



# CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

As at and for the three months ended March 31, 2014

*(unaudited)*



## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Stated in thousands of Canadian dollars)  
(unaudited)

| As at   | March 31, 2014 | December 31, 2013 |
|---|----------------|-------------------|
|   | \$             | \$                |
| <b>Assets</b>                                     |                |                   |
| <b>Current assets</b>                             |                |                   |
| Cash and cash equivalents                         | 10,542         | 13,332            |
| Trade and other receivables                       | 19,669         | 14,158            |
| Inventories                                       | 36,897         | 34,607            |
| Income tax recoverable                            | 3,322          | 3,496             |
| Other current assets                              | 2,038          | 1,790             |
|   | <b>72,468</b>  | 67,383            |
| Assets of disposal groups held-for-sale           | 23,101         | 21,760            |
|   | <b>95,569</b>  | 89,143            |
| Property, plant and equipment                     | 14,891         | 15,569            |
| Intangible assets                                 | 14,707         | 14,657            |
| Deferred tax assets                               | 1,283          | 1,098             |
| <b>Total assets</b>                               | <b>126,450</b> | 120,467           |
| <b>Liabilities</b>                                |                |                   |
| <b>Current liabilities</b>                        |                |                   |
| Trade and other payables                          | 12,750         | 15,293            |
| Dividend payable                                  | 1,381          | -                 |
| Customer deposits                                 | 8,300          | 7,436             |
| Derivative financial instruments                  | 1,175          | 302               |
| Provisions  | 1,681          | 1,587             |
| Income tax payable                                | 556            | 45                |
|   | <b>25,843</b>  | 24,663            |
| Liabilities of disposal groups held-for-sale      | 9,441          | 7,882             |
|   | <b>35,284</b>  | 32,545            |
| Deferred tax liabilities                          | 1,991          | 1,919             |
| <b>Total liabilities</b>                          | <b>37,275</b>  | 34,464            |
| <b>Shareholders' equity</b>                       |                |                   |
| Share capital                                     | 59,826         | 58,849            |
| Contributed surplus                               | 3,444          | 3,593             |
| Accumulated other comprehensive income            | 2,416          | 1,212             |
| Retained earnings                                 | 23,489         | 22,349            |
| <b>Total shareholders' equity</b>                 | <b>89,175</b>  | 86,003            |
| <b>Total liabilities and shareholders' equity</b> | <b>126,450</b> | 120,467           |

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

## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME

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

| For the three months ended March 31,                           | 2014          | 2013                     |
|--|---------------|--------------------------|
|  | \$            | \$<br>(restated, note 6) |
| <b>Revenue</b>   | <b>27,220</b> | 27,284                   |
| <b>Cost of sales</b>   | <b>15,858</b> | 17,594                   |
| <b>Gross profit</b>  | <b>11,362</b> | 9,690                    |
| General and administration                                     | 6,974         | 5,670                    |
| Sales and marketing  | 1,372         | 1,118                    |
| Research and development                                       | 440           | 627                      |
| Other losses (gains) (net)                                     | 807           | (251)                    |
| Finance charges (net)  | 101           | 188                      |
|  | <b>9,694</b>  | 7,352                    |
| <b>Earnings from continuing operations before income taxes</b> | <b>1,668</b>  | 2,338                    |
| <b>Income tax expense (recovery)</b>                           |               |                          |
| Current  | 553           | 834                      |
| Deferred   | (80)          | (75)                     |
|  | <b>473</b>    | 759                      |
| <b>Earnings from continuing operations</b>                     | <b>1,195</b>  | 1,579                    |
| Earnings from discontinued operations (net of tax)             | 1,326         | 482                      |
| <b>Net earnings</b>  | <b>2,521</b>  | 2,061                    |
| <b>Other comprehensive income</b>                              |               |                          |
| Translation gain of foreign operations                         | 1,204         | 598                      |
| <b>Comprehensive income</b>                                    | <b>3,725</b>  | 2,659                    |
| <b>Earnings per share</b>                                      |               |                          |
| Basic from continuing operations                               | 0.04          | 0.06                     |
| Basic from discontinued operations                             | 0.05          | 0.02                     |
| Basic from net earnings  | 0.09          | 0.08                     |
| Diluted from continuing operations                             | 0.04          | 0.06                     |
| Diluted from discontinued operations                           | 0.05          | 0.02                     |
| Diluted from net earnings                                      | 0.09          | 0.08                     |

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

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

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

|   | Issued capital   |        | Contributed surplus | Accumulated other comprehensive income (loss) | Retained earnings | Total equity |
|---|------------------|--------|---------------------|---|-------------------|--------------|
|   | Number of shares | Amount |                     |   |                   |              |
|   | #                | \$     | \$                  | \$  | \$                | \$           |
| <b>Balances at January 1, 2013</b>                | 26,670,911       | 56,572 | 3,970               | (942)   | 17,896            | 77,496       |
| Net earnings                                      | -                | -      | -                   | -   | 2,061             | 2,061        |
| Translation gain on foreign operations            | -                | -      | -                   | 598   | -                 | 598          |
| Employee share-based compensation expense         | -                | -      | 85                  | -   | -                 | 85           |
| Dividends   | -                | -      | -                   | -   | (1,337)           | (1,337)      |
| Common shares issued on exercise of stock options | 76,667           | 252    | (62)                | -   | -                 | 190          |
| <b>Balances at March 31, 2013</b>                 | 26,747,578       | 56,824 | 3,993               | (344)   | 18,620            | 79,093       |
| Net earnings                                      | -                | -      | -                   | -   | 7,783             | 7,783        |
| Translation gain on foreign operations            | -                | -      | -                   | 1,556   | -                 | 1,556        |
| Employee share-based compensation expense         | -                | -      | 196                 | -   | -                 | 196          |
| Dividends   | -                | -      | -                   | -   | (4,054)           | (4,054)      |
| Common shares issued on exercise of stock options | 656,661          | 2,025  | (596)               | -   | -                 | 1,429        |
| <b>Balances at December 31, 2013</b>              | 27,404,239       | 58,849 | 3,593               | 1,212   | 22,349            | 86,003       |
| Net earnings                                      | -                | -      | -                   | -   | 2,521             | 2,521        |
| Translation gain on foreign operations            | -                | -      | -                   | 1,204   | -                 | 1,204        |
| Employee share-based compensation expense         | -                | -      | 100                 | -   | -                 | 100          |
| Dividends   | -                | -      | -                   | -   | (1,381)           | (1,381)      |
| Common shares issued on exercise of stock options | 219,999          | 977    | (249)               | -   | -                 | 728          |
| <b>Balances at March 31, 2014</b>                 | 27,624,238       | 59,826 | 3,444               | 2,416   | 23,489            | 89,175       |

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

## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOW

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

| For the three months ended March 31,                           | 2014           | 2013               |
|--|----------------|--------------------|
| <b>Cash generated from</b>                                     | \$             | \$                 |
| <b>Operating activities</b>                                    |                | (restated, note 6) |
| Earnings from continuing operations                            | 1,195          | 1,579              |
| Adjustments for:   |                |                    |
| Depreciation of property, plant and equipment                  | 904            | 702                |
| Amortization of intangible assets                              | 667            | 246                |
| Current income tax expense                                     | 553            | 834                |
| Deferred income tax recovery                                   | (80)           | (75)               |
| Finance charges (net)  | 101            | 188                |
| <b>EBITDA<sup>1</sup></b>                                      | <b>3,340</b>   | <b>3,474</b>       |
| Share-based compensation (recovery) expense                    | (34)           | 132                |
| Unrealized loss on derivative financial instruments            | 873            | -                  |
| Loss (gain) on disposal of property, plant and equipment       | 127            | (36)               |
| Changes in non-cash working capital balances                   | (8,156)        | (11,264)           |
| Interest paid  | (45)           | (130)              |
| Interest received  | -              | 18                 |
| Income taxes paid  | (520)          | (1,527)            |
| Net cash used in continuing operating activities               | (4,415)        | (9,333)            |
| Net cash generated from discontinued operating activities      | 1,575          | 3,350              |
| <b>Net cash used in operating activities</b>                   | <b>(2,840)</b> | <b>(5,983)</b>     |
| <b>Investing activities</b>                                    |                |                    |
| Purchases of property, plant and equipment                     | (45)           | (610)              |
| Proceeds from sale of property, plant and equipment            | 60             | 873                |
| Additions to intangible assets                                 | (710)          | (492)              |
| Net cash used in continuing investing activities               | (695)          | (229)              |
| Net cash used in discontinued investing activities             | (47)           | (49)               |
| <b>Net cash used in investing activities</b>                   | <b>(742)</b>   | <b>(278)</b>       |
| <b>Financing activities</b>                                    |                |                    |
| Repayment of finance lease obligations                         | -              | (35)               |
| Transaction costs related to the amendment of credit facility  | (92)           | -                  |
| Proceeds from issuance of share capital on exercise of options | 728            | 190                |
| <b>Net cash generated from continuing financing activities</b> | <b>636</b>     | <b>155</b>         |
| Effect of exchange rate changes on cash and cash equivalents   | 156            | 358                |
| <b>Decrease in cash and cash equivalents</b>                   | <b>(2,790)</b> | <b>(5,748)</b>     |
| <b>Cash and cash equivalents – beginning of the period</b>     | <b>13,332</b>  | <b>22,122</b>      |
| <b>Cash and cash equivalents – end of the period</b>           | <b>10,542</b>  | <b>16,374</b>      |

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

<sup>1</sup> EBITDA is an additional GAAP measure presented under IFRS defined as “net earnings before finance charges (net), income tax expense, depreciation and amortization”.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three months ended March 31, 2014

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

*(unaudited)*

### 1. NATURE OF OPERATIONS

McCoy Corporation ("McCoy", "McCoy Global" or the "Corporation") is incorporated and domiciled in Canada and provides tubular handling, assembly and measurement equipment used for making up threaded connections in the global oil and gas industry. McCoy's continuing operations are engaged in the:

- Design, manufacture and distribution of capital equipment used in both off-shore and land drilling markets to handle, make-up and measure tubular products such as casing, and to support this capital equipment through the sale of life-cycle products such as technical service, consumables (dies and inserts) and replacement parts;
- Repair, maintenance and calibration of drilling and completions equipment; and
- Rental of drilling and completions equipment.

Set out below are McCoy's principal operations:

| Operating Name                         | Country of Incorporation | Ownership Interest | Former Operating Segment | Former Division        |
|--|--------------------------|--------------------|--------------------------|------------------------|
| <b>Continuing Operations</b>           |                          |                    |                          |                        |
| McCoy Global Canada Corp. <sup>2</sup> | Canada                   | 100%               | EP&S                     | Drilling & Completions |
| McCoy Global S.à.r.l.                  | Luxembourg               | 100%               | EP&S                     | Drilling & Completions |
| McCoy Global Singapore Pte. Ltd.       | Singapore                | 100%               | EP&S                     | Drilling & Completions |
| McCoy Global UK Ltd.                   | United Kingdom           | 100%               | EP&S                     | Drilling & Completions |
| McCoy Global USA, Inc. <sup>3</sup>    | United States            | 100%               | EP&S                     | Drilling & Completions |
| <b>Discontinued Operations</b>         |                          |                    |                          |                        |
| Inotec Coating and Hydraulics Inc.     | Canada                   | 100%               | EP&S                     | Coatings & Hydraulics  |
| Peerless Limited                       | Canada                   | 100%               | Mobile                   | Trailers               |

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

The address of the registered office of the Corporation is Suite 301, 9618-42 Avenue NW, Edmonton, Alberta. The Corporation is listed on the Toronto Stock Exchange under the symbol "MCB" and on the OTCQX International under the symbol "MCCRF".

<sup>2</sup> On December 31, 2013, FARR Canada Corp. changed its name to McCoy Global Canada Corp.

<sup>3</sup> On December 31, 2013, Precision Die Technologies, L.L.C. merged into Superior Manufacturing & Hydraulics, Inc. ("Superior") and Superior changed its name to McCoy Global USA, Inc.

## 2. STATEMENT OF COMPLIANCE

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board and should be read in conjunction with the Corporation's annual financial statements for the year ended December 31, 2013, which have been prepared in accordance with International Financial Reporting Standards.

The accounting policies followed in these condensed consolidated interim financial statements are consistent with those of the previous financial year.

## 3. DIVIDENDS

| Dividend declared  | Dividend paid     | Total dividend | Amount per common share |
|--------------------|-------------------|----------------|-------------------------|
| March 14, 2014     | April 14, 2014    | 1,381          | 0.05                    |
| December 10, 2013  | December 31, 2013 | 1,369          | 0.05                    |
| September 26, 2013 | October 25, 2013  | 1,346          | 0.05                    |
| May 16, 2013       | June 14, 2013     | 1,339          | 0.05                    |
| March 14, 2013     | April 12, 2013    | 1,337          | 0.05                    |

## 4. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

### NON-DERIVATIVE FINANCIAL INSTRUMENTS

The Corporation's non-derivative financial instruments consist of cash and cash equivalents, trade and other receivables, trade and other payables and dividend payable.

The fair value of cash and cash equivalents, trade and other receivables, trade and other payables and dividend payable approximate their carrying value due to their short-term nature.

### DERIVATIVE FINANCIAL INSTRUMENTS

At March 31, 2014, the Corporation had forward foreign exchange contracts outstanding to purchase US\$25,500 (December 31, 2013 - US\$18,000) at rates varying from 1.0500 USD/CAD to 1.0825 USD/CAD with maturities ranging from one to twenty-one months from the statement of financial position date. The Corporation's derivative financial instruments related to forward foreign exchange contracts are recorded at fair value in the statement of financial position. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

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

The forward foreign exchange contracts are classified as Level 2 and the fair value is determined based on exchange or over-the-counter price quotations by reference to bid or asking price, as appropriate, in active markets. Fair value amounts reflect management's best estimates using external readily observable market data, such as future prices, foreign exchange rates and discount rates for time value. The unrealized loss of \$873 (March 31, 2013 - \$nil) on the forward foreign exchange contracts was recorded in other (gains) losses (net).

## 5. SEGMENT INFORMATION

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker (CODM). The CODM is the person or group that allocates resources to and assesses the performance of the operating segments.

The Corporation previously reported two operating segments - Energy Products & Services (EP&S) and Mobile Solutions. In the fourth quarter of 2013, the assets and liabilities of Mobile Solutions and the Coatings & Hydraulics division of the EP&S segment were transferred to assets and liabilities of disposal groups held-for-sale and the results are presented in discontinued operations. Since the measure of segment assets and liabilities excludes assets and liabilities of disposal groups held-for-sale and the measure of segment performance excludes discontinued operations, there is only one reportable segment.

## 6. DISCONTINUED OPERATIONS AND DISPOSAL GROUPS HELD-FOR-SALE

Management committed to a formal process to sell the Mobile Solutions segment and the Coatings & Hydraulics division in the fourth quarter of 2013 following a strategic decision to place greater focus on the Corporation's key competencies. Accordingly, these operations are presented as disposal groups held-for-sale. Efforts to sell the disposal groups are underway and the sale of each disposal group is expected to take place in 2014.

## 7. AMENDMENT AND RESTATEMENT TO THE CREDIT AGREEMENT

During the quarter ended March 31, 2014 the Corporation amended and restated its existing credit agreement to revise certain covenants imposed under the original agreement. Under the terms of the amended and restated credit facility, funds may be advanced in either Canadian or US currency and will bear interest at the Canadian Prime Rate, US Base Rate or LIBOR, plus a margin of between 0.75% and 2.00% (2013 - 1.00% to 2.50%). The terms of the amended and restated credit facility reduce the standby fee to 0.4% (2013 - 0.5%). Transaction costs relating to the amendment and restatement of \$92 were deferred and will be amortized over the term of the credit facility.