

**McCoy Corporation**  
**First Quarter 2010 Results Conference Call**  
**May 13, 2010**

**Operator:** Good morning ladies and gentlemen. Welcome to McCoy's First Quarter 2010 Results conference call. At this time all participants are in a listen-only mode. Following the presentation, we will conduct a question and answer session. At that time participants are asked to press star one to register for a question. For assistance during the call, please press star zero on your touch-tone phone. As a reminder this conference is being recorded, today, Thursday, May 13, 2010.

It is now my pleasure to introduce your host Ms. DeAnn McNally, Manager Corporate Affairs of McCoy. Please go ahead, Ms. McNally.

**DeAnn McNally:** Thank you. Good morning ladies and gentlemen. Welcome to McCoy's First Quarter 2010 Results conference call. Representing McCoy on the call today we have Jim Rakievich, President and Chief Executive Officer; Milica Stolic, Chief Financial Officer and Ted Redmond, Executive Vice President, Energy Products & Services.

We will start the call with some of Jim's remarks about the past quarter and our overall strategy. Then Milica will comment on the financial results. Once we are done we will open the call up for questions.

Please be advised that statements made on this call, other than statements of historical fact, may contain forward-looking information. I refer you to the forward-looking information statements disclaimer included in today's release of McCoy's 2010 first quarter financial and operating results. I caution you that this disclaimer also applies to and expressly qualifies any forward-looking information disclosed in today's call. Any dollar amounts mentioned on this call are in Canadian dollars unless otherwise noted.

It is now my pleasure to introduce Jim Rakievich, President and Chief Executive Officer of McCoy. Please go ahead, Jim.

**Jim Rakievich:** Thank you DeAnn. I am pleased to be able to report that McCoy's 2010 first quarter financial results appear to reflect the beginning of a return to profitability for McCoy. Although we have yet to return to the activity levels prior to 2009, the company's financial performance has improved in this quarter when compared to the three most recent prior quarters. McCoy has been actively continuing its 2009 program of increasing efficiency while controlling costs.

When it comes to growth strategy, McCoy continues to be focused on two key initiatives: first, completing our line of oilfield drilling and completions equipment; and, secondly, expanding our global presence. Our largest and most stable growth prospects are coming from energy industry markets outside of North America and our leadership team sees a transition taking place to more geographically balanced and diversified revenue in the coming years.

In terms of completing McCoy's oilfield drilling equipment line, during the first quarter of 2010 we entered into a licensing agreement with Vermillion River Tool & Equipment Co to manufacture and distribute the Verteco product line. This licensing agreement fills in some of the gaps in our product line and is helping McCoy expand its ability to serve a global market for energy services equipment and tools.

McCoy has seen signs of modest recovery in almost all of the Company's business units in early 2010. McCoy Trailers is now operating at about 50% plant capacity with the largest order backlog in over fifteen months. With improved rig counts in North America, McCoy has seen an increase in orders for custom trailer chassis, particularly in the types required for fracturing operations in oil and gas unconventional shale plays. Also of note, we are experiencing an increased number of orders for custom chassis which are specially designed to meet transportation requirements in the European Union and Australia. We are the market leaders in the custom oilfield chassis business.

Our drilling and completions equipment business has also experienced a strong recovery in equipment and consumables sales. The international exposure for these operations has provided the backbone to market recovery. The eastern hemisphere has been particularly strong in drilling equipment sales. Quoting remains strong and we are experiencing a reasonably strong backlog at this time.

As previously announced, we took the important step during the first quarter of undergoing a strategic consolidation of McCoy's corporate brands. This means moving towards a model where we are known by all of our customers as McCoy, rather than by former subsidiary names. With this step we'll move to a point where customers will more readily recognize the McCoy brand and know that they can count on us for a wide range of energy products and services around the world.

I will now turn over the call to Milica Stolic, our Chief Financial Officer for a brief overview of our Q1 2010 financials.

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**Milica Stolic:** Thank you, Jim, and good morning. To open our discussion of McCoy's first quarter 2010 financial results I'd like to point out that

McCoy's maintenance of balance sheet strength has been a key to our ability to weather some of the more challenging times in our industry over the past year. I am pleased to report that this financial strength continues and we are well-positioned for future growth. As of the end of the first quarter McCoy had approximately \$4 million of cash on hand with net debt of only \$3.0 million.

Revenue of \$24.7 million and earnings of \$178,000 for the first quarter are up from each of McCoy's past three quarters, although down compared to the first quarter of 2009. McCoy believes the results are the beginning of a trend towards improving results and growth, however the company is still exercising caution in its growth plans in order to achieve the most stable long-term growth.

As part of the brand consolidation Jim was referring to in the first quarter, we reduced our corporate structure to two defined segments – Energy Products & Services and Mobile Solutions, each operating with multiple divisions.

The segment providing the largest percentage of revenue for McCoy is the Energy Products and Services segment. Revenue for this segment was \$16.5 million during the first quarter, down from the same period last year, primarily due to reduced global drilling equipment and down-hole tool markets. Signs of recovery are evident, as revenues for this segment are up by 11 percent from the fourth quarter of 2009. There remains uncertainty in this area as there is no clear view of how commodity pricing will impact drilling activity and spending decisions in the second half of 2010.

The Mobile Solutions segment experienced an increase in revenue to \$10.5 million; more than \$1 million higher than in the same period in 2009. Oil and gas activity in the Western Canadian Sedimentary Basin provides the majority of revenue in this area, so although activity has steadily increased over the past quarter, management is maintaining a conservative view on near term capital spending in this area.

McCoy Trailers, which is part of the Mobile Solutions segment, has been successful in generating revenue above forecast for the quarter and has improved gross margins through efficiencies gained during the market downturn.

Domestic oilfield trailer demand is starting to gain strength as a result of the slow and steady consumption of surplus trailer inventory available in the market. The wind turbine tower transport trailer combination is continuing with road trials which are expected to be completed during the second quarter of 2010. McCoy Trailers is now operating at about 50 percent capacity with the largest order backlog in more than fifteen months.

Consolidated gross profit percentage has improved to 42% over 41% in the same period of 2009. This improvement is a result of McCoy's continued monitoring and reduction of overhead costs where possible to ensure protection of the gross profit.

As anticipated, Operations expenses were lower this quarter, both because of the correlation of expense decrease with the decrease of revenues, as well as from the consolidation of plants and other cost cutting initiatives that were taken in 2009.

In general, McCoy's financial situation is stable and is showing a recovery in revenues over 2009. McCoy anticipates this trend will continue and is well-positioned to benefit from it overall.

That concludes my financial summary. I will now turn the call back to Jim.

**Jim Rakievich:** I'll now sum things up with our continuing outlook for 2010 and beyond.

McCoy has already seen signs of modest recovery in several of our business units in early 2010. The rig counts in North America began a rebound in late 2009 and this has continued into 2010. International drilling activity appears to have recovered at this point as well. This increased activity started McCoy's year off with renewed interest for drilling equipment, particularly for international markets and this is expected to translate into higher sales in the latter portion of the year. Generally speaking, McCoy's results tend to lag energy industry activity levels.

One area where we are starting to receive increased orders is for custom trailer chassis that are required for fracturing operations in oil and gas drilling in the Western Canadian Sedimentary Basin, the United States, as well as overseas. As many people know, large-scale fracturing of horizontal wells in shale formations is one area of the energy industry that has really picked up over the past few years.

Going forward, increases in revenue in 2010 are anticipated to have a better bottom line impact because of the cost reduction activities in 2009.

Overall, 2010 is expected to be a "bridge year" as McCoy anticipates the transition from a recession type market to a more normal market. Provided that commodity prices for oil and natural gas hold up or improve, McCoy management expects to see continued strengthening in 2011. We are entering 2010 with a strong balance sheet and lower operating costs. Our management team and employees are well-prepared for better times and

are in a position to profitably take advantage of a stronger market to benefit our shareholders.

We are now ready to take some questions. Operator, could you please provide instructions to the participants?

**Operator:** Certainly, thank you. Ladies and gentlemen, if you would like to ask a question please press star one now. You may withdraw your question by pressing the pound key. If you're using a speaker phone please make sure and lift your handset before entering a request. We'll standby a brief moment to assemble the queue.

And the first question on the line comes from Steve Hansen with Raymond James. Please go ahead.

**Steve Hansen:** Yes, good morning everyone and good to see you back in the black.

**Milica Stolic:** Good morning.

**Steve Hansen:** Just a couple of quick ones. Revenue and margins for Mobile Solutions have certainly shown an impressive improvement here and it sounds as if Penticton is operating north of 50% utilization. Jim, you mention the order flow continues to improve. Is the order flow fairly near-term for delivery or are you expecting to stagger those deliveries out? I'm just trying to get a sense for how the utilization of the plant is expected to shape up over the next six to 12 months.

**Jim Rakievich:** Well Steve, it's a great question. The interesting thing about it is this ramp up of custom chassis, particularly for stimulation equipment, gets added on in layers so ramp-up has been extremely rapid. Customers are expecting shorter lead times that occurred in the last run up a couple years ago, so I would suggest to you that customers are looking for eight to 10 week delivery times. In some cases some of this stuff we can turn around fairly quickly. We are quite experienced in custom chassis even though they take a bit of engineering horse power, you know getting the orders through the engineering and on to the platform, it's caught us really quickly so we're ramping up rather fast. Everybody's working like crazy to get it through. But specifically to answer your question, I would say that the order backlog right now will probably fill up at least the next two quarters.

**Steve Hansen:** Okay great. That's helpful. Now you've also suggested that drilling and completions order flow is coming in nicely alongside elevating rig count. That makes sense I guess particularly in the international operations but how are the other two divisions of that segment working; Coatings & Hydraulics and Vac and Hydrovac? Are you seeing any sort of pickup but in the Western sedimentary basin there?

**Ted Redmond:** We're starting to see some pick up on the Vac and Hydrovac side. We're starting to see some more order activity—still not back to the peak but definitely increased order activity over the last year. On the Coatings & Hydraulic side, we're starting to see really early signs of recovery. The downhole tool market has been a bit slower to recover; mostly that would be product manufactured in Western Canada for export around the world or for use in Western Canada and we're seeing the initial signs of that coming back but it's been slow and partially because our Coatings & Hydraulics business is sort of at the end of the recovery cycle. First, the downhole tool companies decide they need to order some more tools when they've used up their inventory and then they order it from the machine shops and then we do the coating work at the end of that cycle so definitely we are later in the recovery cycle in that business.

**Steve Hansen:** Okay, that makes sense. And the—how does the acquisition landscape look these days? You guys are obviously sitting on a very clean balance sheet, your net debt has been brought down to almost nil. How active have you been in the search process or in evaluating the pipeline?

**Jim Rakievich:** Steve, we definitely have our eyes on specific areas of growth that we would like to achieve. Growth is going to take place two ways as we've always talked: organically and by acquisition. There are some acquisition targets I think that are very key to the long-term future of McCoy what we've done is reviewed what's open, what's available, what's in our pipeline and reduced that pipeline to things that are absolutely going to grow our global presence and increase our core capabilities of manufacturing, particularly those drilling and completion projects. So we are actively looking; however, right at this point in time we don't have anything that we have to announce.

**Steve Hansen:** Sure, okay. And then just one last one if I may — what's your view on the dividend now? You haven't paid it in a couple of quarters now. Is your intention to keep that suspended for the foreseeable future or do you re-envision reinstating that?

**Jim Rakievich:** Quite frankly that's up to the Board of Directors. Of course Management has some input on that but that is a discussion that takes place regularly with the Board when we look at wherever we use cash whether it be dividends or stock buybacks or any of things. That's something that's looked at on a regular basis by the Board of Directors so I really can't speak on their behalf today about dividends. That's something that will be discussed in the coming board meetings.

**Steve Hansen:** Okay great thanks. Thanks very much. Great quarter.

**Milica Stolic:** Thank you.

**Jim Rakievich:** Thanks.

**Operator:** Thank you. The next question on the phone line comes from John Bereznicki from Paradigm Capital. Please go ahead.

**John Bereznicki:** Good morning everyone.

**Jim Rakievich:** Good morning, John.

**John Bereznicki:** I just want to circle back on the backlog that appears to be building in Energy Products & Services. Can you give us a sense of geographically where you're seeing the most strength and maybe conversely the least strengths right now?

**Ted Redmond:** John, primarily it's international on the Drilling & Completions equipment because the drilling activity has almost recovered back to peak levels, people have a need for equipment. In Canada and the US, the rigs counts are still about 25% below the peak so unless someone wins a new contract, they typically have enough equipment at this current point so it's definitely coming from international and all over international – Middle East, Asia, South America.

As for the Vac and Hydrovac division, that's mostly a Western Canadian business although we are progressively going international so we've definitely got an increase in international orders but primarily that demand is starting to recover in Western Canada. It's like what we're seeing on the Trailer side. And then again in the Inotec business it's mostly just Western Canada and exports from the Western Canadian manufacturing companies.)

**John Bereznicki:** Okay that's helpful. And in the core tong market, what's your best sense of the mix between land and offshore in that demand right now?

**Ted Redmond:** To give you a rough number, it varies a lot depending on the timing and the order, it's probably in the range 30 to 50% offshore. The unit volume is small but the dollar value is significantly higher so you know that revenue number I gave you is probably 20 to 50% depending on the quarter.

**John Bereznicki:** Okay. That's also helpful. And one last quick one, I notice you're still carrying the balance of your income tax recovery in Q1. Is that something you expect to realize here in the next quarter or two?

**Milica Stolic:** Definitely, we've actually realized some of it already in this second quarter. Those tax returns are filed so we're waiting to get the money back.

**John Bereznicki:** Okay, sounds good. Thanks, I'm done here.

**Jim Rakievich:** Thanks John.

**Milica Stolic:** Thanks John.

**Operator:** Thank you. The next question is a follow-up from Steve Hansen with Raymond James, please go ahead.

**Steve Hansen:** Oh yes, this might be a naive question but is the Deep Water Horizon rig incident in the Gulf dampened any of the near term outlook for drilling equipment or is it sort of a blimp on the radar?

**Ted Redmond:** It has the potential to but we don't really know at this point; we haven't seen it. I guess the one good thing is offshore is really a long cycle business. It's a two to three year process for ordering an offshore rig, so people don't really turn the tap on and off that quickly. Also offshore drilling in the Gulf has been down for quite some time so really most of the offshore equipment that we're seeing being ordered is not for the Gulf but other locations like Brazil.

**Steve Hansen:** Yes, so you have less exposure then to the jack up shallower market as opposed to the deeper water offshore market I guess?

**Ted Redmond:** Typically in the big new rigs sales for Deep Water and international, yes.

**Steve Hansen:** Yes Okay. Okay great that's it. Thanks,

**Operator:** Thank you. Ladies and gentlemen as a reminder if you do have a question please press star, one, now.

We currently have no further questions at this time.  
Please continue.

**Jim Rakievich:** Since there are no further questions I'd like to sum up the call by emphasizing our growth strategy. We are in good position to take advantage of both organic growth and opportunity-based acquisition growth. We are especially focused on building out a complete line of drilling and work over equipment so that we can be a one-stop shop in this regard. We are committed to innovation and establishing McCoy in a global market leadership position.

We'd like to thank our shareholders for their support and we look forward to getting back on the growth track as we move global industry forward in 2010.

**Operator:** Ladies and gentlemen, this does conclude the conference call for today. We appreciate your participation. You may now disconnect your lines and have a great rest of the day.