PRESIDENT'S MESSAGE

2012 was a pivotal year for McCoy. We made significant progress in support of our long term growth strategy to become a provider of innovative drilling and completions products with a strong international presence. In 2012, we successfully commercialized the first product in McCoy's "we" product line receiving very positive customer feedback, and advanced the development of additional products in the "we" pipeline. The Corporation secured additional credit facilities to support product development as well as potential acquisitions of complementary businesses and product lines and strengthened its management team and Board of Directors to support McCoy's expansion outside of North America. In 2012, McCoy prepared for growth.

RECORD ANNUAL REVENUE

EP&S Experienced Significant Growth, Mobile Solutions Relatively Stable in 2012

McCoy achieved record annual revenue of $179.4 million, an increase of 17 percent over 2011. This growth is a result of continued strong Energy Products and Services (EP&S) backlog, which generated 37% revenue growth in the segment over 2011. EP&S revenue growth is also a result of McCoy's efforts to meet increasing demand for drilling and completions equipment by increasing manufacturing throughput. The Mobile Solutions segment faced a challenging market in 2012, resulting in declining backlog, however, revenue remained relatively stable.

DEVELOPMENT AND COMMERCIALIZATION OF INNOVATIVE DRILLING AND COMPLETIONS PRODUCTS

The successful commercialization of the weCATT torque sub demonstrates our ability to develop and bring innovative drilling and completions products to market. McCoy continues to advance development of additional products including an iron roughneck (weTORQ85), an electric bucking unit (weBUCK), a hydraulic catwalk (weMOVE35), a casing running tool (weRUN350) and the weHOLD, a casing handling tool system with flush mount spider, conventional spider and elevator configurations. While in various phases of design, prototype and testing, McCoy expects to launch several of these products throughout 2013.

PREPARING FOR GROWTH

Strengthening our Team to Execute on our International Growth Strategy

In 2012, McCoy made important additions to our management team and Board of Directors that will support the Corporation as it expands overseas. Mr. Jim Nowotny, Senior Vice President, Drilling and Completions, is overseeing the division and using his significant international drilling, operations and engineering experience to help ensure our products are delivered to our customers in a timely and efficient manner. Mr. Kenny Watt, Vice President, Global Services, Drilling and Completions, has extensive international drilling and completions industry experience and is developing McCoy's global service and support organization through various strategic locations worldwide. Mr. Peter Watson, Vice President Legal & Corporate Secretary has significant experience providing in-house legal services in the energy industry and will provide support and leadership to the organization as it continues to grow. As a new member of our Board of Directors, Mr. John Irwin's experience in the international energy services industry will provide invaluable input and guidance as McCoy expands our international operations.

Improving Efficiency

McCoy made considerable investments in our facilities and manufacturing operations in 2012, both in response to customers' increasing demand for drilling and completions equipment, and in preparation for future growth. In Houston, a new technical service center was opened to more efficiently service our customer's equipment and our Drilling & Completions head office was moved into new office space to accommodate our growing team.

The Corporation retrofitted a part of its Edmonton plant to create a state of the art, world class assembly and test facility for the WinCatt torque turn management system and weCATT torque sub, which resulted in increased throughput capacity of these products. McCoy added 14,000 square feet of dedicated manufacturing space to increase the manufacturing capacity of bucking units at our Broussard plant and completed the relocation of Rig Parts manufacturing to a new dedicated facility in Lafayette, increasing our capacity to manufacture drilling and completions replacement parts.

LOOKING FORWARD

McCoy will continue to drive growth by increasing our presence overseas and participating in the full life-cycle of our products. Our technical sales and service presence is being expanded overseas with plans to open two service centers, one in the European region and one in the South East Asian region in 2013, and two additional regions in 2014. These new centers will enable more efficient interaction with our customers and provide them with ongoing parts, service and training support throughout the life of their equipment. The Corporation continues to develop and commercialize new drilling and completions products and assess opportunities to acquire businesses with complementary product portfolios.

McCoy enters 2013 prepared for growth. Although the outlook for North American drilling activity is moderating, our improved manufacturing operations, additions to our management team and plans to expand overseas put us in a strong position for success in 2013 and beyond.

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EXPLANATORY NOTES

The following Management's Discussion and Analysis of Financial Results ("MD&A"), dated March 14, 2013, 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, 2012 and 2011. 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," "the Corporation," "we," "us" or "our" mean McCoy Corporation and its subsidiaries, unless the context otherwise requires. Additional information relating to McCoy, 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 mccoyglobal.com.

FORWARD LOOKING INFORMATION AND STATEMENTS

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

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

Forward-looking information respecting:

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

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

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

- inability to meet current and future obligations;
- inability to complete strategic acquisitions of additional business;
- inability to implement the Corporation's business strategy effectively in Canada and the United States;

- inability of the Corporation to continue to meet the listing requirements of the Toronto Stock Exchange;
- access to capital markets;
- fluctuations in oil and gas prices;
- fluctuations in the level of energy industry capital expenditures;
- competition for, among other things, labour, capital, materials and customers;
- interest and currency exchange rates;
- technological developments;
- political and economic conditions;
- inability to attract and retain key personnel; and
- the risk factors set forth under "Risk Factors".

Readers are cautioned that the foregoing list is not exhaustive.

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

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

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

DESCRIPTION OF ADDITIONAL GAAP MEASURES

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

EBITDA is an additional GAAP measure presented under IFRS defined as "earnings from continuing operations before impairment losses, interest, taxes, depreciation, and amortization" and is used in monitoring compliance with debt covenants.

EBITDAS is an additional GAAP measure presented under IFRS defined as "earnings from continuing operations before impairment losses, interest, taxes, depreciation, amortization and share-based compensation".

The Corporation reports on EBITDA and EBITDAS because they are key measures used by management to evaluate performance. EBITDAS is used in making decisions relating to distributions to shareholders. The Corporation believes EBITDA and EBITDAS assist investors in assessing McCoy's performance on a consistent basis without regard to depreciation and amortization, which are non-cash in nature and can vary significantly depending on accounting methods or non-operating factors such as historical cost.

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

STRATEGY AND CORE BUSINESS VISION

OUR VISION IS TO BE THE TRUSTED PROVIDER OF INNOVATIVE PRODUCTS AND SERVICES FOR THE GLOBAL ENERGY INDUSTRY

ENERGY PRODUCTS & SERVICES OVERVIEW

The Energy Products & Services ("EP&S") segment is engaged in the design, manufacture and distribution of drilling and completions equipment, service and replacement parts for the global oil and gas industry, as well as a range of coatings and hydraulic manufacturing and repair services. It is comprised of two divisions: Drilling & Completions and Coatings & Hydraulics. Our customers include service companies, drilling contractors (both land and offshore), drilling rig manufacturers and oil sands operators. Clients are typically global in nature and can operate in both land and offshore drilling environments.

Operations are structured as follows:

Operating Name	Country of Incorporation	Segment	Division
Superior Manufacturing & Hydraulics, Inc. ("Superior")	United States	EP&S	Drilling & Completions
McCoy Rig Parts, operating as a division of Superior	-	EP&S	Drilling & Completions
Farr Canada Corp. ("Farr")	Canada	EP&S	Drilling & Completions
Precision Die Technologies, L.L.C. ("PDT")	United States	EP&S	Drilling & Completions
Inotec Coating and Hydraulics Inc. ("Inotec")	Canada	EP&S	Coatings & Hydraulics

The Corporation continues to pursue growth of the EP&S segment through organic growth from existing operations and strategic acquisitions.

Organic growth is being achieved by:

- investing in the development of innovative new products and services that provide a competitive advantage or safety enhancement for our customers and corresponding increase in market share for McCoy;
- increasing international sales by deploying an international sales team and penetrating new markets; and
- developing a global service team to provide service, technical sales support and training to our international customers and drive new revenue generation opportunities.

The Corporation also continues to actively explore acquisition opportunities and has maintained a strong balance sheet to support an acquisition when a strategic opportunity arises.

Key 2012 developments in our growth strategy are as follows:

- **realized significant organic growth.** 2012 saw an increase in EP&S revenues of 37% from 2011.
- **increased profitability.** EP&S EBITDA increased 43% over 2011.
- **commercially launched our first new product under the "we" product line.** The first weCATT sales were realized in the third quarter, with a total of 19 units shipped in 2012. Initial feedback from customers on the performance of the weCATT has been very positive with near flawless performance.
- **strengthened our executive team through strategic hiring:**
  - Sr. Vice President, Drilling & Completions, Jim Nowotny. Mr. Nowotny replaced David Buck upon his retirement in January 2012 and comes to McCoy from Atwood Oceanics, Inc,, a company engaged in the business of international offshore drilling;
  - Vice President, Global Services, Kenny Watt. Mr. Watt is located in Aberdeen, Scotland and is responsible for developing our global service team in key strategic locations around the world;
  - Vice President, Legal & Corporate Secretary, Peter Watson. Mr. Watson joins McCoy's executive team with significant experience providing in-house legal services in the energy industry and will provide support and leadership to the organization as it continues to grow; and
  - Director, John Irwin. Mr. Irwin joined our Board of Directors and was the former President and Chief Executive Officer of Atwood Oceanics, Inc.
- **made investments in the future:**
  - continued development of other new "we" products, including an iron roughneck (weTORQ85), an electric bucking unit (weBUCK), a hydraulic catwalk (weMOVE35), a casing running tool (weRUN350), and a casing handling tool system with flush mount spider, conventional spider and elevator configurations (weHOLD);
  - expanded our management team by assembling world-class talent, including key hires in the areas of Supply Chain, Quality, New Product Development, Special Projects and Finance, that will all provide the leadership needed to execute on our strategic growth plans;
  - transitioned PDT onto our new Enterprise Resource Planning ("ERP") system. Significant efforts were also made to prepare the remaining Drilling & Completions operations to move onto our ERP system in 2013. This initiative will help us to integrate our Drilling & Completions operations and achieve long-term cost savings;
  - secured and moved into new office space in Houston for our Drilling & Completions head office to accommodate our growing team; and
  - obtained American Petroleum Institute ("API") certification at our Superior facility in Louisiana. The API certification recognizes our commitment to maintaining high standards with respect to health and safety, inspection capabilities, management control and environmental procedures.

- **added manufacturing capacity:**
  - retrofitted the Farr facility in Edmonton to accommodate the production of the new weCATT Torque Sub product. This facility is an award winning efficient assembly and test facility for the weCATT as well as our WinCATT Torque Turn monitoring system. This resulted in a significant increase in our manufacturing capacity for these product lines;
  - added an additional 14,000 square feet of manufacturing space at our Superior manufacturing facility in Louisiana. This manufacturing space is dedicated space for the bucking unit product line, which will increase the number of bucking units that can be manufactured in the new space as well as allow for the re-allocation of space that the bucking unit product line previously occupied;
  - completed the setup of a new dedicated facility for McCoy Rig Parts in Louisiana and moved the current operations into the new facility. The increased capacity to manufacture drilling and completions replacement parts represents a platform for future growth in the parts business; and
  - expanded PDT operations by utilizing previously occupied McCoy Rig Parts manufacturing space to invest in a large heat treating furnace to apply our GRITFACE© technology to our dies and inserts. This process was previously outsourced and allows for better quality and price control over this key aspect of the manufacturing process within PDT.

- **focused on international opportunities:**
  - added to our international sales team in overseas locations to strategically target opportunities around the globe;
  - set up a new technical service center in Houston to more efficiently service our customer's equipment; and
  - developed plans to have a physical presence in the regions of Europe and Southeast Asia in 2013, and two additional regions in 2014.

The EP&S segment also embraces continuous improvement by implementing lean manufacturing techniques to increase throughput as well as quality, resulting in reduced per unit costs, improved customer delivery times and improved product quality.

MOBILE SOLUTIONS OVERVIEW

The Mobile Solutions segment consists of the McCoy Trailers division. This segment included the McCoy Vac & Hydrovac division, which was sold in June 2011 and the Corporation's 50% interest in Prairie Truck Ltd., an International Truck dealership which sold its operating assets and ceased operations in October 2011. These businesses were divested to enhance McCoy's focus on products and services for the global energy industry.

McCoy Trailers is involved in the manufacture and sale of specialized custom heavy-duty trailers largely used in the oil and gas industry for pressure pumping, coil tubing, rig transportation and heavy haul and is focused on serving oil and gas clients operating in the Western Canadian Sedimentary Basin and the United States. McCoy Trailers has exported products outside of North America on a limited basis.

McCoy Trailers consists of Peerless Limited ("Peerless") which is located in Penticton, British Columbia where both the Peerless and Scona branded trailers are manufactured. In addition to the wholly owned Penticton facility, McCoy Trailers also has subcontract relationships with manufacturing plants in Arkansas and Texas, which allow for the ramp up of production during periods of market peaks and contraction when markets decline.

This segment is aggressively pursuing market expansion into the United States through targeted export channels and to overseas oil and gas markets. Engineering expertise is being utilized to develop innovative products for these specialized transportation markets.

McCoy designs and manufactures specialized custom drilling and well servicing chassis trailers used in pressure pumping and stimulation operations, particularly in shale oil and gas applications.

DISCONTINUED OPERATIONS

Effective June 30, 2011, Rebel Metal Fabricators Ltd., which made up the Vac & Hydrovac division ("McCoy Vac & Hydrovac") of McCoy, was sold.

Effective October 31, 2011, the operating assets of Prairie Truck Ltd. ("Prairie") were sold and the joint venture ceased operations. The Corporation has a 50% joint venture interest in Prairie.

Operating results related to McCoy Vac & Hydrovac and Prairie have been included in net earnings from discontinued operations in the consolidated financial statements.

These were strategic divestitures for McCoy allowing the Corporation to focus on global expansion in the energy industry and grow our businesses in the EP&S and Mobile Solutions segments. The proceeds, along with McCoy's existing net cash position, will be used to support and invest in McCoy's strategic growth plans in the global energy industry.

FINANCIAL RESULTS

SUMMARY OF CONSOLIDATED ANNUAL RESULTS

For the year ended December 31 ($000 except per share amounts)	2012	2011	2010
Total revenue	**179,372**	153,797	100,768
Net earnings from continuing operations	**11,772**	11,693	5,642
Per common share – basic	**0.44**	0.44	0.21
Per common share – diluted	**0.44**	0.43	0.21
Net earnings	**11,772**	11,924	5,350
Per common share – basic	**0.44**	0.45	0.20
Per common share – diluted	**0.44**	0.44	0.20
EBITDAS	**22,868**	21,575	13,581
Per common share – basic	**0.86**	0.81	0.51
Per common share – diluted	**0.85**	0.80	0.51
Dividends per common share	**0.18**	0.10	-
Total assets	**117,683**	107,441	86,294
Total liabilities	**40,187**	37,072	26,079
Total non-current liabilities	**11,067**	7,363	8,587

EBITDA and EBITDAS are calculated as follows:

For the year ended December 31 ($000)	2012	2011	2010
Earnings from continuing operations	**11,772**	11,693	5,642
Income tax expense	**4,628**	4,561	3,181
Finance charges (net)	**636**	259	337
Depreciation	**3,660**	3,162	2,778
Amortization	**1,339**	1,189	1,153
Impairment of assets held for sale	**122**	226	126
EBITDA	**22,157**	21,090	13,217
Share-based compensation	**711**	485	364
EBITDAS	**22,868**	21,575	13,581

REVENUE

Revenue for the year ended December 31, 2012 was $179.4 million, an increase of $25.6 million, or 17%, from the comparative period. Revenue growth continues to be driven by strong backlog and customer demand in the EP&S segment.

Geographic sales

International land and offshore drilling activity has been strong in 2012 in most geographic regions. Robust demand, in conjunction with efforts by the EP&S team to restructure and strengthen its international sales force, have resulted in positive revenue growth and increases in international market share in certain regions. As EP&S grows its international presence through global sales and service teams, additional sales channels and revenue generation opportunities continue to develop.

The Mobile Solutions segment, which has significant exposure to Canada and the United States, is experiencing downward pressure as service companies decrease capital budgets in the custom chassis market and the heavy haul market becomes more competitive. Revenues have declined slightly from the prior year, however, backlog levels appear to have ended their decline and there are positive market indicators suggesting a recovery in the custom chassis market during the latter part of 2013.

A summary of geographic sales by segment is as follows:

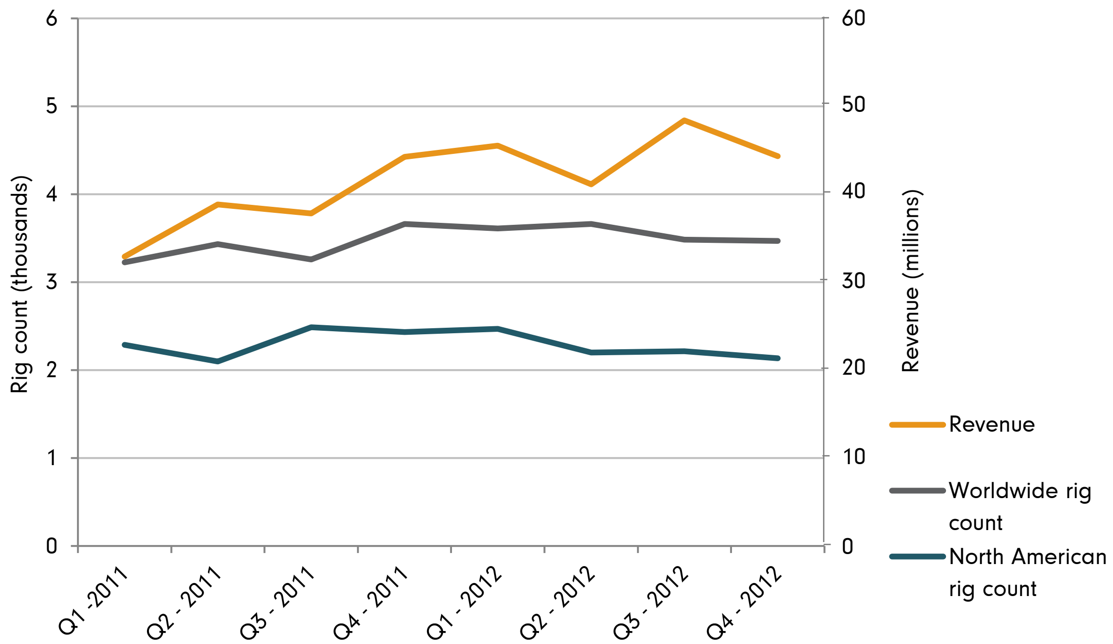
($000)	2012			2011			
For the year ended December 31	**EP&S**	**Mobile Solutions**	**Total**	EP&S	Mobile Solutions	Total	Change
United States	**58,580**	**22,938**	**81,518**	39,504	16,647	56,151	25,367
Canada	**17,021**	**40,247**	**57,268**	16,060	51,816	67,876	(10,608)
Europe	**13,490**	**-**	**13,490**	9,878	69	9,947	3,543
Middle East	**11,464**	**-**	**11,464**	7,967	-	7,967	3,497
Asia	**10,561**	**-**	**10,561**	3,634	-	3,634	6,927
United Kingdom	**1,579**	**-**	**1,579**	4,307	-	4,307	(2,728)
South America	**1,561**	**135**	**1,696**	2,112	64	2,176	(480)
Africa	**1,039**	**-**	**1,039**	774	-	774	265
Australasia	**414**	**-**	**414**	395	533	928	(514)
Mexico	**343**	**-**	**343**	37	-	37	306
Total	**116,052**	**63,320**	**179,372**	84,668	69,129	153,797	25,575

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.

Active rig counts

As the number of working rigs fluctuates in response to market fundamentals, we are expecting the demand for capital equipment to fluctuate accordingly. A correlation has historically existed between the Corporation's revenues and rig counts. McCoy's customers increase or decrease their spending on capital equipment in response to changes in drilling activity. Capital expenditures by our customers increases revenue for McCoy and the rig counts are a strong indicator of future capital purchases. The timing between the increase or decrease in rig counts and the input on McCoy's revenue typically lags by approximately six months to one year.

A summary of the past eight quarters of information with respect to McCoy revenues and rig counts is as follows[1]:



Fluctuations in the correlation arise when changes to the underlying business are made. For example, the impact of new product lines, increasing manufacturing capacity or improving market share may cause revenue growth to increase during periods of otherwise stable drilling activity. From quarter to quarter there may also be fluctuations in our revenue depending on the timing of when product is shipped and revenue is recognized.

Many of our international customers have longer lead times and are less impacted by short term fluctuations in the price of oil, particularly those operating offshore. Our focus on international sales offers geographic diversification as well as some stability to a North American revenue stream that has historically been subject to the highs and lows of the price of energy.

Although many factors exist that may cause variances in the correlation, historically there has been a trend between our revenues and rig counts. Management actively uses rig count activity as a tool to monitor and set expectations of the future performance of the Corporation.

[1] All references to rig counts can be accessed through Baker Hughes, Inc., http://investor.shareholder.com/bhi/rig_counts/rc_index.cfm.

PROFITABILITY

The following tables summarize gross profit by reportable segment:

($000 except percentages)	Gross Profit		Change in Gross Profit	
For the for the year ended December 31	**2012**	2011	$	%
Energy Products & Services	**39,870**	28,962	10,908	38%
Mobile Solutions	**7,584**	13,315	(5,731)	(43%)
Total	**47,454**	42,277	5,177	12%

For the year ended December 31, 2012 gross profit was $47.5 million. This represents an increase of $5.2 million, or 12%, from the comparative period.

Increased gross profit for the year ended December 31, 2012 is a result of increased revenue in the EP&S segment offset by a decline in revenue and gross margin in the Mobile Solutions segment. Mobile Solutions continues to experience a decline in profitability from lower market fundamentals, including a shift from higher margin custom chassis sales to lower margin heavy haul sales.

The following tables summarize EBITDA by reportable segment:

($000 except percentages)	EBITDA		Change in EBITDA	
For the year ended December 31	**2012**	2011	$	%
Energy Products & Services	**26,465**	18,509	7,956	43%
Mobile Solutions	**1,852**	8,357	(6,505)	(78%)
Corporate	**(6,160)**	(5,776)	(384)	(7%)
Total	**22,157**	21,090	1,067	5%

For the year ended December 31, 2012 EBITDA was $22.2 million, which was an increase of $1.1 million, or 5%, from the comparative period.

Strong results in the EP&S segment were offset by declining profitability in the Mobile Solutions segment and an increase in Corporate costs. McCoy continues to invest in strategic hires, infrastructure and new product development to support its long-term growth initiatives. The most significant of these investments are being made in EP&S and Corporate.

RESULTS OF OPERATIONS

EXTERNAL REVENUE BY OPERATING SEGMENT

($000 except percentages)	External Revenue		Change in External Revenue	
For the year ended December 31,	**2012**	2011	$	%
Energy Products & Services	**116,051**	84,668	31,383	37%
Mobile Solutions	**63,321**	69,129	(5,808)	(8%)
Total	**179,372**	153,797	**25,575**	**17%**

Energy Products & Services

For the year ended December 31, 2012 revenue was $116.1 million, which was an increase of $31.4 million, or 37%, from the comparative period.

During the latter part of 2011 and into 2012, we recorded a significant increase in backlog. Backlog levels increased in part on strong North American and international drilling activity. Towards the latter part of 2012, we experienced some softening in our back-log; however, our plants remained at near capacity levels throughout most of 2012.

Increased backlog earlier in the year required us to increase throughput to keep up with demand. Operational efforts were undertaken to improve manufacturing processes and realize efficiencies where possible. In addition, we reviewed component parts used in the final assembly of our product that we have historically manufactured in-house and assessed whether these could be more efficiently out-sourced. These efforts increased throughput and accordingly, revenue. In addition, we also added additional manufacturing capacity through retro-fitting our Farr plant in Edmonton to assemble the weCATT and WinCATT Torque Turn monitoring system; added 14,000 square feet of manufacturing space at our Superior plant in Louisiana to manufacture our bucking unit product line; and, completed the setup of a new McCoy Rig Parts facility in Louisiana to manufacture drilling and completions replacement parts. The full impact of this additional capacity will be realized in 2013.

Mobile Solutions

For the year ended December 31, 2012 revenue was $63.3 million, which was a decrease of $5.8 million, or 8%, from the comparative period.

Revenue remained relatively strong during the year as sales were realized on backlog that was secured in 2011 and the beginning of 2012. As the year progressed our backlog continued to decline. Efforts to increase our United States presence resulted in a 38% increase in United States revenue in 2012 as compared to 2011. Mobile Solutions continues to leverage three sub-contractor relationships in the United States which has positioned it well to respond proactively to fluctuations in market demand.

GROSS PROFIT BY OPERATING SEGMENT

The following tables summarize gross profit and gross profit as a percentage of revenue by reportable segment:

($000 except percentages)	Gross Profit			Gross Profit %		
For the year ended December 31	**2012**	2011	Change	**2012**	2011	Change
Energy Products & Services	**39,870**	28,962	10,908	**34%**	34%	-
Mobile Solutions	**7,584**	13,315	(5,731)	**12%**	19%	(7%)
Total	**47,454**	42,277	5,177	**26%**	27%	(1%)

Energy Products & Services

For the year ended December 31, 2012 EP&S gross profit was 34%, which was consistent with the prior year.

Mobile Solutions

For the year ended December 31, 2012, Mobile Solutions realized a 7% decrease in the gross profit percentage from the comparative period.

Profitability in 2012 was impacted by a combination of factors. Mobile Solutions experienced a shift in product mix from higher margin product in the pressure pumping market to lower margin product in the heavy haul oil field market. The disclosed 2012 capital budgets of pressure pumping customers resulted in a trend to reduce the amount of pressure pumping equipment that was ordered and there is continued uncertainty around 2013 capital budgets. There are positive signs in the marketplace that the heavy haul oil field market remains healthy, although this is being countered by an increase in competition. Mobile Solutions expansion into the United States through sub-contracting channels was not as successful as was anticipated. A softening marketplace combined with a steep learning curve and start-up issues contributed to this decline. Lastly a significant customer experienced working capital constraints, which impacted both the realization of a significant amount of higher margin sales and disruptions to our production scheduling, which lowered overall profitability.

Given declining backlog and future uncertainties, Mobile Solutions initiated cost cutting measures and in October 2012, downsized its hourly workforce. This reduced the production workforce by 25% from peak headcount in 2012. Subsequent to December 31, 2012, hourly headcount was reduced by an additional 15% until such time that backlog improvements are realized.

EBITDA BY OPERATING SEGMENT

The following tables summarize EBITDA and EBITDA as a percentage of revenue by reportable segment:

($000 except percentages)	EBITDA			EBITDA as a % of External Revenue		
For the year ended December 31,	**2012**	2011	Change	**2012**	2011	Change
Energy Products & Services	**26,465**	18,509	7,956	**23%**	22%	1%
Mobile Solutions	**1,852**	8,357	(6,505)	**3%**	12%	(9%)
Corporate	**(6,160)**	(5,776)	(384)	**-**	-	-
Total	**22,157**	21,090	1,067	**12%**	14%	(2%)

Energy Products & Services

For the year ended December 31, 2012, as a percentage of revenue, EBITDA increased by 1% from the comparative period. In 2012 EP&S made strategic investments in people and infrastructure which resulted in higher general and administrative and sales and marketing expense, however, as a percentage of revenue, these expenses slightly declined year over year driving a 1% increase in EBITDA as a percentage of revenue.

Mobile Solutions

For the year ended December 31, 2012, EBITDA as a percentage of revenue declined by 9% from the comparative period.

A decline in gross profit, in combination with higher general and administrative expenses, contributed to the decline in EBITDA. General and administrative expenses have increased as a result of additional overhead required to set up and support sub-contractor relationships as well as higher consulting costs.

Corporate

For the year ended December 31, 2012, Corporate expenses have increased by $0.4 million or 7% from the comparative period. This is primarily resulting from increased salary expenses.

GENERAL AND ADMINISTRATION

General and administration expense for the year ended December 31, 2012 was $22.0 million. This represents an increase of $3.3 million, or 17%, from the comparative period. As a percentage of revenue, general and administrative expense was 12% for the year ended December 31, 2012, which is consistent with the comparative period.

The increase in general and administration expense is attributable to our investments in repositioning the Corporation and preparing for future growth. As we continue to grow McCoy, we will continue to make strategic investments in people and infrastructure to support our long-term growth, which will yield long-term returns for our stakeholders. As compared to 2011, the 2012 increase in general and administration expense is primarily attributable to higher salary expenses associated with new hires in 2012. We also incurred higher expenses related to research expenditures for new product development, consulting costs and share based compensation. In addition, we recorded a foreign exchange loss in 2012 as compared to a slight foreign exchange gain in 2011.

We have additional investments to make as we execute our strategy, which in the near term we anticipate will result in general and administrative expense increasing at the same percentage that revenue increases. As many of our investments driving higher general and administration expense were made throughout 2012, the full impact of these investments on general and administration expense will not be fully realized until 2013. Once our growth strategy begins to generate returns, we anticipate that our general and administration expense will stabilize and, as a percentage of revenue, decline to more historic levels.

SALES AND MARKETING

Sales and marketing expense for the year ended December 31, 2012 was $8.2 million as compared to $7.1 million in the comparative period, an increase of 16%. As a percentage of revenue, sales and marketing expense was 5% for the year ended December 31, 2012, which was consistent with the prior year.

The increase in sales and marketing expense is resulting from the Corporation executing its growth strategy and hiring additional sales persons to expand internationally. EP&S also invested in the marketing of the "we" branded products now coming to market and realizing increased sales person commissions in 2012 in the EP&S segment as a result of increased revenues and profitability as compared to 2011.

FINANCE CHARGES (NET)

Finance charges (net) increased to $0.6 million for the year ended December 31, 2012 from $0.3 million in the comparative period. The higher expense is a result of repaying borrowings during the year and incurring an early repayment charge. This was done in conjunction with securing a new $50 million committed senior secured revolving credit facility.

SUMMARY OF QUARTERLY RESULTS

($000 except per share amounts)	2012 Dec 31	Sep 30	June 30	Mar 31	2011 Dec 31	Sep 30	Jun 30	Mar 31
Total revenue	**44,321**	48,410	41,108	45,533	44,251	37,815	38,834	32,897
Net earnings from continuing operations	**3,255**	4,236	2,127	2,154	3,659	3,010	3,222	1,802
Net earnings	**3,255**	4,236	2,127	2,154	3,809	3,010	3,284	1,821
Basic earnings per share from continuing operations	**0.12**	0.16	0.08	0.08	0.14	0.11	0.12	0.07
Basic earnings per share	**0.12**	0.16	0.08	0.08	0.14	0.11	0.12	0.07
Diluted earnings per share from continuing operations	**0.12**	0.16	0.08	0.08	0.14	0.11	0.12	0.07
Diluted earnings per share	**0.12**	0.16	0.08	0.08	0.14	0.11	0.12	0.07

Strong rig counts and growth in our EP&S segment have facilitated 2012 revenue growth. Profitability in 2012 has been negatively impacted by a reduction in Mobile Solutions profitability.

A number of factors contribute to variations in the Corporation's results between periods, the most noteworthy being North American and worldwide rig counts as well as capital expenditure reductions in the pressure pumper industry.

FOURTH QUARTER RESULTS

EXTERNAL REVENUE BY OPERATING SEGMENT

($000 except percentages) For the three months ended December 31	External Revenue 2012	2011	Change in External Revenue $	%
Energy Products & Services	**29,900**	24,042	5,858	24%
Mobile Solutions	**14,421**	20,209	(5,788)	(29%)
Total	**44,321**	44,251	70	0%

Energy Products & Services

Revenue from the EP&S segment for the three months ended December 31, 2012 was $29.9 million, which was an increase of $5.9 million, or 24%, from the comparative period. Strong backlog and increased throughput at our manufacturing facilities contributed to the revenue growth in the fourth quarter.

Mobile Solutions

Revenue from the Mobile Solutions segment for the three months ended December 31, 2012 was $14.4 million, which was a decrease of $5.8 million, or 29%, from the comparative period. Customer demand continued to show signs of weakness resulting in a decline in backlog and throughput. However, backlog levels appear to have ended their decline and there are positive market indicators suggesting a recovery in the custom chassis market during the latter part of 2013.

GROSS PROFIT BY OPERATING SEGMENT

The following tables summarize gross profit and gross profit as a percentage of revenue by reportable segment:

($000 except percentages) For the three months ended December 31	Gross Profit 2012	2011	Change	Gross Profit % 2012	2011	Change
Energy Products & Services	**9,253**	8,004	1,249	**31%**	33%	(2%)
Mobile Solutions	**2,017**	3,519	(1,502)	**14%**	17%	(3%)
Total	**11,270**	11,523	(253)	**25%**	26%	(1%)

Energy Products & Services

For the three month period ended December 31, 2012 gross margin increased $1.2 million, however the gross profit percentage decreased by 2% from the comparative period. The slight decline in EP&S gross profit percentage is resulting from lower productivity in the month of December as customer demand began to moderate.

Mobile Solutions

For the three month period ended December 31, 2012, Mobile Solutions realized a 3% decrease in the gross profit percentage from the comparative quarter. However, the gross profit percentage increased by 4% in comparison to the three months ended September 30, 2012 as the Corporation realized the impact of certain cost cutting measures.

EBITDA BY OPERATING SEGMENT

The following tables summarize EBITDA and EBITDA as a percentage of revenue by reportable segment:

($000 except percentages)	EBITDA			EBITDA as a % of External Revenue		
For the three months ended December 31	**2012**	2011	Change	**2012**	2011	Change
Energy Products & Services	**7,021**	4,820	2,201	**23%**	20%	3%
Mobile Solutions	**833**	2,031	(1,198)	**6%**	10%	(4%)
Corporate	**(1,717)**	(1,372)	(345)	**-**	-	-
Total	**6,137**	5,479	658	**14%**	12%	2%

Energy Products & Services

For the three month period ended December 31, 2012, as a percentage of revenue, EBITDA remained consistent with the yearly average.

Mobile Solutions

EBITDA as a percentage of revenue declined by 4% in the three month period ended December 31, 2012 from the comparative quarter. Lower gross profit combined with higher general and administration expenses contributed to the decline in results.

Corporate

EBITDA decreased by $0.3 million. This is primarily a result of higher salary expenses in the fourth quarter of 2012 as compared to 2011.

OUTLOOK AND FORWARD LOOKING INFORMATION

The Corporation is entering 2013 with moderate expectations for the first half of the year. Customer demand and support for McCoy's products continues to deliver results and drive increases in sales. Although the outlook for global drilling activity is relatively stable, strategic investments made in 2012 in our people and processes position us well to succeed in a period of potential moderate growth.

In 2013 we will again be making strategic investments to further advance our international growth strategy. Servicing our customers in a timely manner, regardless of geographic location, remains a priority. A global international service model has been developed and in 2013 we will embark on the first stage of this plan by establishing a physical presence in the regions of Europe and Southeast Asia. Developing an international technical service and customer support team will not only improve our customer service commitments to our growing global customer base, but will generate additional sales channels and establish a local presence.

In late 2012 and moving into 2013, the Drilling and Completions business took advantage of some manufacturing capacity to begin building finished goods inventory of standard equipment items. This was done for two reasons; to shorten the lead time for our customers on standard equipment orders, and to build a supply of standard equipment for our international technical service center locations in advance of their opening. This is key to our customers' success and our commitment to being leaders in customer responsiveness.

The recent success of the commercial launch of the weCATT has demonstrated our ability to develop and bring products to market. Additional products under development include an iron roughneck (weTORQ85), an electric bucking unit (weBUCK), a hydraulic catwalk (weMOVE35), a casing running tool (weRUN350), and a casing handling tool system with flush mount spider, conventional spider and elevator configurations (weHOLD). Progress continues to be made on the development of these new products. These products are in various phases of design, prototype and testing. Timing for commercial launch of the above mentioned products are anticipated to occur throughout 2013 depending on successful prototyping and field trials. Robust testing requirements will be undertaken to ensure products are ready for commercial production.

Throughout 2012 we added manufacturing capacity and made strategic investments in developing a strong EP&S management team, improving processes and strengthening infrastructure. In 2013 we anticipate that we will begin realizing a return on these investments with the full impact being realized in 2014 and beyond.

Mobile Solutions is facing a challenging market as we enter 2013. Backlog levels appear to have ended their decline and there are positive market indicators suggesting a recovery in the custom chassis market during the latter part of 2013. We have implemented cost cutting measures to manage costs during this period, including downsizing the hourly workforce in October, 2012 and once again in early 2013. When we entered into our sub-contractor relationships it was to prepare for cyclicality in the commodity cycle and to allow us to increase or decrease operations in response to market demand. These decisions should allow us to minimize losses while maintaining key customer relationships if a further downturn occurs.

Lastly, McCoy's balance sheet is strong and provides us with the flexibility to invest in innovation for long-term growth and to pursue prudent and meaningful acquisitions to strengthen our product and service offerings. McCoy continues to advance its goal of being the trusted provider of innovative products and services for the global energy industry.

LIQUIDITY AND CAPITAL RESOURCES

CASH FLOW

At December 31, 2012, the Corporation has $22.1 million in cash and cash equivalents and access to $40.6 million in available funds under its $50.0 million senior secured revolving credit facility. As of December 31, 2012, $9.4 million had been drawn and was outstanding under this facility.

Selected cash flow and capitalization information is as follows:

($000) **For the year ended December 31**	**2012**	2011
Cash (used in) generated from operating activities	**5,321**	18,181
Cash (used in) investing activities	**(10,400)**	(2,784)
Cash (used in) financing activities	**(1,716)**	(2,759)
Debt to equity ratio	**0.52 to 1**	0.53 to 1

Cash provided by operating activities for the year ended December 31, 2012 was $5.3 million compared to $18.2 million generated from the same period in 2011. The decline in cash flow from 2011 is a result of investments made to increase working capital in 2012 to support higher revenues and customer demand. In addition, higher tax payments were required in 2012 given the large increase in profitability realized in 2011.

Cash flows used in investing activities for the year ended December 31, 2012 were $10.4 million compared to $2.8 million in the comparative period. The increase is primarily attributable to higher purchases of property, plant and equipment and increased expenditures to develop intangible assets. Capital was spent during the year to facilitate growth initiatives as well as to sustain existing capital. Offsetting this were $1.6 million in cash flows from discontinued operations in 2011.

Cash flows used in financing activities for the year ended December 31, 2012 were $1.7 million compared to $2.8 million in the comparative period. An increase to the Corporation's dividend was approved in 2012 resulting in increased dividend payments of $2.1 million. The Corporation also incurred $0.6 million in transaction costs to secure a $50 million senior credit facility in 2012. Offsetting these expenditures were net borrowings of $3.7 million in 2012.

Management believes that with the projected level of operations for 2013 and the availability of cash and cash equivalents along with funds under the established credit facility, McCoy will have sufficient capital to fund its operations and strategic growth. Historically, capital expansion has been financed by cash provided from operating activities, or by utilizing existing long-term credit facilities. Management may also consider raising proceeds through equity or debt offerings. Management consistently monitors economic conditions and will manage capital spending accordingly.

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

Financial instruments

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

At initial recognition 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 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
Finance lease obligations	Other financial liabilities	Amortized Cost

At the reporting date, the Corporation did not have any financial assets classified as financial assets at fair value through profit and loss, available-for-sale or held-to-maturity.

LOANS AND RECEIVABLES

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

OTHER FINANCIAL LIABILITIES

Trade payables are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, trade payables are measured at amortized cost using the effective interest method. Other financial liabilities are initially recognized at fair value, net of any transaction costs incurred. Subsequently, trade payables and other financial liabilities are measured at amortized cost using the effective interest method. Other financial liabilities are classified as current liabilities if payment is due within twelve months.

Financial risk management

McCoy'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. The Corporation's overall risk management program focuses on the unpredictability of financial and economic markets and seeks to minimize potential adverse effects on the Corporation's 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

Foreign currency risk

The Corporation is exposed to foreign exchange risks arising from fluctuations in exchange rates on its foreign dollar denominated monetary assets and liabilities. Foreign exchange risk is primarily with the US dollar. The Corporation attempts to match US dollar cash flows and reported amounts for US dollar revenues and expenditures on a period-to-period basis to mitigate a portion of foreign currency risk.

Based on the Corporation's US dollar denominated monetary assets and liabilities at December 31, 2012, the Corporation estimates that a one-cent change in the value of the US dollar would increase or decrease net earnings, net of tax, by $0.1 million (2011 - $0.1 million).

Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates. The Corporation is primarily exposed to interest rate risk on cash and cash equivalents and borrowings, all of which have a component of interest that is variable. The Corporation estimates that a change of 100 basis points in the interest rate on its borrowings as at December 31, 2012, would have increased or decreased net earnings, net of tax, for the year ended December 31, 2012, by $0.1 million (2011 - $nil).

(ii) CREDIT RISK

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

The credit risk associated with cash and cash equivalents is minimized by ensuring that these financial assets are invested primarily with Canadian chartered banks and recognized US financial institutions.

The Corporation manages its trade receivable credit risk by following a program of credit evaluation, obtaining deposits on certain orders and by limiting the amount of customer credit. Further, on international sales, receipt of payment is often required prior to shipping. Impairment provisions are made for potential losses that may be incurred at the balance sheet date.

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

($000)	**2012**	2011
	$	$
Fully performing	**10,532**	11,157
Past due but not impaired	**5,943**	3,643
Indications of possible impairment	**85**	265
Trade receivables	**16,560**	15,065

The credit quality of fully performing receivables is determined based on credit evaluations and management's past experience with the customers. Past due but not impaired trade receivables relate to a number of independent customers for whom there is no recent history of default. Trade receivables with indication of possible impairment primarily relate to customers which are in difficult financial situations. Management has determined on a customer by customer basis that impairment provisions of $0.1 million (2011 - $0.3 million) are sufficient to cover credit risk.

The aging analysis of trade receivables as at December 31 is as follows:

($000)	2012	2011
	$	$
0 to 30 days	**7,922**	9,715
31 to 60 days	**2,610**	3,265
61 to 120 days	**3,018**	1,906
Over 120 days	**3,010**	179
	16,560	15,065
Provisions for impairment	**(85)**	(265)
Trade receivables	**16,475**	14,800
Other receivables	**782**	1,526
Total trade and other receivables	**17,257**	16,326

Subsequent to December 31, 2012, substantially all of the trade receivable balances aged over 120 days have been collected in full.

The movement in the Corporations provision for impairments of trade receivables is as follows:

For the years ended ($000)	2012	2011
	$	$
Provision for impairment, as at January 1	**265**	211
Impairment loss recognized	**48**	81
Amounts written off	**(44)**	3
Amounts recovered	**(184)**	-
Impairment loss related to discontinued operations	**-**	(30)
Provision for impairment, as at December 31	**85**	265

(iii) LIQUIDITY RISK

Liquidity risk is the risk that the Corporation will not be able to meet its obligations with financial liabilities as they become due. The Corporation maintains sufficient cash and cash equivalents and operating line of credit availability to meet financial obligations.

The following table shows a maturity analysis of the Corporation's undiscounted cash flows for its financial liabilities, including interest payments, based on remaining contractual maturities:

($000) **As at December 31, 2012**	Trade and other payables	Finance lease obligations	Borrowings	**Total**
	$	$	$	**$**
Within 1 year	25,986	136	-	**26,122**
1-3 years	-	-	10,558	**10,558**
	25,986	136	10,558	**36,680**

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 and finance lease obligations (less current portion), as well as shareholders' equity as follows:

($000) **As at December 31, 2012**	**2012**	2011
	$	$
Borrowings	**8,842**	5,232
Finance lease liabilities	**-**	226
Shareholders' equity	**77,496**	70,369
Total capital	**86,338**	75,827

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

The Corporation is subject to certain restrictive covenants under the revolving credit facility agreement with its lenders. These covenants are measured on a quarterly basis. Financial covenants stipulated by the agreement include maintenance of a:

- Minimum ratio of current assets to current liabilities;
- Trailing twelve month funded debt to EBITDA ratio as defined by the agreement; and
- Trailing twelve month fixed charge coverage ratio as defined by the agreement.

In addition to the financial covenants noted above, the Corporation is also subject to further covenants including, but not limited to, restrictions on:

- Mergers or acquisitions in excess of a certain dollar value;
- Borrowings outside the terms of the credit agreement in excess of a certain dollar value;
- Dispositions of the Corporation's assets in excess of a certain dollar value; and
- Investments with parties other than the lenders of the revolving credit facility, in excess of a certain dollar value.

Other than the restrictive covenants contained in the debt agreement, neither the Corporation nor any of its subsidiaries are subject to externally imposed capital requirements. As of December 31, 2012, the Corporation was in compliance with its debt covenants.

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

OTHER FINANCIAL INFORMATION

CONTRACTUAL OBLIGATIONS AND OFF BALANCE SHEET ARRANGEMENTS

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

($000) **As at December 31, 2012**	Trade and other payables	Finance lease obligations	Borrowings	**Total**
	$	$	$	**$**
Within 1 year	25,986	136	-	**26,122**
1-3 years	-	-	10,558	**10,558**
	25,986	136	10,558	**36,680**

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

($000)	$
Within 1 year	2,926
2 to 5 years	10,112
Over 5 years	1,168

The above includes commitments with related parties disclosed below.

The Corporation has sublet certain premises that are under operating lease. The future minimum lease payments to be received in the following year under non-cancellable leases are $0.7 million and $2.4 million thereafter.

RELATED PARTY TRANSACTIONS

Operating lease expense

The Corporation has three lease agreements with companies controlled by individuals, who are also directors of Foundation Equity Corporation, a 43% shareholder of the Corporation. The following is a summary of each agreement:

- Minimum annual lease payments are $0.3 million until April 2013. Subsequent to April 2013, the annual lease payments will be set at negotiated market rates until 2018. At the conclusion of the lease in 2018, the Corporation has the option to extend the lease for five years with annual lease payments negotiated at market rates.
- Minimum annual lease payments are $0.5 million until 2018. The Corporation has the option to extend the lease for five years at negotiated market rates.
- Minimum annual lease payments are $0.3 million until 2018.

During the year ended December 31, 2012 the Corporation recorded an operating lease expense of $1.1 million (2011 - $1.1 million) with respect to related party operating leases disclosed above.

During the year ended December 31, 2012 the Corporation recorded revenue of $0.2 million (2011 – $nil) from the sale of trailers to a company controlled by a member of the Corporation's Board of Directors. The transaction took place in the normal course of operations, at market rates and under normal commercial terms.

The Corporation has three lease agreements with a company whose principal was an officer of the Corporation. This officer retired from the Corporation on January 9, 2012 and therefore ceased to be a related party. Operating lease expense was $0.8 million in 2011 with respect to these lease arrangements.

Key management personnel

Key management personnel include the directors and senior corporate officers of the Corporation whom 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, 2012 and 2011 are as follows:

($000) For the years ended	**2012**	2011
	$	$
Salaries and other short-term employee benefits	**2,769**	2,867
Termination benefit	**471**	-
Share-based payments	**286**	216
	3,526	3,083

OUTSTANDING SHARE DATA

As at March 14, 2013 the following class of shares and equity securities potentially convertible into common shares were outstanding:

Common shares	**26,747,578**
Convertible equity securities:	
Stock options	**1,413,334**

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

Dividends

A summary of historical dividend information is as follows:

Dividend declared	Dividend paid	Amount per common share
December 12, 2012	December 31, 2012	$0.05
August 17, 2012	September 17, 2012	$0.05
May 17, 2012	June 15, 2012	$0.05
March 22, 2012	April 12, 2012	$0.03
December 13, 2011	December 30, 2011	$0.03
September 30, 2011	October 28, 2011	$0.01
May 19, 2011	June 30, 2011	$0.01
March 17, 2011	April 11, 2011	$0.04
March 10, 2011	March 31, 2011	$0.01

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.

Management regularly evaluates estimates and judgments, which are based on historical experience and other factors that are deemed reasonable under the circumstances. This involves varying degrees of uncertainty and, therefore, amounts currently reported in the consolidated financial statements could differ in the future.

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

(i) *Inventories*

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

(ii) *Provisions*

Considerable judgment is used in measuring and recognizing provisions and the Corporation's exposure to contingent liabilities. Judgment is necessary to determine the likelihood and estimated future outflow of resources that may be required to settle any future or existing claims.

(iii) *Income tax expense*

The Corporation operates in several tax jurisdictions and is, therefore, required to estimate its income taxes in each of these tax jurisdictions in preparing its financial statements. The calculation of income taxes requires the use of judgment. If these judgments prove to be inaccurate, future earnings may be materially impacted.

(iv) *Impairment of indefinite life intangible assets*

The Corporation performs an annual impairment test, in accordance with the accounting policy stated in note 3(j) to the 2012 consolidated financial statements, to test whether indefinite life intangible assets have suffered any impairment. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

Future Accounting Pronouncements

The International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") have issued a number of new standards, amendments to standards and interpretations effective for annual periods beginning after January 1, 2013. These have not been applied by the Corporation in preparing these consolidated financial statements. Those which may be relevant to the Corporation are set out below:

Proposed standards and amendments	Description	Anticipated impact	Effective date
IFRS 7 - Financial Instrument: Disclosures	Contains new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting arrangements or similar arrangements.	The new standard is not expected to have a significant impact on the Corporation.	January 1, 2013
IAS 1 – Financial Statement Presentation	Requires entities to present separately items of OCI that may be reclassified to profit or loss in the future from items that would never be reclassified to profit or loss.	The new standard is not expected to have a significant impact on the Corporation.	January 1, 2013
IFRS 13 – Fair value measurement and disclosure requirements	Sets out a single framework for measuring fair value and disclosure requirements surrounding the inputs and assumptions used in determining fair value.	The new standard is not expected to have a significant impact on the Corporation.	January 1, 2013
IFRS 10 – Consolidated Financial Statements	Builds on the existing principles of control and elaborates on the definition of control when determining whether an entity should be consolidated or not.	The new standard is not expected to have a significant impact on the Corporation.	January 1, 2013
IFRS 11 – Joint Arrangements	Focuses on the rights and obligations of an arrangement rather that it's legal form and specified the method to account for interest in jointly controlled entities.	The new standard is not expected to have a significant impact on the Corporation.	January 1, 2013
IFRS 12 – Disclosure of Interest in Other Entities	Provides detail on disclosure requirements for all forms of interest in other entities, including joint arrangements, associates, special purpose entities and other off-statement of financial position vehicles.	The new standard is not expected to have a significant impact on the Corporation.	January 1, 2013

Proposed standards and amendments	Description	Anticipated impact	Effective date
IAS 32 – Financial Instruments: Presentation	Clarifies that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties.	The new standard is not expected to have a significant impact on the Corporation.	January 1, 2014
IFRS 9 – Financial Instruments: Classification and Measurement	Specifies that financial assets will be classified into one of two categories on initial recognition: financial assets measured at amortized cost or financial assets measured at fair value. The classification and measurement of financial liabilities remain generally unchanged.	The new standard is not expected to have a significant impact on the Corporation.	January 1, 2015

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

CONTROLS AND PROCEDURES

DISCLOSURE CONTROLS AND PROCEDURES ("DC&P")

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

An evaluation of the design of our DC&P was conducted, as at December 31, 2012, by management under the supervision of the CEO and the interim CFO. Based on this evaluation, the CEO and the interim CFO have concluded that, as at December 31, 2012, 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 interim CFO, has evaluated the design of our ICFR using the framework and criteria established in Internal Controls – Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, the CEO and the interim CFO have concluded that as at December 31, 2012, ICFR (as defined in NI 52-109) were effective. There were no changes in our ICFR during the year ended December 31, 2012 that have materially affected, or are reasonably likely to affect, our ICFR.

RISK AND UNCERTAINTIES RELATED TO THE BUSINESS

As at December 31, 2012, there have been no changes in the Corporation's risks or risk management activities since December 31, 2011. 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 commodity price fluctuations;
- Political unrest;
- Foreign exchange rate fluctuations;
- Technology risks;
- The economy of the energy sector;
- Weather;
- Ability to attract and retain key personnel;
- The competitive environment;
- McCoy's ability to successfully integrate and operate additional businesses; and
- Interest rates.

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

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:

COMMODITY PRICE RISK

The recent downturn in oil and gas prices worldwide has had a direct impact on activities of the Corporation's customers. Low commodity prices for an extended period of time will result in continued reduced demand for many of McCoy's manufactured products. This in turn will result in lowered revenues and earnings. To mitigate some of this risk, management has focused on growing its less volatile recurring revenue businesses such as replacement parts and service related to mobile equipment and drilling equipment as well as new product development. In addition, the Corporation's strategy to increase revenue outside of North America is intended to provide less revenue volatility.

POLITICAL UNREST

The Corporation markets its products into certain countries which may experience political unrest from time to time. Political unrest could result in a disruption in revenues generated by those countries and result in reduced revenues potentially short and long term. To mitigate this risk, McCoy ensures it is operating in the global marketplace where reliance on revenues from one country or another is not expected to result in major revenue shortfalls.

TECHNOLOGY RISK

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

In the future, McCoy may seek patents or other similar protections in respect of particular products and technology, however, McCoy may not be successful in such efforts. Competitors may also develop similar products and technology thereby adversely affecting McCoy's competitive advantage in one or more of McCoy's businesses. Additionally, there can be no assurance that certain products or technology McCoy 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's business, financial condition, results of operations and cash flows.

ECONOMIC DOWNTURN

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

CYCLICALITY

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

WEATHER CONDITIONS

An unseasonably warm winter can adversely affect McCoy's operations in two ways. In some areas, drilling activity is dependent upon prolonged periods of cold weather to freeze the ground and allow heavy equipment access to off-road locations. If the equipment is not in active use, it is unlikely to require repair. Also, an unseasonably warm winter in North America reduces the consumption of natural gas which negatively affects drilling activity.

CLIMATE CHANGE RISK

McCoy is unlikely to be affected directly by Climate Change effects. No direct physical risks (i.e. rise of sea level, harsher winter) resulting from Climate Change are foreseeable to affect the continuity of McCoy's business units in the long term.

None of the Alberta or BC regulations on Greenhouse Gases ("GHGs") directly affect any of McCoy's business units, since all McCoy facilities in Alberta emit less than the Alberta regulatory compliance threshold of 100,000 tonnes of carbon dioxide ("CO2") per year and all McCoy facilities in BC emit less than the BC regulatory reporting threshold of 10,000 tonnes of CO2 per year. Both federally in Canada and in the United States, any anticipated effect of GHG emissions legislation will be determined when the proposed regulations are finalized by both the Canadian Government and United States Environmental Protection Agency. Although none of McCoy business units is a large emitter of CO2, the Corporation is taking steps towards assessing the carbon footprint of each one. The Corporation's initial approach consists on monitoring fossil fuel and electric power costs with intention of identifying areas of potential improvement. The Corporation's main customers in the energy industry most probably will face the need for capital investment to comply with impending regulations having the effect of promoting CCS (Carbon Capture and Storage) for reductions in GHGs, besides current expenses (in Alberta and BC, CO2 is currently regulated at $15/ton and $30/ton, respectively). Whether price adjustment, revenue adjustment or revamping will take place in any given facility of McCoy's customers is uncertain. However, the oil and gas extraction activity is reasonably expected to be maintained to cover the growth in energy demand. In fact, such demand is expected to keep increasing due to harsher winters and higher summer temperatures resulting from the warming of the Earth.

In the short term, McCoy will be gradually formalizing current initiatives aimed towards increasing energy efficiency and reducing energy consumption.

RELIANCE ON KEY PERSONS AND LABOUR SHORTAGES

The potential loss of key personnel is another risk area the Corporation faces. While continued productivity improvements have reduced labour requirements and the recent economic downturn has relieved the labour market pressures in the short-term, the Corporation's future and growth is dependent on retaining qualified employees at all levels of the organization. In order to address this risk, the Corporation is proactive in its human resource management with the ultimate goal of providing an attractive work environment for all employees.

DOMESTIC AND FOREIGN COMPETITION

Each segment of the Corporation has competitors. If the Corporation does not respond effectively to its competitors' new products, geographic expansion, pricing and marketing strategies, the Corporation may lose market share. Foreign competition presents a risk for the hydraulic power tong market as China, in particular, is expanding its distribution network in North America. The Corporation invests a significant amount of time and effort on new product development to ensure that this risk is mitigated. Most importantly, the Corporation is a customer focused business and long term, trusted relationships are key to maintaining a competitive edge. Customers are more reluctant to change suppliers if their expectations are met or exceeded.

FOREIGN SALES

The EP&S segment sells a significant amount of its product to foreign countries. International sales are subject to inherent risks such as changes in regulatory requirements, delays from customs brokers or government agencies, or other trade barriers. Although most foreign sales are paid prior to shipping, there is potential risk related to any situation, such as war and civil insurrection that could disrupt the payment of monies owed to the Corporation. Furthermore, a significant amount of products and services may be subject to the export control laws of the United States, Canada or other countries where its products are sold. Failure to comply with the laws and regulations governing exports could result in monetary fines for individuals as well as McCoy, loss of McCoy's export privileges, imprisonment, and other sanctions. The Corporation has established procedures that McCoy personnel must follow to ensure compliance with those laws and regulations.

BUSINESS ACQUISITIONS

The Corporation intends to identify, evaluate and acquire new businesses that are complementary to its overall business strategy. If integration of any new businesses does not occur as expected, or their performance is less than expected, the Corporation's revenues may be lower and operational costs higher than expected.

GROWTH STRATEGY RISK

The Corporation's Board has approved a robust growth strategy for the Corporation over the next 3 to 5 years. There is a risk that access to capital may be reduced in both the debt and equity markets resulting in delays to the implementation of growth strategy, both organically and by acquisitions. In addition, there is competition for acquiring good companies which can result in unsuccessful acquisition attempts. In order to mitigate this risk, the executive team has a structured and disciplined process for identifying and evaluating opportunities.

HYDROCARBON DEMAND RISK

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

ENVIRONMENTAL RISK

Inotec, a wholly owned subsidiary of McCoy, conducts certain portions of its industrial coatings business with hazardous substances that are harmful to the environment and personnel should there be a substantial spill or personnel exposure to some or all of these substances. Management has in place mitigating measures and controls which are believed to reduce significantly the opportunity for such an event to take place. The Corporation and Inotec are subject to stringent health, safety and environmental policies and standards and are internally audited on a regular basis. An Environmental Management System based on the Internal Standard ISO 14001:2004 has been implemented at Inotec.

INSURANCE

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.

STEEL SUPPLY AND PRICING

Both of the Corporation's segments use steel as the major component of their products. Disruption in the supply of steel may affect the Corporation's ability to fill orders in a timely fashion and volatility of steel prices may affect gross margins. The Corporation has many steel suppliers which may assist in the mitigation of disruption of the supply of steel.

ANTI-CORRUPTION RISK

The Corporation does business in many countries and its operations are subject to many different laws, customs and cultures. Business is conducted by both McCoy Personnel and Third Party Representatives. The Corporation is required to comply with applicable anti-bribery laws, including the Canadian Corruption of Foreign Public Officials Act (the "CFPOA"), the US Foreign Corrupt Practices Act (the "FCPA") and the United Kingdom Bribery Act 2010, as well as local laws in all countries in which the corporation does business. The Corporation has established policies, procedures and a due diligence process that McCoy personnel and/or Third Party Representatives must follow to ensure compliance with those laws.

OTHER INFORMATION

Additional information relating to the Corporation, including the Corporation's Annual Information Form for the year end December 31, 2012 is available on SEDAR at www.sedar.com.