Condensed Consolidated Interim Financial Statements

September 30, 2021

(unaudited)

Notice to Reader:

As required by National Instrument 51-102, Part 4, subsection 4.3(3)(a), readers are advised that the Corporation's independent auditors have not performed a review of these condensed consolidated interim financial statements.

Condensed Consolidated Interim Statements of Financial Position

(Stated in thousands of Canadian dollars)
(unaudited)

As at	Note	September 30, 2021	December 31, 2020
		$	$
Assets			
Current assets			
Cash and cash equivalents		**12,773**	12,136
Restricted cash	7	**885**	500
Trade and other receivables		**4,879**	3,610
Inventories	4	**16,608**	15,925
Prepaid expenses and deposits		**1,342**	679
		36,487	32,850
Other receivables		**40**	39
Property, plant and equipment	5	**9,265**	10,466
Intangible assets	6	**6,612**	5,822
Goodwill		**3,484**	3,481
Total assets		**55,888**	52,658
Liabilities			
Current liabilities			
Trade and other payables		**3,637**	3,633
Customer deposits		**2,463**	1,233
Current provisions		**775**	956
Current lease liabilities		**502**	384
Current borrowings	7	**911**	1,223
		8,288	7,429
Lease liabilities		**3,237**	3,644
Borrowings	7	**6,742**	6,081
Total liabilities		**18,267**	17,154
Shareholders' equity			
Share capital		**59,993**	59,712
Contributed surplus		**5,651**	5,560
Accumulated other comprehensive income		**7,260**	7,129
Accumulated deficit		**(35,283)**	(36,897)
Total shareholders' equity		**37,621**	35,504
Total liabilities and shareholders' equity		**55,888**	52,658

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

Condensed Consolidated Interim Statements of Earnings (Loss) and Comprehensive Earnings (Loss)

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

		Three months ended September 30		Nine months ended September 30	
		2021	2020	**2021**	2020
		$	$	**$**	$
Revenue		**9,885**	7,621	**23,345**	29,305
Cost of sales		**6,961**	6,566	**16,643**	22,322
Gross profit		**2,924**	1,055	**6,702**	6,983
General and administration		**1,328**	1,122	**4,415**	4,294
Research and development		**488**	382	**1,330**	1,704
Sales and marketing		**327**	325	**1,037**	1,108
Finance charges, net		**214**	243	**661**	691
Restructuring charges		**-**	-	**-**	136
Other gains, net	8	**(54)**	(297)	**(2,355)**	(925)
		2,303	1,775	**5,088**	7,008
Earnings before income taxes		**621**	(720)	**1,614**	(25)
Income tax expense		**-**	-	**-**	-
Net earnings (loss)		**621**	(720)	**1,614**	(25)
Other comprehensive earnings (loss)					
Translation gain (loss)		**1,001**	(762)	**131**	866
Comprehensive earnings (loss)		**1,622**	(1,482)	**1,745**	841
Net earnings per share					
Basic		**0.02**	(0.03)	**0.06**	-
Diluted		**0.02**	(0.03)	**0.06**	-

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 per share amounts)
(unaudited)

	Issued capital: Number of shares	Issued capital: Share capital	Contributed surplus	Accumulated other comprehensive income	Accumulated deficit	Total equity
	#	$	$	$	$	$
Balances at January 1, 2020	27,630,989	59,636	5,384	7,552	(34,722)	37,850
Net loss	-	-	-	-	(25)	(25)
Translation gain on foreign operations	-	-	-	866	-	866
Employee share-based compensation	-	-	74	-	-	74
Issuance of common shares under restricted share plan	151,000	61	-	-	-	61
Balances at September 30, 2020	27,781,989	59,697	5,458	8,418	(34,747)	38,826
Balances at January 1, 2021	**27,802,489**	**59,712**	**5,560**	**7,129**	**(36,897)**	**35,504**
Net earnings					**1,614**	**1,614**
Translation gain on foreign operations				**131**		**131**
Employee share-based compensation			**91**			**91**
Issuance of common shares under restricted share plan	**422,500**	**281**				**281**
Balances at September 30, 2021	**28,224,989**	**59,993**	**5,651**	**7,260**	**(35,283)**	**37,621**

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

Condensed Consolidated Interim Statements of Cash Flows

(Stated in thousands of Canadian dollars)
(unaudited)

	Note	Three months ended September 30 2021	Three months ended September 30 2020	Nine months ended September 30 2021	Nine months ended September 30 2020
Cash generated from (used in)		**$**	$	**$**	$
Operating activities					
Net earnings		**621**	(720)	**1,614**	(25)
Adjustments for:					
Depreciation of property, plant and equipment		**516**	578	**1,508**	1,972
Amortization of intangible assets		**199**	211	**593**	638
Finance charges, net		**214**	243	**661**	691
Share-based compensation		**(40)**	29	**479**	91
Gain on disposal of property, plant and equipment		**-**	(19)	**(97)**	(360)
Changes in non-cash working capital balances	9	**852**	523	**(1,842)**	680
Change in restructuring and facility remediation provisions		**(21)**	73	**(77)**	(749)
Finance costs paid, net		**(217)**	(244)	**(597)**	(679)
Amounts forgiven under US Paycheck Protection Program	7, 8	**-**	-	**(2,369)**	-
Net cash generated from (used in) operating activities		**2,124**	674	**(127)**	2,259
Investing activities					
Purchases of property, plant and equipment	5	**(337)**	(172)	**(372)**	(1,080)
Proceeds from sale of property, plant and equipment		**-**	-	**148**	109
Additions to intangible assets	6	**(521)**	(296)	**(1,365)**	(801)
Net cash used in investing activities		**(858)**	(468)	**(1,589)**	(1,772)
Financing activities					
Proceeds from borrowings under US Paycheck Protection Program	7	**-**	-	**2,468**	2,660
Proceeds from borrowings	7	**-**	-	**1,269**	-
Proceeds from issuance of common shares under restricted share plan		**278**	61	**281**	61
Repayments of borrowings		**(301)**	(613)	**(908)**	(1,939)
Principal elements of lease payments		**(99)**	(64)	**(288)**	(568)
Changes in restricted cash	7	**390**	(400)	**(385)**	(400)
Net cash generated from (used in) financing activities		**268**	(1,016)	**2,437**	(186)
Effect of exchange rate changes on cash and cash equivalents		**329**	(200)	**(84)**	82
Increase (decrease) in cash and cash equivalents		**1,863**	(1,010)	**637**	383
Cash and cash equivalents – beginning of the period		**10,910**	9,775	**12,136**	8,382
Cash and cash equivalents – end of the period		**12,773**	8,765	**12,773**	8,765

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2021
(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 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 globally.

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, nuclear 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 and technologies.

Set out below are McCoy's principal operations:

Operating Name	Country of Incorporation	Operating Region	Ownership Interest
McCoy Global Canada Corp.	Canada	Canada	100%
McCoy Global FZE	United Arab Emirates	Eastern Hemisphere	100%
McCoy Global USA, Inc.	United States	United States, Central America & 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 ("TSX") under the symbol "MCB."

2. BASIS OF PRESENTATION

a) 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, 2020, 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.

b) USE OF ESTIMATES AND JUDGMENTS

The preparation of the Corporation's condensed consolidated interim financial statements requires management to make estimates and judgments about the future that affect the application of accounting policies and the reported amounts of assets, liabilities and disclosures of contingent assets and liabilities at the date of the condensed consolidated interim financial statements and the reported amounts of revenues and expenses during the period. If these estimates and judgments prove to be inaccurate, future earnings may be materially impacted. Estimates and underlying assumptions are reviewed on an ongoing basis and revisions to estimates are recognized prospectively. Actual results may differ from those estimates.

Significant estimates and judgments used in the preparation of these condensed interim consolidated financial statements remained unchanged from those disclosed in the Corporation's consolidated audited annual financial statements for the year ended December 31, 2020. As described in Note 3 of the consolidated audited annual financial statements for the year ended December 31, 2020, due to the outbreak of the COVID-19 pandemic and the resulting impact on the economy and in particular the prices of oil and natural gas, the estimates and judgements used to prepare these financial statements were subject to a higher degree of measurement uncertainty.

3. Fair Value of Financial Assets and Liabilities

The fair value of cash and cash equivalents, trade and other receivables and trade and other payables approximates their carrying value due to their short-term nature. The fair value of non-current other receivables approximates the carrying amount as the receivables have been recorded using the effective interest rate method using a market rate of interest. The fair value of borrowings approximates the carrying amount as the instruments carry interest rates that reflect the current market rates available to the Corporation.

4. Inventories

	September 30, 2021			December 31, 2020		
As at	Gross inventories	Provision for excess and obsolescence	Net inventories	Gross inventories	Provision for excess and obsolescence	Net inventories
	$	**$**	**$**	$		$
Raw materials	**1,254**	**(313)**	**941**	1,341	(285)	1,056
Work-in-progress	**1,847**	**-**	**1,847**	1,778	-	1,778
Parts to be used in production	**9,924**	**(3,579)**	**6,345**	10,506	(3,532)	6,974
Production inventory	**13,025**	**(3,892)**	**9,133**	13,625	(3,817)	9,808
Capital equipment available for sale	**2,655**	**(341)**	**2,314**	1,640	(627)	1,013
Parts and accessories available for sale	**7,289**	**(2,128)**	**5,161**	7,318	(2,214)	5,104
	22,969	**(6,361)**	**16,608**	22,583	(6,658)	15,925

Production inventories are purchased or produced for use in the production of finished goods. Finished goods available for sale consist of capital equipment and parts and accessories inventories that are available for sale to external parties.

Included in cost of sales for the nine months ended September 30, 2021 is a recovery for excess and obsolete inventory of $276 (three months ended September 30, 2021 – $80) to adjust inventories to net realizable value. Included in cost of sales for the nine months ended September 30, 2020 is a provision for excess and obsolete inventory of $1,036 (three months ended September 30, 2020 – $321) to adjust inventories to net realizable value. A writedown is taken if management determines that the carrying value of the inventory item(s) exceed net realizable value. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the write-down is reversed. The maximum amount of any reversal is the original write-down, such that the new carrying amount is the lower of cost or the revised net realizable value.

The net realizable value of capital equipment included in inventories is assessed on an individual product basis considering current market prices for the equipment and management's assessment of forecasted demand. All other items in inventory are assessed for obsolescence at a distinct part level. The estimated net realizable value of these items is determined using a formulaic approach, providing for items that have not been sold or utilized in production in the 24 months previous to the interim consolidated statements of financial position date. Subsequent to applying the formulaic approach described above, management considered other factors relevant to the realizable value of inventory, relating to parts that have not transacted in one year as of the interim consolidated statements of financial position date and relating to product lines whose sales forecasts are expected to be more severely impacted by the current economic environment as described in note 2b.

5. Property, Plant and Equipment (PPE)

During the nine months ended September 30, 2021, the Corporation recorded $57 of additions to production equipment and $315 of additions to its rental fleet (nine months ended September 30, 2020 - $105 of additions to production equipment and $975 of additions to the Corporation's rental fleet). Additions to the rental fleet during 2021 and 2020 are comprised of equipment capitalized from inventory.

PPE includes right-of-use assets of $3,163 as at September 30, 2021 (December 31, 2020 - $3,640).

6. Intangible Assets

Costs incurred on product development are capitalized as intangible assets when it is probable the development will provide economic benefits, considering its commercial and technical feasibility, the resources available for development and that costs can be measured reliably. While in development, internally generated intellectual property is not amortized until it has reached commercial production.

During the nine months ended September 30, 2021, the Corporation recorded $1,365 of additions to intangible assets pertaining to costs incurred to develop internally generated intellectual property related to the development of several smart products that will be digitally integrated into McCoy's automated casing running system (nine months ended September 31, 2020 – $748; twelve months ended December 31, 2020 – $2,221).

For the nine months ended September 30, 2021, amortization of $321 pertaining to development costs for the first products developed under phase one of the 'Digital Technology Roadmap' was recognized in cost of sales (nine months ended September 30, 2020 - $344). For the nine months ended September 30, 2021, amortization of $262 pertaining to intellectual property acquired in connection with the acquisition of DrawWorks LP in the third quarter of 2019 was recognized in cost of sales (nine months ended September 30, 2020 - $276). For the nine months ended September 30, 2021, amortization pertaining to software and other items amounted to $10 (nine months ended September 30, 2020 - $18).

7. Borrowings

Changes in liabilities for which cash flows have been classified as financing activities in the consolidated statements of cash flows are as follows:

	Senior Secured Term Loan I	Senior Secured Term Loan II	Secured Promissory Note	Unsecured Promissory Note	US Paycheck Protection Program Loans	Total
	7(a)	7(b)			7(c)	
	$	$	$	$	$	$
Balances at January 1, 2020	3,211	-	3,031	1,948	-	8,190
Proceeds of borrowings	-	-	-	-	2,660	2,660
Repayments of borrowings	(967)	-	-	(972)	-	(1,939)
Amortization of deferred charges	12	-	39	-	-	51
Foreign exchange adjustment	49	-	81	24	(41)	113
Balances at September 30, 2020	**2,305**	**-**	**3,151**	**1,000**	**2,619**	**9,075**
Proceeds of borrowings	-	3,172	-	-	-	3,172
Deferred financing charges	-	(151)	-	-	-	(151)
Repayment of borrowings	(314)	-	(3,172)	(949)	-	(4,435)
Amortization of deferred charges	9	14	49	-	-	72
Foreign exchange adjustment	(110)	(120)	(28)	(51)	(120)	(429)
Balances at December 31, 2020	**1,890**	**2,915**	**-**	**-**	**2,499**	**7,304**
Proceeds from borrowings	-	1,269	-	-	2,468	3,737
Deferred financing charges	-	(12)	-	-	-	(12)
Repayments of borrowings	(908)	-	-	-	-	(908)
Amounts forgiven	-	-	-	-	(2,369)	(2,369)
Amortization of deferred charges	11	26	-	-	-	37
Foreign exchange adjustment	(46)	7	-	-	(97)	(136)
Balances at September 30, 2021	**947**	**4,205**	**-**	**-**	**2,501**	**7,653**
Current, net of deferred charges	947	(36)	-	-	-	911
Non-current, net of deferred charges	-	4,241	-	-	2,501	6,742

a) Senior Secured Term Loan I

During the year ended December 31, 2018, the Corporation entered into a term loan agreement for $5,209 (USD$4.0 million). The loan has a term of four years and is repayable in equal quarterly payments of principal, plus interest. Interest is calculated at either LIBOR plus 5.05% or the US Prime Rate plus 3.55%, at the Corporation's option. Under the term loan agreement, the Corporation's wholly owned subsidiary, McCoy Global USA, Inc., provided a general security agreement over all present and after acquired personal property and the Corporation provided a guarantee. There are no financial covenants associated with the term loan agreement. The Corporation is subject to certain conditions under the term loan agreement, including a material adverse change clause.

b) SENIOR SECURED TERM LOAN II

During the three months ended March 31, 2021, the Corporation received $1,269 (US$1,000) of funding from a second draw available under its Senior Secured Term Loan II. The term loan bears interest at US Prime Rate plus 4.95% per annum and is repayable in eight equal quarterly instalments beginning on December 6, 2022. The facility is subject to customary conditions and is secured by certain assets of the Corporation and its subsidiaries, including certain real estate in Cedar Park, Texas. Under the terms of the agreement, the Corporation is subject to a financial covenant minimum fixed charge coverage ratio of 1:1 for the year ending December 31, 2021; and 1.25:1 for years ending thereafter; where the fixed charge coverage ratio is calculated as earnings before interest, taxes, depreciation and amortization less capital expenditures over the sum of interest expense, principal payment of indebtedness and lease payments made during the period.

c) US PAYCHECK PROTECTION PROGRAM (PPP) LOANS

During the year ended December 31, 2020, the Corporation received $2,660 (US$1,963) of funding under its first application for the US Paycheck Protection Program (PPP). During the three months ended June 30, 2021, the Corporation received full forgiveness for first-round funding of the US Paycheck Protection Program (PPP) of $2,369 (US$1,963). The proceeds of the funding were used to directly support the Corporation's US employee payroll expenditures.

During the three months ended March 31, 2021, the Corporation received $2,468 (US$1,963) of funding under its application for second round funding of the US Paycheck Protection Program (PPP). The loan bears interest at 1.0% and is payable in forty-four (44) equal monthly payments of US$50 thousand beginning August 31, 2022 and maturing on March 31, 2026. Subsequent to September 30, 2021, the Corporation received confirmation that its application for forgiveness was approved and the full loan proceeds were forgiven.

d) CASH SECURED CREDIT FACILITY

During the year ended December 31, 2018, the Corporation entered into a $500 credit facility to support cash management and trade letters of credit. During the three months ended September 30, 2021, the credit facility was reduced to $110. The credit facility is secured by $110 in cash and cash equivalents, which is to be held under the Creditor's authority as security. The $110 of cash and cash equivalents held as collateral is presented as restricted cash on the consolidated statements of financial position.

e) REVOLVING DEMAND FACILITY

In October 2020, the Corporation secured its US$2.5 million revolving demand facility with a Canadian chartered bank. As at September 30, 2021, $775 cash and cash equivalents was held as collateral under the Creditor's authority. The cash security is presented as restricted cash on the consolidated statements of financial position The revolving demand facility bears interest at Prime Rate plus 1.35% per annum and will be secured by a general security agreement and in addition to the assignment of US$0.63 million of term deposits noted above. As at September 30, 2021, the facility remains undrawn with US$2.5 million of availability.

8. Other Gains, Net

	Three months ended September 30		Nine months ended September 30	
	2021	2020	**2021**	2020
	$	$	**$**	$
Government assistance	**(85)**	(103)	**(2,782)**	(347)
Foreign exchange loss (gain)	**31**	160	**103**	2
Non-recurring retroactive payments to employees	**-**	-	**421**	-
Gain on disposal of PPE	**-**	(19)	**(97)**	(360)
Due diligence and integration costs on business combinations	**-**	-	**-**	82
Items related to previous business divestiture	**-**	(335)	**-**	(302)
	(54)	(297)	**(2,355)**	(925)

During the nine months ended September 30, 2021, government assistance includes $2,369 for forgiven borrowings under the US Paycheck Protection Program and $413 in government assistance payments under the Canadian Emergency Wage and Rent Subsidy programs. Due to receipt of second round funding under the US Paycheck Protection Program in addition to approval of first round funding forgiveness, the Corporation returned a portion of the wage rollbacks, enacted in April of 2020, equivalent to 5% of base salary, for total one-time retroactive payments of $421.

During the nine months ended September 30, 2020, the Corporation received $347 in government assistance payments under the Canadian Emergency Wage Subsidy program.

9. Changes in Working Capital Balances

	Three months ended September 30		Nine months ended September 30	
	2021	2020	**2021**	2020
	$	$	**$**	$
Cash received from (used in) operating activities due to changes in non-cash working capital balances:				
Trade and other receivables	**(874)**	795	**(1,243)**	1,595
Inventories	**1,184**	1,800	**(660)**	2,580
Other current assets	**52**	(20)	**(655)**	(163)
Other non-current receivables	**-**	26	**-**	282
Trade and other payables	**(262)**	(1,410)	**(390)**	(2,263)
Customer deposits	**708**	(576)	**1,208**	(1,305)
Provisions, excluding restructuring and facility remediation	**44**	(92)	**(102)**	(46)
	852	523	**(1,842)**	680