# MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended December 31, 2015

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# EXPLANATORY NOTES

The following Management's Discussion and Analysis of Financial Results ("MD&A"), dated March 9, 2016, 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, 2015 and 2014. The annual consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). All amounts in the following MD&A are in Canadian dollars unless otherwise stated. References to "McCoy," "McCoy Global," "the Corporation," "we," "us" or "our" mean McCoy Global Inc. and its subsidiaries, unless the context otherwise requires. Additional information relating to McCoy Global, including periodic quarterly and annual reports and Annual Information Forms ("AIF"), filed with Canadian securities regulatory authorities, is available on SEDAR at sedar.com and our website at mccoyglobal.com.

## FORWARD-LOOKING INFORMATION AND STATEMENTS

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

Forward-looking statements relating to McCoy Global's:

- merger and acquisition strategy;
- future development and organic growth prospects;
- business strategy; and
- competitive advantage.

Forward-looking statements respecting:

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

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

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

- inability to meet current and future obligations;
- inability to complete mergers or acquisitions effectively;
- inability to effectively integrate mergers or acquisitions effectively;
- inability to implement the Corporation's business strategy effectively;
- access to capital markets;
- fluctuations in oil and gas prices;
- fluctuations in capital expenditures of the Corporation's target market;
- competition for, among other things, labour, capital, materials and customers;
- interest rates:
- currency exchange rates;
- technological developments;
- global political and economic conditions;
- global natural disasters or disease;
- inability to attract and retain key personnel; and
- the risk factors set forth under "Risk Factors".

Readers are cautioned that the foregoing list is not exhaustive.

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

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

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

## DESCRIPTION OF ADDITIONAL GAAP MEASURES AND NON-GAAP MEASURES

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

EBITDA is an additional GAAP measure presented under IFRS defined as "net (loss) earnings from continuing operations, before finance charges, net, income tax expense (recovery), depreciation, and amortization."

Adjusted EBITDA is a non-GAAP measure defined as "net (loss) earnings from continuing operations before finance charges, net, income tax expense (recovery), depreciation, amortization, impairment losses, restructuring charges, non-cash changes in fair value related to derivative financial instruments and share-based compensation".

The Corporation reports on EBITDA and adjusted EBITDA because they are key measures used by management to evaluate performance. Adjusted EBITDA is used in making decisions relating to distributions to shareholders and is used in monitoring compliance with debt covenants. The Corporation believes adjusted EBITDA assists investors in assessing McCoy Global's performance on a consistent basis without regard to impairment losses, restructuring charges, non-cash changes in fair value related to derivative financial instruments, depreciation, amortization and share-based compensation expense, which are non-cash in nature and can vary significantly depending on accounting methods or non-operating factors.

Adjusted EBITDA is not considered an alternative to net (loss) earnings in measuring McCoy Global's performance. Adjusted EBITDA does not have a standardized meaning and is therefore not likely to be comparable to similar measures used by other issuers. However, McCoy Global calculates adjusted EBITDA consistently from period to period. Adjusted EBITDA should not be used as an exclusive measure of cash flow since it does 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.

## OUTLOOK AND FORWARD-LOOKING INFORMATION

The persistent global oversupply of oil and gas has resulted in a significant, prolonged down cycle without visibility for a recovery in the foreseeable future.

With some exceptions, McCoy Global's main areas of activity continued to experience a significant reduction in activity throughout the fourth quarter. The western hemisphere remains depressed as a result of severe reductions in drilling activity, both on land and offshore. There are pockets of positive activity in the eastern hemisphere in regions such as the Middle East, but drilling activity in the eastern hemisphere is also in decline due to little demand for new exploration or development projects.

These weak industry fundamentals have continued to place increasing financial pressure on customers who are taking actions to preserve cash in this time of uncertainty. Customers continue to defer purchase decisions for capital equipment and utilize surplus internal capacity to service their existing requirements. It has also become difficult to secure service work or sell spare parts as customer activity and equipment utilization is low and customers draw down their aftermarket parts and consumables inventories.

McCoy Global is entering the year with significantly reduced backlog and order intake. Expectations are now such that the market will not improve in 2016. Although the Corporation's longer term strategy to be the global market leader in tubular make-up and handling equipment solutions remains unchanged, near-term priorities have shifted to cost management and cash preservation in order to endure this phase in the cycle. All areas of the business continue to be scrutinized for cost reductions and operating efficiencies necessary to navigate through this difficult period.

Cost containment actions undertaken throughout 2015 and into 2016 have included reductions to global headcount levels by 49% since January 1, 2015, the consolidation of US production facilities in Louisiana and containing existing production facility expenses at bare minimum operating levels. Overhead expenses have also been reduced resulting in general and administrative expenses declining by $5.9 million, or 23%, year over year. Despite these efforts, under absorption of production capacity is a significant issue at these low levels of activity. It will remain challenging to align overhead expenses with recent order intake.

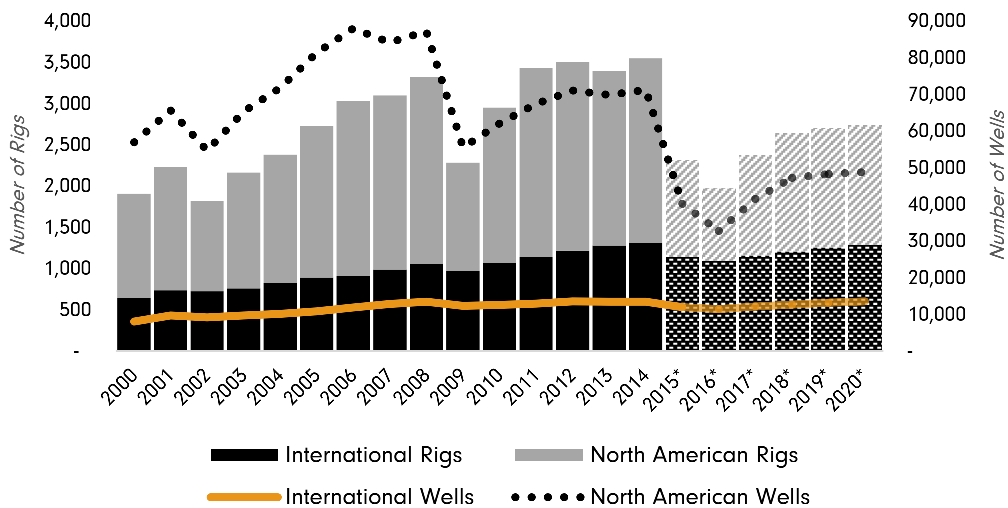
Although the fourth quarter of 2015 was difficult on many fronts, cost containment efforts, along with an organizational emphasis on preserving cash helped generate positive cash flow from operating activities of $3.7 million, largely a result of a reduction in working capital. This allowed McCoy to enter 2016 with no debt and a cash position of $27.5 million. Over the upcoming quarters, it will be increasingly challenging to maintain positive cash flow as low levels of revenue are likely to persist. The Corporation's balance sheet strength will support it in the near term while management continues to evaluate operational capabilities and further restructuring options.

Strategically, management remains committed to investing in several important product technology initiatives. Although scaled back over 2015, McCoy Global's technology development has shifted focus to product enhancement, fast to market projects and technology support for customers. These projects will ensure the Corporation can provide its customers with technology solutions that will be important to their long term success and are anticipated to result in both short-term and longer-term revenue generation opportunities.

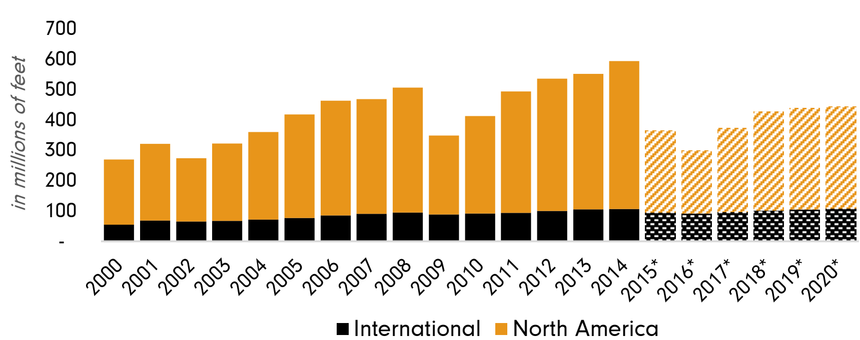
## MARKET CONDITIONS

The demand for McCoy Global's products and services is ultimately driven by oil and natural gas prices. These commodity prices have historically been cyclical in nature and are difficult to forecast as they are influenced by many factors. Higher oil and gas prices typically drive exploration and production companies to increase capital spending which in turn leads to an increase in drilling and completions activity. As this activity increases, customers require capital equipment to meet activity demand. Management uses active rig counts as well as number and length of wells being drilled as data points to monitor and set expectations of the future performance of the Corporation. Generally, these metrics are leading indicators of demand for McCoy Global's products and services, although there are many factors that may impact any correlation.

A summary of historical and forecasted rig and well counts is as follows[1]:




A summary of historical and forecasted footage drilled is as follows[1]:




[1]Spears & Associates *Drilling and Production Outlook*, December 2015
*Estimated

McCoy Global's international revenues provide geographic diversification and some stability to withstand North American land market volatility which is currently being experienced. As is typical in a down cycle, international revenues generally declined at a slower rate over the course of 2015, however the severity of this down cycle has now impacted most international markets.

During this down cycle, orders for high specification tubular make-up equipment have been negatively impacted as capital intensive drilling activities are cancelled or deferred. However, this higher margin equipment used for horizontal, directional and deep-water drilling remains an important source of future global oil and natural gas supply over the longer term. As an eventual recovery occurs, this should result in a long-term trend towards more complex well construction and the increased use of premium connections. Investments made in new product technologies by McCoy Global have increased its capabilities of producing high specification tubular make-up products and position the Corporation to meet the future technological challenges faced by customers. McCoy continues to invest in the development of new technologies to meet the changing requirements for better efficiency and safety.

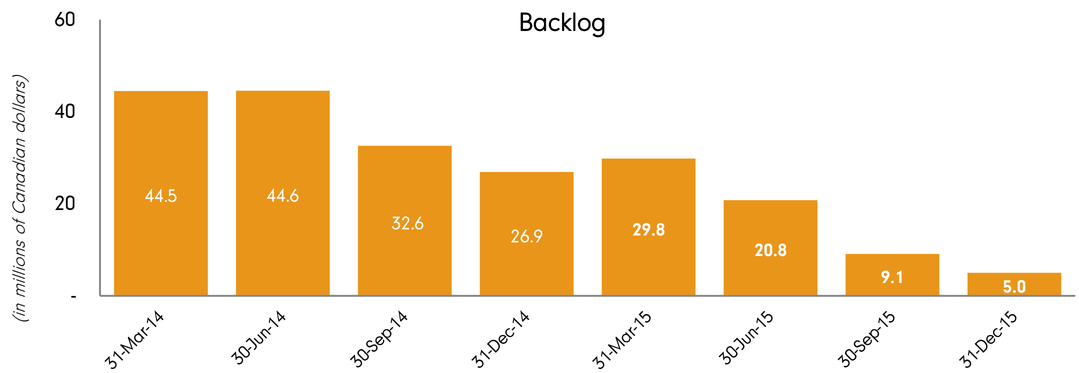
***Backlog***

Backlog is a measure of the amount of customer orders the Corporation has received and is therefore an indicator of a base level of future revenue potential. Backlog is not a GAAP measure and, as a result, the definition and determination of backlog will vary among other issuers reporting a backlog figure.

The Corporation defines backlog as orders that have a high certainty of being delivered and is measured on the basis of a firm customer commitment, such as the receipt of a purchase order. Customers may default on or cancel such commitments, but many are secured by a deposit and/or require reimbursement by the customer upon default or cancellation. Backlog reflects likely future revenues; however, cancellations or reductions may occur and there can be no assurance that backlog amounts will ultimately be realized as revenue, or that the Corporation will earn a profit on backlog work. Expected delivery dates for orders recorded in backlog historically spanned from one to six months, however under current market conditions customers are shifting their purchasing habits towards a just-in-time model. McCoy Global's backlog as at December 31, 2015 totaled $5.0 million, a decrease of $4.1 million or 45% from September 30, 2015.

For the quarter, McCoy Global received net sales orders of $7.7 million (Q3 2015 - $8.5 million) and recorded revenue of $11.6 million (Q3 2015 - $21.4 million). Lower oil prices and drilling and completions activity substantially impacted demand for capital equipment in the quarter. Backlog as at December 31, 2015, was favorably impacted by the weakening Canadian dollar as substantially all of the Corporation's backlog is denominated in US currency.

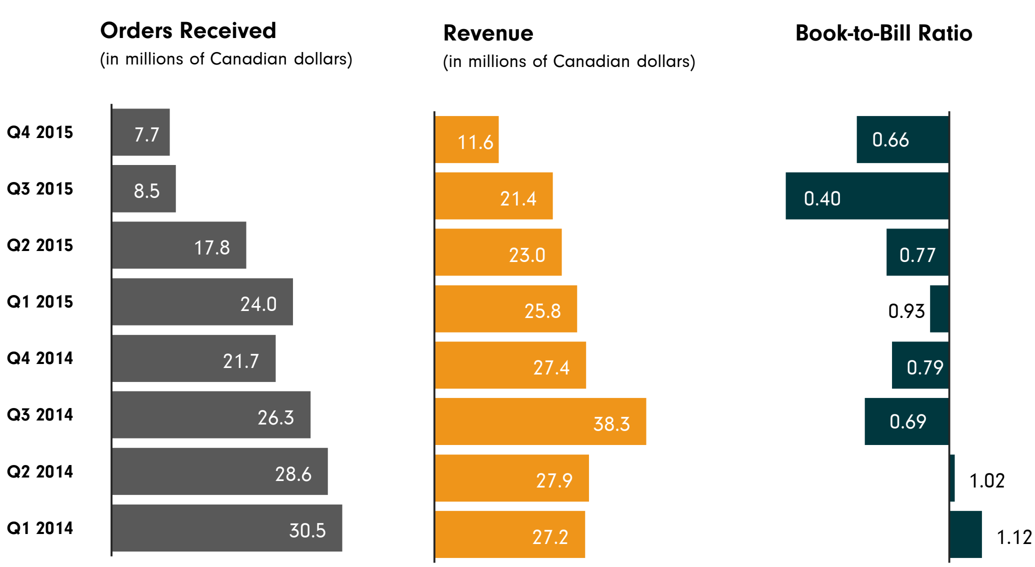
Backlog is also impacted by finished goods inventory and aftermarket sales. The Corporation has built out a finished goods inventory of standard product at regional locations which can shorten the sales cycle and reduce the overall level of backlog as customer orders are fulfilled from finished goods inventory. Product mix also impacts the Corporation's backlog as rental and aftermarket orders tend to cycle through backlog more quickly than customized capital equipment orders which typically require longer lead times. As a percentage of overall revenue, aftermarket revenues are typically higher in a down cycle as customers defer capital equipment spend.




***Book-to-Bill Ratio***

The book-to-bill ratio is a measure of the amount of net sales orders received to revenues recognized and billed in a set period of time. The ratio is an indicator of customer demand and sales order processing times. The book-to-bill ratio is not a GAAP measure and therefore the definition and calculation of the ratio will vary among other issuers reporting the book-to-bill ratio. McCoy Global calculates the book-to-bill ratio as net sales orders taken in the reporting period divided by the revenues reported for the same reporting period.

The book-to-bill ratio for the Corporation during the three months ended December 31, 2015 was 0.66 (September 30, 2015 – 0.40). Set out below are orders received, revenue and the book-to-bill ratio:



## STRATEGY AND CORE BUSINESS VISION

**OUR VISION IS TO BE THE GLOBAL LEADER IN TUBULAR MAKE-UP AND HANDLING EQUIPMENT SOLUTIONS**

McCoy Global is a leading provider of equipment and technologies used for making up threaded connections in the global oil and gas industry. McCoy Global's core products are used predominantly during the well construction phase for both land and offshore wells during both oil and gas exploration. The Corporation is engaged in the following:

- Design, manufacture and distribution of innovative 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 aftermarket product and services such as technical support, consumables (dies and inserts), and replacement parts;
- Repair, maintenance, and calibration of drilling and completions equipment; and
- Rental of drilling and completions equipment.

Historically, the Corporation was divided into two operating segments: Energy Products & Service ("EP&S") and Mobile Solutions. The EP&S segment was comprised of two divisions: Drilling & Completions and Coatings & Hydraulics. The Drilling & Completions division forms the Corporation's continuing operations.

Following a strategic decision to place greater focus on the Corporation's long-term core business in the fourth quarter of 2013, management committed to a formal process to divest both the Mobile Solutions segment and the Coatings & Hydraulics division. On June 17, 2014, the Mobile Solutions segment was divested by the Corporation. On September 15, 2014, the Coatings & Hydraulics division was divested by the Corporation. A member of the Corporation's Board of Directors is the Chairman and Chief Executive Officer of, and holds an equity interest in, the corporation that purchased the Coatings & Hydraulics division.

Financial results related to these operations have been included in net earnings from discontinued operations in the consolidated financial statements.

Set out below are McCoy Global's principal operations:

| Operating Name | Country of Incorporation | Operating Region | Ownership Interest |
|---|---|---|---|
| **Continuing Operations** | | | |
| McCoy Global Canada Corp. | Canada | Canada | 100% |
| McCoy Global S.à r.l. | Luxembourg | Middle East | 100% |
| McCoy Global Singapore Pte. Ltd. | Singapore | Asia Pacific | 100% |
| McCoy Global UK Ltd. | United Kingdom | Europe, Africa and Russia | 100% |
| McCoy Global USA, Inc. | United States | United States and Latin America | 100% |
| **Discontinued Operations** | | | |
| Inotec Coating and Hydraulics Inc. | Canada | Canada | - |
| Peerless Limited | Canada | Canada | - |

# FINANCIAL RESULTS

## SUMMARY OF CONSOLIDATED ANNUAL RESULTS

| **For the year ended December 31** ($000 except per share amounts) | **2015** | 2014 | 2013 |
|---|---|---|---|
| Revenue | **81,776** | 120,619 | 110,212 |
| Net (loss) earnings from continuing operations | **(10,977)** | 9,369 | 7,760 |
| Per common share – basic | **(0.40)** | 0.34 | 0.29 |
| Per common share – diluted | **(0.40)** | 0.34 | 0.28 |
| Earnings from discontinued operations (net of tax)[2] | **-** | 8,638 | 2,084 |
| Net (loss) earnings | **(10,977)** | 18,007 | 9,844 |
| Per common share – basic | **(0.40)** | 0.65 | 0.37 |
| Per common share – diluted | **(0.40)** | 0.65 | 0.36 |
| Adjusted EBITDA | **3,768** | 20,986 | 17,014 |
| Per common share – basic | **0.14** | 0.76 | 0.63 |
| Per common share – diluted | **0.14** | 0.76 | 0.62 |
| Dividends per common share | **0.10** | 0.20 | 0.20 |
| Total assets | **110,567** | 131,941 | 120,467 |
| Total liabilities | **13,098** | 29,568 | 34,464 |
| Total non-current liabilities | **454** | 4,081 | 1,919 |

EBITDA and adjusted EBITDA are calculated as follows:

| **For the year ended December 31** ($000) | **2015** | 2014 | 2013 |
|---|---|---|---|
| Net (loss) earnings from continuing operations | **(10,977)** | 9,369 | 7,760 |
| Income tax (recovery) expense | **(61)** | 3,798 | 3,324 |
| Finance charges, net | **604** | 374 | 677 |
| Depreciation | **4,438** | 3,679 | 3,093 |
| Amortization | **3,173** | 2,681 | 1,163 |
| **EBITDA** | **(2,823)** | 19,901 | 16,017 |
| Share-based compensation | **393** | 208 | 695 |
| Impairment of intangible assets | **5,898** | 202 | - |
| Non-cash changes in fair value related to derivative financial instruments | **(977)** | 675 | 302 |
| Restructuring charges | **1,277** | - | - |
| **Adjusted EBITDA** | **3,768** | 20,986 | 17,014 |

[2] Earnings from discontinued operations (net of tax) for the year ended December 31, 2014 includes an estimated one-time gain on the sale of the Corporation's former Mobile Solutions segment and Coatings & Hydraulics division.

## REVENUE

| ($000 except percentages) | For the year ended December 31 | | | |
|---|---|---|---|---|
| | 2015 | 2014 | Change | % Change |
| **Revenue** | **81,776** | 120,619 | (38,843) | (32%) |

As industry fundamentals deteriorated throughout the year, drilling and completions activity declined. This has led to pricing pressure and significant reductions in demand for capital equipment. Depressed commodity prices have continued to constrain customer capital equipment spending and as anticipated, customers are shifting their purchasing habits towards a just-in-time model.

Aftermarket revenue, as a percentage of overall revenue, is typically higher in a down cycle as customers defer capital equipment spend and maintain their existing equipment fleet. The percentage of aftermarket revenues in comparison to overall revenue has increased in 2015, however it has not increased to the level anticipated. Throughout 2015, many customers implemented a robust inventory destocking process, which included drawing down any on-hand aftermarket and consumable inventories and cannibalizing any excess equipment. Many customers have also either deferred equipment maintenance or have serviced equipment internally, where possible.

Revenues have been favorably impacted by foreign exchange, offsetting the rapid decline to some extent, as primarily all of the Corporations revenue is denominated in United States dollars.

As is typical in a down cycle, international revenues generally declined at a slower rate over the course of 2015, however the severity of this down cycle has now impacted most international markets.

***Geographic sales***

The Corporation attributes revenue to a geographic region based on the location of the customer being invoiced. However, the geographic region where equipment is ultimately placed into service may significantly differ from the customer invoice location. Many of McCoy Global's customers are large multinational companies which may place an order in the United States, or another country, and redistribute the equipment. Further, McCoy Global invoices equipment to United States distributors who re-sell equipment both domestically and internationally. This revenue is attributed to the United States in the table below. Geographic revenues are calculated on a consistent basis from period to period; however, users are cautioned that this information may not reflect the actual geographic location where the equipment is placed into service.

| ($000 except percentages) | For the year ended December 31 | | | |
|---|---|---|---|---|
| | 2015 | % of total | 2014 | % of total |
| United States | **30,997** | **38%** | 63,896 | 53% |
| Europe, Africa & Russia | **26,321** | **32%** | 33,761 | 28% |
| Middle East | **8,761** | **11%** | 5,977 | 5% |
| Asia Pacific | **6,831** | **8%** | 8,436 | 7% |
| Canada | **5,704** | **7%** | 5,099 | 4% |
| Latin America | **3,162** | **4%** | 3,450 | 3% |
| **Total** | **81,776** | **100%** | 120,619 | 100% |

Activity levels remain relatively stable in the Middle East region. Some revenue generation opportunities also exist in parts of Africa, China, Argentina and Russia. Russian sanctions continue to hinder revenue generation in this region. The United States, Europe, Canada, Latin America and most of Asia Pacific have been significantly impacted by the down cycle.

## GROSS PROFIT

| ($000 except percentages) | 2015 | 2014 | Change | % Change |
|---|---|---|---|---|
| | For the year ended December 31 | | | |
| **Gross profit** | **20,681** | 46,203 | (25,522) | (55%) |
| *Gross profit %* | ***25%*** | *38%* | *(13%)* | |

Gross profit was impacted by the 32% decline in revenues realized as a result of the down cycle. Lower levels of activity resulted in a decline in required production hours, which has driven significant under-absorption of production facility costs. The Corporation's production facility variable expenses were reduced to minimum levels in 2015, however the overall decline in production activity outpaced the reduction in costs. Compounding this were efforts to reduce McCoy's inventories, which placed additional downward pressure on production facility hours as finished goods inventories were not replaced by manufactured products.

Current market conditions have also resulted in pricing pressure and fewer higher margin capital equipment orders. Product mix also impacted gross profit percentage as in 2014 McCoy Global benefitted from higher sales of technical products, including proprietary software product revenues.

To a lesser extent, the weakening of the Canadian dollar has had a positive impact on the gross profit of Canadian production facilities where input costs are primarily in $CAD and revenues are in $USD.

The Corporation's fixed costs of its current production footprint are too high to support current levels of activity. In the first quarter of 2016, additional actions were taken to reduce production facility overhead costs which resulted in a further reduction to the Corporation's workforce.

## GENERAL AND ADMINISTRATION

| ($000 except percentages) | 2015 | 2014 | Change | % Change |
|---|---|---|---|---|
| | For the year ended December 31 | | | |
| **General and administration** | **20,004** | 25,859 | (5,855) | (23%) |
| *General and administration as a % of revenue* | ***24%*** | *21%* | *3%* | |

Cost containment initiatives, including workforce reductions and continued discipline over discretionary spending were a high priority throughout 2015 and contributed to the overall decrease in overhead expenditures. This was offset to some extent by general and administration ("G&A") costs added to support Eastern hemisphere regional locations and by the impact of foreign exchange as a significant portion of G&A expenses are denominated in United States dollars.

McCoy will continue to evaluate its overhead structure and exhibit spending restraint. Many of the cost reductions that have been made have been gained through process improvement and operational efficiencies, and will largely be permanent in nature. This has positioned McCoy Global as a leaner and more efficient organization.

## SALES AND MARKETING

| ($000 except percentages) | For the year ended December 31 2015 | 2014 | Change | % Change |
|---|---|---|---|---|
| **Sales and marketing** | **4,811** | 5,199 | (388) | (7%) |
| *Sales and marketing as a % of revenue* | ***6%*** | *4%* | *2%* | |

The decline in sales and marketing expense is a result of cost containment initiatives. This was partially offset by the foreign exchange impact of the strengthening $USD in 2015, as the majority of sales and marketing expenses are denominated in $USD.

## RESEARCH AND DEVELOPMENT

| ($000 except percentages) | For the year ended December 31 2015 | 2014 | Change | % Change |
|---|---|---|---|---|
| **Research and development expense** | **1,364** | 1,374 | (10) | (1%) |
| **Capitalized development expenditures** | **1,129** | 2,565 | (1,436) | (56%) |
| **Total research and development** | **2,493** | 3,939 | (1,446) | (37%) |
| *Research and development as a % of revenue* | **3%** | 3% | - | |

In response to declining market conditions, McCoy Global's product technology and development team was re-organized in 2015 and the investment in research and development ("R&D") reduced. McCoy remains committed to R&D efforts during the down cycle, however investment has shifted to developing technologies that are less capital intensive and that can be commercialized quickly. These efforts will continue to expand the Corporation's current product offering and develop future revenue opportunities.

Offsetting some of the decline in R&D investment is that R&D expenditures are substantially denominated in $USD and the strengthening of the $USD in 2015 resulted in higher reported R&D costs.

Management continues to closely monitor and evaluate R&D expenditures, balancing the short-term impact of R&D expenditures on cash preservation with the longer-term implications on strategy and shareholder value creation.

## OTHER ITEMS

| | For the year ended December 31 | | | |
|---|---|---|---|---|
| ($000 except percentages) | **2015** | 2014 | Change | % Change |
| **Impairment of intangible assets** | **5,898** | 202 | 5,696 | 2,820% |
| **Restructuring charges** | **1,277** | - | 1,277 | 100% |
| **Finance charges, net** | **604** | 374 | 230 | 61% |
| **Other (gains) losses, net** | **(2,239)** | 28 | (2,267) | (8,096%) |

As a result of current market conditions, combined with changes to the Corporation's business processes, product mix and customer base, the Corporation recognized an impairment charge of $4.8 million against certain acquired intangible assets.

In response to current market conditions, McCoy Global's product technology and development team was re-organized in 2015. As part of this process, the Corporation reviewed projects currently under development to address customer needs in the current market. This review resulted in the recognition of a $1.1 million impairment charge.

Restructuring charges include outlays incurred relating to workforce reductions and the consolidation of United States production facilities.

Finance charges, net are primarily comprised of standby fees and amortization of deferred financing charges, offset by interest income. Deferred financing costs of $0.3 million were written off in the current year.

Other (gains) losses, net consist primarily of foreign exchange gains or losses on the Corporation's United States denominated financial instruments held by Canadian entities. The $2.2 million gain recognized in 2015 primarily arose from favorable foreign currency gains on the Corporation's US dollar denominated financial instruments held by Canadian entities, as a result of a strengthening United States dollar.

## ADJUSTED EBITDA

| | For the year ended December 31 | | | |
|---|---|---|---|---|
| ($000 except percentages) | 2015 | 2014 | Change | % Change |
| **Adjusted EBITDA** | **3,768** | 20,986 | (17,218) | (82%) |
| *Adjusted EBITDA as a % of revenue* | ***5%*** | *17%* | *(12%)* | |

Adjusted EBITDA was impacted by the global reduction in drilling and completions activity which has resulted in a sharp decline in revenues. Although the Corporation adjusted its cost structure throughout 2015 to reflect the near-term business environment which has resulted in a significant reduction in gross profit. Overhead expenses were reduced in response to the decline in gross profit, however, reductions to overhead expenses did not offset the reduction in gross profit.

## EARNINGS FROM DISCONTINUED OPERATIONS (NET OF TAX)

| | For the year ended December 31 | | | |
|---|---|---|---|---|
| ($000 except percentages) | 2015 | 2014 | Change | % Change |
| **(Loss) earnings from discontinued operations (net of tax)** | - | 8,638 | (8,638) | (100%) |

In the prior year, earnings from discontinued operations included partial year operating earnings of $1.2 million and one-time gains of $7.4 on the sale of the Corporation's Mobile Solutions segment and Coatings & Hydraulics division in 2014.

## SUMMARY OF CONSOLIDATED FOURTH QUARTER RESULTS

| For the three months ended December 31<br>($000 except per share amounts) | 2015 | 2014 |
|---|---|---|
| Revenue | **11,648** | 27,209 |
| Net (loss) earnings from continuing operations | **(10,792)** | 1,753 |
| Per common share – basic | **(0.39)** | 0.06 |
| Per common share – diluted | **(0.39)** | 0.06 |
| Net (loss) earnings | **(10,792)** | 1,477 |
| Per common share – basic | **(0.39)** | 0.05 |
| Per common share – diluted | **(0.39)** | 0.05 |
| Adjusted EBITDA | **(4,526)** | 4,957 |
| Per common share – basic | **(0.16)** | 0.18 |
| Per common share – diluted | **(0.16)** | 0.18 |

EBITDA and adjusted EBITDA are calculated as follows:

| For the year ended December 31<br>($000) | 2015 | 2014 |
|---|---|---|
| Net (loss) earnings from continuing operations | **(10,792)** | 1,753 |
| Income tax (recovery) expense | **(117)** | 1,190 |
| Finance charges, net | **326** | 78 |
| Depreciation | **1,225** | 976 |
| Amortization | **749** | 666 |
| **EBITDA** | **(8,609)** | 4,663 |
| Share-based compensation | **60** | (47) |
| Impairment of intangible assets | **4,765** | 139 |
| Non-cash changes in fair value related to derivative financial instruments | **(756)** | 202 |
| Restructuring charges | **14** | - |
| **Adjusted EBITDA** | **(4,526)** | 4,957 |

# SUMMARY OF QUARTERLY RESULTS

## REVENUE

| ($000 except percentages) | For the three months ended December 31 | | | |
|---|---|---|---|---|
| | **2015** | 2014 | Change | % Change |
| **Revenue** | **11,648** | 27,209 | (15,561) | (57%) |

Market conditions continued to deteriorate in the fourth quarter of 2015 resulting in a steep decline in customer demand. This has included the deferral of purchase decisions for capital equipment and has placed pressure on aftermarket revenue. It has become increasingly difficult to secure service work or sell spare parts as customers cannibalize excess equipment, service equipment internally and draw down aftermarket parts and consumables inventories.

## GROSS PROFIT

| ($000 except percentages) | For the three months ended December 31 | | | |
|---|---|---|---|---|
| | **2015** | 2014 | Change | % Change |
| **Gross profit** | **(456)** | 9,195 | (9,651) | (105%) |
| *Gross profit %* | ***(4%)*** | *34%* | *(38%)* | |

Although the Corporation has experienced customer pricing pressure and fewer higher margin capital equipment and software sales, the gross profit earned on product sales has remained relatively stable through the down cycle. The decline in gross profit was largely due to significant under absorption of production capacity as a result of lower activity levels.

## GENERAL AND ADMINISTRATION

| ($000 except percentages) | For the three months ended December 31 | | | |
|---|---|---|---|---|
| | **2015** | 2014 | Change | % Change |
| **General and administration** | **4,106** | 5,319 | (1,213) | (23%) |
| *General and administration as a % of revenue* | ***35%*** | *20%* | *15%* | |

Continued efforts to reduce overhead expenses resulted in a significant decrease in general and administration expenses in the fourth quarter of 2015.

Further, as compared to the third quarter of 2015, general and administrative expense declined 17% or $0.9 million sequentially.

## SALES AND MARKETING

| ($000 except percentages) | For the three months ended December 31 | | | |
|---|---|---|---|---|
| | **2015** | 2014 | Change | % Change |
| **Sales and marketing** | **1,033** | 1,233 | (200) | (16%) |
| *Sales and marketing as a % of revenue* | ***9%*** | *5%* | *4%* | |

The reduction in sales and marketing expense can be attributed to continued discipline over discretionary spending, while balancing strategic sales and marketing initiatives.

## RESEARCH AND DEVELOPMENT

| ($000 except percentages) | For the three months ended December 31 | | | |
|---|---|---|---|---|
| | **2015** | 2014 | Change | % Change |
| **Research and development expense** | **494** | 226 | 268 | 119% |
| **Capitalized development expenditures** | **30** | 474 | (444) | (94%) |
| **Total research and development** | **524** | 700 | (176) | (25%) |
| *Research and development as a % of revenue* | **4%** | 3% | 1% | |

In response to declining market conditions, McCoy Global's product technology and development team was re-organized in 2015 and the investment in R&D reduced.

## OTHER ITEMS

| ($000 except percentages) | For the three months ended December 31 | | | |
|---|---|---|---|---|
| | **2015** | 2014 | Change | % Change |
| **Impairment of intangible assets** | **4,765** | 202 | 4,563 | 2,260% |
| **Restructuring charges** | **14** | - | 14 | 100% |
| **Finance charges, net** | **326** | 78 | 248 | 318% |
| **Other (gains) and losses, net** | **(285)** | (604) | 319 | (53%) |

As a result of current market conditions combined with changes to the Corporation's business processes, product mix and customer base, the Corporation recognized an impairment charge of $4.8 million against certain acquired intangible assets. In the prior year, an impairment charge was recognized in the fourth quarter when a decision was made to no longer proceed with a certain R&D project under development.

Restructuring charges include costs incurred relating to headcount reductions.

Finance charges, net, are consistent with the prior year and are primarily comprised of standby fees and amortization of deferred financing charges, offset by interest income. Deferred financing costs of $0.3 million were written off in the fourth quarter of 2015.

Other (gains) and losses, net, consist primarily of foreign exchange gains on the Corporation's United States denominated financial instruments held by Canadian entities.

## ADJUSTED EBITDA

| ($000 except percentages) | For the three months ended December 31 | | | |
|---|---|---|---|---|
| | **2015** | 2014 | Change | % Change |
| **Adjusted EBITDA** | **(4,526)** | 4,957 | (9,483) | (191%) |
| *Adjusted EBITDA as a % of revenue* | ***(39%)*** | *18%* | *(57%)* | |

Adjusted EBITDA was impacted by the global reduction in drilling and completions activity which has resulted in a sharp decline in revenues. Although the Corporation adjusted its cost structure throughout 2015 to reflect the near-term business environment which has resulted in a significant reduction in gross profit. Overhead expenses were reduced in response to the decline in gross profit, but reductions to overhead expenses did not offset the reduction in gross profit.

## EARNINGS FROM DISCONTINUED OPERATIONS (NET OF TAX)

| ($000 except percentages) | For the three months ended December 31 | | | |
|---|---|---|---|---|
| | **2015** | 2014 | Change | % Change |
| **Earnings from discontinued operations (net of tax)** | **-** | (276) | 276 | (100%) |

2014 earnings from discontinued operations reflect changes in estimates relating to certain working capital and other adjustments defined by the share purchase agreement related to 2014 divestitures.

# SUMMARY OF QUARTERLY RESULTS

| ($000 except per share amounts) | **2015** | | | | 2014 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Dec 31** | Sep 30 | Jun 30 | Mar 31 | Dec 31 | Sep 30 | Jun 30 | Mar 31 |
| Revenue | **11,648** | 21,376 | 22,952 | 25,800 | 27,209 | 38,275 | 27,915 | 27,220 |
| (Loss) earnings from continuing operations | **(10,792)** | (1,963) | (451) | 2,229 | 1,753 | 4,163 | 2,258 | 1,195 |
| Basic (loss) earnings per share from continuing | **(0.39)** | (0.07) | (0.02) | 0.08 | 0.06 | 0.15 | 0.08 | 0.04 |
| Diluted (loss) earnings per share from continuing operations | **(0.39)** | (0.07) | (0.02) | 0.08 | 0.06 | 0.15 | 0.08 | 0.04 |
| Net (loss) earnings | **(10,792)** | (1,963) | (451) | 2,229 | 1,477 | 5,747 | 8,262 | 2,521 |
| Basic (loss) earnings per share | **(0.39)** | (0.07) | (0.02) | 0.08 | 0.05 | 0.21 | 0.30 | 0.09 |
| Diluted (loss) earnings per share | **(0.39)** | (0.07) | (0.02) | 0.08 | 0.05 | 0.21 | 0.30 | 0.09 |
| Adjusted EBITDA | **(4,526)** | 922 | 1,538 | 5,834 | 4,957 | 7,998 | 3,852 | 4,179 |

# LIQUIDITY AND CAPITAL RESOURCES

## CASH FLOW

At December 31, 2015, the Corporation has $27.5 million in cash and cash equivalents and no debt. The Corporation has a credit facility, which expires on May 31, 2018. However, as a result of the decline in adjusted EBITDA in 2015, the Corporation is not in compliance with a financial covenant specified in the credit facility. The Corporation is in ongoing discussions with its lenders to obtain a waiver, however, it is unlikely that the Corporation will be able to access its credit facility in the near term. Subsequent to December 31, 2015, the credit facility was reduced from $50.0 million to $25.0 million to decrease commitment fees.

Selected cash flow and capitalization information is as follows:

| **For the year ended December 31**<br>($000) | **2015** | 2014 |
|---|---|---|
| Cash generated from operating activities | **3,705** | 7,640 |
| Cash (used in) generated from investing activities | **(2,001)** | 13,735 |
| Cash used in financing activities | **(2,735)** | (4,702) |
| Debt to equity ratio | **0.13 to 1** | 0.29 to 1 |

Cash generated from operating activities was primarily impacted by a $17.2 million decline in adjusted EBITDA, a year over year change in working capital which increased cash by $19.0 million and a cash tax payment of $2.9 million as a result of paying 2014 tax balances outstanding.

Cash (used in) generated from investing activities was impacted by the sale of the Mobile Solutions segment and Coatings and Hydraulics division in 2014 which generated net proceeds of $20.6 million offset by year over year decreases in purchases of property, plant and equipment of $2.9 million and intangible assets related to investments in product technology and development initiatives of $1.2 million.

Cash used in financing activities decreased as a result of the suspension of the Corporation's dividend in the third quarter of 2015.

It has become increasingly challenging in this down cycle to access debt and equity markets. However, the Corporation has $27.5 million of cash at December 31, 2015, a strong working capital position and no debt. In addition, management continues to review the Corporation's cost structure to reduce spending in 2016. Management believes the Corporation has sufficient capital to fund its operations in the near term. If the down cycle persists for an extended period of time, the Corporation may be required to review options to raise capital.

| **For the three months ended December 31**<br>($000) | **2015** | 2014 |
|---|---|---|
| Cash generated from operating activities | **3,952** | 3,144 |
| Cash used in investing activities | **(883)** | (2,708) |
| Cash used in financing activities | **-** | (2,667 |

Cash generated from operating activities was primarily impacted by a $9.5 million decline in adjusted EBITDA, offset by a change in working capital from the comparative quarter which increased cash by $11.3 million.

Cash used in investing activities was impacted by a decrease in purchases of property, plant and equipment of $1.0 million and intangible assets related to investments in product technology and development initiatives of $0.7 million in comparison to the fourth quarter of 2014.

Cash used in financing activities for the three months ended December 31, 2015 was $nil as a result of the suspension of the Corporation's dividend, which comprised the majority of the quarterly comparative.

## FINANCIAL INSTRUMENTS

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

### NON-DERIVATIVE FINANCIAL INSTRUMENTS

At initial recognition non-derivative financial instruments are measured at fair value and are classified as one of the following: held-for-trading, available-for-sale, held-to-maturity, loans and receivables or other financial liabilities.

The Corporation has designated its non-derivative 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 |
| Amounts held in escrow on business divestitures | Loans and receivables | Amortized Cost |
| Trade and other payables | Other financial liabilities | Amortized Cost |

At the reporting date, the Corporation did not have any non-derivative financial assets classified as held-for-trading, available-for-sale or held-to-maturity.

- **LOANS AND RECEIVABLES**

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

- **OTHER FINANCIAL LIABILITIES**

  Trade payables are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, trade payables are measured at amortized cost using the effective interest method.

### DERIVATIVE FINANCIAL INSTRUMENTS

Foreign currency forward contracts may be used by the Corporation to manage foreign exchange exposures, consisting mainly of US dollar exposures, resulting from anticipated transactions denominated in foreign currencies.

All derivative financial instruments are classified as held-for-trading and are initially recognized at fair value, with any directly attributable transaction costs recognized in earnings or loss as they are incurred. Subsequent to initial recognition, derivative financial instruments are measured at fair value with changes in fair value recognized in earnings or loss.

The fair value of derivative financial instruments reflects changes in the foreign exchange rates. 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 the time value of money.

## FINANCIAL RISK MANAGEMENT

The Corporation'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. Overall, risk management programs focus on the unpredictability of financial and economic markets and seek to minimize potential adverse effects on financial performance. Risk management is carried out by financial management in conjunction with overall corporate governance. The principal financial risks to which the Corporation is exposed are described below:

### (i) MARKET RISK

Market risk is the risk changes in market prices, such as foreign exchange rates and interest rates, will affect the Corporation's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing return. The Corporation may use derivatives to manage certain market risks.

*Foreign currency risk*

The Corporation is exposed to foreign currency risk to the extent that there is a mismatch between the currencies in which revenues, purchases and monetary assets and liabilities are denominated and the respective functional currencies of the Corporation's subsidiaries. Foreign currency risk is primarily with the US dollar. The Corporation may use forward exchange contracts with maturities of less than one year from the reporting date to manage the foreign currency risk.

The Corporation recognized a foreign currency exchange gain of $2.3 million in other (gains) losses, net (2014 – gain of $1.0 million). Based on the Corporation's US dollar denominated monetary assets and liabilities at December 31, 2015, the Corporation estimates that a one cent change in the value of the US dollar would increase or decrease net earnings, net of tax, by $0.1 million (2014 – $0.2 million).

*Interest rate risk*

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates. In 2015 and 2014, the Corporation was primarily exposed to interest rate risk on cash and cash equivalents. The Corporation estimates that a change of 100 basis points in the interest rate as at December 31, 2015 would have increased or decreased net earnings, net of tax, for the year ended December 31, 2015 by $0.2 million (2014 - $0.2 million), primarily arising from interest income earned on cash and cash equivalents.

### (ii) CREDIT RISK

Credit risk is the risk 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, trade receivables and amounts held in escrow on business divestitures.

The credit risk associated with cash and cash equivalents is minimized by ensuring these financial assets are held primarily with Canadian chartered banks and Schedule I US financial institutions.

The credit risk associated with amounts held in escrow on business divestitures is minimized as the funds are held in trust with third party legal counsel at Canadian chartered banks. The Corporation has assessed the credit risk associated with the estimated proceeds related to working capital balances associated with the business divestiture, and has reviewed the balance for indication of impairment. Based on management's judgement, no provision for impairment is considered necessary at the present time.

Trade receivables include balances due from customers primarily operating in the oil and gas industry. The Corporation manages credit risk by assessing the creditworthiness of its customers before providing products or services and on an ongoing basis as well as monitoring the amount and age of balances outstanding. In some instances, the Corporation will take additional measures to reduce credit risk including obtaining letters of credit and prepayments from customers.

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

| ($000) | 2015 | 2014 |
|---|---|---|
| | **$** | $ |
| Fully performing | **5,391** | 10,374 |
| Past due but not impaired | **3,110** | 11,011 |
| Indications of impairment | **229** | 287 |
| **Trade receivables** | **8,730** | 21,672 |

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. Management reviews trade receivable balances periodically for indications of possible impairment. Trade receivables with indications of possible impairment primarily relate to balances past due from customers that are no longer deemed to be creditworthy. Management has determined on a customer by customer basis that impairment provisions of $0.2 million (2014 – $0.3 million) are sufficient to cover credit risk.

The aging analysis of trade receivables is as follows:

| **As at December 31** ($000) | 2015 | 2014 |
|---|---|---|
| | **$** | **$** |
| 0 to 30 days | **2,654** | 6,866 |
| 31 to 60 days | **2,737** | 3,508 |
| 61 to 120 days | **3,130** | 3,657 |
| Over 120 days | **209** | 7,641 |
| | **8,730** | 21,672 |
| Provisions for impairment | **(229)** | (287) |
| Trade receivables | **8,501** | 21,385 |
| Other receivables | **602** | 1,318 |
| **Total trade and other receivables** | **9,103** | 22,703 |

As at December 31, 2015, the Corporation had one customer that accounted for $1.1 million (13%) of total trade accounts receivable (2014 - $6.6 million, 30%).

The movement in the Corporation's provision for impairment of trade receivables is as follows:

| **For the year ended December 31** ($000) | 2015 | 2014 |
|---|---|---|
| | **$** | **$** |
| Provision for impairment, as at January 1 | **(287)** | - |
| Impairment loss recognized | **(111)** | (287) |
| Amounts written off | **197** | - |
| Foreign exchange | **(28)** | - |
| **Provision for impairment, as at December 31** | **(229)** | (287) |

### (iii) LIQUIDITY RISK

Liquidity risk is the risk that the Corporation will not be able to meet its obligations with financial liabilities as they come due. The Corporation maintains sufficient cash and cash equivalents to meet financial obligations. Based on remaining contractual maturities, the undiscounted cash flows for its financial liabilities including interest payments, consists of $6.5 million (2014 - $15.1 million) of trade and other payables and $nil (2014 - $1.0 million) of derivative financial instruments which mature within one year of the statement of financial position date. As at December 31, 2015, the Corporation has commitments to purchase inventory and operating supplies of $0.8 million (2014 - $3.1 million). Payments for these commitments are expected to be made in 2016.

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

| **As at December 31**<br>($000) | **2015** | 2014 |
|---|---|---|
| | **$** | **$** |
| Less than one year | **3,138** | 2,936 |
| Between one and five years | **3,827** | 6,172 |
| Later than five years | **455** | 694 |
| | **7,420** | 9,802 |

## 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 as well as shareholders' equity as follows:

| **As at December 31** ($000) | **2015** | 2014 |
|---|---|---|
| | **$** | **$** |
| Borrowings | **-** | - |
| Shareholders' equity | **97,469** | 102,373 |
| **Total capital** | **97,469** | 102,373 |

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

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

- trailing twelve-month funded debt to EBITDA ratio as defined by the agreement; and
- trailing twelve-month fixed charge coverage ratio as defined by the agreement.

As at December 31, 2015, the Corporation is not in compliance with the trailing twelve-month fixed charge coverage ratio and is unable to access the credit facility. The Corporation is in ongoing discussions with its lenders to obtain a waiver, however, it is unlikely that the Corporation will be able to access its credit facility in the near term even if a waiver is obtained.

In addition to the financial covenants noted above, the Corporation is also subject to further covenants including, but not limited to, restrictions on mergers or acquisitions, the disposition of the Corporation's assets, distributions, financial instruments and changes to the nature of the Corporation's business or operations.

Other than the restrictive covenants contained in the debt agreement, neither the Corporation nor any of its subsidiaries are subject to externally imposed capital requirements.

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

# OTHER FINANCIAL INFORMATION

## CONTRACTUAL OBLIGATIONS AND OFF BALANCE SHEET ARRANGEMENTS

In its continuing operations, McCoy Global has, from time to time, entered into long-term contractual arrangements for its operational facilities and debt financing. Contractual obligations, including interest, arising over the next five years from the arrangements currently in force include $6.5 million of trade and other payables due within one year of December 31, 2015. As at December 31, 2015, the Corporation has commitments to purchase inventory and operating supplies of $0.8 million. Payments for these commitments are expected to be made in 2016.

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

| ($000) | $ |
|---|---|
| Within 1 year | 3,138 |
| 2 to 5 years | 3,827 |
| Over 5 years | 455 |

The above includes commitments with related parties disclosed below.

The Corporation has sublet certain premises that are under operating lease. The future minimum lease payments to be received in the following year under non-cancellable leases are $0.7 million and $1.0 million thereafter.

## RELATED PARTY TRANSACTIONS

*Divestiture of Coatings & Hydraulics division*

On September 15, 2014 the Corporation divested of the Coating & Hydraulics division. A member of the Corporation's Board of Directors is the Chairman and Chief Executive Officer of, and holds an equity interest in the purchaser of the Coatings & Hydraulics division. To facilitate the sale and minimize any potential conflicts of interest, the Corporation engaged a third party brokerage firm to solicit offers within the marketplace, manage the sales process and assist in negotiating the definitive agreements.

The final net proceeds received and the gain recognized on the sale is subject to change, pending the finalization of net working capital balances as defined by the share purchase agreement. The amount held in escrow and estimated proceeds relating to working capital balances associated with the divesture are included in other assets.

The Corporation has entered into agreements indemnifying the purchaser with respect to certain leased premises associated with the Coatings & Hydraulics division.

The Corporation has also guaranteed certain leases as part of the divestiture of the Coating & Hydraulics division should the purchaser be unable to satisfy obligations under the leases. Minimum aggregate future lease payments of the guaranteed leases are $0.3 million. The lease agreement expires in July of 2016 and the purchaser has the option to extend the lease for five years with annual lease payments negotiated at market rates.

*Operating lease expense*

The Corporation has three lease agreements with companies controlled by individuals who were Directors of the Corporation's Board until May 14, 2015. These individuals are also Directors of Foundation Equity Corporation ("Foundation"), a 22% shareholder from January 1, 2015 to May 20, 2015 and a 19% shareholder from May 21, 2015 to December 15, 2015. Foundation divested of all remaining shareholdings of the Corporation on December 15, 2015. The following is a summary of each agreement:

(i) Minimum annual lease payments of $0.4 million until 2018. At the conclusion of the lease in 2018, the Corporation has the option to extend the lease for five years with annual lease payments negotiated at market rates.

(ii) Minimum annual lease of $0.7 million until 2018. The Corporation has the option to extend the lease for five years with annual lease payments negotiated at market rates.

(iii) Minimum annual lease payments of $0.3 million until 2018.

The Corporation recorded an annual operating lease expense of $1.1 million (during the year ended December 31, 2014 – $1.4 million) with respect to related party operating leases disclosed above. In addition to regularly scheduled lease payments, the Corporation paid $nil (2014 - $0.2 million) to one of the companies controlled by the related parties to reimburse the related parties for certain facility expenses.

*Key management personnel*

Key management personnel include the Directors and senior corporate officers of the Corporation who are primarily responsible for planning, directing and controlling the Corporation's business activities.

Compensation awarded to key management personnel for employee services for the years ended December 31, 2015 and 2014 are as follows:

| For the years ended<br>($000) | **2015** | 2014 |
|---|---|---|
| | **$** | $ |
| Salaries and other short-term employee benefits | **2,311** | 2,400 |
| Termination benefit | **334** | (6) |
| Share-based payments | **-** | 656 |
| | **2,645** | 3,050 |

## OUTSTANDING SHARE DATA

As at March 9, 2016 the following class of shares and equity securities potentially convertible into common shares were outstanding:

| | |
|---|---|
| Common shares | 27,704,239 |
| Stock options | 1,650,001 |

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

**Dividends**

A summary of historical dividend information is as follows:

| Dividend declared | Dividend paid | Amount per common share |
|---|---|---|
| May 15, 2015 | June 11, 2015 | $0.05 |
| March 11, 2015 | April 13, 2015 | $0.05 |
| December 4 2014 | December 31, 2014 | $0.05 |
| September 9, 2014 | October 8, 2014 | $0.05 |
| May 23, 2014 | June 20, 2014 | $0.05 |
| March 14, 2014 | April 14, 2014 | $0.05 |
| December 10, 2013 | December 31, 2013 | $0.05 |
| September 26, 2013 | October 25, 2013 | $0.05 |
| May 16, 2013 | June 14, 2013 | $0.05 |
| March 14, 2013 | April 12, 2013 | $0.05 |

On September 3, 2015, the Corporation announced that the Board of Directors approved the suspension of the quarterly dividend payment. Future declarations of dividends is at the sole discretion of the Board and will continue to be evaluated on a quarterly basis.

## 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. If these estimates and judgements prove to be inaccurate, future (loss) earnings may be materially impacted.

Estimates and underlying assumption are reviewed on an ongoing basis and revisions to estimates are recognized prospectively. Actual results may differ from these estimates.

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

(i) *Inventories*

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

(ii) *Provisions*

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

(iii) *Income tax*

The Corporation operates in several tax jurisdictions and is required to estimate its income taxes in each of these tax jurisdictions in preparing its consolidated financial statements. The calculation of income taxes requires the use of judgment.

Deferred tax assets are recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Judgment and estimation is necessary to determine the likelihood and availability of future taxable profits against which tax losses and tax credits carried forward can be used.

(iv) *Impairment of financial assets*

The Corporation assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets carried at amortized cost is impaired. Judgment is used in determining whether any indications of impairment over the loan or receivable are present and in determining the likelihood, timing and estimated future cash inflows related to the loan or receivable.

(v) *Impairment of non-financial assets*

Long-lived assets include property, plant and equipment and intangibles assets. The carrying value of these assets is periodically reviewed for impairment or whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable in accordance with the Corporation's accounting policy. Judgment is required in the aggregation of assets into Cash Generating Units "CGUs".

The recoverable amounts of cash-generating units are determined based on value-in-use calculations. These calculations require the use of estimates and judgements, including an estimation of the future cash flows from the CGU or group of CGUs and judgment is required in determining the appropriate discount rate. In deriving the underlying projected cash flows, assumptions must also be made about the impact of future drilling activity on sales, operating margins and market conditions over the useful life of the assets or CGUs. Although estimates are consistent with current industry reports, internal planning and expected future operations, such estimations are subject to significant uncertainty and judgment.

## FUTURE ACCOUNTING PRONOUNCEMENTS

The International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") have issued a number of new standards, amendments to standards and interpretations effective for annual periods beginning after January 1, 2016. These have not been applied by the Corporation in preparing these consolidated financial statements. Those which may be relevant to the Corporation are set out below:

| Proposed standards and amendments | Description | Anticipated impact | Effective date |
|---|---|---|---|
| IFRS 11 – Accounting for acquisitions of interests in joint operations | Outlines specific guidance on accounting for the acquisition of an interest in a joint operation that is a business. | The new standard is not expected to have a significant impact on the Corporation. | January 1, 2016 |
| IFRS 15 – Revenue from contracts with customers | Outlines a new revenue recognition model for contracts with customers based on the underlying principle that revenue is recognized at the amount the Corporation expects to be entitled to in exchange for goods or services under contract. Additional disclosure is also specified. | A formal assessment of the transitional implication to the Corporation will be completed in the future. | January 1, 2018 |
| IFRS 9 – Financial instruments: classification and measurement | Specifies that financial assets will be classified into one of two categories on initial recognition: financial assets measured at amortized cost or financial assets measured at fair value. The classification and measurement of financial liabilities remain generally unchanged. | The new standard is not expected to have a significant impact on the Corporation. | January 1, 2018 |
| IFRS 7 – Financial instruments: disclosures | Specifies that additional disclosure is required upon implementation of IFRS 9. | The new standard is not expected to have a significant impact on the Corporation. | January 1, 2018 |
| IFRS 16 – Leases | Specifies that lessees are to recognize leases that were traditionally recorded as operating leases in a similar way to finance leases under existing IAS 17. | A formal assessment of the transitional implications to the Corporation will be completed in the future. | January 1, 2019 |

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

# CONTROLS AND PROCEDURES

## DISCLOSURE CONTROLS AND PROCEDURES ("DC&P")

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

An evaluation of the design and operating effectiveness of our DC&P was conducted, as at December 31, 2015, 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, 2015, 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 CFO, has evaluated the design and operating effectiveness of our ICFR using the framework and criteria established in Internal Controls – Integrated Framework of 2013, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, the CEO and the CFO have concluded that as at December 31, 2015, ICFR (as defined in NI 52-109) were effective. There were no changes in our ICFR during the year ended December 31, 2015 that have materially affected, or are reasonably likely to affect, our ICFR.

# RISK AND UNCERTAINTIES RELATED TO THE BUSINESS

As at December 31, 2015, there have been no changes in the Corporation's risks or risk management activities since December 31, 2014. 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 price fluctuations;
- Political unrest;
- Technology risks;
- Economic downturns;
- Reliance on key persons and labour shortages;
- Domestic and foreign competition;
- International sales;
- Mergers and acquisitions;
- Strategy implementation risk;
- Hydrocarbon demand risk;
- Insurance sufficiency, availability and rate risk;
- Supply chain risk; and
- Legal compliance risk.

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

## RISK FACTORS

In addition to risks described elsewhere in this MD&A or in the AIF, the Corporation is exposed to various business risks which include but are not limited to the following:

### OIL AND NATURAL GAS FLUCTUATIONS

A downturn in oil and gas prices worldwide has a direct impact on activities of the Corporation's customers. Low commodity prices for an extended period of time will result in reduced demand for many of McCoy Global'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 consumables, replacement parts, service and rental related to drilling equipment as well as new product development which will diversify the Corporation's product offering. In addition, the Corporation's strategy to increase revenue outside of North America and in extreme and adverse well conditions is intended to provide less revenue volatility, as such contracts are typically longer in term.

Management is able to mitigate some of the financial impact of a downturn in activity by reducing its discretionary spending, capital spending and reduce headcount.

### 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 reduced revenues potentially short and long term. In addition, this may lead to an inability to collect on accounts for products and services sold. To mitigate this risk, McCoy Global ensures it is operating in the global marketplace where reliance on revenues from one country or another outside of North America is not expected to result in significant revenue shortfalls.

## Technology Risks

McCoy Global'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 Global will be successful in this regard or that McCoy Global will have resources available to meet this continuing demand. Failure to meet this demand could have a material adverse effect on McCoy Global's business, financial condition, results of operations and cash flows. No assurances can be given that McCoy Global's competitors will not achieve technological advantages or introduce disruptive technologies.

McCoy Global is continually researching the market and trends in order to best manage technology risks. As the Corporation becomes knowledgeable of trends that may require different or disruptive technologies, it reviews the opportunity under various measures and determines if it is a viable research and development project.

In the future, McCoy Global may seek patents or other similar protections in respect of particular products and technology, however, McCoy Global may not be successful in such efforts. Competitors may also develop similar products and technology thereby adversely affecting McCoy Global's competitive advantage in one or more of McCoy Global's product lines. Additionally, there is no assurance that certain products or technology McCoy Global develops, may not be the subject of future patent infringement claims or other similar matters which could result in litigation, the requirement to pay licensing fees or other results that could have a material adverse effect on McCoy Global's business, financial condition, results of operations and cash flows.

## Economic Downturns

Economic downturns may have a negative impact on the Corporation's business since its 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.

## Reliance on Key Persons and Labour Shortages

The potential loss of key personnel is another risk area the Corporation faces. 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

The Corporation has competitors. If the Corporation does not respond effectively to competitors' new products, geographic expansion, quality, delivery, pricing and marketing strategies, the Corporation may lose market share. Foreign and domestic competition presents a risk for the hydraulic power tong market. 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. Lastly, drillers and operators are constantly evolving the means of extracting hydrocarbons, with an emphasis on safety. Although McCoy Global has a robust new product development program, the Corporation is at risk of not keeping up with the end users' demand for safer, more efficient products.

The Corporation has begun differentiating itself from competitors by expanding its physical operations into international regions of concentrated activity. These international regional locations will increase customer responsiveness by providing customers with regional technical service support, product training, technical sales, capital equipment for sale or rent and warehouses for consumables and replacement parts.

### INTERNATIONAL SALES

The Corporation sells a significant amount of its product into foreign countries. International sales are subject to inherent risks such as changes in governing bodies, regulatory requirements, import and export delays, sanctions and other trade barriers. The Corporation may not extend credit to certain customers, however, many international customers are given credit terms and there is inherent risk related to any situation, such as terrorism, regime change, war and civil insurrection that could disrupt the payment of monies owed to the Corporation.

### BUSINESS ACQUISITIONS

The Corporation may identify, evaluate and merge or acquire new businesses that are complementary to its overall business strategy. In certain situations, the Corporation may find itself competing for targets with other strategic and non-strategic buyers which may have the desire or ability to value targets at a higher purchase price than McCoy Global. In addition, 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.

### STRATEGY IMPLEMENTATION RISK

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 the Corporation's strategy, both organically or by mergers and/or acquisitions, if capital is required. In addition, there is competition for acquiring high-quality 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 Global's manufactured products. To help alleviate some of this risk, management is continuing to grow its consumable, service and replacement parts business for drilling equipment. 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.

### INSURANCE SUFFICIENCY, AVAILABILITY AND RATE RISK

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. Furthermore, the Corporation's ability to procure effective insurance at favorable rates is dependent on various operational factors including the number of claims and amounts paid out. To this end, the Corporation attempts to mitigate its risks through various commercial agreements, whereby the risk is appropriately shared.

## Supply Chain Risk

The Corporation relies on various key suppliers and their risks and costs are ultimately borne by the Corporation. The Corporation continuously pursues the most efficient and effective suppliers in order to mitigate any one supplier having a material adverse effect on the Corporation's ability to provide its product. However, there are several suppliers whom the Company relies upon within its supply chain and if something adverse were to happen to one of these suppliers the Company's ability to meet customer demand may be impacted in the short-term until another supplier can be sourced or the part designed internally.

Steel is as a component of the Corporation's products and a component of many of the parts purchased by the Corporation for the production of its 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 several steel suppliers which may assist in the mitigation of disruption of the supply of steel, provided however, a disruption of the overall steel market will have an impact on the Corporation which it may not be able to mitigate.

## Legal Compliance Risk

The Corporation does business in, and sells goods into, many countries and its operations are subject to many different laws, customs and cultures. Business is conducted by both McCoy Global personnel and third party representatives. The Corporation is required to comply with applicable anti-corruption laws, including the Canadian Corruption of Foreign Public Officials Act (the "CFPOA"), the US Foreign Corrupt Practices Act (the "FCPA") and the United Kingdom Bribery Act 2010, as well as local laws in all countries in which the corporation does business. Furthermore, certain products and services are subject to the export control laws of the United States, Canada, the United Kingdom, Singapore, the United Arab Emirates and other countries where its products are sold. Failure to comply with the laws and regulations governing exports may result in monetary fines for individuals as well as McCoy Global, loss of McCoy Global's export privileges, imprisonment, and other sanctions. The Corporation has established policies and procedures that McCoy Global personnel must follow to ensure compliance with those laws and regulations.

## Other Information

Additional information relating to the Corporation, including the Corporation's Annual Information Form for the year end December 31, 2015 is available on SEDAR.