



CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

June 30, 2023

(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	June 30, 2023	December 31, 2022
		\$	\$
Assets			
Current assets			
Cash and cash equivalents		14,651	21,469
Restricted cash	7b	-	846
Trade and other receivables		11,030	12,976
Inventories	4	25,344	22,029
Prepaid expenses and deposits		2,592	1,139
		53,617	58,459
Other receivables		-	39
Deferred tax assets	8	1,416	1,082
Property, plant and equipment	5	7,146	7,335
Intangible assets	6	6,278	7,175
Goodwill		3,620	3,703
Total assets		72,077	77,793
Liabilities			
Current liabilities			
Trade and other payables		9,592	10,862
Income taxes payable		871	94
Customer deposits		3,822	4,572
Current provisions		414	493
Current lease liabilities		1,147	1,113
Current borrowings	7	-	2,265
		15,846	19,399
Lease liabilities		3,728	4,428
Borrowings	7	-	2,252
Total liabilities		19,574	26,079
Shareholders' equity			
Share capital	9a	18,385	60,135
Contributed surplus	9a	47,759	5,758
Accumulated other comprehensive income		8,746	9,877
Accumulated deficit		(22,387)	(24,056)
Total shareholders' equity		52,503	51,714
Total liabilities and shareholders' equity		72,077	77,793

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 June 30		Six months ended June 30	
		2023	2022	2023	2022
		\$	\$	\$	\$
Revenue	10	16,248	12,863	33,112	21,754
Cost of sales		10,844	8,786	22,880	14,985
Gross profit		5,404	4,077	10,232	6,769
General and administration		1,911	1,560	4,247	3,155
Sales and marketing		656	498	1,116	850
Product development and support		1,017	787	1,920	1,383
Finance charges, net	7	1	183	356	359
Other loss (gains), net		71	(2)	115	(203)
		3,655	3,026	7,754	5,544
Earnings before income taxes		1,749	1,051	2,478	1,225
Income tax expense (recovery)					
Current	11	562	-	887	-
Deferred	11	(240)	-	(364)	-
		322	-	523	-
Net earnings		1,427	1,051	1,955	1,225
Other comprehensive (loss) earnings					
Translation (loss) gain		(1,124)	1,223	(1,131)	653
Comprehensive earnings		303	2,274	824	1,878
Net earnings per share					
Basic		0.05	0.04	0.07	0.04
Diluted		0.05	0.04	0.07	0.04

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)

	Note	Issued capital			Accumulated other comprehensive income	Accumulated deficit	Total equity
		Number of shares	Share capital	Contributed surplus			
		#	\$	\$	\$	\$	\$
Balances at January 1, 2022		28,224,989	59,993	5,682	7,154	(32,819)	40,010
Net earnings		-	-	-	-	1,225	1,225
Translation gain on foreign operations		-	-	-	653	-	653
Employee share-based compensation expense		-	-	16	-	-	16
Issuance of common shares under restricted share plan		20,000	22	(9)	-	-	13
Issuance of common shares upon stock option exercise		72,500	63	-	-	-	63
Balances at June 30, 2022		28,317,489	60,078	5,689	7,807	(31,594)	41,980
Balances at January 1, 2023		28,391,789	60,135	5,758	9,877	(24,056)	51,714
Net earnings		-	-	-	-	1,955	1,955
Translation loss on foreign operations		-	-	-	(1,131)	-	(1,131)
Employee share-based compensation expense		-	-	8	-	-	8
Issuance of common shares under restricted share plan		185,000	252	-	-	-	252
Issuance of common shares upon stock option exercise		120,000	130	(52)	-	-	78
Repurchase of shares	9b	(62,500)	(132)	45	-	-	(87)
Reduction of stated capital	9a	-	(42,000)	42,000	-	-	-
Dividends	9c	-	-	-	-	(286)	(286)
Balances at June 30, 2023		28,634,289	18,385	47,759	8,746	(22,387)	52,503

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

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

(Stated in thousands of Canadian dollars)
(unaudited)

	Note	Three months ended June 30		Six months ended June 30	
		2023	2022	2023	2022
Cash (used in) generated from		\$	\$	\$	\$
Operating activities					
Net earnings		1,427	1,051	1,955	1,225
Adjustments for:					
Depreciation of property, plant and equipment		471	440	921	1,036
Amortization of intangible assets		418	269	838	469
Income tax expense		322	-	523	-
Finance charges, net		1	183	356	359
Share-based compensation		74	121	501	375
Gain on disposal of property, plant and equipment		(20)	-	(20)	(269)
Changes in non-cash working capital balances	12	(6,949)	(4,165)	(5,951)	(5,695)
Change in restructuring and facility remediation provisions		(6)	(7)	(13)	(16)
Income taxes recovered (paid)		2	-	(96)	-
Finance costs paid, net		(146)	(263)	(539)	(428)
Net cash used in operating activities		(4,406)	(2,371)	(1,525)	(2,944)
Investing activities					
Purchases of property, plant and equipment	5	(426)	(246)	(897)	(505)
Proceeds from sale of property, plant and equipment		27	-	27	351
Additions to intangible assets	6	(89)	(101)	(89)	(459)
Net cash used in investing activities		(488)	(347)	(959)	(613)
Financing activities					
Proceeds from issuance of common shares from stock options		-	-	78	13
Proceeds from issuance of common shares under restricted share plan		252	58	252	63
Repayments of borrowings	7a	-	-	(4,553)	-
Repurchase of shares	9b	(87)	-	(87)	-
Principal elements of lease payments		(273)	(126)	(557)	(231)
Funds transferred from restricted cash	7b	828	-	828	110
Net cash generated from (used in) financing activities		720	(68)	(4,039)	(45)
Effect of exchange rate changes on cash and cash equivalents		(262)	258	(295)	115
Decrease in cash and cash equivalents		(4,436)	(2,528)	(6,818)	(3,487)
Cash and cash equivalents – beginning of the period		19,087	10,180	21,469	11,139
Cash and cash equivalents – end of the period		14,651	7,652	14,651	7,652

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 six months ended June 30, 2023

(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 tubular running operations, enhance 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:

- 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 install base and similar competitor products; and
- rental of the Corporation's 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, 2022, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The significant accounting policies used in the preparation of these condensed consolidated interim financial statements are consistent with those as disclosed in the consolidated annual financial statements for the year ended December 31, 2022.

The Corporation has adopted amendments to various standards effective January 1, 2023, which did not have a significant impact to these financial statements.

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	June 30, 2023			December 31, 2022		
	Gross inventories	Provision for excess and obsolescence	Net inventories	Gross inventories	Provision for excess and obsolescence	Net inventories
	\$	\$	\$	\$		\$
Raw materials	1,685	(274)	1,411	1,568	(314)	1,254
Work-in-progress	4,125	-	4,125	3,134	-	3,134
Parts to be used in production	11,477	(1,778)	9,699	13,294	(2,444)	10,850
Production inventory	17,287	(2,052)	15,235	17,996	(2,758)	15,238
Capital equipment available for sale	2,271	(582)	1,689	2,090	(349)	1,741
Parts and accessories available for sale	10,750	(2,330)	8,420	7,449	(2,399)	5,050
	30,308	(4,964)	25,344	27,535	(5,506)	22,029

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. A write-down 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. During the six months ended June 30, 2023, this resulted in a net provision of \$246 (three months ended June 30, 2023 - \$nil) for capital equipment. During the six months ended June 30, 2022, this resulted in a net provision of \$nil (three months ended June 30, 2022 - \$nil) for capital equipment.

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. Included in cost of sales for the six months ended June 30, 2023 was a recovery for excess and obsolete inventory of \$173 (three months ended June 30, 2023 - \$168) to adjust these inventories to net realizable value. Included in cost of sales for the six months ended June 30, 2022 is a provision for excess and obsolete inventory of \$496 (three months ended June 30, 2022 - \$234) to adjust these inventories to net realizable value.

5. PROPERTY, PLANT AND EQUIPMENT (PPE)

During the six months ended June 30, 2023, the Corporation recorded \$530 of additions to its rental fleet and \$367 of additions to production equipment and leasehold improvements (six months ended June 30, 2022 - \$455 of additions to the Corporation's rental fleet and \$50 of additions to production equipment).

PPE includes right-of-use assets of \$2,912 as at June 30, 2023 (December 31, 2022 - \$3,400).

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 six months ended June 30, 2023, the Corporation recorded \$89 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 (six months ended June 30, 2022 - \$459; twelve months ended December 31, 2022 - \$782).

For the six months ended June 30, 2023, amortization of \$644 pertaining to development costs for the first five products developed under the first phase of the 'Digital Technology Roadmap' was recognized in cost of sales (six months ended June 30, 2022 - \$286). For the six months ended June 30, 2023, amortization of \$194 pertaining to intellectual property acquired in connection with the acquisition of DrawWorks LP and software was recognized in cost of sales (six months ended June 30, 2022 - \$183).

7. BORROWINGS

a) SENIOR SECURED TERM LOAN II

As at December 31, 2022, the Corporation had US\$3,400 outstanding under its Senior Secured Term Loan II. During the six months ended June 30, 2023, the Corporation repaid the full balance of \$4,553 (US\$3,400) outstanding under the term loan. Prepayment penalties amounted to \$122 (US\$91), calculated as 90 days' interest on the principal amount being prepaid. Remaining deferred financing charges at the time of repayment of \$83 (US\$62) were fully amortized into income under finance charges on the condensed consolidated interim statement of earnings and comprehensive income.

b) REVOLVING DEMAND FACILITY

The Corporation holds a revolving demand facility with a Canadian chartered bank. In the three months ended June 30, 2023, the creditor released \$846 (US\$625) of cash previously held as collateral under its authority, which historically was recorded as restricted cash. As at June 30, 2023, the amount available under the revolving demand facility was \$3,221, with \$89 committed to letters of credit (December 31, 2022 - \$3,295, with \$91 committed to letters of credit). The balance available is calculated as the lesser of \$3,221; and the total of 75% of eligible US and Canadian accounts receivables, net of customer deposits, aged less than 90 days; 75% of eligible foreign accounts receivable, net of customer deposits, aged less than 90 days to a maximum of US\$1.25 million, and 50% of raw materials and finished goods inventory, net of 30 days accounts payable to a maximum of US\$1.25 million.

During the three months ended June 30, 2023, the Corporation increased its revolving demand facility was from US\$2.5 million to US\$5.5 million. The increase is subject to certain customary disbursement conditions. In addition to extending the demand facility, the Corporation secured a commitment for a US\$3.4 million term loan, bearing interest at US Prime + 0.90%. The commitment is valid until December 31, 2023 and is subject to customary terms and conditions, including a financial covenant minimum Debt Service Coverage ratio of 1.2:1 and certain customary disbursement conditions.

c) CASH SECURED CREDIT FACILITY

During the six months ended June 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.

8. DEFERRED TAXES

a) RECOGNIZED DEFERRED TAX ASSETS AND LIABILITIES

The income tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities are presented below:

	2023			2022		
	Assets	Liabilities	Net	Assets	Liabilities	Net
	\$	\$	\$	\$	\$	\$
PP&E	-	898	898	-	922	922
Intangible assets	-	806	806	-	939	939
Inventories	1,325	-	1,325	1,426	-	1,426
Lease liabilities	982	-	982	1,384	-	1,384
Provisions	83	-	83	98	-	98
Interest carryforwards	614	-	614	35	-	35
Deferred tax assets	3,005	1,704	4,709	2,943	1,861	4,804
Set off of deferred tax liabilities	(1,704)	(1,704)	(3,408)	(1,861)	(1,861)	(3,722)
Net deferred tax assets	1,301	-	1,301	1,082	-	1,082

b) UNRECOGNIZED DEFERRED TAX ASSETS

Deferred tax assets have not been recognized in respect of the following items:

	2023	2022
	\$	\$
Deductible temporary differences	1,711	3,159
Tax losses	3,225	2,947
	4,936	6,106

Based on management's current estimates of future taxable earnings, the recoverability of these items is indeterminable and as such, deferred tax assets have not been recognized in respect of these amounts.

c) TAX LOSSES CARRIED FORWARD

Unrecognized deferred tax assets derived from tax losses expire as follows:

	2023		2022	
	Gross amount	Tax effect	Gross amount	Tax effect
	\$	\$	\$	\$
2035	27	6	27	6
2036	4,046	931	4,046	931
2037	2,286	526	2,286	526
2038	266	61	266	61
2039	2,436	560	2,436	560
2040	1,947	448	1,947	448
2041	753	173	753	173
2042	1,049	242	1,049	242
2043	1,213	280	-	-
	14,023	3,227	12,810	2,947

Deferred tax assets have not been recognized in respect of capital losses of \$14,023 (2022 - \$12,810). It is not probable that future taxable capital gains will be available against which the Corporation can utilize the benefits of these losses. These losses do not expire.

9. SHAREHOLDERS' EQUITY

a) STATED CAPITAL

During the three months ended June 30, 2023, following shareholders' approval at the Corporation's Annual General and Special meeting, the Corporation reduced its stated capital by \$42,000 with the offset flowing through contributed surplus.

b) REPURCHASE OF COMMON SHARES

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 six months ended June 30, 2023, the Corporation purchased 62,500 common shares pursuant to its NCIB at a weighted average price of \$1.38 per share for total consideration of \$87. The shares were cancelled prior to June 30, 2023.

c) DIVIDENDS

During the three months ended June 30, 2023, the Corporation announced its Board of Directors approved the reinstatement of a quarterly dividend. Dividends on common shares are recognized in the consolidated financial statements in the period in which the dividends are declared by the Board of Directors of the Corporation.

Dividend declared	Dividend paid	Total dividend	Amount per common share
		\$	\$
June 30, 2023	July 15, 2023	286	0.01

10. REVENUE

	Three months ended June 30		Six months ended June 30	
	2023	2022	2023	2022
	\$	\$	\$	\$
Sale of products, parts and consumables	14,262	11,283	29,511	18,585
Rental revenue	1,012	1,079	2,073	1,995
Rendering of services	974	501	1,528	1,174
	16,248	12,863	33,112	21,754

11. INCOME TAX EXPENSE
a) RECONCILIATION OF INCOME TAX EXPENSE

Income tax expense varies from the amounts that would be computed by applying the domestic statutory rate of 23% (2021 - 23%) to loss before income taxes for the following reasons:

	Three months ended June 30		Six months ended June 30	
	2023	2022	2023	2022
	\$	\$	\$	\$
Earnings before income taxes	1,749	1,053	2,478	1,227
Computed income tax expense	403	242	570	282
Tax effects of:				
Jurisdictional tax rate differences	297	(95)	291	(230)
Non-(taxable) deductible items	3	-	6	-
Benefit of previously unrecognized deferred tax assets	(468)	(273)	(623)	(379)
Temporary differences for which no deferred tax asset was recognized	87	126	279	327
Income tax recovery	322	-	523	-

b) INCOME TAX EXPENSE ON EARNINGS

	Three months ended June 30		Six months ended June 30	
	2023	2022	2023	2022
	\$	\$	\$	\$
Current tax expense	562	-	887	-
Deferred tax expense:				
Origination and reversal of temporary differences	621	147	708	52
Benefit of previously unrecognized deferred tax assets	87	126	279	327
Temporary differences for which no deferred tax asset was recognized	(468)	(273)	(623)	(379)
Total deferred tax recovery	(240)	-	(364)	-
Income tax recovery	322	-	523	-

12. CHANGES IN WORKING CAPITAL BALANCES

	Three months ended June 30		Six months ended June 30	
	2023	2022	2023	2022
	\$	\$	\$	\$
Cash used in operating activities due to changes in non-cash working capital balances:				
Trade and other receivables	(3,003)	(4,140)	1,685	(5,329)
Inventories	(2,411)	(233)	(3,877)	(1,656)
Other current assets	(1,611)	(949)	(1,489)	(685)
Other long-term assets	39	-	39	-
Trade and other payables	1,033	1,182	(1,302)	1,181
Customer deposits	(902)	(53)	(950)	742
Provisions, excluding restructuring and facility remediation	(94)	28	(57)	52
	(6,949)	(4,165)	(5,951)	(5,695)