

PRESIDENT'S MESSAGE

We took tremendous steps down strategic and innovative paths to global growth in 2011. Most importantly, we implemented several product development initiatives that will enhance our results for years to come. Not only are we set to introduce several new drilling and tubular handling products to the market in 2012 and 2013, we established an operational base and centre for continued innovation in Houston, Texas, the hub of the world's petroleum business. Add to that the strength of our balance sheet and we are well positioned to execute our strategic growth plan of becoming a trusted provider of innovative products and services for the global energy industry, mainly in the drilling and completions business.

Our growth paths are anchored by focusing on our core business: supplying innovative tools, technologies and services to the global oil and gas industry. The oil and gas business can be volatile, but our strategies are designed to provide diversity, stability and resiliency even during challenging times. With a continued focus on increasing our penetration into international drilling markets, which are typically more stable than in North America, McCoy is reducing its risk of single-market volatility.

Innovative product development

The most important avenue for organic growth, and with long-term benefits, is our investment in the design and development of innovative products for the energy industry. During 2011, new product development moved to the forefront. Five major pieces of drilling and tubular handling equipment are currently under development, with the first two to be launched in 2012 and the rest in 2013-2014. In the next few months, we will release the weTORQ, an iron roughneck product that makes up and breaks out tubulars, as well as the weCATT, a torque sub product that monitors the make up of tubulars from a top drive and records torque, rotation and hook load wirelessly. Both products will be targeted at drilling contractors and rig manufacturers, customer segments we see as opportunities for worldwide growth and diversification of our revenue stream.

In conjunction with the release of McCoy's new products, the Corporation will also be launching its new product brand strategy. McCoy's new innovative products will be branded as the "we" product line. The "we" brand is defined as a joint partnership between McCoy and our customers. The official launch of the new product brand strategy will take place later in 2012.

Our commitment to innovation is significant. Last year we increased our capital investment in new product development to 4% of revenue from less than 1% in the previous year. This signifies not only a commitment to developing innovative products, but also the importance we place on these new products to our expansion in terms of sales, higher margins and global market penetration. We recognize that new product development, and particularly complete product lines, is not a short-term play. We are confident there will be substantial rewards from this organic growth in the years ahead.

Expanding global reach

Early last year another strategic path to global growth opened up when we purchased a facility and established an operational base in Houston, Texas, the worldwide hub of the oil and gas industry. The Houston office is the headquarters for McCoy's Drilling & Completions division. It provides a physical presence near our major customers, the vast majority being global companies, and is a focal point for our international sales and marketing team. The locale will also play a significant role in our product development programs; we have been able to attract talented engineers to work within our design team in Houston. As we continue to expand our international networks, our Houston presence will also offer the opportunity to build an

operations-focused senior management team in support of the corporate executive team in Edmonton.

Maintaining our focus on expanding global reach, McCoy has now, for the first time, marketing and sales representatives outside of North America. We have representatives in growing markets, close to our customers, including the Middle East North Africa (MENA) region; the Russia India Caspian Sub-Sahara (RICS) region; and the Far East.

Another area McCoy has been focusing on is the growth of our replacement parts and service business for drilling equipment worldwide. Our Rig Parts division provides a life-cycle revenue stream and is a growth area with high margins.

Balance sheet strength

For all of our growth initiatives, a strong balance sheet has been critical. Our financial strength has provided the flexibility to invest in innovation and expand our product development initiative in a short time. Innovation is an important business driver. We believe that by investing in McCoy at a time when our balance sheet is strong, we are investing in long-term growth and value for our shareholders. Prudent management of the balance sheet is an ongoing priority.

In December 2010, given our growing cash flow and excellent balance sheet, we were able to reinstate our quarterly dividend of \$0.01 per common share as a way to reward shareholders while ensuring sufficient capital for growth. One year later in December 2011, we increased our quarterly dividend to \$0.03 per share. Meanwhile, we continue to pursue strategic acquisitions, focusing on opportunities where technologies would enhance or accelerate our own development programs. However, we are disciplined in our approach to growing our business. At all times, we find a balance between conserving cash for acquisitions and investing in new product development for long-term expansion through innovation. We view our balance sheet strength as a key pathway to global growth that will build meaningful shareholder value.

I would like to acknowledge two individuals, one who recently left the Corporation and another who recently joined us. David Buck retired from McCoy in January 2012 after serving as the Senior Vice President of the Drilling & Completions division. Mr. Buck was an integral part of McCoy's executive team. He founded Superior Manufacturing & Hydraulics over 30 years ago in Lafayette, Louisiana, which was purchased by McCoy in 2007. We wish him well in his much deserved retirement.

At the same time, I would like to welcome Jim Nowotny to the McCoy team as our new Senior Vice President, Drilling & Completions. Mr. Nowotny comes to McCoy from Atwood Oceanics, a company engaged in the business of international offshore drilling. Mr. Nowotny has significant international experience, including leading offshore drilling operations and projects in Australia, Italy, Singapore and Turkey. Because of his engineering and operations experience, he understands firsthand how to deliver quality products and services. Mr. Nowotny will be an excellent addition to the executive team. His strategic acumen and operations experience will be beneficial as we continue to grow McCoy's presence in the global energy services industry.

As we continue to pursue global growth, I must thank the individuals who work tremendously hard every day to execute our plan. Together, we are on the path to being the trusted supplier of innovative products and services for the global energy industry.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis of Financial Results (MD&A), dated March 22, 2012, 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, 2011 and 2010. The 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. Certain prior-period balances in the consolidated financial statements have been reclassified to conform to current period presentation and policies. 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 Statements

The MD&A contains forward-looking statements and forward-looking information within the meaning of applicable securities laws. The use of any of the words "expect", "anticipate", "continue", "estimate", "objective", "ongoing", "may", "will", "project", "should", "believe", "plans", "intends" and similar expressions are intended to identify forward-looking information or statements. More particularly and without limitation, the MD&A contains forward-looking statements and information concerning McCoy's acquisition strategy, future development and growth prospects, ability to meet current and future obligations, currency, exchange and interest rates and the Corporation's future financial performance. The forward-looking statements and information are based on certain key expectations and assumptions made by McCoy, including expectations and assumptions concerning fluctuations in the level of oil and gas industry capital expenditures, McCoy's ability to integrate acquired businesses and complete strategic acquisitions of additional business and other factors that affect demand for McCoy's products. Although McCoy believes that the expectations and assumptions on which such forward-looking statements and information are based are reasonable, undue reliance should not be placed on the forward-looking statements and information because McCoy can give no assurance that they will prove to be correct. By its nature, such forward-looking information is subject to various risks and uncertainties, which could cause McCoy's actual results and experience to differ materially from the anticipated results or expectations expressed. These risks and uncertainties, include, but are not limited to, fluctuations in oil and gas prices, fluctuations in the level of oil and gas industry capital expenditures and other factors that affect demand for McCoy's products, industry competition, the need to effectively integrate acquired businesses, uncertainties as to McCoy's ability to implement its business strategy effectively in Canada and the United States, labour, equipment and material costs, access to capital markets, interest and currency exchange rates, technological developments, political and economic conditions and McCoy's ability to attract and retain key personnel. Additional information on these and other factors is available in the continuous disclosure materials filed by McCoy with Canadian securities regulators. Readers are cautioned not to place undue reliance on this forward-looking information, which is given as of the date it is expressed in the MD&A or otherwise, and not to use future-oriented information or financial outlooks for anything other than their intended purpose. McCoy undertakes no obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise, except as required by law.

Vision, Strategy and Core Businesses

McCoy's Vision
is to be the trusted provider of innovative products and services for the global energy industry.



In 2010, McCoy unveiled its new brand and simplified its structure from three segments to two: Energy Products & Services and Mobile Solutions.

McCoy sold its Parts & Service business in December 2010, its Vac & Hydrovac business in June 2011, and is in the process of winding up its joint venture interest in Prairie Truck Ltd. All were formerly part of the Mobile Solutions segment. These divestitures were an important step in focusing the Corporation on providing products and services to the global energy industry.

Energy Products & Services Overview

Energy Products & Services ("EP&S") 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.

The Drilling & Completions division consists of Farr Canada Corp. ("Farr"), located in Edmonton, Alberta; and Superior Manufacturing & Hydraulics, Inc. ("Superior") and Precision Die Technologies, L.L.C. ("PDT") both located in Lafayette, Louisiana. McCoy Coatings & Hydraulics consists of Inotec Coatings and Hydraulics Inc. ("Inotec") located in Edmonton, Alberta.

The Corporation will continue to pursue growth of the EP&S segment through organic growth from existing operations and strategic acquisitions. To facilitate this strategy the Corporation's Drilling & Completions division established a head office and center for continued innovation in Houston, Texas.

The EP&S segment continues to implement lean manufacturing techniques to increase throughput by improving productivity resulting in reduced per unit costs. In addition to growth through acquisition, this segment generates organic growth in two ways:

- a) through increasing the proportion of international sales and focusing on domestic growth markets such as the oil sands; and
- b) development of new products and services that provide McCoy with a competitive advantage using innovative technologies.

Mobile Solutions Overview

Mobile Solutions consists of the McCoy Trailers division. This segment included the McCoy Parts & Service division, which was sold in December 2010, the McCoy Vac & Hydrovac division, which was sold in June 2011. Also included in this segment is the Corporation's 50% interest in Prairie Truck Ltd., an International Truck dealership in the business of truck sales, parts and service, which is in the process of being wound up. 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, rig transportation and heavy haul and is focused on serving oil and gas clients operating in the Western Canadian Sedimentary Basin ("WCSB"), and the United States as well as through export to China, Australia and the Middle East.

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 high market peaks such as is being experienced currently.

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

McCoy is the market leader in the design and manufacture of specialized custom drilling and well servicing chassis trailers used in pressure pumping and stimulation operations, and particularly in shale oil and gas applications. The Peerless brand has a leading market position in North America and has made inroads into the UK, the Middle East and Australia.

Discontinued Operations

Effective December 31, 2010, the Truck and Trailer Parts & Services division of McCoy and the service and parts division of Peerless Limited ("McCoy Parts & Service") were sold.

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, Prairie Truck Ltd. ("Prairie") sold the majority of its assets and is in the process of being wound up. The Company has a 50% joint venture interest in Prairie.

Operating results related to McCoy Parts & Service, McCoy Vac & Hydrovac, and Prairie have been included in net earnings (loss) from discontinued operations in the consolidated statement of earnings and comprehensive income.

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.

The Year Ended December 31, 2011

(\$000 except per share amounts)	IFRS		CGAAP
	2011	2010	2009
Total revenue	153,797	100,768	77,549
Net earnings (loss) for the year from continuing operations	11,693	5,642	(11,794)
Net earnings (loss) for the year	11,924	5,350	(13,163)
Basic earnings (loss) per share from continuing operations	0.44	0.21	(0.45)
Basic earnings (loss) per share	0.45	0.20	(0.50)
Diluted earnings (loss) per share from continuing operations	0.43	0.21	(0.45)
Diluted earnings (loss) per share	0.44	0.20	(0.50)
Earnings (loss) from continuing operations before other (gains) losses and income tax expense for the year ⁽¹⁾	16,131	9,029	(1,945)
Basic earnings (loss) from continuing operations before other (gains) losses and income tax expense per share	0.61	0.34	(0.07)
Diluted earnings (loss) from continuing operations before other (gains) losses and income tax expense per share	0.60	0.34	(0.07)
EBITDAS ⁽¹⁾	21,575	13,581	2,188
Basic EBITDAS ⁽¹⁾ per share	0.81	0.51	0.08
Cash flow generated from continuing operating activities	17,526	15,619	9,577
Basic cash flow generated from continuing operating activities per share	0.66	0.59	0.36
Total Assets	109,523	86,294	73,333
Total Liabilities	39,154	26,079	20,951
Total Long-term Liabilities	9,445	8,587	7,681

A correlation exists between the Corporation's revenues and worldwide and North American rig counts. McCoy's customers increase their spending on capital equipment in response to increases in drilling activity. Capital expenditures by our customers increases revenues for McCoy and the rig counts are a strong indicator of future capital purchases. Historically the timing between the increase or decrease in rig counts and McCoy's revenues lags by approximately six months to one year.

Revenues from continuing operations have increased by \$53.0 million, or 53%, to \$153.8 million from the year ended 2010, when revenues from continuing operations were \$100.8 million. Taking into consideration a twelve month timing difference between rig counts and McCoy's revenues, using a quarterly average, worldwide rig counts^a have increased by 34% and North

^aAll references to rig counts can be accessed through Baker Hughes, Inc., http://investor.shareholder.com/bhi/rig_counts/rc_index.cfm.

American rig counts have increased by 53% during the year ended December 31, 2009 to December 31, 2010 and McCoy's revenues have increased by 53% from the year ended December 31, 2010 to December 31, 2011.

Earnings from continuing operations for the year ended 2011 have increased to 8% as a percentage of revenue from 6% for the year ended 2010. EBITDAS⁽¹⁾ as a percentage of revenue remained consistent at 14% for both the year ended 2011 and 2010. The increase in earnings from continuing operations as a percentage of revenue is attributable to McCoy reducing its general and administration expense to 12% of revenues for the year ended 2011 compared to 14% in 2010 and its sales and marketing costs to 5% of revenues for the year ended 2011 compared to 6% in 2010. Offsetting this is a decrease in gross profit of 2% from 27% in 2011 compared to 29% in 2010. The decrease in gross profit is due to higher sales from the Mobiles Solutions segment, which has a lower gross profit than the EP&S segment, as a percentage of total revenues.

Furthermore, in the Mobile Solutions segment, along with the efficiencies gained from the improved manufacturing processes, profitability has continued to improve as a result of the sharp rebound in the rig moving and pressure pumping markets. Over the last two years, there has been a significant build up of capital equipment in North America to meet the market demand for this equipment. The Trailer division of this segment has subcontracted two trailer manufacturing plants in the southern U.S. in order to keep up with demand. These agreements have allowed for an increase in Trailer revenues by approximately 33%.

McCoy's order backlog remains strong in both the EP&S and Mobile Solutions segments.

The Board of Directors reinstated a quarterly dividend of \$0.01 per common share in the first quarter of 2011, and effective December 13, 2011, the Board increased its quarterly dividend payment to \$0.03 per common share. McCoy's fourth quarter dividend was paid on December 30, 2011 and was the first regular dividend paid at this increased amount since December 4, 2008.

Dividend Declared	Dividend Paid	Amount per Common Share
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
September 17, 2009	October 15, 2009	\$0.01
May 29, 2009	June 30, 2009	\$0.01
February 26, 2009	March 31, 2009	\$0.01
December 4, 2008	December 31, 2008	\$0.03

A dividend was not declared during 2010 nor the fourth quarter of 2009 as the Board of Directors felt that it was prudent to preserve cash given the uncertainty in market conditions and to ensure availability of future growth capital.

On March 17, 2011, McCoy's Board of Directors declared a special dividend of \$0.04 per common share, which was paid on April 11, 2011. The special dividend was declared as a result of McCoy's 2010 financial results and the strategic sale of McCoy Parts & Service. The special dividend continues McCoy's philosophy of rewarding long-term shareholders while keeping the momentum of building McCoy's balance sheet strength and investing in growth.

(1) Non-GAAP Measurements

Earnings from continuing operations before other (gains) losses and income tax expense for the year is a non-GAAP measurement defined as “earnings from continuing operations before the impact of other gains and losses and income taxes”. Earnings from continuing operations before other (gains) losses and income tax expense for the year is a key measure used by management to evaluate earnings from operations.

EBITDA is a non-GAAP measurement 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 a non-GAAP measurement defined as “earnings from continuing operations before impairment losses, interest, taxes, depreciation, amortization and share-based compensation”. McCoy reports on EBITDAS because it is a key measure used by management to evaluate performance. EBITDAS is used in making decisions relating to distributions to shareholders. McCoy believes 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.

EBITDA and EBITDAS have been calculated as follows for the year ended December 31:

	IFRS		CGAAP
	2011	2010	2009
(\$000 except per share amounts)			
Earnings (loss) for the year from continuing operations	11,693	5,642	(13,163)
Income tax expense	4,561	3,181	(2,897)
Interest (net)	259	337	694
Amortization	4,351	3,931	4,512
Impairment of assets held for sale	226	126	-
Goodwill and intangibles impairment	-	-	12,691
EBITDA	21,090	13,217	1,837
Share-based compensation	485	364	351
EBITDAS	21,575	13,581	2,188

Results of Operations

Sales by Operating Segment – Year Ended December 31

(\$000 except percentages)	Energy Products & Services	Mobile Solutions	Inter-Segment Eliminations	Total
2011 sales	84,668	69,221	(92)	153,797
2010 sales	68,487	32,505	(224)	100,768
Annual Percentage Increase	24%	113%		53%

Revenue for the EP&S segment increased by 24% to \$84.7 million for 2011 from sales of \$68.5 million for 2010 due to increased spending in the drilling equipment market in these comparative years.

Taking into consideration a twelve month timing difference between rig counts and McCoy's revenues, using a quarterly average, worldwide rig counts have increased by 34% and North American rig counts have increased by 53% during the year ended December 31, 2009 to December 31, 2010 and McCoy's revenues have increased by 53% from the year ended December 31, 2010 to December 31, 2011.

International drilling activity continues to be a bright light as international sales remain strong in certain countries due to the strong price of oil. The worldwide rig count has increased by 12% from December 2010 and the North America rig count has increased by 15% from December 2010. As the number of rigs working internationally and in North America is maintained or increases, McCoy expects that demand for capital equipment will continue, which will be positive for both the EP&S and Mobile Solutions segments.

Rig counts have surpassed the peak levels reached in 2008 and McCoy is experiencing steady demand for quoting and orders. EP&S continues to experience a backlog build up, and the revenue pipeline for drilling and completions equipment has recovered to 2008 levels. If drilling activity levels drop, the improving demand for capital equipment could be reduced.

The Mobile Solutions segment experienced an increase in revenue of \$36.7 million, or 113%, from \$32.5 million for the year ended 2010 to \$69.2 million for 2011. The increase is primarily due to the rapidly increasing demand for hydraulic fracturing equipment and services in the WCSB and the U.S. land market, from which the majority of revenue for the Mobile Solutions segment is derived. Management is improving capacity in response to the strength of these markets in parallel with the increases in the capital equipment spending in the pressure pumping industry.

The Mobile Solutions segment has been successful in generating revenue above forecast and has had substantial increases compared to the same period in 2010, primarily due to steady demand for more horsepower in pressure pumping as capital equipment spending is continuing by pressure pumping companies.

The sales backlog for the Trailers division remains healthy, primarily in the well stimulation, well servicing and custom drilling trailer markets, both in Canada and the United States. As service companies disclose their 2012 capital budgets, it is apparent that there is a trend to reduce the amount of equipment that will be ordered in the future.

The Penticton plant is operating near capacity. Additional capacity has been achieved by subcontracting two trailer manufacturing plants in the southern U.S. These facilities are much closer to our US customers and have allowed us to increase revenue in advance of plan.

Gross Profit by Operating Segment – Year Ended December 31

(\$000 except percentages)	Energy Products & Services	Mobile Solutions	Total
2011 Gross Profit	28,962	13,315	42,277
% of Sales	34%	19%	27%
2010 Gross Profit	23,116	6,247	29,363
% of Sales	34%	19%	29%
Annual Percentage Increase (Decrease)	0%	0%	(2)%

Consolidated gross profit percentage is 27% for 2011 which is slightly lower than the gross profit of 29% for the year ended 2010. The consolidated gross profit percentage has decreased slightly because the revenue mix includes a greater percentage of revenues from the Mobile Solutions segment, which has lower margins than EP&S. For 2011, the percentage of revenues generated from the Mobile Solutions segment as a percentage of total revenues was 45% compared to 32% in 2010.

EP&S increased gross profit by 25% or \$5.8 million, from \$23.1 million in 2010 to \$29.0 million for 2011. This increase is tied directly to the increase of sales for the year. The gross profit percentage for EP&S has remained consistent year over year.

The Mobile Solutions segment's gross profit increased by \$7.1 million or 113%, from \$6.2 million in 2010 to \$13.3 million for 2011. This increase relates directly to higher sales from increased horizontal drilling activity in the North American market. The gross profit percentage for Mobile Solutions has also remained consistent year over year.

General and Administration

General and administration expenses increased by \$5.0 million, or 36%, for 2011 to \$18.8 million, compared to \$13.8 million for 2010. This increase is directly attributable to the establishment of a center for continued innovation in Houston, Texas in 2011. We expanded our team of design engineers and invested in research and development in order to support our ongoing commitment to new product development. Additionally, in 2011 the Corporation has had increased costs due to its expansion of facilities in Broussard, Louisiana and has incurred costs in its pursuit of acquisition targets. As a percentage of revenue, general and administrative expenses are 12% for 2011 compared to 14% for 2010. The reduction of general and administration expenses as a percentage of revenue is primarily due to the increase in revenues, but also efficiencies attained by McCoy in most of the categories of costs included in general and administration expenses.

Included in general and administration expenses in 2011 are foreign exchange gains of \$0.1 million compared to foreign exchange losses of \$0.2 million in 2010. The gain is the net effect of exchange rate fluctuations on the translation of monetary assets and liabilities of the Corporation denominated in a foreign currency to Canadian dollars at year end.

McCoy typically holds a positive net U.S. dollar working capital position, therefore foreign exchange gains or losses will continue as long as the Canadian to U.S. dollar exchange rate fluctuates. The subcontracted trailer manufacturing plants in the southern U.S. have mitigated a portion of the foreign exchange risk by matching costs and revenues in a common currency.

McCoy will continue to monitor the currency fluctuations between the Canadian dollar and the U.S. dollar. Based on our projected requirements for converting U.S. cash to Canadian dollars, we may periodically enter into forward contracts to partially manage our exposure as necessary.

Management expects general and administrative expenses as a percentage of revenue to remain consistent in 2012 as compared to 2011 as the Company continues to make investments to support long-term growth initiatives.

Sales and Marketing

Sales and marketing expenses have increased by \$0.9 million, or 15%, to \$7.1 million for the year ended 2011 compared to \$6.2 million for 2010. As a percentage of revenue, sales and marketing expenses are 5% for 2011 compared to 6% for 2010 representing a decrease of 1%. This decrease is attributable to the fact that certain sales and marketing costs, such as trade show expenses, have remained similar to 2010; however, given the 53% increase in revenues when comparing 2011 to 2010, this expense to revenue comparison has been diluted. Management expects sales and marketing costs to continue to decrease as a percentage of revenues in 2012.

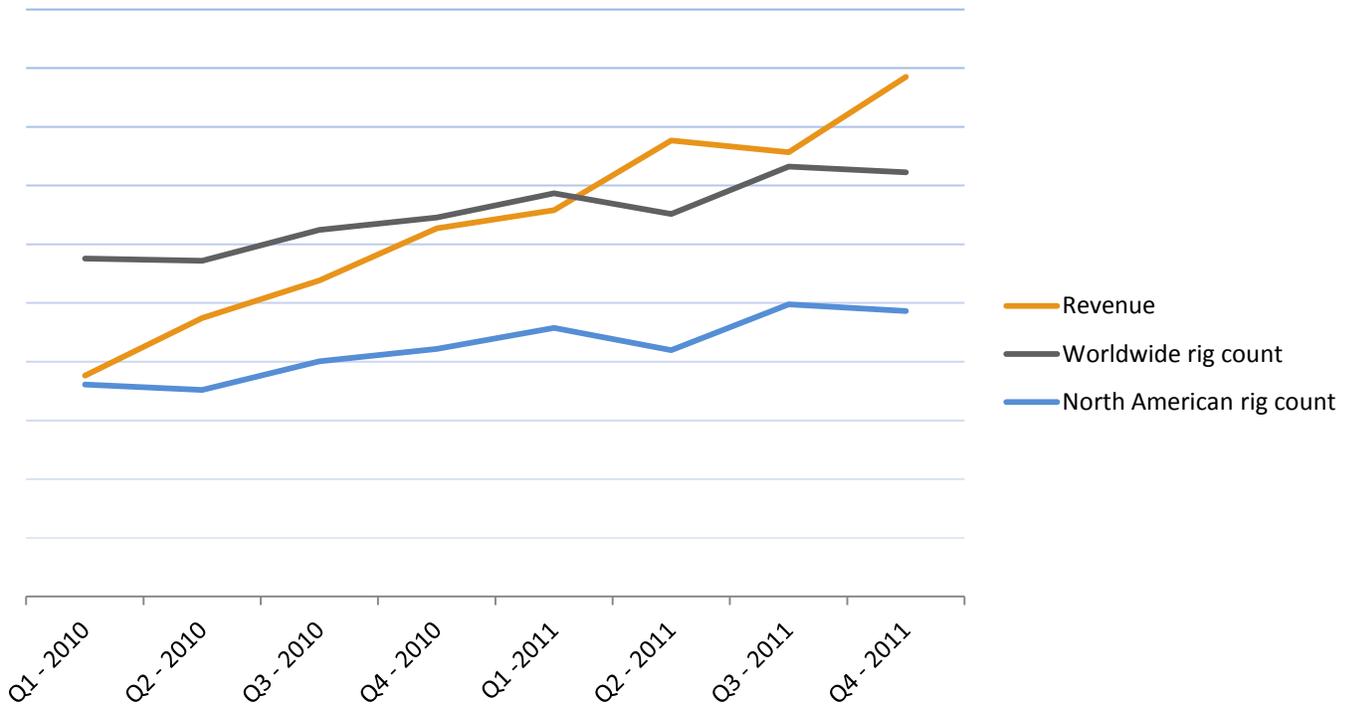
Finance charges and income

Finance charges and income were \$0.3 million in both 2011 and 2010. Finance charges and income remain low as the balance sheet continues to be strengthened in anticipation of future growth opportunities.

Summary of Quarterly Results

(\$000 except per share amounts)	2011				2010			
	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
Total revenue	44,251	37,815	38,834	32,897	31,351	26,908	23,701	18,808
Net earnings from continuing operations	3,659	3,010	3,222	1,802	1,972	1,799	1,194	677
Net earnings	3,809	3,010	3,284	1,821	1,861	1,945	1,108	436
Basic earnings per share from continuing operations	0.14	0.11	0.12	0.07	0.07	0.07	0.04	0.03
Basic earnings per share	0.14	0.11	0.12	0.07	0.07	0.07	0.04	0.02
Diluted earnings per share from continuing operations	0.14	0.11	0.12	0.07	0.07	0.07	0.04	0.03
Diluted earnings per share	0.14	0.11	0.12	0.07	0.07	0.07	0.04	0.02

Correlation of Quarterly Revenues and Rig Counts



A correlation exists between the Corporation’s revenues and worldwide and North American rig counts. McCoy’s customers increase their spending on capital equipment in response to increases in drilling activity. Capital expenditures by our customers increases revenues for McCoy and the rig counts are a strong indicator of future capital purchases. Historically the timing between the increase or decrease in rig counts and McCoy’s revenues lags by approximately six months to one year.

Fourth quarter highlights

(\$000 except per share amounts)	IFRS		CGAAP
	2011	2010	2009
Total revenue	44,251	31,351	19,293
Net earnings (loss) for the period from continuing operations	3,659	1,972	(10,639)
Net earnings (loss) for the period	3,809	1,861	(11,237)
Basic earnings (loss) per share from continuing operations	0.14	0.07	(0.40)
Basic earnings (loss) per share	0.14	0.07	(0.42)
Diluted earnings (loss) per share from continuing operations	0.14	0.07	(0.40)
Diluted earnings (loss) per share	0.14	0.07	(0.42)
Earnings (loss) from continuing operations before other (gains) losses and income tax expense for the period ⁽¹⁾	4,174	3,483	(877)
Basic earnings (loss) from continuing operations before other (gains) losses and income tax expense per share	0.16	0.13	(0.03)
Diluted earnings (loss) from continuing operations before other (gains) losses and income tax expense per share	0.15	0.13	(0.03)
EBITDAS ⁽¹⁾	5,598	4,445	(94)
Basic EBITDAS ⁽¹⁾ per share	0.21	0.17	(0.00)
Cash flow generated from continuing operating activities	5,421	7,950	2,431
Basic cash flow generated from continuing operating activities per share	0.20	0.30	0.09

Rig counts have experienced steady increases for the past eight quarters with the exception of the June 30, 2011 and December 31, 2011 quarters, which saw slight declines. Rig count increases are reflected in McCoy's financial performance. Revenues from continuing operations have increased by \$12.9 million, or 41%, to \$44.3 million from the same period of 2010, when revenues from continuing operations were \$31.4 million. Taking into consideration a twelve month timing difference between rig counts and McCoy's revenues, worldwide rig counts have increased by 29% and North American rig counts have increased by 42% from December 31, 2009 to December 31, 2010 and McCoy's revenues have increased by 41% from Q4 2010 to Q4 2011.

EBITDAS⁽¹⁾ for the fourth quarter of 2011 were 13% of revenues compared to 14% of revenues for the same period in 2010. The decrease in EBITDAS is attributable to the establishment of a center for continued innovation in Houston, Texas in 2011. We expanded our team of design engineers and invested in research and development in order to support our ongoing commitment to new product development. Additionally, in 2011 the Corporation has had increased costs due to its expansion of facilities in Broussard, Louisiana and has incurred costs in its pursuit of acquisition targets. None of these costs were present in the fourth quarter of 2010.

Liquidity and Capital Resources

Year Ended December 31

(\$000)	IFRS		CGAAP
	2011	2010	2009
Cash generated by operating activities	18,181	15,036	10,681
Cash used in investing activities	(2,784)	(1,710)	(4,982)
Cash used in financing activities	(2,759)	(593)	(4,821)
Foreign exchange gain (loss) on cash held in foreign currency	502	(272)	(457)
Increase in cash	13,140	12,461	421

Cash flow generated by operating activities for the year ended December 31, 2011 increased by \$3.1 million compared to 2010. This increase is comprised of increases in EBITDA⁽¹⁾ of \$7.9 million and cash from discontinued operations of \$1.2 million in 2011 compared to 2010. Interest payments were also \$0.1 million lower in 2011 as compared to 2010 and the Corporation had a \$0.1 million gain on sale of property, plant and equipment in 2011 compared to a loss of \$0.2 million in 2010. In addition, the decrease in cash associated with changes in non-cash working capital was \$0.3 million in 2011 compared to a decrease in cash of \$1.5 million in 2010. The Corporation made tax payments in 2011 of \$3.5 million compared to tax refunds in 2010 \$3.7 million. The change in cash flows associated with income taxes is due to the Corporation receiving \$3.7 million in net tax refunds in 2010 associated with the 2009 year end, which generated a loss, in comparison to paying 2010 taxes and instalments in 2011 of \$3.5 million.

Cash used in investing activities increased by \$1.1 million for 2011 compared to 2010. Increases in cash from investing activities in 2011 in comparison to 2010 relate to a \$1.5 million dividend from the Corporation's joint venture, proceeds from assets held for sale of \$0.4 million and an increase in the repayment of notes receivable of \$0.3 million. In comparison to 2010, in 2011 there was a decrease in the proceeds from the sale of property, plant and equipment of \$0.1 million, a reduction of cash from the disposition of Rebel of \$0.5 million and increases in the purchase of property, plant and equipment of \$2.7 million and intangible assets of \$0.1 million. The nature and purpose of the property, plant and equipment expenditures is mostly plant equipment purchases and the intangibles is primarily software. The expected source of funds for these capital purchases is operating cash flows. McCoy also had cash on hand at December 31, 2011 of \$29.4 million and \$10 million is available under its credit facility. As at December 31, 2011, based on the levels of accounts receivable and inventories used to calculate the available credit, McCoy has access to \$6.9 million of the credit facility.

Cash used in financing activities increased by \$2.2 million in 2011 compared to 2010. McCoy's Board reinstated the quarterly dividend starting in the first quarter of 2011 and increased the quarterly amount to \$0.03 per share as of December 13, 2011. The quarterly dividends along

with the \$0.04 per share special dividend issued to shareholders, amounted to a cash out flow in 2011 of \$2.6 million. In addition, net repayments of borrowings and finance lease obligations were \$0.1 higher in 2011 as compared to 2010. This is offset by \$0.6 million in cash received in 2011 from borrowings undertaken to purchase a property in Houston in 2011 and \$0.1 million received from the issuance of share capital on the exercise of employee stock options.

Management believes that with the projected level of operations for 2012 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. Management consistently monitors economic conditions and will manage capital spending accordingly.

Debt to Equity Ratio

December 31, 2011	December 31, 2010	January 1, 2010
0.56 to 1	0.43 to 1	0.40 to 1

The debt to equity ratio fluctuates as McCoy completes acquisitions and alternate forms of financing are used. McCoy has taken a calculated risk approach in its use of debt to finance operations.

Financial instruments

McCoy's financial instruments consist of cash and cash equivalents, trade and other receivables, notes receivable, trade and other payables, borrowings and finance lease obligations.

McCoy 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
Notes receivable	Loans and receivables	Amortized cost
Trade and other payables	Other financial liabilities	Amortized cost
Borrowings	Other financial liabilities	Amortized cost

As at December 31, 2011 and 2010, McCoy did not have any financial assets classified as financial assets at fair value through profit and loss, available-for-sale or held-to-maturity.

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:

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 U.S. dollar. The Corporation attempts to match U.S. dollar cash flows and reported amounts for U.S. dollar revenues and expenditures on a period-to-period basis to mitigate a portion of foreign currency risk.

Based on the Corporation's U.S. dollar denominated monetary assets and liabilities at December 31, 2011, the Corporation estimates that a one-cent change in the value of the U.S. dollar would increase or decrease net earnings, net of tax, by \$76 (2010 - \$36).

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, 2011, would have increased or decreased net earnings, net of tax, for the year ended December 31, 2011, by \$40 (2010 - \$35).

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 U.S. 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. The Corporation believes that credit risk is mitigated given the Corporation's broad customer base across varying geographic regions throughout the world. Additionally, on international sales, receipt of payment is often required prior to shipping. Allowances are provided for potential losses that may be incurred at the balance sheet date.

As of December 31, 2011, trade receivables were classified as follows:

	December 31 2011	December 31 2010	January 1 2010
	\$	\$	\$
Fully performing	11,157	7,873	7,712
Past due but not impaired	3,643	5,077	1,234
Indications of possible impairment	265	211	294
Trade receivables	<u>15,065</u>	<u>13,161</u>	<u>9,240</u>

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 an impairment provision of \$265 (2010 - \$211) is sufficient to cover credit risk.

The aging analysis of trade receivables is as follows:

	December 31 2011	December 31 2010	January 1 2010
	\$	\$	\$
0 to 30 days	9,715	6,417	5,888
31 to 60 days	3,265	3,523	1,824
61 to 120 days	1,906	1,980	1,098
Over 120 days	179	1,241	430
	15,065	13,161	9,240
Less: provision for impairment	(265)	(211)	(294)
Trade receivables	14,800	12,950	8,946
Prepaid expenses	1,188	1,020	792
Other receivables	1,471	2,971	290
Total trade and other receivables	17,459	16,941	10,028

Movements on the Corporation's provision for impairment of trade receivables are as follows:

	2011	2010
	\$	\$
Beginning of year	211	294
Provision for impairment	81	51
Provision related to discontinued operations	(30)	(79)
Receivables written off (recovered)	3	(55)
End of year	265	211

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:

As at December 31, 2011	Trade and other payables	Finance lease obligations	Borrowings	Total
	\$	\$	\$	\$
Within 1 year	25,001	276	733	26,010
1-3 years	-	228	1,405	1,633
3-5 years	-	6	3,912	3,918
Over 5 years	-	-	571	571
	25,001	510	6,621	32,132

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:

	December 31 2011	December 31 2010	January 1 2010
	\$	\$	\$
Borrowings	5,232	5,108	4,917
Finance lease liabilities	226	477	850
Shareholders' equity	70,369	60,215	55,281
Total capital	75,827	65,800	61,048

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

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

McCoy's key financial covenant with its lender is Funded Debt to EBITDA⁽¹⁾, calculated on a rolling four quarter basis, as a result of a financing agreement executed on July 15, 2011.

The following table sets forth the calculation of Funded Debt to EBITDA⁽¹⁾:

	2011	2010
	\$	\$
Current portion of borrowings	481	452
Current portion of finance lease obligations	253	362
Borrowings	5,232	5,108
Finance lease obligations	226	477
Less: Canadian denominated cash on deposit	(5,265)	(7,151)
Total Funded Debt	927	(752)
Normalized rolling four quarter EBITDA⁽¹⁾	21,090	13,217
Ratio of funded debt to EBITDA⁽¹⁾	0.04	(0.06)

Capital management objectives, policies and procedures were unchanged since the last period.

The Corporation's lending requirements as per the financing agreement executed on July 15, 2011 are subject to:

- Maintenance of the ratio of current assets to current liabilities of no less than 1.25:1
- Funded Debt to EBITDA⁽¹⁾, calculated on a rolling four-quarter basis, of 2.50:1 or less;
- An EBITDA⁽²⁾ to interest expense plus the current portion of long-term debt ratio of greater than 1.20 to 1; and
- An additional payment to a maximum of \$250 per year is required if EBITDAS⁽²⁾ is less than \$5,000 per year. No payment was required in 2011 (2010 - \$nil).

Inventories

	December 31 2011	December 31 2010	January 1 2010
	\$	\$	\$
Raw materials	6,247	2,396	3,238
Work-in-progress	7,084	5,550	4,028
Finished goods	11,090	6,942	10,518
	<u>24,421</u>	<u>14,888</u>	<u>17,784</u>

During the year ended December 31, 2011, inventories recognized as cost of sales amounted to \$89,164 (2010 – \$55,515).

During the year ended December 31, 2011, a recovery of \$143 was recognized in cost of sales from inventory provisions taken in prior years (2010 - \$50 write down).

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:

	Total	2012	2013	2014	2015	2016	Thereafter
Operating lease obligations	16,407	3,072	2,747	2,673	2,672	2,382	2,861
Finance lease obligations	510	276	194	34	6	-	-
Borrowings	6,621	733	713	692	3,852	60	571
Total	<u>23,538</u>	<u>4,081</u>	<u>3,654</u>	<u>3,399</u>	<u>6,530</u>	<u>2,442</u>	<u>3,432</u>

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 \$1,011 and \$3,118 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 of \$304 per annum until 2018 and are to be renegotiated at market rates for the last five years of the lease. A renewal option exists to extend the lease for five years at market rates.
- Minimum annual lease payments of \$520 per annum until 2018 and are to be renegotiated at market rates for the last five years of the lease. A renewal option exists to extend the lease for five years at market rates.
- Minimum annual lease payments of \$256 per annum until 2018.

The Corporation has three lease agreements with a company whose principal is an officer of the Corporation. The following is a summary of each agreement:

- Minimum annual lease payments of \$U.S. 154 per year until 2017. The Corporation has the option to renew the lease for another five years at \$U.S.162 per year.
- Minimum annual lease payments of \$U.S. 301 per year until 2017. The Corporation has the option to renew the lease for another five years at \$U.S. 330 per year.
- Minimum annual lease payments of \$U.S. 190 per year beginning in July 2012, until 2022.

During the year ended December 31, 2011 the Corporation recorded operating lease expense of \$1,920 (2010 - \$1,868) with respect to related party operating leases.

Outstanding Share Data

As at March 22, 2012 the following class of shares and equity securities potentially convertible into common shares were outstanding:

Common shares	26,509,245
Convertible equity securities	
Stock options	1,616,667

Upon exercise, the stock options are convertible into an equal number of common shares.

For details relating to the stock options, please refer to note 15 of the consolidated financial statements.

Investment in joint venture

The major components of the Corporation's 50% interest in Prairie Truck Ltd. ("Prairie") are as follows:

	December 31 2011	December 31 2010	January 1 2010
	\$	\$	\$
Current assets	335	2,030	2,162
Non-current assets	-	91	119
Total assets	335	2,121	2,281
Current liabilities	102	420	188
Non-current liabilities	-	339	832
Total liabilities	102	759	1,020
Investment in joint venture	233	1,362	1,261

	December 31 2011	December 31 2010
	\$	\$
Revenue	4,680	4,041
Expenses	4,305	3,940
Share of earnings	375	101

On October 31, 2011 the operating assets of Prairie were sold and the joint venture ceased operations. The joint venture is in the process of being wound up and the Corporation's share of earnings from joint venture has been recorded as discontinued operations.

During the year ended December 31, 2011 the Corporation received dividends from Prairie of \$1,504 (2010 - \$nil).

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 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. A provision for obsolescence is recorded each period and updated based on management's judgment.

ii) Provisions

Considerable judgment is used in measuring and recognizing provisions and the exposure to contingent liabilities. Judgment is necessary to determine the likelihood that a pending litigation or other claim will succeed, or a liability will arise and to quantify the possible range of the financial settlement.

iii) 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 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 judgment.

Recent Accounting Pronouncements Issued and Not Yet Adopted

The International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) have issued the following standards and amendments that have not been applied in preparing the annual 2011 consolidated financial statements as their effective dates fall within annual periods beginning subsequent to the current reporting period:

Proposed standards and amendments	Description	Previous standard	Effective date
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.	SIC-12 – Consolidation – Special Purpose Entities IAS 27 – Consolidated and Separate Financial Statements	January 1, 2013
IFRS 11 – Joint Arrangements	Focuses on the rights and obligations of an arrangement rather than its legal form and specifies the method to account for interests in jointly controlled entities.	IAS 31 – Interests in Joint Ventures SIC 13 – Jointly Controlled Entities –Non-Monetary Contributions by Venturers	January 1, 2013
IFRS 12 – Disclosure of Interests in Other Entities	A new standard detailing disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose entities and other off-statement of financial position vehicles.	Various – no direct replacement	January 1, 2013
IFRS 13 – Fair Value Measurement	Sets out a single framework for measuring fair value and disclosure requirements surrounding the inputs and assumptions used in determining fair value.	Various – no direct replacement	January 1, 2013
IFRS 9 – Financial Instruments	Initially issued in November 2009 to address the classification and measurement of financial assets. Additional guidance issued in October 2010 on the classification and measurement of financial liabilities.	IAS 39 – Financial Instruments: Recognition and Measurement	January 1, 2015

Management continues to evaluate the potential measures and disclosures 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.

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 the chief financial officer (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, 2011, by management under the supervision of the CEO and the CFO. Based on this evaluation, the CEO and the CFO have concluded that, as at December 31, 2011, 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 the 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 CFO has concluded that as at December 31, 2011, ICFR (as defined in NI 52-109) were effective. There were no changes in our ICFR during the year ended December 31, 2011 that have materially affected, or are reasonably likely to affect, our ICFR.

Critical Risks and Uncertainties

As at December 31, 2011, there have been no changes in the Corporation's risks or risk management activities since December 31, 2010. 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 that is available at www.sedar.com.

Risk Factors

In addition to risks described elsewhere in this MD&A, 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 provides 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 will not 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 affect 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 affect 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.

Cyclical

As a significant percentage of the Corporation's consolidated revenues are tied, directly or indirectly, to the oil and gas industry, both in Western Canada and globally, its overall financial performance is subject to any cyclical 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 impending regulations on Greenhouse Gases ("GHGs") is anticipated to directly affect any of McCoy's business units, since all McCoy facilities emit less than the regulatory threshold of 100,000 tonnes of carbon dioxide ("CO²") per year. 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 Oil & Gas Industry most probably will face the need for capital investment to comply with impending regulations promoting CCS (Carbon Capture and Storage) for reductions in GHGs, besides current expenses (in Alberta, CO² is currently regulated at \$15/ton). Whether price adjustment, revenue adjustment or revamping will take place in any given facility of McCoy's customers is uncertain. However, the oil 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 purchased the shares of Peerless in 2004, Rebel in 2005, Inotec in 2006 and Superior and PDT in 2007 and RP in 2009. 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 had 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") and the U.S. Foreign Corrupt Practices Act (the "FCPA"), 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.

Outlook

2011 was an exceptional year for McCoy and represents the best year in company history for a number of key financial targets. Our revenue exceeded \$150 million which is a level we have not reached since the peak of the oil and gas industry in 2008. These revenues were achieved despite the Corporation's strategic divestitures of the Vac & Hydrovac and Parts & Service divisions in 2011 and 2010 respectively. In 2008 these divisions generated over \$40 million in revenue, therefore looking solely at continuing operations, 2011 had record setting levels of revenue for McCoy. Further, our EBITDAS of \$21.6 million and earnings per share of \$0.45 in 2011 were also record setting achievements for the Corporation.

The increased commitment to innovation is notable. 2011 had capital investment in new product development of 4% of revenue, which is a significant increase from 1% in 2010. We expect this level of commitment to continue throughout 2012. McCoy considers new product development as an investment which will provide tremendous shareholder value for a long period of time. Management anticipates that new product development will add approximately \$150 million in new revenue over the next five years.

International drilling activity, both land and offshore, continues to be positive as global sales remain strong due to the relatively stable price of oil. Worldwide rig counts have now surpassed peak levels reached in 2008. Forecasts for oil prices to remain above \$80 per barrel is a positive driver as global drilling activities will remain strong in that environment. Natural gas prices in North America have been suffering and this trend is also expected to continue into the foreseeable future. To date, North American land rigs have been reallocated to oil and "liquids" related drilling rather than being idled. This has meant our North American market continues to be robust. Overseas, natural gas prices are much stronger and McCoy is the benefactor due to our global presence, particularly in our EP&S segment. The sales backlog for the Mobile Solutions segment remains healthy, primarily in the well stimulation, well servicing and custom drilling trailer markets, both in Canada and the United States for at least the first half of 2012. As service companies disclose their 2012 capital budgets, it is apparent that there is a trend to reduce the amount of equipment that will be ordered in the future which we anticipate will decrease revenues for this segment in 2012.

During the year the Corporation purchased a facility and established an operational base in Houston, Texas, the worldwide hub of the oil and gas industry. The Houston office is the headquarters of McCoy's Drilling & Completions division. It provides a physical presence near the Corporation's major customers, the vast majority being global companies, and is a focal point for McCoy's international sales and marketing team as well as engineering. Beginning in 2012 this facility will provide calibration services for many of McCoy's Houston-based customers. In the future, this facility will be a distribution point for drilling equipment parts and consumables.

McCoy's EP&S segment also focused on growing its replacement parts and service business for drilling equipment worldwide. In 2011, McCoy initiated a capital program to acquire the equipment necessary to manufacture replacement parts from its facilities in Louisiana. In 2012, this product line will sell spare parts for McCoy manufactured products, as well as for other capital equipment not manufactured in-house. Growing the replacement parts and service business enables the Corporation to capitalize on the recurring revenue from maintaining capital equipment. This is a large worldwide market that aligns exceptionally well with McCoy's expertise.

Given all of McCoy's growth initiatives, a strong balance sheet is critical. The Corporation's financial strength has provided flexibility to invest in innovation and expand product development in a short period of time. These investments in turn are key to supporting long-

term growth and providing value to our shareholders. Prudent management of the balance sheet is an ongoing priority within the Corporation.

McCoy continues to explore opportunities for strategic acquisitions, targeting entities where the technologies would enhance or accelerate their own development programs. However this is a disciplined process and they are taking the appropriate steps and considering all avenues. At all times McCoy has a strategic balance between conserving cash for acquisitions and investing in new product development for long-term expansion through innovation. 2011 was a year of milestones for McCoy and looking to the future; the Corporation is poised to once again set new milestones in 2012 and push forward in expanding its global reach.

Other Information

Additional information relating to the Corporation, including the Corporation's Annual Information Form for the year end December 31, 2011 is available on SEDAR at www.sedar.com.