature are included in other comprehensive income and foreign currency translation reserve.

***Share-based payments***
The Company uses the fair value method to measure compensation expense at the date of grant of stock options to employees and Directors. The fair value of each tranche for all option grants is determined using the Black-Scholes option-pricing model, which considers estimated forfeitures at time of grant, and each tranche is amortized separately to earnings over the vesting period of the tranche with an offset to the share-based payments reserve. When options are exercised, the corresponding share-based payments reserve and the proceeds received by the Company are credited to share capital.

The Company records the fair value of cash-settled deferred share units and restricted share units as compensation expense, with offset to trade and other payables. At each reporting date until the liability is settled, and at the date of settlement, the fair value of the liability is re-measured, with any changes in fair value recognized in the Consolidated Statement of Operations for the year.

***Provisions***
Provisions are recognized when there is a present (legal or constructive) obligation as a result of a past event, it is probable that the Company will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. The amount recognized as a provision is the present value of the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties specific to the obligation.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restructurings - A restructuring provision is recognized when the Company has developed a detailed formal plan for restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its 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 entity.

***Hedge accounting***
The Company designates certain derivatives, relating to interest rate risk and share price risk as hedging instruments.

At the inception of the hedge relationship, the Company documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking the hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument is effective in offsetting changes in cash flows of the hedged item attributable to the hedged risk.

Cash flow hedges - The effective portion of changes in the fair value of derivatives and other qualifying hedging instruments that are designated and qualify as cash flow hedges, is limited to the cumulative change in fair value of the hedged item from inception of the hedge and is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in the Consolidated Statement of Operations.

Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to the Statement of Operations in the same period that the hedged item affects the Statement of Operations, in the same line as the recognized hedged item.

The Company discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria. This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively. Any gain or loss recognized in other comprehensive income and accumulated in equity at that time remains in equity and is reclassified to profit or loss when the forecast transaction occurs.

## 5. KEY SOURCES OF ESTIMATION UNCERTAINTY AND CRITICAL ACCOUNTING JUDGMENTS

***Use of estimates***
The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that are not readily apparent from other sources, which affect the reported amounts of assets and liabilities at the dates of the Consolidated Financial Statements and the reported amounts of revenue and expenses during the reported periods. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results could differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Significant areas requiring the use of management estimates relate to the useful lives of PP&E for depreciation purposes, PP&E, goodwill and inventory valuation, determination of income and other taxes, assumptions used in compilation of share-based payments, fair value of assets acquired and liabilities assumed in business acquisitions, amounts recorded as accrued liabilities and contingent considerations, and impairment testing of goodwill and intangible assets and long-lived assets.

Management determines the estimated useful lives of its PP&E based on historical experience of the actual lives of PP&E of similar nature and functions, and reviews these estimates at the end of each reporting period.

## 5. KEY SOURCES OF ESTIMATION UNCERTAINTY AND CRITICAL ACCOUNTING JUDGMENTS (Continued)

Management reviews the condition of inventories at the end of each reporting period and recognizes a provision for slow-moving and obsolete items of inventory when they are no longer suitable for use. Management's estimate of the net realizable value of such inventories is based primarily on sales prices and current market conditions.

Amounts used for impairment calculations are based on estimates of future cash flows of the Company. By their nature, the estimates of cash flows, including the estimates of future revenue, operating expenses, utilization, discount rates and market pricing, are subject to measurement uncertainty. Accordingly, the impact in the Consolidated Financial Statements of future periods could be material.

Tax interpretations, regulations and legislation in the various jurisdictions in which the Company operates are subject to change. As such, income taxes are subject to measurement uncertainty. Deferred income tax assets are assessed by management at the end of the reporting period to determine the probability that they will be realized from future taxable earnings.

Compensation costs accrued for long-term share-based payment plans are subject to the estimation of what the ultimate payout will be using the Black-Scholes pricing model, which is based on significant assumptions such as volatility, dividend yield and expected term.

The amount recognized as accrued liabilities and contingent considerations, including legal, restructuring, contractual, constructive and other exposures or obligations, is the best estimate of the consideration required to settle the related liability, including any related interest charges, taking into account the risks and uncertainties surrounding the obligation. In addition, contingencies will only be resolved when one or more future events occur or fail to occur. Therefore, assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events. The Company assesses its liabilities, contingencies and contingent considerations based upon the best information available, relevant tax laws and other appropriate requirements.

***Judgments***

The Company applied judgment in determining the functional currency of the Company and its subsidiaries. Functional currency was determined based on the currency that mainly influences sales prices, labour, materials and other costs of providing services.

PP&E and goodwill are aggregated into CGUs based on their ability to generate largely independent cash inflows and are used for impairment testing. The determination of the Company's CGUs is subject to management's judgment with respect to the lowest level at which independent cash inflows are generated.

The Company has applied judgment in determining the degree of componentization of PP&E. Each part of an item of PP&E with a cost that is significant in relation to the total cost of the item and has a separate useful life has been identified as a separate component and is depreciated separately.

The Company has applied judgment in recognizing provisions and accrued liabilities, including judgment as to whether the Company has a present obligation (legal or constructive) as a result of a past event, whether it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and whether a reliable estimate can be made of the amount of the obligation.

Deferred income tax assets are assessed by management at the end of the reporting period to determine the probability that they will be realized from future taxable earnings. This determination is subject to management judgment.

**(in thousands of Canadian dollars, except per share information)**

## 6. INVENTORIES

The cost of inventory recognized as an expense and included in direct costs for the year ended April 30, 2019 is $55,922 (2018 - $43,586). During the previous year ended April 30, 2018, there was a reduction of inventory due to a fire in the Company's Mongolian warehouse. All losses suffered during the incident were fully insured and recoverable. During the years ended April 30, 2019 and 2018, there were no significant write-downs of inventory, except as detailed in note 19, as a result of net realizable value being lower than cost. No inventory write-downs recognized in previous years were reversed.

The following is a breakdown of inventory by category:

| | **2019** | 2018 |
|---|---|---|
| Rods and casings | **$ 26,935** | $ 24,179 |
| Consumables | **9,496** | 8,249 |
| Machine parts | **28,893** | 27,645 |
| Wireline and downhole tools | **6,377** | 6,516 |
| Diamond bits | **6,684** | 6,834 |
| Other | **11,940** | 9,096 |
| | **$ 90,325** | $ 82,519 |

## 7. PROPERTY, PLANT AND EQUIPMENT

Changes in the PP&E balances were as follows:

| | **Land** | **Buildings** | **Drills** | **Auto** | **Other** | **Total** |
|---|---|---|---|---|---|---|
| **Cost:** | | | | | | |
| **Balance as at April 30, 2017** | $ 3,740 | $ 19,460 | $ 391,630 | $ 115,842 | $ 22,223 | $ 552,895 |
| Additions | - | 279 | 16,618 | 5,010 | 654 | 22,561 |
| Disposals | - | - | (4,821) | (5,584) | (311) | (10,716) |
| Effect of exchange rate changes and other | (158) | 4 | (23,900) | (4,640) | (1,017) | (29,711) |
| **Balance as at April 30, 2018** | **$ 3,582** | **$ 19,743** | **$ 379,527** | **$ 110,628** | **$ 21,549** | **$ 535,029** |
| Additions | **-** | **945** | **20,098** | **3,779** | **665** | **25,487** |
| Disposals | **(337)** | **(10,169)** | **(22,851)** | **(7,702)** | **(2,147)** | **(43,206)** |
| Effect of exchange rate changes and other | **121** | **(107)** | **(2,421)** | **294** | **(5,711)** | **(7,824)** |
| **Balance as at April 30, 2019** | **$ 3,366** | **$ 10,412** | **$ 374,353** | **$ 106,999** | **$ 14,356** | **$ 509,486** |

**(in thousands of Canadian dollars, except per share information)**

## 7. PROPERTY, PLANT AND EQUIPMENT (Continued)

| | Land | Buildings | Drills | Auto | Other | Total |
|---|---|---|---|---|---|---|
| **Accumulated Depreciation:** | | | | | | |
| **Balance as at April 30, 2017** | $ - | $ (8,859) | $ (217,227) | $ (86,651) | $ (18,634) | $ (331,371) |
| Disposals | - | - | 3,299 | 4,684 | 277 | 8,260 |
| Depreciation | - | (1,619) | (37,446) | (7,321) | (1,110) | (47,496) |
| Effect of exchange rate changes and other | - | 91 | 16,270 | 3,690 | 891 | 20,942 |
| **Balance as at April 30, 2018** | **$ -** | **$ (10,387)** | **$ (235,104)** | **$ (85,598)** | **$ (18,576)** | **$ (349,665)** |
| Disposals | **-** | **5,473** | **17,342** | **6,797** | **2,003** | **31,615** |
| Impairment (note 19) | **-** | **(173)** | **(165)** | **-** | **-** | **(338)** |
| Depreciation | **-** | **(1,205)** | **(32,942)** | **(6,159)** | **(603)** | **(40,909)** |
| Effect of exchange rate changes and other | **-** | **140** | **7,648** | **400** | **5,889** | **14,077** |
| **Balance as at April 30, 2019** | **$ -** | **$ (6,152)** | **$ (243,221)** | **$ (84,560)** | **$ (11,287)** | **$ (345,220)** |
| Carrying value April 30, 2018 | $ 3,582 | $ 9,356 | $ 144,423 | $ 25,030 | $ 2,973 | $ 185,364 |
| **Carrying value April 30, 2019** | **$ 3,366** | **$ 4,260** | **$ 131,132** | **$ 22,439** | **$ 3,069** | **$ 164,266** |

The Company has assessed whether there is any indication that an impairment loss recognized in prior periods for PP&E may no longer exist or may have decreased. There were no impairments requiring reversal as at April 30, 2019 or 2018.

Capital expenditures were $25,487 and $22,561, respectively, for the years ended April 30, 2019 and 2018. The Company obtained direct financing of nil and $51, respectively, for the years ended April 30, 2019 and 2018.

The carrying value of PP&E under finance leases for the year ended April 30, 2019 was $42 (2018 - $4,421).

## 8. GOODWILL

Changes in the goodwill balance were as follows:

| | **2019** | 2018 |
|---|---|---|
| **Opening balance** | **$ 57,851** | $ 58,432 |
| Effect of movement in exchange rates | **449** | (581) |
| **Ending balance** | **$ 58,300** | $ 57,851 |

***Allocation of goodwill to CGUs***

The carrying amount of goodwill was allocated to CGUs as follows:

| | **2019** | 2018 |
|---|---|---|
| Canada | **$ 48,323** | $ 48,548 |
| U.S. | **9,977** | 9,303 |
| | **$ 58,300** | $ 57,851 |

**(in thousands of Canadian dollars, except per share information)**

## 8. GOODWILL (Continued)

The recoverable amount of the Canadian and U.S. branches as CGUs is determined based on a value-in-use calculation, which uses cash flow projections based on financial budgets and forward projections approved by management covering a five-year period, and a discount rate of 11.43% per annum. Cash flows beyond that period have been extrapolated using a steady 2% per annum growth rate. While the mining services market in Canada and the U.S. is cyclical in nature, this organic growth rate has been achieved across two business cycles and is seen by management as a fair and conservative long-term average growth rate. Management believes that any possible reasonable change in the discount rate or terminal growth rate would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the CGU.

***Key assumptions***
The key assumptions in cash flow projections used in the value-in-use calculations are as follows:

Revenue - The values assigned to the assumptions reflect past experience. The effect of the incorporation of the acquired drill fleets and levels of capital expenditure since 2007, that have been on average higher than the sustaining level, have provided the basis on which to grow. The growth expected is consistent with management's plans for focusing operations and growing share in the specialized drilling market.

Gross margin - Management expects that gross margins will remain in a range in line with historically achieved levels.

The Company has considered various scenarios that quantify the impact on the value-in-use calculations if key assumptions used in the model were to differ. If the forecasted improvements to the key assumptions do not materialize as projected, due to lower than expected price and or volume recovery (and the Company is unable to adjust its cost structure), the analysis resulted in no impairment under these scenarios.

## 9. INTANGIBLE ASSETS

Changes in the intangible assets balance were as follows:

| | Cost | Accumulated amortization | Total |
|---|---|---|---|
| **Balance as at April 30, 2017** | $ 17,637 | $ (16,968) | $ 669 |
| Amortization | - | (657) | (657) |
| Effect of movement in exchange rates | 2 | (14) | (12) |
| **Balance as at April 30, 2018** | **$ 17,639** | **$ (17,639)** | **$ -** |

Intangible assets consisted of customer relationships/contracts.

**(in thousands of Canadian dollars, except per share information)**

## 10. DEMAND CREDIT FACILITIES

The Company has credit facilities available in Canada and the U.S. totaling $31,346. The Canadian facility bears interest at the bank's prime lending rate plus 0.5% or the bankers' acceptance rate plus 2.0% for Canadian dollar draws, and the bank's U.S. dollar base rate in Canada plus 0.5% or the bank's London interbank offer rate ("LIBOR") plus 2.0% for U.S. dollar draws. The U.S. facility bears interest at the bank's LIBOR plus 2.25%. The demand credit facilities are primarily secured by corporate guarantees of companies within the group. As at April 30, 2019, the Company had utilized $2,004 (2018 - $2,355) of these facilities for stand-by letters of credit. The Company also has credit facilities of $2,605 for credit cards, with interest rates and repayments as per cardholder agreements.

During the year, the Company renewed and expanded its main credit facility for an aggregate of $80 million for a five-year term, consisting of: (i) an extension and increase to $30 million of an existing $25 million operating credit facility, and (ii) an extension of an existing $50 million revolving term facility. These facilities were renewed with the same terms and conditions, with the exception of a slight reduction in interest rates.

## 11. LONG-TERM DEBT

| | **2019** | 2018 |
|---|---|---|
| Revolving term loan, bearing interest at either the bank's prime rate plus 0.5% or the bankers' acceptance rate plus 2.0% for Canadian dollar draws, and either the bank's U.S. dollar base rate in Canada plus 0.5% or the bank's LIBOR plus 2.0% for U.S. dollar draws, interest only payable in monthly installments, secured by corporate guarantees of companies within the group, maturing in October 2023. | **$ 15,000** | $ 15,000 |
| Term loan bearing interest at 5.9%, payable in monthly installments of $83, unsecured, maturing in August 2021. | **2,333** | 3,333 |
| Term loans bearing interest at rates ranging from 0% to 6.75%, payable in monthly installments of $5, secured by certain equipment, maturing through 2022. | **90** | 1,216 |
| Derivative financial instrument with a notional principal amount of $15,000, swapping Canadian-Bankers' Acceptance - Canadian Dealer Offered Rate for an annual fixed rate of 3.76%, maturing in October 2023. | **(65)** | (208) |
| | **17,358** | 19,341 |
| Current Portion | **1,060** | 1,934 |
| | **$ 16,298** | $ 17,407 |

The required annual principal repayments on long-term debt are as follows:

| | |
|---|---|
| Fiscal 2020 | $ 1,060 |
| Fiscal 2021 | 1,030 |
| Fiscal 2022 | 268 |
| Fiscal 2024 | 15,000 |
| | $ 17,358 |

**(in thousands of Canadian dollars, except per share information)**

## 12. INCOME TAXES

Income taxes vary from amounts that would be determined by applying the combined statutory Canadian corporate income tax rate to earnings before income tax with details as follows:

| | **2019** | 2018 |
|---|---|---|
| Loss before income tax | **$ (10,336)** | $ (24,276) |
| Statutory Canadian corporate income tax rate | **27%** | 27% |
| Expected income tax recovery based on statutory rate | **(2,791)** | (6,555) |
| Non-recognition of tax benefits related to losses | **5,159** | 3,779 |
| Utilization of previously unrecognized losses | **-** | (337) |
| Other foreign taxes paid | **606** | 341 |
| Rate variances in foreign jurisdictions | **(17)** | 109 |
| Permanent differences and other | **3,197** | 1,363 |
| De-recognition of previously recognized losses | **1,613** | - |
| Effect of change in U.S. tax rate | **-** | (1,587) |
| | **7,767** | (2,887) |
| Adjustments recognized in the current year in relation to the current tax of prior years | **(19)** | 1,063 |
| Income tax provision (recovery) recognized in net loss | **$ 7,748** | $ (1,824) |

The tax rate used for the 2019 and 2018 reconciliations herein is the effective federal and provincial Canadian corporate tax rate of 27%.

The movements in deferred income tax balances are as follows:

| | **2018** | **Tax provision** | **Exchange** | **2019** |
|---|---|---|---|---|
| Deferred tax assets related to non-capital losses | $ 23,196 | $ 308 | $ (130) | **$ 23,374** |
| Deferred tax liabilities related to difference in tax and book basis | (15,610) | (295) | (449) | **(16,354)** |
| Net deferred tax assets | $ 7,586 | $ 13 | $ (579) | **$ 7,020** |

Income tax provision (recovery) recognized in net loss:

| | **2019** | 2018 |
|---|---|---|
| **Current tax** | | |
| Current tax expense in respect to the current year | **$ 7,780** | $ 6,761 |
| Adjustments recognized in the current year in relation to the current tax of prior years | **(19)** | 1,063 |
| **Deferred tax** | | |
| Deferred tax expense recognized in the current year | **(13)** | (9,648) |
| Income tax provision (recovery) | **$ 7,748** | $ (1,824) |

## 12. INCOME TAXES (Continued)

The recognition and measurement of the current and deferred tax assets and liabilities involves dealing with uncertainties in the application of complex tax regulations in a multitude of jurisdictions and in the assessment of the recoverability of deferred tax assets. Potential liabilities are recognized for anticipated tax audit issues in various tax jurisdictions based on the Company's estimate of whether, and the extent to which, additional taxes will be due.

If payment of the accrued amounts ultimately proves to be unnecessary, the elimination of the liabilities would result in tax benefits being recognized in the period when the Company determines the liabilities no longer exist. If the estimate of tax liabilities proves to be less than the ultimate assessment, a further charge to expense will result.

The Company has accumulated approximately $183,027 in non-capital losses of which $92,257 is recognized to reduce future income taxes otherwise payable in foreign jurisdictions. These losses, if unused, will expire in the following calendar years: 2019 - $2,403; 2020 - $5,886; 2021 - $3,660; 2022 - $2,333; 2023 - $2,140; 2024 - $2,273; 2026 - $6,336; 2027 - $9,189; 2028 - $1,948; 2029 - $955; 2034 - $11,105; 2035 - $20,868; 2036 - $14,242; 2037 - $16,536; 2038 - $10,653; indefinite - $72,500.

The Company has accumulated approximately $6,234 (A$6,568) of capital losses that are available to reduce income taxes otherwise payable on capital gains realized in Australia. The benefit of these losses has not been recognized in the Consolidated Financial Statements.

The Company has approximately $162,400 of temporary differences associated with its investments in foreign subsidiaries for which no deferred taxes have been provided on the basis that the Company is able to control the timing of the reversal of such temporary differences and such reversal is not probable in the foreseeable future.

The repatriation of cash through dividends, from certain jurisdictions, may cause withholding tax expense for which no liability has been provided on the basis that the Company is able to control the timing of repatriation.

The Company periodically assesses its liabilities and contingencies for all tax years open to audit based upon the latest information available. For those matters where it is probable that an adjustment will be made, the Company has recorded its best estimate of these tax liabilities, including related interest charges. Inherent uncertainties exist in estimates of tax contingencies due to changes in tax laws. While management believes they have adequately provided for the probable outcome of these matters, future results may include favourable or unfavourable adjustments to these estimated tax liabilities in the period the assessments are made or resolved, or when the statute of limitation lapses.

**(in thousands of Canadian dollars, except per share information)**

## 13. SHARE CAPITAL

***Authorized***
Unlimited number of fully paid common shares, without nominal or par value, with each share carrying one vote and a right to dividends if declared.

The movement in the Company's issued and outstanding share capital during the year was as follows:

| | **2019** | | 2018 | |
|---|---|---|---|---|
| | **Number of shares** | **Share capital** | Number of shares | Share capital |
| **Opening balance** | **80,299,984** | **$ 241,264** | 80,139,884 | $ 239,751 |
| Exercise of stock options | **-** | **-** | 160,100 | 1,513 |
| **Ending balance** | **80,299,984** | **$ 241,264** | 80,299,984 | $ 241,264 |

***Stock option plan***
Details of the Company's stock option plan (the "Plan") for Directors, Officers and other employees of the Company and its subsidiaries can be found in the Company's 2018 Management Proxy Circular. Minor changes made to the Plan during the current year will be detailed in the 2019 Management Proxy Circular.

A summary of the status of the Plan, as at April 30, 2019 and April 30, 2018, and of changes during those years, is presented below:

| | **2019** | | 2018 | |
|---|---|---|---|---|
| | **Number of options** | **Weighted average exercise price** | Number of options | Weighted average exercise price |
| Outstanding, beginning of year | **3,603,802** | **$ 8.54** | 4,082,705 | $ 9.09 |
| Options granted | **160,000** | **6.92** | 161,000 | 8.39 |
| Options expired | **(388,500)** | **11.12** | (479,803) | 13.54 |
| Options exercised | **-** | **-** | (160,100) | 7.52 |
| Outstanding, end of year | **3,375,302** | **8.17** | 3,603,802 | 8.54 |

The following table summarizes information on stock options outstanding as at April 30, 2019:

| **Range of exercise prices** | **Outstanding at April 30,2019** | **Weighted average remaining life (years)** | **Weighted average exercise price** | **Exercisable at April 30,2019** | **Weighted average exercise price** |
|---|---|---|---|---|---|
| **\$4.48 - \$8.63** | **2,709,302** | **3.00** | **$ 7.25** | **2,325,766** | **$ 7.23** |
| **\$11.26 - \$15.42** | **666,000** | **0.76** | **11.92** | **666,000** | **11.92** |
| | **3,375,302** | **2.55** | **8.17** | **2,991,766** | **8.28** |

## 13. SHARE CAPITAL (Continued)

The Company's calculations of share-based compensation for options granted were made using the Black-Scholes option-pricing model with weighted average assumptions as follows:

| | **2019** | 2018 |
|---|---|---|
| Risk-free interest rate | **2.04%** | 1.17% |
| Expected life | **6.1 years** | 6.0 years |
| Expected volatility (based on historical volatility) | **36.9%** | 46.3% |

The weighted average grant date fair value of options granted during the year ended April 30, 2019 was $2.54 (2018 - $3.65). For the year ended April 30, 2019, the amount of compensation cost recognized in earnings and credited to share-based payments reserve was $526 (2018 - $781).

## 14. LOSS PER SHARE

All of the Company's earnings are attributable to common shares, therefore net loss is used in determining loss per share.

| | **2019** | 2018 |
|---|---|---|
| Net loss | **$ (18,084)** | $ (22,452) |
| Weighted average shares outstanding (000s) | **80,300** | 80,261 |
| **Net effect of dilutive securities:** | | |
| Stock options | **13** | 71 |
| Weighted average number of shares - diluted (000s) | **80,313** | 80,332 |
| **Loss per share:** | | |
| Basic | **$ (0.23)** | $ (0.28) |
| Diluted | **$ (0.23)** | $ (0.28) |

The calculation of diluted loss per share for the year ended April 30, 2019 and 2018 excludes the effect of 3,414,993 and 3,110,164 options, respectively, as they were anti-dilutive.

**(in thousands of Canadian dollars, except per share information)**

## 15. SEGMENTED INFORMATION

The Company's operations are divided into three geographic segments corresponding to its management structure: Canada - U.S.; South and Central America; and Asia and Africa. The services provided in each of the reportable segments are essentially the same. The accounting policies of the segments are the same as those described in note 4. Management evaluates performance based on earnings from operations in these three geographic segments before finance costs, general and corporate expenses, restructuring charge and income tax. Data relating to each of the Company's reportable segments is presented as follows:

| | 2019 | 2018 |
|---|---|---|
| **Revenue** | | |
| Canada - U.S.* | $ 196,105 | $ 185,879 |
| South and Central America | 108,139 | 93,714 |
| Asia and Africa | 80,578 | 62,733 |
| | $ 384,822 | $ 342,326 |
| **Earnings (loss) from operations** | | |
| Canada - U.S. | $ 6,057 | $ (10,727) |
| South and Central America | (4,307) | (4,115) |
| Asia and Africa | 2,970 | (1,516) |
| | 4,720 | (16,358) |
| **Finance costs** | 775 | 782 |
| **General and corporate expenses**** | 6,407 | 7,136 |
| **Restructuring charge** | 7,874 | - |
| **Income tax** | 7,748 | (1,824) |
| | 22,804 | 6,094 |
| **Net loss** | $ (18,084) | $ (22,452) |

*Canada - U.S. includes revenue in 2019 of $94,561 (2018 - $95,840) for Canadian operations.

**General and corporate expenses include expenses for corporate offices, stock options and certain unallocated costs.

| | 2019 | 2018 |
|---|---|---|
| **Capital expenditures** | | |
| Canada - U.S. | $ 15,172 | $ 12,758 |
| South and Central America | 5,982 | 5,996 |
| Asia and Africa | 4,333 | 3,807 |
| **Total capital expenditures** | $ 25,487 | $ 22,561 |
| **Depreciation and amortization** | | |
| Canada - U.S. | $ 19,168 | $ 24,694 |
| South and Central America | 13,085 | 13,239 |
| Asia and Africa | 8,381 | 9,914 |
| Unallocated and corporate assets | 275 | 306 |
| **Total depreciation and amortization** | $ 40,909 | $ 48,153 |

**(in thousands of Canadian dollars, except per share information)**

## 15. SEGMENTED INFORMATION (Continued)

| | | **2019** | | 2018 |
|---|---|---|---|---|
| **Identifiable assets** | | | | |
| Canada - U.S.* | **$** | **205,871** | $ | 188,947 |
| South and Central America | | **147,598** | | 137,153 |
| Asia and Africa | | **104,173** | | 94,005 |
| Unallocated and corporate assets | | **3,655** | | 46,948 |
| **Total identifiable assets** | **$** | **461,297** | $ | 467,053 |

*Canada - U.S. includes property, plant and equipment in 2019 of $31,573 (2018 - $44,891) for Canadian operations.

## 16. ADDITIONAL INFORMATION TO THE STATEMENTS OF CASH FLOWS

Changes in non-cash operating working capital items:

| | | **2019** | | 2018 |
|---|---|---|---|---|
| Inventories | **$** | **(8,124)** | $ | 1,317 |
| Prepaid expenses | | **(2,062)** | | - |
| Trade and other receivables | | **(913)** | | (17,999) |
| Other items | | **(498)** | | (156) |
| Trade and other payables | | **4,252** | | 8,441 |
| | **$** | **(7,345)** | $ | (8,397) |

## 17. NET LOSS FOR THE YEAR

Net loss for the year has been arrived at after charging various employee benefit expenses as follows:

| | | **2019** | | 2018 |
|---|---|---|---|---|
| **Direct costs:** | | | | |
| Salaries and wages | **$** | **111,000** | $ | 100,517 |
| Other employee benefits | | **23,511** | | 23,319 |
| **General and administrative expenses:** | | | | |
| Salaries and wages | | **21,279** | | 21,490 |
| Other employee benefits | | **4,338** | | 4,245 |
| **Other expenses:** | | | | |
| Share-based compensation | | **506** | | 715 |

## 18. BUSINESS ACQUISITION

During the previous year, the Company made the final payment on the contingent consideration arising out of the Taurus Drilling Services acquisition of $5,135.

**(in thousands of Canadian dollars, except per share information)**

## 19. RESTRUCTURING CHARGE

During the year, the Company made the decision to close its operations in Burkina Faso, based on the fact that this branch required significant additional investment to reach an acceptable return on investment, at a time when political and security risks were increasing in that country. Additional restructuring charges were incurred as the Company rationalized other operations and adjusted staffing levels to local market conditions in various countries.

These restructuring initiatives generated impairment losses calculated based on the determination of the fair value of assets less cost of disposal. Fair value was determined through the use of industry knowledge.

The costs related to these initiatives, and recorded as part of the restructuring charge, total $7,874. This amount consists of non-cash charges totaling $7,274, including an impairment charge of $338 relating to property, plant and equipment; a write-down of $2,766 to reduce inventory to net realizable value; and other non-cash charges of $4,170. Cash charges of $600 include costs incurred to rationalize the workforce and costs relating to winding down operations.

## 20. CONTINGENCIES

The Company is involved in various legal claims and legal notices arising in the ordinary course of business. The outcome of all the proceedings and claims against the Company is subject to future resolution and the uncertainties of litigation. Based on information currently known to the Company and after consultation with outside legal counsel, it is management's opinion that the ultimate disposition of these matters will not have a material adverse effect on the Company's financial position, results of operations, or cash flows. Any amounts awarded as a result of these actions will be reflected when known.

## 21. COMMITMENTS

The Company has commitments for the purchase of equipment totaling $4,494 with delivery dates early in fiscal 2020, as well as various commitments, primarily for rental of premises, with arms-length parties as follows: 2020 - $1,903; 2021 - $1,214; 2022 - $753; and 2023 - $277.

## 22. RELATED PARTY TRANSACTIONS

The remuneration of Directors and other members of key management personnel (which consists of senior executives) during the year was as follows:

| | **2019** | 2018 |
|---|---|---|
| Salaries, bonuses and fees | **$ 2,715** | $ 2,261 |
| Other long-term benefits | **113** | 100 |
| Share-based payments benefits | **840** | 1,312 |
| | **$ 3,668** | $ 3,673 |

Employment agreement termination commitments and entitlements for the above personnel are detailed in the Company's Management Proxy Circular.

Revenue earned during the current year, under the normal course of operations and recorded at arms-length, included $6.2 million from customers related to Directors of the Company.

Other than those transactions disclosed above, there were no other material related party transactions during the year ended April 30, 2019 or April 30, 2018.

**(in thousands of Canadian dollars, except per share information)**

## 23. CAPITAL MANAGEMENT

The Company includes shareholders' equity (excluding foreign currency translation and other reserves), long-term borrowings and cash in the definition of capital.

Total managed capital was as follows:

| | 2019 | 2018 |
|---|---|---|
| Long-term debt | $ **17,358** | $ 19,341 |
| Share capital | **241,264** | 241,264 |
| Share-based payments reserve | **20,247** | 19,721 |
| Retained earnings | **23,276** | 41,360 |
| Cash | **(27,366)** | (21,256) |
| | $ **274,779** | $ 300,430 |

The Company's objective when managing its capital structure is to maintain financial flexibility in order to: (i) preserve access to capital markets; (ii) meet financial obligations; and (iii) finance internally generated growth and potential new acquisitions. To manage its capital structure, the Company may adjust spending, issue new shares, issue new debt or repay existing debt.

Under the terms of certain of the Company's debt agreements, the Company must satisfy certain financial covenants. Such agreements also limit, among other things, the Company's ability to incur additional indebtedness, create liens, engage in mergers or acquisitions and make dividend and other payments. The Company is in compliance with all covenants and other conditions imposed in its credit agreement.

In order to facilitate the management of its capital requirements, the Company prepares annual budgets that are updated as necessary, dependent on various factors.

The Company's objectives with regards to capital management remain unchanged from 2018.

## 24. FINANCIAL INSTRUMENTS

***Risk management objectives***
The Company's corporate treasury function monitors and manages the financial risks relating to the operations of the Company through analysis of the various exposures. When deemed appropriate, the Company uses financial instruments to hedge these risk exposures.

***Interest rate risk management***
The Company is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The risk is managed by the Company by use of interest rate swap contracts when deemed appropriate.

***Fair value***
The carrying values of cash, trade and other receivables, demand credit facilities and trade and other payables approximate their fair values due to the relatively short period to maturity of the instruments. The carrying value of long-term debt approximates its fair value.

(in thousands of Canadian dollars, except per share information)

## 24. FINANCIAL INSTRUMENTS (Continued)

Financial assets and liabilities measured at fair value are classified and disclosed in one of the following categories:

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

The Company's derivatives are classified as level 2 financial instruments. There were no transfers of amounts between level 1, level 2 and level 3 financial instruments for the year ended April 30, 2019.

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

***Credit risk***
The Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The maximum credit risk the Company was exposed to as at April 30, 2019 was $115,395 (2018 - $109,628), representing total cash and trade and other receivables. As at April 30, 2019 and 2018, one customer represented more than 10% of total revenue. The Company's exposure and the credit ratings of its counterparties are continuously monitored.

As at April 30, 2019, 85.6% (2018 - 84.3%) of the Company's trade receivables were aged as current and 1.1% (2018 - 1.3%) of the trade receivables were impaired.

The movement in the allowance for impairment of trade receivables during the year was as follows:

| | **2019** | 2018 |
|---|---|---|
| **Opening balance** | **$ 928** | $ 847 |
| Increase in impairment allowance | **919** | 500 |
| Recovery of amounts previously impaired | **(207)** | (281) |
| Write-off charged against allowance | **(760)** | (69) |
| Foreign exchange translation differences | **(17)** | (69) |
| **Ending balance** | **$ 863** | $ 928 |

***Interest rate risk***
As at April 30, 2019, the Company has estimated that a one percentage point change in interest rates would have a negligible annual impact on net earnings due to the nominal value of debt with variable interest rates.

***Foreign currency risk***
In order to reduce its exposure to foreign exchange risks associated with currencies of developing countries, where a portion of the Company's business is conducted, the Company has adopted a policy of contracting in U.S. dollars, where practical and legally permitted.

As at April 30, 2019, the most significant carrying amounts of net monetary assets (which may include intercompany balances with other subsidiaries) that: (i) are denominated in currencies other than the functional currency of the respective Company subsidiary; and (ii) cause foreign exchange rate exposure, including the impact on earnings before income taxes ("EBIT"), if the corresponding rate changes by 10%, are as follows:

**(in thousands of Canadian dollars, except per share information)**

## 24. FINANCIAL INSTRUMENTS (Continued)

| | Rate variance | MNT/USD | USD/AUD | IDR/USD | USD/CLP | COP/USD | MZN/USD |
|---|---|---|---|---|---|---|---|
| Net exposure on monetary assets | | $ 3,542 | $ 2,602 | $ 1,798 | $ 1,417 | $ 1,378 | $ 1,317 |
| EBIT impact | +/-10% | 394 | 289 | 200 | 157 | 153 | 146 |

| | Rate variance | MXP/USD | USD/ZAR | Other |
|---|---|---|---|---|
| Net exposure on monetary assets | | $ (1,763) | $ (4,117) | $ 2,861 |
| EBIT impact | +/-10% | 196 | 457 | 318 |

Currency controls and government policies in foreign jurisdictions can restrict the Company's ability to exchange such foreign currency for other currencies, such as the U.S. dollar. To mitigate this risk, the Company has adopted a policy of carrying limited foreign currencies in local bank accounts.

***Liquidity risk***

The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities. Note 10 sets out details of additional undrawn facilities that the Company has at its disposal to further reduce liquidity risk.

The following table details the Company's contractual maturities for its financial liabilities:

| | 1 year | 2-3 years | 4-5 years | Total |
|---|---|---|---|---|
| Trade and other payables | $ 63,376 | $ - | $ - | $ 63,376 |
| Long-term debt (interest included) | 1,685 | 2,571 | 16,128 | 20,384 |
| | **$ 65,061** | **$ 2,571** | **$ 16,128** | **$ 83,760** |