



CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

September 30, 2020

(unaudited)

Notice to Reader:

As required by National Instrument 51-102, Part 4, subsection 4.3(3)(a), readers are advised that the Company'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, 2020	December 31, 2019
		\$	\$
Assets			
Current assets			
Cash and cash equivalents		8,765	8,382
Restricted cash	9	900	500
Trade and other receivables		7,418	8,791
Inventories	4	20,947	23,031
Prepaid expenses and deposits		839	664
		38,869	41,368
Other receivables		39	319
Property, plant and equipment	5,7	10,980	9,825
Intangible assets	6,7	4,845	4,567
Goodwill	7	3,647	3,551
Total assets		58,380	59,630
Liabilities			
Current liabilities			
Trade and other payables		3,454	5,584
Customer deposits		1,917	3,148
Provisions	8	823	1,539
Lease liabilities	5a	390	1,097
Borrowings	9	2,268	2,533
		8,852	13,901
Provisions	8	-	58
Lease liabilities	5a	3,896	2,164
Borrowings	9	6,806	5,657
Total liabilities		19,554	21,780
Shareholders' equity			
Share capital	10	59,697	59,636
Contributed surplus		5,458	5,384
Accumulated other comprehensive income		8,418	7,552
Accumulated deficit		(34,747)	(34,722)
Total shareholders' equity		38,826	37,850
Total liabilities and shareholders' equity		58,380	59,630

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

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF (LOSS) EARNINGS AND COMPREHENSIVE EARNINGS (LOSS)

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

	Note	Three months ended September 30		Nine months ended September 30	
		2020	2019	2020	2019
		\$	\$	\$	\$
Revenue		7,621	15,222	29,305	41,517
Cost of sales		6,566	10,258	22,322	29,132
Gross profit		1,055	4,964	6,983	12,385
General and administration		1,122	1,982	4,294	6,749
Research and development		382	784	1,704	2,390
Sales and marketing		325	544	1,108	1,752
Finance charges, net		243	217	691	422
Restructuring charges	2b,8c	-	-	136	-
Other (gains) losses, net	11	(297)	199	(925)	900
		1,775	3,726	7,008	12,213
(Loss) earnings before income taxes		(720)	1,238	(25)	172
Income tax expense		-	-	-	-
Net (loss) earnings		(720)	1,238	(25)	172
Other comprehensive (loss) earnings					
Translation (loss) gain of foreign operations		(762)	515	866	(1,449)
Comprehensive (loss) earnings		(1,482)	1,753	841	(1,277)
Net (loss) earnings per share					
Basic		(0.03)	0.04	-	0.01
Diluted		(0.03)	0.04	-	0.01

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CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY

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

(unaudited)

Note	Issued capital			Accumulated other comprehensive income	Accumulated deficit	Total equity
	Number of shares	Share capital	Contributed surplus			
	#	\$	\$	\$	\$	\$
Balances at January 1, 2019	27,485,939	59,695	5,125	10,542	(34,955)	40,407
Net earnings	-	-	-	-	172	172
Translation loss on foreign operations	-	-	-	(1,449)	-	(1,449)
Employee share-based compensation	-	-	104	-	-	104
Issuance of common shares under restricted share plan	146,000	79	-	-	-	79
Repurchase of shares	10 (85,200)	(185)	117	-	-	(68)
Balances at September 30, 2019	27,546,739	59,589	5,346	9,093	(34,783)	39,245
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

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	
		2020	2019	2020	2019
Cash generated from (used in)		\$	\$	\$	\$
Operating activities					
Net earnings (loss)		(720)	1,238	(25)	172
Adjustments for:					
Depreciation of property, plant and equipment		578	688	1,972	2,006
Amortization of intangible assets		211	1	638	5
Finance charges, net		243	217	691	422
Share-based compensation		29	25	91	154
Gain on disposal of property, plant and equipment		(19)	-	(360)	(88)
Changes in non-cash working capital balances		523	(1,593)	680	173
Change in restructuring and facility remediation provisions	8	73	(157)	(749)	286
Finance costs paid, net		(244)	(169)	(679)	(434)
Net cash generated from operating activities		674	250	2,259	2,696
Investing activities					
Purchases of property, plant and equipment	5	(172)	-	(1,080)	(1,363)
Proceeds from sale of property, plant and equipment		-	-	109	292
Additions to intangible assets	6	(296)	(559)	(801)	(1,889)
Net cash used in investing activities		(468)	(559)	(1,772)	(2,960)
Financing activities					
Proceeds from borrowings	9	-	3,078	2,660	3,078
Repayments of borrowings		(613)	(329)	(1,939)	(993)
Repurchase of shares	10	-	(2)	-	(68)
Proceeds from issuance of common shares under restricted share plan		61	79	61	79
Principal elements of lease payments		(64)	(306)	(568)	(685)
Funds transferred to restricted cash	9	(400)	-	(400)	-
Net cash generated from (used in) financing activities		(1,016)	2,520	(186)	1,411
Effect of exchange rate changes on cash and cash equivalents		(200)	214	82	(494)
Increase (decrease) in cash and cash equivalents		(1,010)	2,425	383	653
Cash and cash equivalents – beginning of the period		9,775	9,175	8,382	10,947
Cash and cash equivalents – end of the period		8,765	11,600	8,765	11,600

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, 2020

(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	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, 2019, 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) IMPACT OF COVID-19

In March 2020, the World Health Organization declared the COVID-19 outbreak a pandemic. Governments worldwide, including those countries in which the Corporation operates, have enacted emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused a material disruption to businesses globally resulting in an economic slowdown and decreased demand for oil.

Although the duration and magnitude of the pandemic is uncertain, the current market environment, as further described in note 7, may have a significant adverse impact on the Corporation including, but not limited to, substantial reductions in revenue and cash flows, increased risk of non-payment of accounts receivable and future impairments of inventory, property, plant and equipment, intangible assets and goodwill. Estimates and judgments made by management in the preparation of these financial statements are increasingly difficult and subject to a higher degree of measurement uncertainty during this volatile period. Any significant adverse changes to these factors may further impact the Corporation's operating plan and results, its liquidity and cash flows and the valuation of long-lived assets.

In response to this uncertainty, the Corporation has completed the following actions to support ongoing liquidity:

- Reductions in force, throughout all functions of the Corporation;
- Salary and wage reductions across all levels of the organization;
- Reductions to budgeted capital expenditure for rental fleet additions and production equipment;
- Additional reductions to general and administrative overhead expenditures, non-essential travel and other discretionary spending; and
- Applications for government assistance, including the Canadian Emergency Wage Subsidy and the US Paycheck Protection Program.

3. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The fair value of cash and cash equivalents, trade and other receivables, trade and other payables and current provisions 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 are not materially different from current market rates available to the Corporation.

4. INVENTORIES

As at	September 30, 2020			December 31, 2019		
	Gross inventories	Provision for excess and obsolescence	Net inventories	Gross inventories	Provision for excess and obsolescence	Net inventories
	\$	\$	\$	\$	\$	\$
Raw materials	1,533	(238)	1,295	1,822	(116)	1,706
Work-in-progress	2,419	-	2,419	1,890	-	1,890
Parts to be used in production	11,049	(2,908)	8,141	11,421	(2,427)	8,994
Production inventory	15,001	(3,146)	11,855	15,133	(2,543)	12,590
Finished goods available for sale	12,276	(3,184)	9,092	13,922	(3,481)	10,441
	27,277	(6,330)	20,947	29,055	(6,024)	23,031

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 the lower of cost and net realizable value. The provision for excess and obsolete inventory recorded during the nine months ended September 30, 2020 includes a charge incremental to the methodology described below of \$630 certain parts and accessories related to product lines whose sales forecasts are expected to be more severely impacted by the current economic environment as described in note 2b. Included in cost of sales for the nine months ended September 30, 2019 is a recovery of excess and obsolete inventory of \$795 (three months ended September 30, 2019 - recovery of \$155) to adjust inventories to the lower of cost and net realizable value.

Judgment was used in assessing the net realizable value of inventory. The net realizable value of capital equipment and related accessories included in inventories was assessed on an individual product basis. All other items in inventory were assessed for obsolescence at a distinct part level. A writedown is taken if management determines that the carrying value of the inventory items exceeds the net recoverable value. The estimated net recoverable value is determined using a formulaic approach taking into account historical movement of the distinct parts and other factors, including management's judgment. 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 writedown is reversed. Clear evidence of an increase in net realizable value includes, but is not limited to, increased sales or usage in production at a distinct part level. The maximum amount of any reversal is the original writedown, such that the new carrying amount is the lower of cost or the revised net realizable value.

5. PROPERTY, PLANT AND EQUIPMENT (PPE)

a) RIGHT-OF-USE ASSETS

As at September 30, 2020, PPE includes right-of-use assets of \$3,953 (\$2,714 as at December 31, 2019).

Effective June 1, 2020, the Corporation amended an existing facility lease agreement for its Broussard, Louisiana facility. Under the amended agreement, certain of the agreement's terms were modified as follows:

- The lease term was extended from June 30, 2022 to May 31, 2027;
- Contractual annual lease payments were reduced by US\$420 for the period from June 1, 2020 to May 31, 2022;
- Contractual annual lease payments for the extension period of June 30, 2022 to May 31, 2027 are US\$600; and
- The Corporation will return a portion of the property under the original lease agreement to the landlord effective December 31, 2020.

The lease modification resulted in a net increase of \$1,867 to right-of-use assets and increase in lease liabilities of \$1,573, with the difference related to the return of a portion of the property being recorded as a gain of \$321 included in other (gains) losses, net of the condensed consolidated interim statements of earnings (loss) and comprehensive earnings (loss). The lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as at June 1, 2020. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on June 1, 2020 was 9.0%.

b) RENTAL EQUIPMENT

During the nine months September 30, 2020, the Corporation recorded \$975 of additions to its rental fleet comprised of equipment capitalized from inventory (nine months ended September 30, 2019 - \$1,005 of additions to the Corporation's rental fleet).

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 commercialization.

During the nine months ended September 30, 2020, the Corporation recorded \$748 of additions to intangible assets pertaining to costs incurred to develop internally generated intellectual property related to the development of a digitally integrated tubular running system and \$53 of additions to software.

During the nine months ended September 30, 2019, the Corporation recorded \$1,889 of additions to intangible assets pertaining to costs incurred to develop internally generated intellectual property related to the first phase of the Corporation's "Digital Technology Roadmap", a cloud-based platform that delivers data to the Corporation's customers remotely and in real-time and the digital infrastructure to enable future digital product offerings and enhancements.

For the nine months ended September 30, 2020, amortization of \$344 pertaining to development costs for the first two products developed under the first phase of the 'Digital Technology Roadmap' was recognized in cost of sales (nine months ended September 30, 2019 - \$nil). For the nine months ended September 30, 2020, amortization of \$276 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, 2019 - \$nil). For the nine months ended September 30, 2020, amortization pertaining to software and other items amounted to \$18 (nine months ended September 30, 2019 - \$5).

7. IMPAIRMENT OF NON-FINANCIAL ASSETS

Long-lived assets include property, plant and equipment, intangible assets and goodwill. The carrying value of these assets is periodically reviewed for impairment (long-lived assets under development and goodwill at least annually) or whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Judgment is required in the aggregation of assets into cash generating units ("CGUs"). The recoverable amounts of CGUs are determined based on the greater of fair value less cost to sell and value in use calculations. These calculations require the use of estimates and judgments, 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 revenue, operating margins and market conditions over the useful lives of the assets or CGUs. Although estimates are consistent with current industry reports, internal planning and expected future operations, such estimations are subject to uncertainty and judgment. The Corporation reviews the carrying value of its non-financial assets at each reporting period for indicators of impairment.

In March 2020, the oil and gas industry experienced an unprecedented disruption, as a result of the substantial decline in global demand for oil caused by the coronavirus ("COVID-19") pandemic and subsequent cost reduction efforts. Drilling activity declined in the face of depressed crude oil pricing, with global rig counts declining through to June 2020 and have since stabilized. These market conditions have significantly impacted the Corporation's business and financial projections. The Corporation determined this was an indicator of impairment and performed an assessment of the carrying values of non-financial assets. The recoverable amounts of non-financial assets were estimated based on their value in use, determined by discounting estimated future cash flows expected to be generated by the assets or CGU to which they were assigned.

Key assumptions used in the estimation of value in use included the after-tax discount rate of 17% and management expectation of future outcomes and market conditions, including forecasted North American and international rig and well counts. Based on industry forecasts and other factors, average projected annual revenue growth rate from over the next five years was estimated at 1% per annum.

Discount rates were derived from the Corporation's estimated weighted average cost of capital. The weighted average growth rates used are consistent with forecasts included in industry reports. The discount rates used are after-tax and reflect specific risks relating to the Corporation. On completion of the impairment assessment, it was determined that no impairment was to be recognized on the Corporation's non-financial assets. Any significant adverse changes in future periods to internal forecasts employed in the model or the external market conditions, if any, could reasonably be expected to negatively affect key assumptions employed in the model and may result in future impairment charges, which could be material.

8. PROVISIONS

	Warranty	Legal	Restructuring	Facility remediation	Total
	\$	\$	\$	\$	\$
January 1, 2019	721	-	730	994	2,445
Transitional impact of IFRS 16	-	-	(582)	-	(582)
Provisions made during the year	229	147	-	614	990
Provisions utilized during the year	(304)	(25)	(51)	(951)	(1,331)
Assumed under business combination	126	-	-	-	126
Foreign exchange	(51)	-	-	-	(51)
December 31, 2019	721	122	97	657	1,597
Provisions made during the year	219	-	136	-	355
Provisions utilized during the year	(145)	(122)	(228)	(657)	(1,152)
Foreign exchange	18	-	5	-	23
September 30, 2020	813	-	10	-	823

a) WARRANTY

The warranty provision relates to the expected cost of meeting warranty obligations. Judgment related to the provisions is based on historical data and other known information and is an estimate of warranty required for products sold on or before the reporting date.

b) LEGAL

In the normal course of the Corporation's business, it may become involved in, named as a party to or be the subject of various legal proceedings related to personal injuries, environmental claims, property damage, contractual disputes, patent infringement and regulatory matters, among others. The outcomes of outstanding, pending or future proceedings cannot be predicted with certainty and may be determined adversely to the Corporation and, as a result, could have a material adverse effect on the Corporation's financial performance, financial position and liquidity. Losses, if any, may be covered by the Corporation's insurance.

c) RESTRUCTURING

Restructuring provisions relate to certain unavoidable operation costs associated with onerous leases that were recognized in conjunction with the Corporation's restructuring plans announced in 2018 and severance costs associated with the Corporation's cost containment initiatives announced in April 2020 (note 2b).

d) FACILITY REMEDIATION

The Corporation leased premises, which were required to be returned to the landlord at the end of the lease in accordance with the terms of the lease agreement, including remediation of any deficiencies incurred as a result of carrying out business activities. As part of a prior business divestiture, the Corporation indemnified the purchaser with respect to a leased premise associated with the divestiture. Effective March 31, 2020, a release and settlement agreement was reached between the Corporation, the purchaser and the landlord with respect to the leased premises.

9. BORROWINGS

Effective April 16, 2020, the Corporation received approval and funding under its application for a US Paycheck Protection Program Loan (PPP) of \$2,660 (US\$1,963). The loan bears interest at 0.98% and matures on April 16, 2022. A portion of the loan proceeds may be forgivable in accordance with certain US Treasury guidelines. The Corporation estimates that, based on US Treasury Guidelines, US\$1,688 of the loan proceeds may be forgiven if the Corporation's application for forgiveness is approved.

In September 2020, the Corporation extended its cash secured credit facility from \$500 to \$900 to support the issuance of standby letters of credit for customer orders and corresponding customer deposits. The \$900 of cash and cash equivalents held as collateral under the Creditor's authority as security is presented as restricted cash on the consolidated statements of financial position. As at September 30, 2020 the \$900 of the facility was committed.

10. EQUITY

On May 31, 2019, the Corporation announced the renewal of its NCIB. Under the current NCIB, the Corporation may purchase, for cancellation, up to a maximum of 1,371,422 common shares, equal to five percent of the public float of 27,428,439 common shares as at May 23, 2019. The Corporation is also limited under the NCIB to purchasing no more than 1,910 common shares on any given day, subject to the block purchase exemption under the TSX rules. The NCIB continued until June 4, 2020. 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.

Transactions under the NCIB were as follows:

Nine months ended	September 30, 2020	September 30, 2019
Shares repurchased	-	85,200
Weighted average cost	\$ -	0.78
Total cost	\$ -	68

Total cost includes share repurchase amount and costs to implement the NCIB.

11. OTHER (GAINS) LOSSES, NET

	Note	Three months ended September 30		Nine months ended September 30	
		2020	2019	2020	2019
		\$	\$	\$	\$
Gain on disposal of PPE and lease modification	5a	(19)	-	(360)	(88)
Government assistance	2b,11a	(104)	-	(347)	-
(Reversal of) provisions related previous business divestitures	11b	(343)	(13)	(343)	601
Foreign exchange (gain) loss		169	159	2	314
Due diligence and integration costs on business combinations		-	53	123	73
		(297)	199	(925)	900

a) GOVERNMENT ASSISTANCE

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

b) PROCEEDS FROM PREVIOUS BUSINESS DIVESTITURES

During the nine months ended September 30, 2020, the Corporation received \$343 of proceeds from funds held in escrow in relation to a previous business divestiture that took place in 2014. The amounts held in escrow were previously in dispute and as a result the Corporation had recorded an impairment provision against these amounts. During the nine months ended September 30, 2019, the Corporation recorded a provision related to facility remediation costs associated with a separate previous business divestiture, as described in note 8(d).

12. SUBSEQUENT EVENTS

a) REVOLVING DEMAND FACILITY

Subsequent to September 30, 2020, the Corporation secured a US\$2.5 million revolving demand facility with a Canadian chartered bank to support working capital. The facility is subject to customary disbursement conditions including the satisfactory placement of a general security agreement over the Corporation's assets and final review by Export Development Canada under its Export Guarantee Program. The revolving demand facility bears interest at Prime Rate plus 1.35% per annum and will be secured by a general security agreement and assignment of US\$0.63 million of term deposits. Subject to final review, the demand facility will be guaranteed by Export Development Canada under its Export Guarantee Program and is subject to customary terms and conditions.

b) TERM FACILITY

Subsequent to September 30, 2020, the Corporation secured a US\$3.4 million term facility to replace its existing US\$2.4 million promissory note due October 1, 2021 and support McCoy Global's 2020 technology development program. The US\$3.4 million term facility 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. At closing, US\$2.4 million was drawn against the new facility to repay in full the Corporation's USD\$2.4 million promissory note that was secured by certain of its US real estate assets.