# CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

June 30, 2017

*(unaudited)*

## Condensed Consolidated Interim Statements of Financial Position

*(Stated in thousands of Canadian dollars)*
*(unaudited)*

| As at | Note | June 30, 2017 | December 31, 2016 |
|---|---|---|---|
| | | $ | $ |
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | | **14,556** | 22,176 |
| Restricted cash | 7 | **2,500** | - |
| Trade and other receivables | | **5,294** | 4,877 |
| Inventories | | **27,065** | 28,197 |
| Income tax recoverable | | **4,240** | 4,370 |
| Other current assets | | **1,423** | 1,594 |
| | | **55,078** | 61,214 |
| Property, plant and equipment | 6 | **11,149** | 7,113 |
| Intangible assets | | **1,454** | 1,439 |
| Deferred tax assets | | **574** | 129 |
| **Total assets** | | **68,255** | 69,895 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | | **4,981** | 3,655 |
| Customer deposits | | **614** | 458 |
| Provisions | 5 | **1,806** | 2,347 |
| Borrowings | 7 | **5,593** | - |
| | | **12,994** | 6,460 |
| Provisions | 5 | **3,428** | 3,630 |
| **Total liabilities** | | **16,422** | 10,090 |
| **Shareholders' equity** | | | |
| Share capital | 9 | **60,126** | 60,187 |
| Contributed surplus | | **4,756** | 4,617 |
| Accumulated other comprehensive income | | **8,471** | 9,848 |
| Retained deficit | | **(21,520)** | (14,847) |
| **Total shareholders' equity** | | **51,833** | 59,805 |
| **Total liabilities and shareholders' equity** | | **68,255** | 69,895 |

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

## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

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

| | | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|---|
| | Note | **2017** | 2016 | **2017** | 2016 |
| | | **$** | $ | **$** | $ |
| **Revenue** | | **9,214** | 6,583 | **19,428** | 13,742 |
| **Cost of sales** | | **7,566** | 9,095 | **15,935** | 17,683 |
| **Gross profit (loss)** | | **1,648** | (2,512) | **3,493** | (3,941) |
| General and administration | | **2,474** | 3,202 | **4,577** | 6,265 |
| Sales and marketing | | **958** | 921 | **1,866** | 1,851 |
| Research and development | | **704** | 441 | **1,537** | 846 |
| Other losses, net | | **407** | 131 | **875** | 1,439 |
| Restructuring charges | 5 | **365** | 9,517 | **1,361** | 9,659 |
| Finance charges, net | | **51** | 66 | **76** | 84 |
| Impairment charges | 6 | **-** | 2,727 | **348** | 7,012 |
| | | **4,959** | 17,005 | **10,640** | 27,156 |
| **Loss before income taxes** | | **(3,311)** | (19,517) | **(7,147)** | (31,097) |
| **Income tax (recovery)** | | | | | |
| Current | | **(34)** | (1,871) | **(30)** | (3,062) |
| Deferred | | **(180)** | 1,450 | **(444)** | 438 |
| | | **(214)** | (421) | **(474)** | (2,624) |
| **Net loss** | | **(3,097)** | (19,096) | **(6,673)** | (28,473) |
| **Other comprehensive loss** | | | | | |
| Translation loss of foreign operations | | **(884)** | (300) | **(1,377)** | (3,679) |
| **Comprehensive loss** | | **(3,981)** | (19,396) | **(8,050)** | (32,152) |
| **Loss per share** | | | | | |
| Basic per share net loss | | **(0.11)** | (0.69) | **(0.24)** | (1.03) |
| Diluted per share net loss | | **(0.11)** | (0.69) | **(0.24)** | (1.03) |

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

# Condensed Consolidated Interim Statements of Changes in Equity

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

| | Note | Issued capital<br>Number of shares | Share capital | Contributed surplus | Accumulated other comprehensive income | Retained earnings (deficit) | Total equity |
|---|---|---|---|---|---|---|---|
| | | # | $ | $ | $ | $ | $ |
| **Balances at January 1, 2016** | | 27,704,239 | 60,187 | 4,306 | 11,897 | 21,079 | 97,469 |
| Net loss | | - | - | - | - | (28,473) | (28,473) |
| Translation loss on foreign operations | | - | - | - | (3,679) | - | (3,679) |
| Employee share-based compensation expense | | - | - | 140 | - | - | 140 |
| **Balances at June 30, 2016** | | 27,704,239 | 60,187 | 4,446 | 8,218 | (7,394) | 65,457 |
| | | | | | | | |
| **Balances at January 1, 2017** | | 27,704,239 | 60,187 | 4,617 | 9,848 | (14,847) | 59,805 |
| Net loss | | **-** | **-** | **-** | **-** | **(6,673)** | **(6,673)** |
| Translation loss on foreign operations | | **-** | **-** | **-** | **(1,377)** | **-** | **(1,377)** |
| Employee share-based compensation expense | | **-** | **-** | **139** | **-** | **-** | **139** |
| Repurchase of shares | 9 | **(20,000)** | **(61)** | **-** | **-** | **-** | **(61)** |
| **Balances at June 30, 2017** | | **27,684,239** | **60,126** | **4,756** | **8,471** | **(21,520)** | **51,833** |

*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)*
*(unaudited)*

| | Note | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|---|
| | | **2017** | 2016 | **2017** | 2016 |
| **Cash generated from (used in)** | | **$** | $ | **$** | $ |
| **Operating activities** | | | | | |
| Net loss | | **(3,097)** | (19,096) | **(6,673)** | (28,473) |
| Adjustments for: | | | | | |
| Depreciation of property, plant and equipment | | **597** | 1,042 | **1,259** | 2,113 |
| Amortization of intangible assets | | **210** | 263 | **426** | 596 |
| Income tax recovery | | **(214)** | (421) | **(474)** | (2,624) |
| Finance charges, net | | **51** | 66 | **76** | 84 |
| **EBITDA**[1] | | **(2,453)** | (18,146) | **(5,386)** | (28,304) |
| Share-based compensation expense | | **114** | 14 | **181** | 121 |
| Impairment charges | 6 | **-** | 2,727 | **348** | 7,012 |
| Loss (gain) on disposal of property, plant and equipment | | **37** | (75) | **3** | (88) |
| Changes in non-cash working capital balances | | **(2)** | 14,013 | **3,956** | 14,491 |
| Change in restructuring provision | 5 | **(392)** | - | **(269)** | - |
| Finance costs paid, net | | **(106)** | (28) | **(78)** | (61) |
| Income taxes (paid) recovered, net | | **(3)** | (169) | **63** | (169) |
| **Net cash used in operating activities** | | **(2,805)** | (1,664) | **(1,182)** | (6,998) |
| **Investing activities** | | | | | |
| Purchases of property, plant and equipment | | **(213)** | (141) | **(853)** | (302) |
| Proceeds from sale of property, plant and equipment | | **8** | 83 | **43** | 108 |
| Additions to intangible assets | | **(407)** | - | **(441)** | (10) |
| Business combination, net | | **-** | - | **(7,985)** | - |
| **Net cash used in investing activities** | | **(612)** | (58) | **(9,236)** | (204) |
| **Financing activities** | | | | | |
| Proceeds from borrowings | | **-** | - | **5,895** | - |
| Repayment of borrowings | | **(258)** | - | **(258)** | - |
| Normal course issuer bid | 9 | **(61)** | - | **(61)** | - |
| Funds transferred to restricted cash | | **-** | - | **(2,500)** | - |
| **Net cash (used in) generated from financing activities** | | **(319)** | - | **3,076** | - |
| Effect of exchange rate changes on cash and cash equivalents | | **(453)** | 431 | **(278)** | 343 |
| **Decrease in cash and cash equivalents** | | **(4,189)** | (1,291) | **(7,620)** | (6,859) |
| **Cash and cash equivalents – beginning of the period** | | **18,745** | 21,882 | **22,176** | 27,450 |
| **Cash and cash equivalents – end of the period** | | **14,556** | 20,591 | **14,556** | 20,591 |

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

[1] 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 and six months ended June 30, 2017
*(in thousands of Canadian dollars, except share data or unless otherwise specified)*
*(unaudited)*

### 1. NATURE OF OPERATIONS

McCoy Global Inc. ("McCoy", "McCoy Global" or the "Corporation") is incorporated and domiciled in Canada and is a leading provider of equipment and technologies designed to support wellbore integrity and assist with collecting critical data for the global energy 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 and development.

The Corporation is engaged in the following:

i. design, production and distribution of capital equipment to support wellbore integrity and to support capital equipment sales through aftermarket products and services such as technical support, consumables, and replacement parts;

ii. design, production and distribution of data collection technologies used in rugged applications for the global energy industry as well as in construction, marine and aerospace;

iii. repair, maintenance, and calibration of the Corporation's capital equipment and similar competitor products; and

iv. rental of the Corporation's capital equipment.

Set out below are McCoy's principal operations:

| Operating Name | Country of Incorporation | Operating Region | Ownership Interest |
|---|---|---|---|
| McCoy Global Canada Corp. | Canada | Canada & Russia | 100% |
| McCoy Global S.à r.l. | Luxembourg | Middle East & Africa | 100% |
| McCoy Global Singapore Pte. Ltd. | Singapore | Asia Pacific | 100% |
| McCoy Global UK Ltd. | United Kingdom | Europe | 100% |
| McCoy Global USA, Inc. | United States | United States & Latin America | 100% |

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

The address of the registered office of the Corporation is DLA Piper (Canada) LLP, Livingston Place, 1000 - 250 2nd Street SW, Calgary, Alberta. The Corporation is listed on the Toronto Stock Exchange under the symbol "MCB."

### 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, 2016 which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

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

As disclosed below, management continues to evaluate the potential measurement, transitional and disclosure impacts of amendments to IFRS effective January 1, 2018 and onward on the Corporation's consolidated financial statements.

## 3. Future Accounting Pronouncements

***IFRS 9 – Financial instruments***

IFRS 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The Corporation has decided not to adopt IFRS 9 until it becomes mandatory on January 1, 2018.

The Corporation does not expect the new guidance to have a significant impact on the classification and measurement of its financial instruments for the following reasons:

i. The Corporation does not currently hold any financial assets that would be accounted for differently under the new standard;

ii. The Corporation does not have any financial liabilities designated at fair value through profit or loss, which are the only liabilities impacted by the new standard; and

iii. The Corporation does not currently have, or anticipate having any outstanding hedges that would require re-assessment under the updated hedge accounting rules.

The new impairment model requires the recognition of impairment provisions based on expected credit loss (ECL) rather than only incurred credit losses as is the case under IAS 39. This will apply to the Corporation's trade and other accounts receivable and management is currently evaluating the impact of this, as well as the new presentation and disclosure rules on its financial reporting.

***IFRS 15 – Revenue from contracts with customers***

IFRS 15 will replace IAS 18 which covers revenue arising from the sale of goods and the rendering of services and IAS 11 which covers construction contracts.

The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption. The Corporation will adopt the new standard beginning January 1, 2018. Management is in the process of evaluating its various revenue streams in the context of the new standard.

***IFRS 16 – Leases***

IFRS 16 was issued in January, 2016. It will result in almost all leases being recognized on the statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Corporation's operating leases. The Corporation has not yet determined the extent to which these lease commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Corporation's profit and classification of cash flows.

Some of the commitments may be covered off by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

The standard is mandatory for first interim periods within annual reporting periods beginning on or after January 1, 2019. At this stage, the Corporation does not intend to adopt the standard before its effective date.

## 4. Fair value of financial assets and liabilities

The fair value of financial instruments included in working capital approximates fair value due to their short-term or demand nature.

## 5. Restructuring provision and charges

In January 2017, McCoy Global initiated further changes to its operating model to reduce the Corporation's fixed cost structure and take advantage of the technical expertise and product offerings gained through the acquisition and integration of the assets and business of 3PS, Inc. ("3PS"). These changes will provide more agility to respond to industry cycles and include:

i. the transition from an in-house manufacturing model at the Corporation's Edmonton production facility to an assembly only production model;

ii. consolidation of the torque turn monitoring software and wireless torque sub product lines currently assembled at the Edmonton production facility to the 3PS (Austin, Texas) production facility.

Restructuring charges as at and for the six month period ended June 30, 2017 are summarized below:

| | Onerous lease contracts | Inventory write-downs | Severance pay and benefits | Other direct costs | Restructuring provisions |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | **$** |
| Accrued balance, December 31, 2016 | 3,240 | - | - | - | **3,240** |
| Costs recognized | 225 | 217 | 816 | 103 | **1,361** |
| Payments and allowances | (463) | (217) | (541) | (103) | **(1,324)** |
| **Restructuring provisions, June 30, 2017** | **3,002** | **-** | **275** | **-** | **3,277** |
| Other provisions | | | | | **1,957** |
| **Total provisions, June 30, 2017** | | | | | **5,234** |

## 6. Impairment of non-financial assets

As a result of the restructuring activities disclosed in note 5, certain property, plant and equipment ("PPE") assets were identified which will not be utilized in the future. It was determined through the assessment of external appraisals that the net book value of the identified PPE exceeded its recoverable value (higher of fair value less cost to sell and value in use) and impairment charges for the six months ended June 30, 2017 of $348 were recorded.

## 7. Borrowings

On January 19, 2017, the Corporation cancelled the operating line of credit existing at December 31, 2016 and entered into a new credit facility (the "Facility") consisting of the following components:

i. CAD $2,000 operating line repayable on demand. Under the terms of the operating line of credit, funds may be advanced in either Canadian or US currency and will bear interest at the Creditor's Canadian Prime Rate or US Base Rate plus a margin of 2.50% or LIBOR plus a margin of 4.00%.

   The availability of the operating line of credit is subject to a borrowing base calculation which is based on working capital of the Corporation's Canadian entities. At June 30, 2017, the aggregate borrowing base available for use under the operating line of credit was $1,199, of which $908 was drawn.

   The Corporation is also subject to certain conditions under the operating line of credit agreement. These conditions are measured on a quarterly basis and were met as of June 30, 2017.

ii. USD $3,800 non-revolving term loan with principal repayments of USD $190 per quarter and a term of one year. Under the terms of the non-revolving facility, funds are advanced in US currency and will bear interest at the Creditor's US Base Rate plus a margin of 2.50% or LIBOR plus a margin of 4.00%. On February 22, 2017, USD $3,800 was drawn against the non-revolving credit facility. At June 30, 2017, principal of USD $3,610 was outstanding.

As required under the terms of the Facility, CAD $2,500 is held under the Creditor's authority as security and is presented as restricted cash on the balance sheet. The Facility is further secured by the Corporation's Canadian assets and the Corporation must maintain a minimum cash balance on hand with the Creditor. Failing to meet the minimum cash on hand requirement triggers an obligation to provide an additional CAD $2,500 to be held under the Creditor's authority, up to a maximum of CAD $5,000.

## 8. BUSINESS COMBINATION

The Corporation applies the acquisition method to account for business combinations. The measurement of acquired assets and assumed liabilities are based on information available to the Corporation on the acquisition date. The estimate of fair value of acquired assets and assumed liabilities requires significant judgment which is largely based on projected cash flows, discount rates and other market conditions that are present on the date of acquisition. The acquired assets and assumed liabilities are recognized at fair value on the date the Corporation obtains control in a business combination. When the excess is negative, a bargain purchase gain is recognized immediately in other gains and losses.

Effective January 1, 2017, the Corporation acquired the assets of 3PS. 3PS specializes in sensors, systems and services for heavy industrial applications, including Torque and Tension Sub technology.

The aggregate consideration given and fair values of net assets acquired in the acquisition of 3PS, subject to the finalization of valuation calculations and any closing adjustments, are as follows:

| | January 4, 2017 |
|---|---|
| | $ |
| **Consideration transferred:** | |
| Cash | 8,118 |
| **Total consideration** | 8,118 |
| **Identifiable assets acquired:** | |
| Cash | 133 |
| Current assets | 3,419 |
| Non-current assets | 4,791 |
| **Identifiable liabilities assumed:** | |
| Current liabilities | 162 |
| **Total net identifiable assets** | 8,181 |
| **Gain on business combination** | 63 |

For the six months ended June 30, 2017, the Corporation incurred due diligence and closing costs of $259 to complete the acquisition. These costs have been included in other losses, net on the condensed consolidated interim statements of loss and comprehensive loss.

During the six months ended June 30, 2017, the Corporation took steps to integrate 3PS with the Corporation's consolidated operating results and therefore, revenue and net earnings are not reported on a stand-alone basis.

## 9. EQUITY

On May 19, 2017, the Corporation announced a normal course issuer bid (NCIB). The Corporation may purchase, for cancellation, up to a maximum 1,385,212 common shares, equal to 5 percent of the public float of 27,704,239 common shares as at May 12, 2017. The Company is also limited under the NCIB to purchasing no more than 4,496 common shares on any given day, subject to the block purchase exemption under the TSX rules. The NCIB will continue until May 23, 2018. Purchases will be made on the open market through the TSX or alternative platforms at the market price of such shares. All shares purchased under the NCIB will be cancelled.

During the three months ended June 30, 2017 the Company purchased, 20,000 common shares pursuant to its NCIB at a weighted average price of $2.07 per share. The share repurchase and costs to implement the NCIB were $61.