



CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

September 30, 2022

(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, 2022	December 31, 2021
		\$	\$
Assets			
Current assets			
Cash and cash equivalents		8,579	11,139
Restricted cash	7	857	885
Trade and other receivables		11,865	6,030
Inventories	4	22,078	15,518
Prepaid expenses and deposits		1,186	873
Assets held for sale	10	3,582	-
		48,147	34,445
Other receivables		39	39
Property, plant and equipment	5	6,753	10,117
Intangible assets	6	7,494	7,070
Goodwill		3,748	3,467
Total assets		66,181	55,138
Liabilities			
Current liabilities			
Trade and other payables		10,012	4,897
Customer deposits		2,496	1,819
Current provisions		703	598
Current lease liabilities		747	569
Current borrowings	7	2,292	504
		16,250	8,387
Lease liabilities		2,709	3,051
Borrowings	7	2,270	3,690
Total liabilities		21,229	15,128
Shareholders' equity			
Share capital	11	60,182	59,993
Contributed surplus		5,699	5,682
Accumulated other comprehensive income		10,391	7,154
Accumulated deficit		(31,320)	(32,819)
Total shareholders' equity		44,952	40,010
Total liabilities and shareholders' equity		66,181	55,138

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

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF EARNINGS AND COMPREHENSIVE EARNINGS

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

	Three months ended September 30		Nine months ended September 30	
	2022	2021	2022	2021
	\$	\$	\$	\$
Revenue	12,410	9,885	34,164	23,345
Cost of sales	9,261	6,961	24,246	16,643
Gross profit	3,149	2,924	9,918	6,702
General and administration	1,475	1,328	4,630	4,415
Research and development	811	488	2,194	1,330
Sales and marketing	451	327	1,301	1,037
Finance charges, net	197	214	556	661
Other gains, net	8 (59)	(54)	(262)	(2,355)
	2,875	2,303	8,419	5,088
Earnings before income taxes	274	621	1,499	1,614
Income tax expense	-	-	-	-
Net earnings	274	621	1,499	1,614
Other comprehensive earnings				
Translation gain	2,584	1,001	3,237	131
Comprehensive earnings	2,858	1,622	4,736	1,745
Net earnings per share				
Basic	0.01	0.02	0.05	0.06
Diluted	0.01	0.02	0.05	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			Accumulated other comprehensive income	Accumulated deficit	Total equity	
	Note	Number of shares	Share capital				Contributed surplus
		#	\$	\$	\$	\$	
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
Balances at January 1, 2022		28,224,989	59,993	5,682	7,154	(32,819)	40,010
Net earnings		-	-	-	-	1,499	1,499
Translation gain on foreign operations		-	-	-	3,237	-	3,237
Employee share-based compensation		-	-	23	-	-	23
Issuance of common shares upon stock option exercise		20,000	22	(9)	-	-	13
Issuance of common shares under restricted share plan		172,500	174	-	-	-	174
Repurchase of shares	11	(3,200)	(7)	3	-	-	(4)
Balances at September 30, 2022		28,414,289	60,182	5,699	10,391	(31,320)	44,952

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		Nine months ended September 30	
		2022	2021	2022	2021
Cash generated from (used in)		\$	\$	\$	\$
Operating activities					
Net earnings		274	621	1,499	1,614
Adjustments for:					
Depreciation of property, plant and equipment		403	516	1,439	1,508
Amortization of intangible assets	6	275	199	744	593
Finance charges, net		197	214	556	661
Share-based compensation		14	(40)	389	479
Gain on disposal of property, plant and equipment		-	-	(269)	(97)
Changes in non-cash working capital balances	9	145	852	(5,550)	(1,842)
Change in restructuring and facility remediation provisions		(6)	(21)	(22)	(77)
Finance costs paid, net		(78)	(217)	(506)	(597)
Amounts forgiven under US Paycheck Protection Program	7, 8	-	-	-	(2,369)
Net cash generated from (used in) operating activities		1,224	2,124	(1,720)	(127)
Investing activities					
Purchases of property, plant and equipment	5	(484)	(337)	(989)	(372)
Proceeds from sale of property, plant and equipment		3	-	354	148
Additions to intangible assets	6	(147)	(521)	(606)	(1,365)
Net cash used in investing activities		(628)	(858)	(1,241)	(1,589)
Financing activities					
Proceeds from issuance of common shares from stock option		-	-	13	-
Proceeds from borrowings under US Paycheck Protection Program	7	-	-	-	2,468
Proceeds from borrowings	7	-	-	-	1,269
Proceeds from issuance of common shares under restricted share plan		111	278	174	281
Repurchase of shares	11	(4)	-	(4)	-
Repayments of borrowings		-	(301)	-	(908)
Principal elements of lease payments		(170)	(99)	(401)	(288)
Changes in restricted cash	7	-	390	110	(385)
Net cash (used in) generated from financing activities		(63)	268	(108)	2,437
Effect of exchange rate changes on cash and cash equivalents		476	329	591	(84)
Increase (decrease) in cash and cash equivalents		1,009	1,863	(2,478)	637
Cash and cash equivalents – beginning of the period		7,652	10,910	11,139	12,136
Cash and cash equivalents – end of the period		8,661	12,773	8,661	12,773

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, 2022

(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:

- design, production and distribution of capital equipment to support tubular running operations, enhance wellbore integrity and to support capital equipment sales through aftermarket products and services such as technical support, consumables and replacement parts;
- 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;
- repair, maintenance and calibration of the Corporation’s capital equipment and similar competitor products; and
- 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

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, 2021, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

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

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

As at	September 30, 2022			December 31, 2021		
	Gross inventories	Provision for excess and obsolescence	Net inventories	Gross inventories	Provision for excess and obsolescence	Net inventories
	\$	\$	\$	\$		\$
Raw materials	1,441	(343)	1,098	1,238	(315)	923
Work-in-progress	4,044	-	4,044	1,754	-	1,754
Parts to be used in production	13,198	(2,448)	10,750	10,602	(3,391)	7,211
Production inventory	18,683	(2,791)	15,892	13,594	(3,706)	9,888
Capital equipment available for sale	1,776	(354)	1,422	1,640	(372)	1,268
Parts and accessories available for sale	7,191	(2,427)	4,764	6,655	(2,293)	4,362
	27,650	(5,572)	22,078	21,889	(6,371)	15,518

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, 2022 is a provision for excess and obsolete inventory of \$491 (three months ended September 30, 2022 – recovery of \$5) to adjust inventories to net realizable value. 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. 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. In the three and nine months ended September 30, 2022, the Corporation disposed \$1,837 of excess and obsolete inventory (three and nine months ended September 30, 2021 – nil).

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.

5. PROPERTY, PLANT AND EQUIPMENT (PPE)

During the nine months ended September 30, 2022, the Corporation recorded \$179 of additions to production equipment and \$810 of additions to its rental fleet (three months ended September 30, 2022 - \$86 of additions to production equipment and \$398 of additions to rental fleet). During the nine months ended September 30, 2021, the Corporation recorded \$57 of additions to production equipment and \$315 of additions to the Corporation’s rental fleet (three months ended September 30, 2021 - \$nil additions to production equipment and \$337 of additions to rental fleet). Additions to the rental fleet during 2022 and 2021 are comprised of equipment capitalized from inventory.

PPE includes right-of-use assets of \$2,696 as at September 30, 2022 (December 31, 2021 - \$2,991).

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, 2022, the Corporation recorded \$606 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 (three months ended September 30, 2022 - \$147). During the nine months

ended September 31, 2021, the Corporation recorded \$1,365 of additions to intangible assets (three months ended September 30, 2021 - \$521).

For the nine months ended September 30, 2022, amortization of \$466 pertaining to development costs for the first products developed under the 'Digital Technology Roadmap' was recognized in cost of sales (three months ended September 30, 2022 - \$181). For the nine months ended September 30, 2022, amortization of \$269 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 (three months ended September 30, 2022 - \$91). For the nine months ended September 30, 2022, amortization pertaining to software and other items amounted to \$9 (three months ended September 30, 2022 - \$3).

For the nine months ended September 30, 2021, amortization of \$321 pertaining to development costs for the first products developed under the 'Digital Technology Roadmap' was recognized in cost of sales (three months ended September 30, 2021 - \$108). In 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 (three months ended September 30, 2021 - \$88). For the nine months ended September 30, 2021, amortization pertaining to software and other items amounted to \$10 (three months ended September 30, 2021 - \$3).

7. BORROWINGS

During the nine months ended September 30, 2022, the Corporation terminated its \$110 cash secured credit facility, under which \$110 of cash and cash equivalents was previously held as collateral is presented as restricted cash on the consolidated statements of financial position.

In February 2021, the Corporation received \$1,269 (US\$1,000) of funding from the second draw available under its Senior Secured Term Loan. 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. As at September 30, 2022, the term loan bears interest at 10.45% per annum (September 30, 2021 - 5.35% per annum).

During the nine months ended September 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). During the nine months ended September 30, 2021, the Corporation received full forgiveness for its first round funding of the PPP, and later in 2021 received full forgiveness for its second and final round of funding under the PPP.

8. OTHER GAINS, NET

	Three months ended September 30		Nine months ended September 30	
	2022	2021	2022	2021
	\$	\$	\$	\$
Foreign exchange loss (gain)	(32)	31	(10)	103
Government assistance	(27)	(85)	(36)	(2,782)
Gain on disposal of PPE	-	-	(269)	(97)
Non-recurring retroactive payments to employees	-	-	-	421
Costs associated with strategic alternative assessment	-	-	53	-
	(59)	(54)	(262)	(2,355)

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 (three months ended September 30, 2021 - \$85 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.

9. CHANGES IN WORKING CAPITAL BALANCES

	Three months ended September 30		Nine months ended September 30	
	2022	2021	2022	2021
Cash received from (used in) operating activities due to changes in non-cash working capital balances:	\$	\$	\$	\$
Trade and other receivables	323	(874)	(5,005)	(1,243)
Inventories	(3,305)	1,184	(4,961)	(660)
Other current assets	433	52	(252)	(655)
Other non-current receivables	-	-	-	-
Trade and other payables	2,915	(262)	4,095	(390)
Customer deposits	(247)	708	495	1,208
Provisions, excluding restructuring and facility remediation	26	44	78	(102)
	145	852	(5,550)	(1,842)

10. ASSETS HELD FOR SALE

In August, 2022, the Corporation's Board of Directors approved a plan to pursue a sale and leaseback arrangement for its real estate located in Cedar Park, Texas currently held at net book value \$3,582. The assets were previously classified as land and building under PPE.

11. EQUITY

On August 18, 2022, the Corporation announced a normal course issuer bid (NCIB). The Corporation may purchase, for cancellation, up to a maximum of 1,420,874 common shares, equal to five percent of the public float of 28,417,489 common shares as at August 15, 2022. The Corporation is also limited under the NCIB to purchasing no more than 5,418 common shares on any given day, subject to the block purchase exemption under the TSX rules. The NCIB will continue until August 21, 2023. 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 September 30, 2022 the Corporation purchased 3,200 common shares pursuant to its NCIB at a weighted average price of \$1.12 per share for total consideration of \$4. The shares were cancelled as at September 30, 2022.