



2011 Management's
Discussion & Analysis

Management's Discussion & Analysis

READER ADVISORY

This Management's Discussion & Analysis discussion (MD&A) of the financial condition and results of operations of Cordy Oilfield Services Inc. ("Cordy" or the "Corporation") for the years ended December 31, 2011 and 2010 contains information current to and is dated March 19, 2012. It should be read in conjunction with the audited annual consolidated financial statements and notes thereto and other information on Cordy, including its Annual Information Form dated March 20, 2012, which are available on SEDAR at www.sedar.com and on the Corporation's website at www.cordy.ca. All amounts contained herein are in Canadian funds unless otherwise indicated.

The Corporation's audited consolidated financial statements for the years ended December 31, 2010 and 2009 were prepared in accordance with Canadian generally accepted accounting principles (GAAP) prior to the adoption of International Financial Reporting Standards (IFRS). On January 1, 2010, Cordy adopted IFRS. The adoption date of January 1, 2010, required the restatement of the Corporation's consolidated financial statements, for comparative purposes, consisting of its 2010 quarters and year ended December 31, 2010, as well as the opening balance sheet as at January 1, 2010. The Corporation's 2011 annual financial statements have been prepared in accordance with IFRS. The Corporation's significant accounting policies adopted under IFRS are included in Note 3 to the annual financial statements, which can be found on SEDAR at www.sedar.com and on the Corporation's website at www.cordy.ca.

This MD&A contains certain statements that constitute forward-looking statements under the meaning of applicable securities laws. Please see "Forward-Looking Statements" for a discussion concerning the Corporation's use of such information.

For the reader's reference, the definition, calculation and reconciliation of non-IFRS terms are provided in "Non-IFRS Terms" below. Readers are cautioned that these non-IFRS terms should not replace net income, earnings per share, purchases and proceeds on sale of property, plant and equipment and debt as indicators of IFRS performance.

This MD&A and the annual financial statements were reviewed by the Audit Committee of the Corporation's Board of Directors on March 19, 2012, and approved by Cordy's Board on March 19, 2012.

ABOUT CORDY

Cordy is an energy services provider to the Western Canadian oil, gas, and mining industry. Cordy provides its clients with services ranging from pre- and post-completion services in the heavy construction sector; camp services, down-hole drilling solutions, pipeline construction and integrity management, to environmental services. One of Cordy's foremost competitive advantages is its very new heavy equipment fleet, which is kept continually renewed through an innovative and highly cost-effective rental/exchange program through a major Canadian heavy equipment distributor. Cordy is headquartered in Calgary, Alberta, Canada, and is listed on the TSX Venture Exchange under the trading symbol "CKK". Cordy's services are carried out by multiple companies operating in four business segments in British Columbia and Alberta.

Cordy Oilfield Services Inc.

HEAVY CONSTRUCTION

- Lease building
- Mining services
- Camp services

PIPELINE AND FACILITIES

- Construction & Maintenance
- Integrity Management
- Facility services

MANUFACTURING AND SUPPLY

- Drilling solutions
- Drilling supplies
- Engineering

ENVIRONMENTAL SERVICES

- Hydro-Excavation
- Fluid hauling
- Remediation

CORPORATE SERVICES

- Finance • Shared Services • Governance

Overview

SELECTED FINANCIAL AND OPERATING INFORMATION

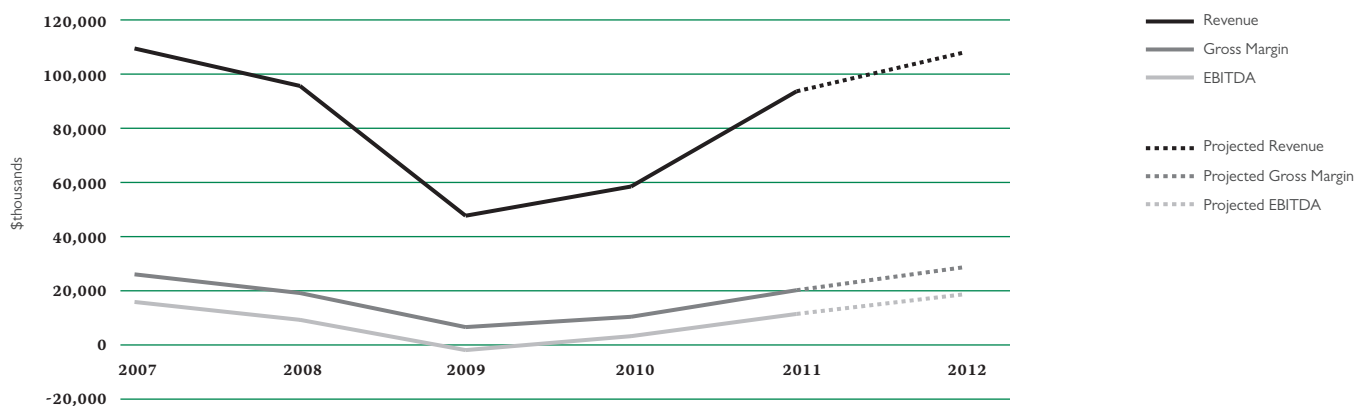
| Years ended December 31 (\$ millions except share price and per share amounts) | 2011 ¹ \$ | 2010 ¹ \$ | 2009 ² \$ | 2008 ² \$ | 2007 ² \$ |
|---|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Financial Results from Continuing Operations | | | | | |
| Revenue | 94.2 | 59.1 | 47.9 | 95.8 | 110.3 |
| Gross margin | 20.0 | 10.4 | 6.7 | 19.2 | 26.8 |
| EBITDAS ³ | 10.9 | 3.3 | (1.8) | 8.6 | 16.5 |
| Earnings before tax from continuing operations | 5.1 | (4.2) | (12.4) | (41.3) | 2.5 |
| Funds flow from operating activities | 10.9 | 3.3 | (1.8) | 8.8 | 17.4 |
| Financial Position from Continuing Operations | | | | | |
| Total debt obligations (includes current portion) | 8.4 | 8.1 | 12.3 | 20.5 | 25.0 |
| Total assets | 77.1 | 65.6 | 76.2 | 105.2 | 153.8 |
| Total liabilities | 31.3 | 19.3 | 23.2 | 36.1 | 47.5 |
| Net assets | 45.8 | 46.4 | 52.9 | 69.1 | 106.4 |
| Share Information | | | | | |
| Earnings per share from continuing operations (\$) | 0.04 | (0.04) | (0.09) | (0.41) | 0.01 |
| Earnings per share from discontinued operations (\$) | (0.06) | (0.04) | (0.05) | (0.05) | 0.01 |
| Earnings per share from all operations (\$) | (0.02) | (0.08) | (0.16) | (0.46) | 0.02 |
| Share price (December 31, 2011) | 0.27 | 0.24 | 0.19 | 0.20 | 1.19 |
| Other Information | | | | | |
| Capital expenditures | 12.7 | 2.3 | 0.9 | 8.6 | 19.5 |

¹ Prepared in accordance with IFRS.

² Prepared in accordance with Canadian GAAP.

³ EBITDAS is defined as earnings before interest, taxes, depreciation, amortization, impairment and stock-based compensation.

FINANCIAL PERFORMANCE FROM CONTINUED OPERATIONS 2007 THROUGH 2011



OVERALL PERFORMANCE

Two thousand eleven was a year of recovery for Cordy. The economic challenges that appeared in 2008 but became predominant in 2009 resulted in a substantial decrease in commodity prices causing a reduction in activity in the energy services industry not seen since the early 1980s. As the economic crisis unfolded, Cordy's revenues from continuing operations decreased from a high of \$110.3 million in 2007 to their lowest point of \$47.9 million in 2009, representing an aggregate decline of \$62.4 million, precipitating aggregate goodwill impairment losses of \$39.2 million in 2008 and 2009. Marginal improvements were realized in 2010 as the price of commodities recovered and advancements in energy extraction technology utilizing horizontal wells completed with multi-stage hydraulic fracturing generated activity in the energy sector. The Corporation's much stronger financial results of 2011 indicate that the energy sector has recovered and the Corporation has emerged from the downturn in a favourable position. Revenues, operating margins, and earnings from continuing operations neared or exceeded the levels attained in 2007 and the Corporation exited the year with minimal debt and an overall strong balance sheet. This in turn positions the Corporation favourably as the outlook in the energy industry appears positive, along with the overall economic climate across western Canada. During the latter part of 2011, Cordy introduced to the market a new down-hole drill-bit that is applied in the horizontal drilling process. Results achieved so far are favourable and management is cautiously optimistic it will contribute toward improving operating margins in 2012. Near the end of 2011, Cordy discontinued Mesken Contracting as management deemed it was no longer a core focus. The results of the discontinued operation are excluded from the discussion of continuing operations within this MD&A (*refer to the Discontinued Operation section in this MD&A*).

Cordy entered 2011 with four main objectives:

1. Leverage operational improvements and effectiveness to achieve improved financial results.
2. Aggressively pursue organic growth with one of the newest heavy equipment fleets in Western Canada while reducing Cordy's overall exposure to activity in the natural gas sector.
3. Actively pursue acquisitions that create value for shareholders.
4. Achieve year-over-year growth in each of its business segments, driven mainly by the Heavy Construction and Environmental Services segments.

In order to achieve these objectives, Cordy:

1. Improved its operational effectiveness by preparing the Corporation to transition into a vertically integrated business model. As the Corporation completes this transition it is expected that internal cost savings will be achieved and its positioning for growth will be strengthened. The Corporation also exited a business line that participated in fixed bid work which adversely impacted the Corporation's ability to improve its financial performance. These changes should allow the Corporation to become more responsive to growth opportunities while improving its execution and service delivery.
2. Expanded its operations to compete in new geographical areas and provide additional products and services to its existing clients in order to reduce its exposure to the natural gas sector. The Corporation entered the heavy oil region around Cold Lake, Alberta and expanded its operational capacity and service offerings to the coal mines of southern, British Columbia. Cordy's access to modern equipment allowed it to achieve this profitable growth from continuing operations for two reasons: a newer fleet helps obtain work with customers who prefer modern, reliable equipment and allows the Corporation to provide its clients with additional equipment and services that are scalable to increasing demand.
3. Acquired RB2 Energy Services Inc. ("RB2") on June 30, 2011. This strategic acquisition provided Cordy access to the Fort McMurray market while expanding its fleet of fluid and hydro vacuum trucks in an era when obtaining a new fleet is challenging as a result of the increased demand for this type of service. RB2 contributed revenue of \$2.4 million for the six months ended, December 31, 2011. The Corporation plans to further expand the Environmental segment's fleet through additional capital expenditures in 2012.
4. Worked successfully to drive year-over-year growth in each of its business units. As expected, Heavy Construction and Environmental Services were the areas of highest growth. Revenue from continuing operations from these two operating segments increased by 67 percent and 65 percent year-over-year, respectively.

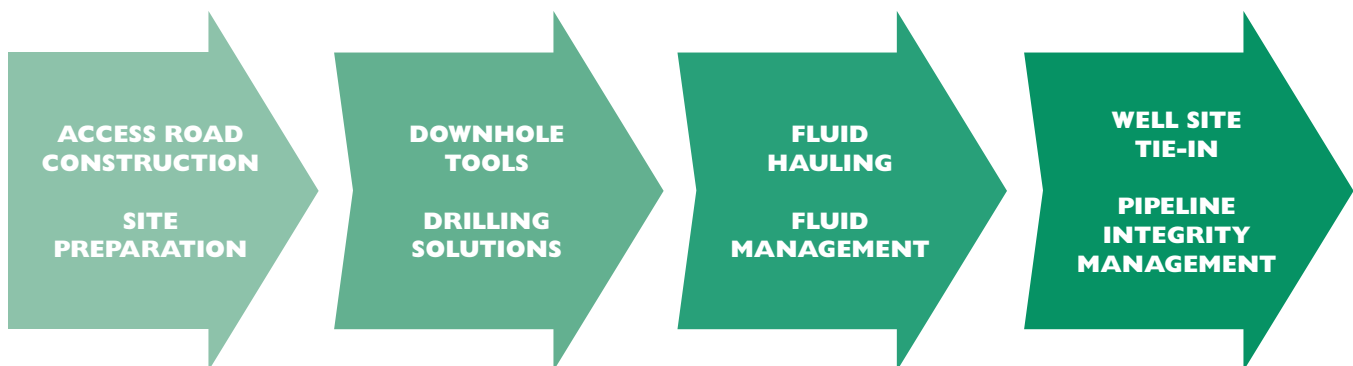
Overview

VISION AND STRATEGY

In 2012 and beyond Cordy intends to remain focused on continued growth and further improvements to its financial and operational performance, driven by its new strategy that combines vertical integration with a service offering that has been broadened geographically and deepened in capability.

Since inception in 2005, the Corporation experienced several challenges. The federal Government's decision to abolish the income trust structure in 2006, the changes to the Alberta royalty regime in 2007, the precipitous drop in energy services activity resulting from the economic meltdown in 2008, and the shareholder dispute throughout 2009, all hindered management's ability to deliver the results originally envisioned upon the Corporation's formation. During this period, management began building the framework to provide the systems and processes needed to position the Corporation for growth. The results of this process began to be felt in 2010 and in 2011 had a strong impact in terms of the activity of Cordy's business segments and the Corporation's overall revenue and profitability from continuing operations.

In 2012 management will implement its plan to transition Cordy into a vertically integrated entity, operationally and administratively. Beginning in the second quarter of 2012, management will initiate integrating the business units, where appropriate, so that the business segments can each operate as integrated entities, and will rebrand its business units and business segments under the Cordy brand. The goal from the perspective of marketing and customer awareness is for current and potential customers to think of Cordy as a full-service provider or "one-stop shop". As a working example in the oil and natural gas sector, a single provider – Cordy – can build the access road to an operating site, bring in earthmoving equipment to construct the well or facility site, provide down-hole tools to participate in the drilling and completion of the well, provide vacuum trucks to dispose of waste fluids from the well, construct a gathering pipeline to tie-in the new production to the pipeline network or processing plant and, while doing so, inspect older pipeline in the system as it ages to ensure it maintains integrity.



❖ Management's Discussion & Analysis

Cordy's management foresees this type of integration providing synergies in the areas of operating efficiency, marketing of a single more powerful brand, sales (by selling a more powerful and varied offering and cross-selling services from within the integrated set), reputation, and customer acquisition and retention. Larger customers frequently prefer dealing with fewer but larger and more capable suppliers in order to simplify their own internal procurement and administrative processes. Cordy's previous branding created the impression of 11 small to very small, unrelated operators. Brand integration should facilitate Cordy being viewed as a single, more capable and substantial organization.

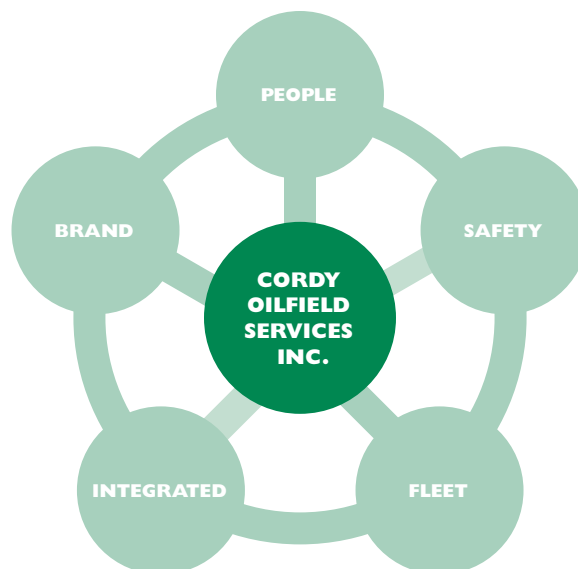
From an administrative perspective, Cordy will continue to improve its internal systems to strengthen the Corporation for further growth. Its recent implementation of an integrated enterprise resource planning system will be the basis of the platform that will position Cordy for growth. It is expected that these changes will allow for Cordy to become a more effective operation while improving its ability to execute the delivery of its services.

Throughout 2012, Cordy will continue to seek strategic acquisitions that expand Cordy's operational capability while contributing accretively to its financial performance. Management will consider acquisitions that fit the Corporation's acquisition criteria and are operationally compatible within Cordy's four business segments. Management will also continue to review the business segments to ensure they perform to Cordy's internal performance benchmarks and remain within its operational focus.

In order to maximize financial performance, Cordy is focused on achieving the following in 2012 and beyond:

1. Increase prices to increase margins.
2. Execute operations efficiently to reduce costs.
3. Improve utilization of capital and labour by leveraging resources.
4. Demonstrate technical or operational superiority by leveraging innovative capabilities.
5. Create contract terms that provide upside to both parties, reflecting Cordy's collaborative negotiating style and interpersonal skills.
6. Become an indispensable master service provider, leveraging the "one-stop shop" potential created through integration.

Cordy's vision is to be seen as the provider of choice for the services that it offers to its customers in the energy and mining sector throughout western Canada. Cordy's access to a modern fleet of equipment, exceptional safety record and skilled people are its main competitive advantages. These advantages position Cordy to deliver services to its customers cost-effectively and with minimal downtime, while providing a safe work environment for its employees.



Outlook

Management is optimistic for 2012. At the start of 2011 Cordy indicated there was a renewed sense of optimism in the energy services sector that should allow for improved financial performance. Cordy's financial results from continuing operations in 2011 validated that assertion and the Corporation outperformed management's expectations for 2011, with the Corporation's financial results from continuing operations for the year nearing pre-recession levels. Cordy's willingness to discontinue a business that was no longer advancing the Corporation's strategic plan and was delivering weak performance demonstrates management's commitment to maintaining operational excellence, achieving stronger margins and creating value for shareholders.

Looking ahead to the remainder of 2012, while risks certainly remain in the global economy, the most prevalent regional risk in western Canada's energy sector is the severely depressed price of natural gas, which was below \$2 per gigajoule¹ in March 2012. Management believes the steps it has taken to expand its operational focus to the mining, conventional oil, heavy oil, liquids-rich gas and oil sands regions will mitigate this risk in 2012.

The Corporation's number-one priority for 2012 is the safety of its employees. Providing a demonstrably safe work environment is a precursor to participating in many of today's energy, construction and mining projects, particularly with larger, more discerning customers, as well as to attracting and retaining employees.

Management will also focus on expanding its heavy construction operations in the mining sector in southern B.C., its heavy oil focused operation around Cold Lake, Alberta, and its oil sands related operations in the Fort McMurray region. Commencement of the transition to becoming an integrated entity in the second quarter, as discussed above, is anticipated to gradually begin realizing cost savings, by delivering Cordy's services more effectively.

With access to one of the newest fleets of heavy equipment in western Canada, Cordy will seek opportunities to exploit this advantage. The Corporation plans to replace the entire 2011 model year rental fleet with 2012 equipment, thanks to an innovative rental and exchange agreement with a major heavy equipment distributor, and also expects to increase the size of the fleet by potentially 150 pieces. Capital expenditures are budgeted at \$16 million for 2012, mainly to add new heavy equipment for its mining operations as well as to expand the Environmental Services segment.

Management expects year-over-year growth in all of its business segments in 2012 and, in general, expects the organization to continue building on the performance achieved in 2011. In addition to revenue growth, management is focused on increasing earnings per share and generating sustainable earnings by growing the organization organically and through strategic acquisitions. In 2012, management believes it is now in a position to deliver the results originally envisioned for shareholders when Cordy was formed.

¹ AECO average natural gas spot price on March 19, 2012 was 1.87 \$C/Mcf.

Consolidated 2011 Overview

SUMMARY OF CONSOLIDATED EARNINGS (LOSS) FROM CONTINUING OPERATIONS

| Years ended December 31 (\$ millions) | 2011 \$ | 2010 \$ | Change | % Change |
|--|------------|--------------|------------|-------------|
| Revenue | | | | |
| Heavy Construction | 45.3 | 27.1 | 18.2 | 67% |
| Pipeline and Facilities | 16.5 | 11.2 | 5.3 | 47% |
| Manufacturing and Supply | 12.6 | 8.8 | 3.8 | 43% |
| Environmental Services | 19.8 | 12.0 | 7.8 | 65% |
| | 94.2 | 59.1 | 35.1 | 59% |
| Operating earnings | | | | |
| Heavy Construction | 8.3 | 2.0 | 6.3 | 315% |
| Pipeline and Facilities | — | 0.6 | (0.6) | -100% |
| Manufacturing and Supply | 1.3 | 0.3 | 1.0 | 333% |
| Environmental Services | 4.3 | 2.7 | 1.6 | 59% |
| Corporate | (3.0) | (2.3) | (0.7) | -30% |
| Total operating earnings | 10.9 | 3.3 | 7.6 | 230% |
| Amortization | (5.6) | (6.0) | 0.4 | -7% |
| Financing expense | (0.4) | (0.5) | 0.1 | -20% |
| Gain (loss) on equipment disposal | 0.2 | (1.0) | 1.2 | 120% |
| Earnings (loss) before income tax | 5.1 | (4.2) | 9.3 | 221% |
| Income tax (expense) recovery | (1.4) | 1.2 | (2.6) | 217% |
| Net earnings (loss) | | | | |
| from continuing operations | 3.7 | (3.0) | 6.7 | 223% |

For the year ended December 31, 2011, Cordy reported earnings before income tax from continuing operations of \$5.1 million compared to a loss before income tax from continuing operations of \$4.2 million for 2010. Revenue for the year was \$94.2 million compared to \$59.1 million for 2010. Operating earnings from continuing operations totalled \$10.9 million for 2011 compared to \$3.3 million in 2010. Results for the year include a loss on discontinued operations of \$5.4 million as compared to a loss on discontinued operations of \$3.5 million in 2010. The Corporation incurred an overall net loss of \$1.7 million in the year compared to an overall net loss of \$6.5 million in 2010 (Refer to the Discontinued Operation section in this MD&A).

Management's Discussion & Analysis

REVENUE

Cordy generated revenue from continuing operations of \$94.2 million for 2011. On a year-over-year comparative basis, revenue increased by \$35.1 million or 59 percent as a result of increased activity and pricing increases by each of its business units, as well as an increase in revenue of \$2.4 million resulting from the RB2 acquisition. The Heavy Construction and Environmental Services segments experienced the largest revenue increases achieving respective growth of 67 percent and 65 percent year-over-year.

| Years ended December 31 (\$ millions) | 2011 \$ | 2010 \$ | Change | % Change |
|--|-------------|-------------|-------------|------------|
| Heavy Construction | 45.3 | 27.1 | 18.2 | 67% |
| Pipeline and Facilities | 16.5 | 11.2 | 5.3 | 47% |
| Manufacturing and Supply | 12.6 | 8.8 | 3.8 | 43% |
| Environmental Services | 19.8 | 12.0 | 7.8 | 65% |
| Total | 94.2 | 59.1 | 35.1 | 59% |

DIRECT OPERATING EXPENSES

Direct operating expenses from continuing operations were \$74.2 million in 2011 as compared to \$48.7 million in 2010. The increase of \$25.5 million or 52 percent largely tracked the increase in revenue during the year. Revenues grew more than costs as the Corporation benefited from the increased drilling activity in western Canada during the year, which allowed for modest price increases in some business units. During 2011, direct operating costs decreased to 78.8 percent from 82.4 percent of revenue in 2010, resulting in reduced cost within various areas of Cordy's business and increases in pricing.

| Years ended December 31 (\$ millions) | 2011 \$ | % of Revenue | 2010 \$ | % of Revenue | Change |
|--|-------------|--------------|-------------|--------------|-------------|
| Salaries and wages | 25.5 | 27.1% | 18.8 | 31.8% | 6.7 |
| Equipment rental | 8.1 | 8.6% | 2.5 | 4.2% | 5.6 |
| Cost of goods sold | 9.9 | 10.5% | 8.9 | 15.1% | 1.0 |
| Fuel and lubricants | 6.5 | 6.9% | 3.4 | 5.8% | 3.1 |
| Repairs and maintenance | 4.7 | 5.0% | 5.0 | 8.5% | (0.3) |
| Other | 19.5 | 20.7% | 10.1 | 17.1% | 9.4 |
| | 74.2 | 78.8% | 48.7 | 82.4% | 25.5 |

Salary and wage expense was \$25.5 million in 2011 as compared to \$18.8 million in 2010. The increase of \$6.7 million or 36 percent is primarily a result of increased activity over 2010. As a percentage of revenue, labour costs decreased to 27.1 percent in 2011 from 31.8 percent in 2010, which is attributable to Cordy increasing its billing rates greater than the general rise in labour rates throughout the sector.

Equipment rental expense was \$8.1 million in 2011 as compared to \$2.5 million in 2010. The increase of \$5.6 million or 224 percent reflects the change in business strategy to utilize new fleet rental equipment in the Corporation's heavy construction segment. In the past, Cordy owned most of its own equipment and its rental expenses were significantly lower. As a percentage of revenue, equipment rental increased to 8.6 percent in 2011 from 4.2 percent in 2010. New equipment enabled Cordy to obtain additional work over its competitors while facilitating the ability to increase its rates, where appropriate.

Costs of goods sold were \$9.9 million in 2011 as compared to \$8.9 million in 2010. The increase of \$1.0 million or 11 percent reflects the increase in activity in Cordy's Manufacturing segment resulting from a general increase in demand for down-hole tools. As a percentage of revenue, cost of goods sold decreased to 10.5 percent in 2011 from 15.1 percent in 2010. The reduction demonstrates Cordy's ability to increase its pricing, where appropriate, while managing inflationary cost pressures, despite the increase in activity.

Management's Discussion & Analysis

Fuel expenses were \$6.5 million in 2011 as compared to \$3.4 million in 2010. The increase of \$3.1 million or 91 percent reflects the increase in activity for each of Cordy's operating segments. As a percentage of revenue, fuel expense increased by 19.0 percent to 6.9 percent in 2011 from 5.8 percent in 2010, reflecting higher fuel prices than in 2010. Per National Resources Canada, the average year-over-year increase in the cost of fuel in the areas where Cordy operates was approximately 24.4 percent, whereas Cordy experienced a 5.4 percent lower increase than the average. The difference is partially due to Cordy's rental access to new energy-efficient diesel electric heavy equipment burning less fuel per hour than traditional diesel machines.

Repairs and maintenance expenses were \$4.7 million in 2011 compared to \$5.0 million in 2010. The decrease of \$0.3 million or 6 percent, despite the general increase in revenue, reflects the reduced number of repairs required on Cordy's newer fleet of equipment. As a percentage of revenue, repairs and maintenance decreased to 5.0 percent from 8.5 percent in 2010. The reduction in repairs demonstrates the savings achieved using new equipment, correlating to an increase in uptime on Cordy's equipment.

QUARTERLY SUMMARY FROM CONTINUING OPERATIONS

(\$ millions, except per share amounts)

| Year ended December 31, 2011 | Q4 | Q3 | Q2 | Q1 | Year |
|--|-------|-------|--------|--------|--------|
| Revenue | 30.6 | 23.7 | 15.4 | 24.5 | 94.2 |
| EBITDAS | 3.7 | 3.0 | 0.3 | 3.9 | 10.9 |
| Earnings (loss) from continuing operations | 1.4 | 1.0 | (0.7) | 2.0 | 3.7 |
| Earnings (loss) per share from continuing operations | 0.02 | 0.01 | (0.01) | 0.02 | 0.04 |
| Operating cash flow from all operations | 0.5 | 0.9 | 0.2 | (0.8) | 0.8 |
| Year ended December 31, 2010 | Q4 | Q3 | Q2 | Q1 | Year |
| Revenue | 18.9 | 14.2 | 8.9 | 17.1 | 59.1 |
| EBITDAS | 2.1 | 1.0 | (1.2) | 1.4 | 3.3 |
| Earnings (loss) from continuing operations | (0.5) | (0.4) | (1.9) | (1.2) | (3.0) |
| Earnings (loss) per share from continuing operations | 0.01 | 0.00 | (0.02) | (0.01) | (0.04) |
| Operating cash flow from all operations | 1.8 | (0.2) | 2.2 | (0.1) | 3.7 |

¹ Refer to Non-IFRS measures

The Corporation's operations and profitability are closely tied to the seasonal activity patterns of western Canada's oil and natural gas exploration and development industry, for which activity peaks in the winter months and declines during spring break-up, and to the construction industry whose activity peaks during the warmer months. Due to spring break-up, when the frost comes out of the ground, many roads become incapable of supporting heavy equipment, which makes drilling for oil and gas more difficult. As a result, demand for oilfield services generally is highest in the first quarter and lowest in the second quarter. The seasonality in the oilfield services sector is generally balanced by the heavy construction segment which ramps up in the second quarter and is more fully operational in the second half of the year.

Consolidated Fourth Quarter 2011 Overview

SUMMARY OF CONSOLIDATED EARNINGS FROM CONTINUING OPERATIONS

| Quarter ended December 31 (\$ millions) | 2011 \$ | 2010 \$ | Change | % Change |
|--|------------|------------|--------|----------|
| Revenue | | | | |
| Heavy Construction | 14.5 | 8.3 | 6.2 | 75% |
| Pipeline and Facilities | 6.1 | 3.8 | 2.3 | 61% |
| Manufacturing and Supply | 4.6 | 2.8 | 1.8 | 64% |
| Environmental Services | 5.4 | 4.0 | 1.4 | 35% |
| Total revenue | 30.6 | 18.9 | 11.7 | 62% |
| Operating earnings | | | | |
| Heavy Construction | 2.7 | 0.9 | 1.8 | 200% |
| Pipeline and Facilities | (0.3) | 0.7 | (1.0) | 143% |
| Manufacturing and Supply | 0.7 | 0.4 | 0.3 | 75% |
| Environmental Services | 1.5 | 1.3 | 0.2 | 15% |
| Corporate | (0.9) | (1.2) | 0.3 | 25% |
| Operating earnings | 3.7 | 2.1 | 1.6 | 76% |
| Depreciation and amortization | (1.5) | (1.4) | (0.1) | 7% |
| Financing expense | (0.2) | (0.1) | (0.1) | 100% |
| Gain (loss) on asset disposal | – | (1.3) | 1.3 | 100% |
| Earnings (loss) before income tax | 2.0 | (0.7) | 2.7 | 386% |
| Income tax | (0.6) | 0.2 | (0.8) | 400% |
| Net earnings (loss) from continuing operations | 1.4 | (0.5) | 1.9 | 380% |

Net earnings from continuing operations were \$1.4 million in the fourth quarter of 2011 compared to a loss from continuing operations of \$0.5 million for the same prior period of 2010, resulting from an increase in business activity over the comparable period of 2010. Revenue for the quarter was \$30.6 million compared to \$18.9 million for the same period of 2010. Operating earnings from continuing operations totaled \$3.7 million for the fourth quarter compared to operating earnings of \$2.1 million in the same period of 2010. During the quarter, the Corporation discontinued a line of business which incurred a loss on discontinued operations of \$3.2 million as compared to a loss on discontinued operations of \$0.8 million for the same period of 2010. (Refer to the *Discontinued Operation* section in this MD&A).

Management's Discussion & Analysis

Revenue

Cordy generated revenue from continuing operations of \$30.6 million for the quarter ended December 31, 2011. On a year-over-year comparative basis, revenue increased by \$11.7 million or 62 percent as a result of increased activity and pricing at each of Cordy's business units and an increase of \$1.3 million resulting from the RB2 acquisition. The Heavy Construction segment and the Manufacturing segment experienced the largest increases in quarterly revenues, growing by 75 percent and 64 percent, respectively, as compared to the same prior period of 2010.

| For the quarters ended December 31 (\$ millions) | 2011 \$ | 2010 \$ | Change | % Change |
|---|-------------|-------------|-------------|------------|
| Heavy Construction | 14.5 | 8.3 | 6.2 | 75% |
| Pipeline and Facilities | 6.1 | 3.8 | 2.3 | 61% |
| Manufacturing and Supply | 4.6 | 2.8 | 1.8 | 64% |
| Environmental Services | 5.4 | 4.0 | 1.4 | 35% |
| Total | 30.6 | 18.9 | 11.7 | 62% |

DIRECT OPERATING EXPENSES

Direct operating expenses from continuing operations were \$23.6 million in the fourth quarter as compared to \$14.9 million in the same period of 2010. The increase of \$8.7 million or 58 percent is related to the increase in revenue during the quarter. The Corporation benefited from the increased drilling activity in western Canada during the quarter, which allowed for modest price increases in some business units. As a percentage of revenue, direct operating costs decreased to 77.1 percent in the fourth quarter of 2011 from 78.8 percent in the same period of 2010.

| For the quarters ended December 31 (\$ millions) | 2011 \$ | % of Revenue | 2010 \$ | % of Revenue | Change |
|---|-------------|--------------|-------------|--------------|------------|
| Salary and wages | 8.6 | 28.1% | 5.8 | 30.7% | 2.8 |
| Equipment rental | 3.0 | 9.8% | 1.2 | 6.3% | 1.8 |
| Cost of goods sold | 3.5 | 11.4% | 2.8 | 14.8% | 0.7 |
| Fuel and lubricants | 2.2 | 7.2% | 1.2 | 6.3% | 1.0 |
| Repairs and maintenance | 1.4 | 4.6% | 1.5 | 7.9% | (0.1) |
| Other | 4.9 | 16.0% | 2.4 | 12.7% | 2.5 |
| Total | 23.6 | 77.1% | 14.9 | 78.8% | 8.7 |

Salary and wage expense was \$8.6 million in the fourth quarter of 2011 as compared to \$5.8 million in the same period of 2010. The increase of \$2.8 million or 48 percent is primarily a result of increased activity year-over-year. As a percentage of revenue, salary costs decreased to 28.1 percent in the fourth quarter of 2011 from 30.7 percent in the same period of 2010, indicating Cordy's ability increase its billing rates while managing wage inflation despite a general rise in labour costs throughout the industry.

❖ Management's Discussion & Analysis

Equipment rental expense was \$3.0 million in the fourth quarter as compared to \$1.2 million in the same period of 2010. The increase of \$1.8 million, or 150 percent, reflects the change in business strategy to utilize new fleet rental equipment in its Heavy Construction segment. As a percentage of revenue, equipment rental increased to 9.8 percent in the fourth quarter of 2011 from 6.3 percent in the same period of 2010. New equipment allowed Cordy to obtain additional work over its competitors while facilitating the ability to increase its rates, where appropriate.

Costs of goods sold were \$3.5 million in the fourth quarter of 2011 as compared to \$2.8 million in the same period of 2010. The increase of \$0.7 million or 25 percent reflects the increase in activity in Cordy's Manufacturing and Supply segment resulting from a general increase in demand for down-hole tools. As a percentage of revenue, cost of goods sold decreased to 11.4 percent in the fourth quarter of 2011 from 14.8 percent in 2010. The reduction demonstrates Cordy's ability to increase its pricing, where appropriate, while managing cost pressures despite the increase in activity.

Fuel expenses were \$2.2 million in the fourth quarter as compared to \$1.2 million in the same period of 2010. The increase of \$1.0 million or 83 percent reflects the increase in activity for each of Cordy's business segments and higher fuel prices. As a percentage of revenue, fuel expense increased by 14.3 percent to 7.2 percent in the fourth quarter of 2011 from 6.3 percent in the same period of 2010, reflecting the overall increase in the price of fuel from 2010. Per National Resources Canada, the average quarter-over-quarter increase in the price of fuel in the areas where Cordy operates was approximately 21.1 percent, whereas Cordy experienced a 6.8 percent lower increase than the average. The difference is partially due to Cordy's energy-efficient diesel electric heavy equipment burning less fuel per hour than traditional diesel machines.

Repairs and maintenance expenses were \$1.4 million in the fourth quarter of 2011 as compared to \$1.5 million in the same period of 2010. The decrease of \$0.1 million or 7 percent despite the general increase in revenue reflects the reduced number of repairs required on Cordy's newer fleet of equipment. As a percentage of revenue, repairs and maintenance decreased to 4.6 percent from 7.9 percent in 2010. The reduction in repairs demonstrates the savings realized when systematically using a fleet of new, higher-uptime equipment.

Business Segment Analysis

Cordy's operations are carried out by eleven wholly-owned companies internally referred to as business units. They are grouped into four business segments: Heavy Construction, Pipeline & Facilities, Environmental Services and Manufacturing and Supply. The segments are differentiated by the type of services provided, equipment requirements and customer needs. Cordy's business units provide specialized services that include: small-diameter pipeline and facilities construction, oilfield site preparation and reclamation, environmental services and drilling solutions. Their day-to-day management is conducted at the subsidiary level and each business unit is accountable for performance, profitability and growth.

HEAVY CONSTRUCTION

- Nohels Group Inc. ("Nohels")
- Battle River Oilfield Construction Ltd. ("Battle River")
- Tawow Resources Inc. ("Tawow")

The Heavy Construction segment accounted for 48 percent of the Corporation's revenue from continuing operations in 2011 (2010 – 46 percent). Heavy Construction services are provided to mining operations, and oil and natural gas exploration and production companies operating in Alberta and British Columbia.

Services provided by this segment include: mining services, building and repairing infrastructure including sewer and water reservoirs; preparation, construction, maintenance and reclamation of oilfield leases and lease roads; heavy haulage; gravel supply and delivery; right-of-way clearing; bridge and culvert installation; and camp services. The Corporation previously provided road-building services in southern Alberta. Effective December 31, 2011, the Corporation discontinued this operation (*refer to the Discontinued Operation section in this MD&A*).

In 2011, the Heavy Construction segment's objectives were to expand its services using its new rental fleet of heavy equipment in the following areas:

1. Mining operations in southern British Columbia.
2. Road, lease construction and aggregate hauling in the Cold Lake, Alberta region.
3. Expand its camp operations in northwest Alberta.

In pursuit of these objectives, Cordy:

1. Expanded its mining operations with its existing customers by acquiring certain pieces of heavy equipment to provide a new type of earthmoving service.
2. Reduced its exposure to natural gas and focused its northern Alberta operations on heavy oil plays in northeast Alberta.
3. Disposed of its Bob Quinn camp in northern British Columbia and re-invested in modernizing and expanding its camp operations on the Chinchaga Road in northern Alberta.

| Years ended December 31 (\$ millions) | 2011 \$ | 2010 \$ | Change | % Change |
|--|------------|------------|--------|----------|
| Revenue | 45.3 | 27.1 | 18.2 | 67% |
| EBITDAS | 8.3 | 2.0 | 6.3 | 315% |
| Earnings from continuing operations | 4.7 | (1.4) | 6.1 | 436% |

Revenue for the year was \$45.3 million compared to \$27.1 million for 2010. The primary driver of revenue growth was the segment's expanded areas of focus into mining operations in southern British Columbia and heavy construction operations in the Cold Lake, Alberta region. Overall, the Heavy Construction segment generated the Corporation's highest percentage of revenue (48 percent) for 2011.

EBITDAS for the year was \$8.3 million compared to \$2.0 million in 2010. The increase of \$6.3 million or 315 percent reflects the segment's ability to increase its operating margins through its new fleet of rental equipment, allowing Cordy to obtain additional work for higher rates based on its reputation of providing newer equipment with higher uptime.

Management's Discussion & Analysis

Cordy's Heavy Construction segment achieved net earnings from continuing operations of \$4.7 million in 2011 compared to a net loss from continuing operations of \$1.4 million for 2010. The turnaround of \$6.1 million or 436 percent reflects EBITDAS margins of 18.3 percent in 2011, an increase of 10.9 percentage points from 7.4 percent in 2010.

PIPELINE AND FACILITIES

- **Coverall Pipeline Construction Ltd. ("Coverall")**
- **New West Pipelines Ltd. ("New West")**

The Pipeline and Facilities segment accounted for 18 percent of the revenue from continuing operations generated by the Corporation in 2011 (2010 – 19 percent). This segment provided services to large and mid-sized oil and natural gas exploration and production companies in northwest and central Alberta.

Services provided include: pipeline integrity management, low-pressure gas tie-ins; insulated pipeline installation; cement-lined pipeline installation; fibreglass pipeline installation; water injection lines; construction and installation of compressors, line heaters, separator buildings and header systems; pipeline maintenance and repairs; tying-in wellheads; decommissioning old well sites; and transportation of facility components to production sites. In providing pipeline construction and oilfield maintenance services, the focus is on small to medium-diameter pipeline construction, primarily gathering system pipe under 12" in diameter.

In 2011, Pipeline and Facilities segment's objectives were primarily to reduce natural gas exposure, by:

1. Diversifying its customer base.
2. Focusing on integrity management of pipelines (an opportunity created by the aging of the oil and natural gas industry's infrastructure).

In pursuit of these objectives, Cordy's Pipeline and Facilities segment largely met its objective of mitigating its exposure to natural gas exploration and production activities by focusing on integrity management services on existing pipelines as well as expanding its customer list. The segment was not profitable in the year; however, its loss was not substantial and was reduced from the prior year.

| Years ended December 31 (\$ millions) | 2011 \$ | 2010 \$ | Change | % Change |
|--|------------|------------|--------|----------|
| Revenue | 16.5 | 11.2 | 5.3 | 47% |
| EBITDAS | – | 0.6 | (0.6) | -100% |
| Earnings (loss) from continuing operations | (0.1) | (0.3) | 0.2 | 67% |

Revenue for the year was \$16.5 million compared to \$11.2 million for 2010. The primary driver of revenue was the increase in activity in central and northwest Alberta. Overall, the Pipeline and Facilities segment generated 18 percent of Cordy's consolidated revenue in the year.

EBITDAS for the year was \$nil as compared to \$0.6 million in 2010. The decrease of \$0.6 million reflects the high level of competition in the small-diameter pipeline segment. In the fourth quarter of 2011, the Pipeline and Facilities segment incurred a loss on a project in the amount of \$0.5 million as a result of sub-optimal contractual obligations tied to the project.

The Pipeline and Facilities segment incurred a loss from continuing operations of \$0.1 million in 2011 compared to a loss from continuing operations of \$0.3 million for 2010.

❖ Management's Discussion & Analysis

MANUFACTURING AND SUPPLY

- Sphere Drilling Supplies Ltd. ("Sphere")
- Lamont Bit Services Ltd. ("Lamont")
- Cordy Drilling Innovations Inc. ("CDI")

The Manufacturing and Supply segment accounted for 13 percent of the Corporation's 2011 revenue (2010 – 15 percent). This segment provides overall drilling solutions to the mining, construction, geotechnical, seismic, water well and oil and natural gas industries. The customer base is located primarily in western Canada. This segment also sells product to international customers.

Services and products provided by this segment include: manufacturing and supply of stock and customized drill bits; PDC bits applied in the horizontal extraction process, down-hole hammers and hammer bits; tri-cones; drilling products for mining, construction and seismic activities; and customized mining tools. The segment provides customized drilling solutions through in-house design and manufacturing capabilities whereby overall assistance is provided with respect to job design, product design, start-up, training and job completion. The segment also sells, rents and services bottom-hole assemblies and their components and rents large-diameter hammers and accessories for wide-diameter casing systems such as pilings and elevator shafts.

The Manufacturing and Supply segment's 2011 objectives were to increase margins, profitability and market share by:

1. Adding new machines and capacity to the machine shop.
2. Expanding product offerings to benefit from modern drilling methods, particularly horizontal wells.
3. Increasing pricing.

In pursuit of these objectives, the segment:

1. Expanded its product offering by developing a new line of drilling bits applied in horizontal drilling.
2. Upgraded its manufacturing equipment to better allow the segment to update and expand its product offering.
3. Increased its EBITDAS as a result of increased pricing.

| Years ended December 31 (\$ millions) | 2011 \$ | 2010 \$ | Change | % Change |
|--|------------|------------|--------|----------|
| Revenue | 12.6 | 8.8 | 3.8 | 43% |
| EBITDAS | 1.3 | 0.3 | 1.0 | 333% |
| Earnings (loss) from continuing operations | 0.8 | (0.2) | 1.0 | 500% |

Revenue for the year was \$12.6 million compared to \$8.8 million for 2010. The increase of \$3.8 million or 43 percent reflects the increased demand for drilling-related solutions. With the strong growth in the use of horizontal drilling methods across western Canada, oil and natural gas wells are being drilled with increased total measured depth, driving increasing demand for the products and services that this segment sells.

EBITDAS for the year was \$1.3 million compared to \$0.3 million in 2010. The increase of \$1.0 million or 333 percent reflects the segment's ability to increase its pricing as demand for its products and services increased. The increase was partially offset by development and testing costs associated with the segment's new line of down-hole tools.

The Manufacturing and Supply segment achieved earnings from continuing operations of \$0.8 million in 2011 compared to a loss from continuing operations of \$0.2 million for 2010.

Management's Discussion & Analysis

ENVIRONMENTAL SERVICES

- CSC Ltd. ("CSC")
- Hartwell Oilfield Ltd. ("Hartwell")
- RB2 Energy Services Inc. ("RB2")

The Environmental Services segment accounted for 21 percent of the Corporation's 2011 revenue (2010 – 20 percent). The segment's clean-up, hazardous goods transportation and containment services are provided to the oil and natural gas industry and also to industrial and commercial customers in Alberta.

The business units in this segment provide general water truck and vacuum truck services to the oilfield and non-oilfield industries; confined-space entry services; dangerous goods transportation and general transportation services; high-pressure and steam cleaning services; septic and holding tank cleaning; hydro-excavation; liquids and solids spill response services; and 24-hour emergency response coverage.

In 2011, the Environmental Services segment's objective was to invest and grow this segment of the business through:

1. Acquisitions.
2. Expanding the fleet of equipment.
3. Retaining existing customers and adding new customers.
4. Increasing service offerings and reputation for service excellence.

In pursuit of these objectives, the segment:

1. Expanded its fleet through the acquisition of RB2 and the acquisition of trucks from a customer.
2. Obtained contracts for customers located in the Fort McMurray and northern Alberta areas.
3. Increased its pricing, where appropriate, to allow for increased margins and earnings.
4. Acquired certain pieces of transportation equipment to expand its service offerings.

| Years ended December 31 (\$ millions) | 2011 \$ | 2010 \$ | Change | % Change |
|--|------------|------------|--------|----------|
| Revenue | 19.8 | 12.0 | 7.8 | 65% |
| EBITDAS | 4.3 | 2.7 | 1.6 | 59% |
| Earnings from continuing operations | 1.7 | 0.4 | 1.3 | 325% |

Revenue for the year was \$19.8 million compared to \$12.0 million for 2010. The increase of \$7.8 million or 65 percent reflects the increased demand for fluid management solutions in the energy services sector. Horizontal drilling combined with multi-stage fracturing is driving increased demand for fluid-related services. The RB2 acquisition contributed \$2.4 million in revenue to the segment's revenue for the year.

EBITDAS for the year was \$4.3 million compared to \$2.7 million in 2010. The increase of \$1.6 million or 59 percent reflects the increased demand for the services provided and demonstrates the segment's ability to maintain its margins despite accelerating fuel and labour cost inflation.

Earnings from continuing operations for the year were \$1.7 million compared to \$0.4 million in 2010. The increase of \$1.3 million or 325 percent reflects the increased demand for the services provided by Cordy's Environmental Services segment.

Management's Discussion & Analysis

CORPORATE SERVICES

Cordy's corporate office provides the corporate management and financial expertise, capital resources, technology, systems support, shared services and strategic planning for the business units.

In 2011, Corporate Service's objective was to begin the transition into an integrated entity and:

1. Develop an overall strategic plan and revised compensation structure.
2. Complete the implementation of an integrated enterprise resource planning system to serve as the platform for growth.
3. Expand the back-office capabilities of the Corporation by implementing a comprehensive shared services infrastructure.

In pursuit of these objectives, Corporate Services:

1. Developed a comprehensive strategic plan to focus the Corporation on its profitable growth areas to allow for shareholder returns.
2. Completed the implementation of its enterprise resource planning system providing the Corporation with the framework to integrate its operations through the automation and streamlining of its financial, operational, manufacturing, and supply chain processes.
3. Standardized its back-office infrastructure and developed the Corporation's mission critical shared services framework.

| Years ended December 31 (\$ millions) | 2011 \$ | 2010 \$ | Change | % Change |
|--|------------|------------|--------|----------|
| Revenue | – | – | – | – |
| EBITDAS | (3.0) | (2.3) | 0.7 | 30% |
| Cost of corporate services | (3.6) | (1.6) | (2.0) | 125% |

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses include the cost of maintaining a corporate office, all publicly traded company-related expenses as well as the general and administrative expenses incurred at each of the 11 business units. Administrative expenses as a percentage of revenue were 10 percent in 2011, down from 12 percent in the prior year. The decrease is largely the result of increased margins.

| Years ended December 31 (\$ millions) | 2011 \$ | % of Revenue | 2010 \$ | % of Revenue | Change |
|--|------------|--------------|------------|--------------|--------|
| General and administrative expense | 9.1 | 10% | 7.2 | 12% | 1.9 |
| Total | 9.1 | 10% | 7.2 | 12% | 1.9 |

Management's Discussion & Analysis

FINANCING EXPENSE

Financing expense for the year ended December 31, 2011 was \$0.4 million. The Corporation's average interest rate in 2011 was 5.73 percent, which is lower than the Corporation's average interest rate of 5.92 percent in 2010.

| Years ended December 31 (\$ millions) | 2011 \$ | % of Revenue | 2010 \$ | % of Revenue | Change |
|---|------------|--------------|------------|--------------|----------|
| Interest on bank indebtedness and payables | 0.2 | 0.2% | 0.1 | 0.2% | 0.1 |
| Interest expense on long-term financing | 0.3 | 0.3% | 0.4 | 0.7% | (0.1) |
| Financing costs | 0.5 | 0.5% | 0.5 | 0.8% | – |
| Financing income | (0.1) | 0.1% | (0.1) | (0.2)% | 0.0 |
| Net financing costs recognized in profit or loss | 0.4 | 0.4% | 0.4 | 0.7% | – |

AMORTIZATION

Amortization of property and equipment and intangible assets for 2011 was \$5.6 million, a decrease of \$0.4 million from 2010, primarily due to disposals of equipment during the year.

| Years ended December 31 (\$ millions) | 2011 \$ | % of Revenue | 2010 \$ | % of Revenue | Change |
|--|------------|--------------|------------|--------------|--------------|
| Amortization | 5.6 | 6% | 6.0 | 10% | (0.4) |
| Total | 5.6 | 6% | 6.0 | 10% | (0.4) |

GOODWILL AND INTANGIBLE ASSETS IMPAIRMENT

As required under IFRS, Cordy performed an annual impairment test to the carrying value of goodwill and reviewed indicators of impairment for intangible assets in the current and prior year to determine if conditions existed to indicate impairment of their carrying values. The review found no impairment of goodwill and no indicators of impairment for intangibles.

STOCK-BASED COMPENSATION

The stock option plan is now fully vested and amortized. As at December 31, 2011, there were no options issued or outstanding.

Significant Developments

ACQUISITION

On June 30, 2011, Cordy directly acquired all of the outstanding common shares of RB2. RB2 provides hydro-vac and fluid-related services to the oil and liquids-rich natural gas sector, principally in the Calgary and Fort McMurray regions. The acquisition provided Cordy with an opportunity to expand its presence and service offerings in the environmental services market and in the Fort McMurray region. The environmental services sector, specifically fluid hauling and hydro-vac services, is a growing market as newer methods of oil and natural gas drilling and completion services require increased fluid-related services. The acquisition was funded through cash, share consideration and a contingent earn-out bonus (described below). The fair value of common shares issued as part of the consideration was based on the closing price of \$0.38 of the Corporation's common shares as at June 30, 2011.

In the six months to December 31, 2011 RB2 contributed revenue of \$2.4 million and earnings before tax of \$0.2 million. If the acquisition had occurred on January 1, 2011, management estimates that the Corporation's revenue would have increased by \$2.8 million, and earnings before tax for the period would have increased by \$0.1 million. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on January 1, 2011.

The acquisition was accounted for using the acquisition method and the results of RB2's operations were included in the Corporation's interim financial statements and in the annual consolidated financial statements for the year ended December 31, 2011 from the date of acquisition. The goodwill acquired relates primarily to the expected operational benefits and future incremental earnings potential as a result of this acquisition.

Financial details of the RB2 acquisition:

| (\$ millions) | \$ |
|----------------------------|------------|
| Assumed Assets | |
| Current assets | 0.4 |
| Inventory and tools | 0.1 |
| Fixed assets | 2.1 |
| Goodwill | 1.0 |
| | 3.6 |
| Assumed Liabilities | 1.6 |
| Net Assets | 2.0 |
| Consideration: | |
| Cash | 0.6 |
| Share consideration | 1.1 |
| Contingent consideration | 0.3 |
| Total Consideration | 2.0 |

The amounts recorded above relating to fixed assets and certain working capital amounts were adjusted from the amounts reported in the second quarter of 2011 based on information subsequently available to management. The above amounts are considered final. The contingent consideration is related to an estimated EBITDAS earn-out bonus payable one year subsequent to the date of acquisition. The amount paid is a function of RB2 meeting certain performance benchmarks subsequent to the acquisition.

❖ Management's Discussion & Analysis

DISCONTINUED OPERATION

As a part of the Corporation's strategic review of its operations during 2011, management adopted a formal plan to discontinue Mesken Contracting. The coordinated plan entailed curtailing the business unit's operations effective December 31, 2011 and disposing of its assets by way of sale. Management expects that the plan will be largely complete by the end of the first quarter of 2012. The related assets are being sold or abandoned and the related liabilities were paid. The discontinued operation was previously classified in the Heavy Construction segment.

The net earnings (loss) from discontinued operations for the years ended December 31, 2011 and 2010 are as follows:

| Years ended December 31 (\$ millions) | 2011 | 2010 |
|--|--------------|--------------|
| Revenue | 16.3 | 7.5 |
| EBITDA | (3.1) | (2.2) |
| Earnings (loss) from discontinued operations | (7.1) | (4.4) |
| Tax effect | 1.7 | 1.0 |
| Loss from discontinued operations | (5.4) | (3.5) |

The financial results from the discontinued operation were removed from Cordy's operating results for the years ended December 31, 2011 and 2010 pursuant to IFRS 5 – Non-Current Assets Held for Sale and Discontinued Operations.

HEAVY EQUIPMENT RENTAL PROGRAM

During the year, the Corporation entered into an agreement to rent approximately 65 pieces of new heavy equipment from its equipment supplier, Lyncorp International Ltd., an entity wholly owned and controlled by David Mullen, the Chief Executive Officer, Chairman and a director of Cordy.

Financial Resources and Liquidity

| Years ended (\$ millions) | 2011 \$ | 2010 \$ | Change |
|--|--------------|------------|--------------|
| Cash provided by (used for): | | | |
| Operating activities from continuing operations | 3.3 | 5.0 | (1.7) |
| Operating activities from discontinued operations | (2.5) | (1.3) | (1.2) |
| Financing activities from continuing operations | 8.2 | (5.5) | 13.7 |
| Financing activities from discontinued operations | (2.7) | 0.4 | (3.1) |
| Investing activities from continuing operations | (9.9) | 1.1 | (11.0) |
| Investing activities from discontinued operations | 1.8 | 2.1 | (0.3) |
| Net increase (decrease) in cash from all operations | (1.8) | 1.8 | (3.6) |

Cash flows provided from operating activities of continuing operations decreased in 2011 from 2010 by \$1.7 million to \$3.3 million as the Corporation's liquidity declined due to increased activity.

Cash flows provided by financing activities of continuing operations increased in 2011 from 2010 by \$13.7 million to \$8.2 million as proceeds of financing exceeded repayment of term debt.

Cash flows from investing activities of continuing operations decreased in 2011 from 2010 by \$11.0 million to a use of \$9.9 million as the purchase of equipment for \$12.7 million exceeded the proceeds received on disposal of equipment of \$3.8 million during the year.

Management expects that the cash flow from operations generated in 2012 will be sufficient to fund the Corporation's operations and fund capital commitments in order to meet the Corporation's planned growth activities.

WORKING CAPITAL

At December 31, 2011, the Corporation had working capital of \$12.9 million excluding current assets and liabilities of discontinued operations. Cordy's working capital exceeds its total debt of \$8.4 million, which bears interest at an average rate of approximately 6 percent and is scheduled to be repaid over the next five years. The Corporation will continue to fund its ongoing operations and debt repayments from a combination of cash flow, drawings on its debt facility, asset dispositions and equity financings as needed.

| (\$ millions) | 2011 | 2010 | January 1, 2010 |
|--|--------------|-------------|-----------------|
| Bank balances | 0.2 | 2.0 | 0.2 |
| Cash and cash equivalents in the statement of cash flows | 0.2 | 2.0 | 0.2 |
| Bank indebtedness | (4.5) | — | — |
| Cash and cash equivalents | (4.3) | 2.0 | 0.2 |
| Working capital | 12.9 | 11.1 | 9.4 |

LOANS AND BORROWING – OPERATING FACILITY

The Corporation has a \$5 million secured operating line of credit that provides the Corporation with liquidity on demand. The operating facility agreement is designed and used to provide a short-term working capital alternative for the Corporation while providing flexibility with its other medium and long-term sources of financing.

As at December 31, 2011, the Corporation had drawn \$2.4 million on its operating line of credit. As at December 31, 2011, the Corporation's cash balance was \$0.2 million.

Management's Discussion & Analysis

The credit facility bears interest at 1.5-3.0 percent (2.5 percent as at December 31, 2011) above bank prime rate and is subject to an accounts receivable borrowing base calculation, secured by a floating charge over the Corporation's assets. The maximum allowable under the operating line of credit agreement is 75 percent of marginable trade receivables, less priority claims and outstanding letters of credit. Interest rates for the operating facility are tied to the bank prime rate, and are based on the ratio of senior debt to earnings-before-impairment-taxes and stock-based compensation at the end of the prior quarter. Access to the facility depends on financial covenants that require the Corporation to maintain a debt-to-capitalization ratio of not greater than 50%, interest service coverage greater than 3.0:1, and a debt to trailing EBITDA ratio of less than 2.5:1. At December 31, 2011 the Corporation was in compliance with each ratio and is forecast to remain in compliance:

| As at December 31 Covenant | Limit | 2011 |
|-------------------------------|------------------|--------|
| Debt to capitalization ratio | Below 50% | 22% |
| Interest coverage ratio | Greater than 3:1 | 11.7:1 |
| Senior debt to EBITDAs ratio | Less than 2.5:1 | 1.98:1 |

LOANS AND BORROWING – EQUIPMENT FINANCING

The Corporation finances its equipment purchases with debt to allow it to utilize its working capital to fund operations. The amortization periods on the equipment loans are correlated to the expected useful life and expected cash flows of each asset. As at December 31, 2011, the Corporation's current portion of long-term debt was \$3.8 million or 46 percent of the total debt outstanding. Management is reviewing Cordy's capital structure and considering various options to more accurately match the Corporation's debt payments with its future cash-flows.

| (\$ millions) | December 31, 2011 | December 31, 2010 | January 1, 2010 |
|--|-------------------|-------------------|-----------------|
| Current liabilities: | | | |
| Current portion of secured equipment loans | 3.7 | 4.2 | 6.9 |
| Current portion of finance lease obligations | 0.1 | 0.1 | 0.1 |
| Current portion of debt | 3.8 | 4.3 | 7.0 |
| Non-current liabilities: | | | |
| Equipment loans | 4.5 | 3.3 | 5.1 |
| Finance lease obligations | 0.1 | 0.4 | 0.1 |
| Non-current portion of debt | 4.6 | 3.7 | 5.2 |
| Total term debt obligations | 8.4 | 8.1 | 12.3 |

Terms and conditions of loans were as follows:

| (\$ millions) | Currency | Nominal interest rate | Year of maturity | December 31, 2011 | | December 31, 2010 | |
|---|----------|--------------------------|------------------|-------------------|-----------------|-------------------|-----------------|
| | | | | Face value | Carrying amount | Face value | Carrying amount |
| Secured equipment facility #1 | CAD | 5.49% | 2012-2016 | 5.2 | 5.2 | 3.0 | 3.0 |
| Secured equipment facility #2 | CAD | 5.94% | 2012-2013 | 2.5 | 2.5 | 3.1 | 3.1 |
| Secured equipment facility #3 | CAD | 6.56% | 2012-2013 | 0.4 | 0.4 | 1.2 | 1.2 |
| Secured equipment facility #4 | CAD | 9.72% | 2012-2013 | 0.3 | 0.3 | 0.3 | 0.3 |
| Finance lease liabilities | CAD | 9.16% | 2012-2014 | 0.2 | 0.2 | 0.6 | 0.6 |
| Total interest-bearing liabilities | | | | 8.4 | 8.4 | 8.1 | 8.1 |

Transactions with Related Parties

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the business activities of the Corporation, including all of its directors, along with certain executives. Directors are remunerated for services rendered in their capacity as directors by way of a combination of retainer fees and meeting attendance fees. The overall compensation program for executives is comprised of base salary and benefits, annual profit share, and stock-based compensation. The Corporation does not have a defined benefit or actuarial pension plan. Key management personnel participate in the stock option plan. Total remuneration to key management personnel including directors' fees, salaries and benefits, and annual profit share was \$0.9 million for the year ended December 31, 2011 (2010 - \$0.7 million).

TRANSACTIONS WITH RELATED PARTIES

| Years ended December 31 (\$ millions) | 2011 \$ | 2010 \$ |
|--|------------|------------|
| Revenue | – | – |
| Expense | 5.8 | 0.1 |
| Total | 5.8 | 0.1 |

A master rental agreement was entered into on March 1, 2011 between Cordy and Lyncorp International Ltd., a company wholly-owned by David Mullen, the Chief Executive Officer, Chairman and a director of Cordy. The rental agreement allows Cordy and/or any of its subsidiaries, to rent 65 new pieces of heavy equipment owned by Lyncorp International Ltd. on a month-to-month basis. The agreement was approved by non-affiliated directors and includes terms and conditions equal to or better than what were available in the open market. During the year ended December 31, 2011, under the terms of the rental agreement Cordy paid an aggregate of \$5.8 million in 2011 (2010 – nil).

Principal Risks and Uncertainties

RISK FACTORS

The Corporation has a risk management review process to ensure that risks are identified, discussed and mitigated where possible. The risk management review process highlights the significant risks which then lead to mitigation plans through, among other things, the establishment of standards and other controls. The inability to identify, assess and respond to risks through the risk management review process could lead to, among other things, an inability to capture opportunities, threats materializing, inefficiency and non-compliance with laws and regulations.

The Corporation has established and enforces a corporate wide Code of Conduct and has an anonymous Whistleblower protocol that complements its risk management process.

Management believes that the risks described below are the ones that could have the most significant impact on the Corporation. Readers are cautioned that the list of risks is not exhaustive and new information, future events or changing circumstances could affect the operations and financial results of the Corporation. Many of these risks, for example, the cyclical nature of the energy and construction industries, can be mitigated to a certain degree but are influenced by numerous factors over which the Corporation has no control.

MARKET RISK

The energy services industry is extremely sensitive to the level of capital expenditures made by oil and natural gas exploration and production companies. These companies base their capital expenditures on several factors including hydrocarbon prices, global production levels, costs including royalty rates, and access to capital. Oil and natural gas exploration and production companies examine long-term fundamentals before determining their capital budgets. Commodity prices and the corresponding level of production and exploration activity are often volatile. Natural gas prices have weakened considerably in recent quarters. Any prolonged, substantial reduction in commodity prices would almost certainly reduce oil and natural gas industry capital expenditures and, in turn, demand for the Corporation's services. These conditions could have a material adverse effect on the Corporation's results of operations and financial condition. The Corporation's operations are significantly affected by the price of fuel, labour, equipment and other costs. Significant increases in these and other related costs could adversely affect profitability. The Corporation cannot predict future economic conditions or the impact of them, and there is no assurance that the Corporation's operations will continue to be profitable.

Oil and Natural Gas Drilling Activity

A portion of the Corporation's revenue and operating income is directly related to oil and natural gas drilling activity in western Canada. The level of drilling activity by exploration and production companies is based on several factors including, but not limited to, hydrocarbon prices, production levels and access to capital. As a service provider to the oil and natural gas industry, the Corporation is highly reliant on the levels of capital allocated by oil and natural gas producers to drilling activity in western Canada. In recent years, natural gas prices have been volatile, nearing ten year lows, causing a reduction in the level of natural gas drilling activity. Although recent oil drilling and production activity has increased in western Canada due to a combination of higher oil prices and multi-stage fracturing techniques, oil prices have fluctuated significantly over the past several years, and may remain volatile in the future.

The Corporation cannot determine the impact of the reduction in natural gas exploration activity as this reduced activity has been offset by the increased activity in oil directed drilling activity. The Corporation has taken steps to mitigate its operations from natural gas exposure by increasing its operational focus toward heavy oil and oil sands activity.

Competition

The various business segments in which Cordy participates are highly competitive. The Corporation competes with several large companies in the energy services and mining industry that may have greater financial and other resources than the Corporation. There can be no assurance that such competitors will not substantially increase the resources devoted to the development and marketing of services that compete with those of the Corporation's or that new competitors will not enter the various markets in which Cordy is active.

The Corporation endeavours to use technological change and its access to a modern fleet of equipment to remain competitive in its various businesses.

❖ Management's Discussion & Analysis

Dependence on Suppliers

The ability of the Corporation to compete and grow will be dependent on the Corporation having access, at a reasonable cost and in a timely manner, to products, equipment and equipment parts and components and technology resources. Failure of suppliers to deliver such products, equipment, parts and components and technology resources at a reasonable cost and in a timely manner would be detrimental to the Corporation's ability to maintain existing customers and expand its customer list.

The Corporation's reliance on Lyncorp International Ltd for heavy equipment through its rental program presents a risk whereas if the relationship were to end, the Corporation's financial performance may be adversely affected. To mitigate this risk, Management has maintained relationships with certain key suppliers. No assurances can be given that the Corporation will be successful in maintaining its supply of equipment, parts and components and technology resources.

Economic Dependence

The Corporation's businesses within each operating segment are, to a large extent, economically dependent on a limited number of key customers.

In 2011, 49% of the Heavy Construction Segment's sales were concentrated with three of its largest customers. Likewise, three of the largest customers of the Environmental Segment comprised 32% of sales. The Manufacturing and Supply Segment's largest three customers accounted for 37% of the sales. 43% of the Pipeline and Facilities Construction Segment sales were generated from three of its largest customers. There can be no assurance that the Corporation's relationship with these customers will continue, and a significant reduction or total loss of the business from these customers, if not offset by sales to new or existing customers, could have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows.

One customer represented 10% of the Corporation's consolidated revenue for the year ended December 31, 2011.

Government Regulation

The Corporation's operations and those of its customers are subject to a variety of Canadian federal, provincial and local laws, regulations and guidelines, including laws and regulations relating to health and safety, the conduct of operations, the protection of the environment and the manufacture, management, transportation, storage and disposal of certain materials used in the Corporation's operations.

Management believes the Corporation is in compliance with such laws, regulations and guidelines. The Corporation has invested financial and managerial resources to ensure compliance with applicable laws, regulations and guidelines and will continue to do so in the future. Although such expenditures have not, historically, been material to the Corporation, such laws, regulations and guidelines are subject to change. Accordingly, it is impossible for the Corporation to predict the cost or impact of such laws, regulations or guidelines on its future operations.

Government regulations may change from time to time in response to economic or political conditions. The exercise of discretion by governmental authorities under existing regulations, the implementation of new regulations or the modification of existing regulations affecting the energy industries could reduce demand for the Corporation's services or increase its costs, either of which could have a material adverse impact on the Corporation. It is not expected that any such changes to current laws, regulations or guidelines would affect the operations of the Corporation in a manner materially different than they would affect other companies of a similar size in the industry segments where the Corporation's services are provided.

Environmental Liability

Certain segments of the Corporation routinely deal with potentially hazardous materials. The Corporation has programs to address compliance with current environmental standards and has policies and procedures to deal with the handling of potentially hazardous materials. There can be no assurance that the Corporation's procedures will prevent environmental damage occurring from spills of materials handled by the Corporation or that such damage has not already occurred. Canadian laws generally impose potential liability to the present or former owner or occupants of properties on which contamination has occurred. Although the Corporation is not aware of any contamination which, if remediation or clean-up were required, would have a material adverse effect on the Corporation, there can be no assurance that the Corporation will not be required, at some future date, to incur significant costs to comply with environmental laws, or that its operations, business, assets or cash flow will not be materially adversely affected by current or future environmental laws. The Corporation may have the benefit of insurance maintained by it or the operator; however, the Corporation may become liable for damages against which it cannot adequately insure or against which it may elect not to insure because of high costs or other reasons.

❖ Management's Discussion & Analysis

The Corporation's customers are subject to similar environmental laws and regulations, as well as limits on emissions to the air and discharges into surface and sub-surface waters. While regulatory developments that may follow in subsequent years could have the effect of reducing industry activity, the Corporation cannot predict the nature of the restrictions that may be imposed. The Corporation may be required to increase operating expenses or capital expenditures in order to comply with any new restrictions or regulations.

Operating Risks and Insurance

Certain of the Corporation's operations are subject to hazards inherent in their respective industries, such as equipment defects, malfunctions and failures, and natural disasters. These hazards could result in fires, vehicle accidents, explosions and uncontrollable flows of natural gas or well fluids that can cause personal injury, loss of life, suspension of operations, damage to facilities, business interruptions, and damage to or destruction of property and equipment. Although such hazards are primarily the responsibility of the oil and natural gas companies which contract with the Corporation, these risks and hazards could expose the Corporation to substantial liability for personal injury, loss of life, business interruption, property damage or destruction, pollution and other environmental damages.

The Corporation continuously monitors its activities for quality control and safety and maintains an insurance and risk management program to protect its employees, assets and operations that it believes to be adequate and customary in the industry. However, such insurance is subject to coverage limits and exclusions and may not be available for the risks and hazards to which the Corporation is exposed. In addition, no assurance can be given that such insurance will be adequate to cover the Corporation's liabilities or will be generally available in the future or, if available, that premiums will be commercially justifiable.

If the Corporation were to incur substantial liability and such damages were not covered by insurance or were in excess of policy limits, or if the Corporation were to incur such liability at a time when it is not able to obtain liability insurance, this could have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows.

The Corporation also has programs in place to address compliance with current safety and regulatory standards.

Operating Equipment Risks

The ability of the Corporation to meet customer demands in respect to performance and cost will depend upon continuous improvements to its operating equipment. There can be no assurance that the Corporation will be successful in its efforts in this regard or that it will have the resources available to meet this continuing demand. Failure by the Corporation to do so could have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows. No assurances can be given that its competitors will not achieve technological advantages over the Corporation.

First Nation Relationships

A key part of the Corporation's business strategy is based on developing and maintaining positive relationships with First Nations in geographic areas of strategic importance to the Corporation. These relationships are expected to be important to the Corporation's future operations and to its customers who desire to work on traditional First Nation lands.

The inability to develop and maintain effective relationships with First Nations and to be in compliance with local requirements could adversely affect a portion of the Corporation's business strategy, growth and profitability.

Legal Proceedings

The Corporation is involved in litigation from time to time in the ordinary course of business. Although the Corporation is not currently a party to any material legal proceedings, legal proceedings could be filed against the Corporation in the future. No assurance can be given as to the final outcome of any legal proceedings or that the ultimate resolution of any legal proceedings will not have a material adverse effect on the Corporation.

❖ Management's Discussion & Analysis

Environmental Risks

All phases of the oil and gas industry present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs.

The Government of Canada expects Canada to reduce its greenhouse gas emissions to specified levels. There has been much public debate with respect to Canada's ability to meet specified targets and the Government's strategy or alternative strategies with respect to climate change and the control of greenhouse gases. A number of federal, provincial and state governments have announced intentions to regulate greenhouse gases and other air pollutants. These governments are currently developing the regulatory and policy frameworks to deliver on these announcements. In most cases, there are few technical details regarding the implementation and coordination of the plans to reduce emissions. It is also expected that further federal, provincial and state announcements and regulatory frameworks to address emissions will emerge. These initiatives may result in increased operating costs and capital expenditures for oil and natural gas producers, thereby decreasing the demand for the Corporation's services. Given the evolving nature of emission regulation, Management is unable to predict the impact of these initiatives on the Corporation. It is possible that these initiatives will adversely affect the Corporation's business, financial condition, results of operations and cash flows.

Access to Additional Financing

The economic slowdown and uncertainty experienced since 2008 continue to have an adverse impact on financial markets. While a tentative recovery from this economic slowdown has been inching forward, access to traditional equity and debt markets remains tight.

These conditions have impacted, and continue to impact, the expenditure plans of both the Corporation and its customers. As a result, the Corporation's ability to fund growth initiatives and acquisitions or other business combination transactions could be negatively affected as there can be no assurance that additional financing will be available to the Corporation when needed or on terms acceptable to the Corporation. The Corporation's inability to raise financing to support ongoing operations or to fund capital expenditures or acquisitions could limit the Corporation's growth and may have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows.

The Corporation manages its balance sheet and cash flows with a view to ensuring that it maintains what it believes are suitable levels of leverage and liquidity and that, to the extent possible, it will have sufficient resources to meet its liabilities when due, under both normal and stressed conditions. However, there can be no assurance that additional financing will be available to the Corporation when needed or on terms acceptable to the Corporation.

Vulnerability to Market Changes

Petroleum prices are expected to remain volatile in the near future. As a service provider to the energy industry, the Corporation is highly reliant on the levels of capital expenditures made by the energy producers. A prolonged period of volatile pricing could lead to continued fluctuations in customers' business plans and spending patterns which could result in reduced demand for the Corporation's products and services. Inflation and cost escalations, including costs associated with renting equipment, leasing facilities, labour costs, insurance, interest and fuel costs are other factors over which the Corporation has little or no control. As these costs represent a significant portion of the Corporation's costs, an inability to offset these increases through increased prices or improved operating efficiencies could adversely affect the Corporation's financial performance.

In consideration of this risk, management endeavours to ensure that its cost, pricing, resourcing and investment strategies are appropriate to the existing and anticipated levels of activity during a volatile market.

Volatility of Industry Conditions

The demand, pricing and terms for energy services in the Corporation's existing and anticipated service areas largely depend upon the level of exploration and development activity for both oil and natural gas. Oil and natural gas industry conditions are influenced by numerous factors including: oil and natural gas prices; expectations about future oil and natural gas prices; levels of consumer demand; the cost of exploring for, producing and delivering oil and natural gas; the expected rates of declining current production; the discovery rates of new oil and natural gas reservoirs; available pipeline and other oil and natural gas transportation capacity; weather conditions; political, regulatory and economic conditions; and the ability of oil and natural gas companies to raise equity capital or debt financing.

❖ Management's Discussion & Analysis

The level of activity in the oil and natural gas exploration and production industry is volatile. No assurance can be given that expected trends in oil and natural gas exploration and production activities will continue. Oil and gas pricing is currently fragile and any prolonged or substantial reduction in oil and natural gas prices would likely affect oil and natural gas production levels and therefore affect the demand for services provided by the Corporation to oil and natural gas exploration and production entities. A material decline in oil or natural gas prices or industry activity could have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows.

Government regulation and uncertainty regarding climate control initiatives continue to impact the energy industries decision making. Any addition to, or elimination or curtailment of, government incentives could have a significant impact on the energy services industry. Lower oil and natural gas prices could also: cause the Corporation's customers to seek to terminate, renegotiate or fail to honour the Corporation's services contracts; affect the fair market value of the Corporation's equipment fleet which in turn could trigger a write-down for accounting purposes; affect the Corporation's ability to retain skilled service personnel; and affect the Corporation's ability to obtain access to capital to finance and grow the Corporation's business.

Due to the long-life nature of certain heavy construction and oilfield service equipment the inventory of such equipment does not always correlate with the level of demand for the equipment. Periods of high demand often result in increased capital expenditures on equipment, and those capital expenditures may add capacity that exceeds actual demand in the future. This excess capacity could cause the Corporation's competitors to lower their prices and could lead to a decrease in prices in the heavy construction and oilfield services industries generally, which could have a material adverse effect on the Corporation's operating results and cash flows.

The Corporation mitigates some of these risks through diversification into areas such as manufacturing and supply and environmental services which are not as closely impacted by these volatile conditions.

Seasonality

The level of activity and equipment utilization in the heavy construction and pipeline and facilities construction segments specifically is influenced by seasonal weather. The spring thaw makes the ground unstable and less capable of supporting vehicles with heavy loads. Consequently, municipalities and transportation departments enforce road bans that restrict the movement of heavy equipment, thereby reducing road building, infrastructure construction, drilling and well servicing activity levels. In addition, during excessively rainy periods, equipment moves may be delayed, thereby adversely affecting equipment utilization rates and revenues.

There is greater demand for oilfield services provided by the Corporation in the winter season when the occurrence of freezing permits the movement and operation of heavy equipment. Consequently, oilfield services activities tend to increase in the fall and peak in the winter months of November through March. However, if an unseasonably warm winter prevents sufficient freezing, the Corporation may not be able to access wellsites and its operating results and financial condition may therefore be adversely affected. The volatility of weather conditions can therefore create unpredictability in activity and equipment utilization rates, which may have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows.

The Corporation mitigates some of this risk through its diversification into areas such as manufacturing and supply and environmental services which are not as closely impacted by these volatile conditions.

Alternatives to and Changing Demand for Petroleum Products

Fuel conservation measures, alternative fuel requirements, increasing consumer demand for alternatives to oil and natural gas, and technological advances in fuel economy and energy generation devices could reduce the demand for oil and other liquid hydrocarbons. The Corporation cannot predict the impact of changing demand for oil and natural gas products, and any major changes may have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows.

Reliance on Personnel

The success of the Corporation is dependent upon its ability to attract and retain key personnel. The abilities, expertise, judgment, courage, discretion, and unwavering commitment to deliver results are the key elements required of the Corporation's leaders in this challenging environment. The demand for proven and inspirational leadership is high and the supply is limited. Any loss of the services of the Corporation's key individuals could have a material adverse effect on the business, operations and financial results of the Corporation.

The ability of the Corporation to expand its services is dependent upon its ability to attract additional qualified employees. The ability to secure the services of additional personnel is constrained in times of strong industry activity. The Corporation does not maintain key person insurance.

❖ Management's Discussion & Analysis

Failure to Realize Anticipated Benefits of Acquisitions and Dispositions

The Corporation has made, and anticipates that it will continue to make, strategic acquisitions and dispositions of businesses and assets in the ordinary course of business. Acquisitions involve numerous risks, including:

- unanticipated costs and liabilities;
- difficulty of integrating the operations and assets of the acquired business;
- the ability to properly access and maintain an effective internal control environment over an acquired company;
- potential loss of key employees and customers of the acquired companies;
- excess equipment and capacity; and
- an increase in expenses and working capital requirements.

Any acquisition that the Corporation completes could have unforeseen and potentially material adverse effects on the Corporation's financial position and operating results. Achieving the benefits of acquisitions depends in part on successfully consolidating functions and integrating operations, procedures and personnel of all of the businesses acquired by the Corporation in a timely and efficient manner, as well as management of the Corporation's ability to realize the anticipated growth opportunities and synergies from integrating each of the acquired businesses. This integration requires a dedication of management's time, effort and resources which may divert management's focus and resources from other strategic opportunities and from operational matters during this process. The integration process may result in the disruption of ongoing business and customer and employee relationships that may adversely affect the Corporation's ability to achieve all the anticipated benefits of the acquisitions.

Management continually assesses the value and contribution of its personnel, assets, and product and service offerings. Non-core and underutilized assets will be periodically disposed of so the Corporation can focus its efforts and resources more efficiently. Depending on market conditions, such non-core assets, if disposed of could be expected to realize less than their carrying value on the financial statements of the Corporation.

Management will continue to use its best efforts to address all of these uncertainties in the evaluation of acquisition opportunities.

FINANCIAL RISKS

Financial risk is the risk of loss that results from changes in market prices. Financial risk is comprised of credit risk, interest rate risk, and other price risks. The level of financial risk to which the Corporation is exposed depends on market conditions, expectations of future price or market rate movements and the composition of the Corporation's financial assets and liabilities. The Corporation regularly monitors financial risk exposure, tolerances and control processes in order to manage the exposure related to changes in market risk and to stay within acceptable market risk limits.

Credit risk

Credit risk represents the financial loss to the Corporation if a customer fails to meet its contractual obligations. The Corporation is exposed to credit risk related to the collection of its trade accounts receivable, of which approximately 76 percent are due from customers connected to the oil and natural gas industry. Management regularly assesses the Corporation's exposure to credit risk and provides allowances for potentially uncollectible accounts receivable as they become known. Although collection of these receivables could be influenced by economic factors, management considers the risk of significant loss mitigated by the number, reputation and diversified nature of the companies with which the Corporation does business.

At December 31, 2011, the Corporation had an allowance for doubtful trade accounts receivable of \$0.2 million (December 31, 2010 – \$0.5 million). Management considers its trade accounts receivable to be overdue if outstanding for more than 90 days, excluding any construction hold-backs.

Trade receivables are aged as follows:

| (\$ millions) | December 31, 2011 | December 31, 2010 | January 1, 2010 |
|--------------------------|-------------------|-------------------|-----------------|
| Trade receivables | 25.8 | 15.6 | 12.0 |
| Construction hold-backs | 0.4 | 1.0 | 0.7 |
| Total receivables | 26.2 | 16.6 | 12.7 |

Management's Discussion & Analysis

Impairment risk

The allowance accounts in respect of trade and other receivables are used to record impairment losses unless the Corporation is satisfied that no recovery of the amount owing is possible; at that point the amounts are considered irrecoverable and are written off against the financial asset directly.

Interest risk

Interest rate risk arises from changes in market interest rates that may affect the fair value or future cash flows from the Corporation's financial assets or liabilities. The Corporation is exposed to interest rate risk on certain debt instruments to the extent of changes in the underlying market interest rates. Exposure to interest rate risk is minimal at this time as the majority of the Corporation's borrowings bear interest at fixed rates.

At the reporting date the interest rate profile of the Corporation's interest-bearing financial instruments was:

Carrying amount

| (\$ millions) | 2011 | 2010 |
|---------------------------|------------|------------|
| Fixed-rate instruments | | |
| Financial assets | – | – |
| Financial liabilities | 8.4 | 8.1 |
| Total | 8.4 | 8.1 |
| Variable-rate instruments | | |
| Financial assets | – | – |
| Financial liabilities | 4.5 | – |
| Total | 4.5 | – |

Fair value sensitivity analysis for fixed-rate instruments

Interest rate risk arises on borrowings issued at variable rates, which exposes risk to future cash flows if interest rates were to rise. The Corporation's various financing Loans are all issued at fixed rates. The operating facility is issued at variable rates. As at December 31, 2011, assuming all other variables were held constant, if interest rates increase by 1.0 percent on the \$12.9 million of the Corporation's debt, including bank indebtedness, the Corporation would incur additional annual interest expense of approximately \$0.1 million. Cordy does not account for any fixed rate financial assets and liabilities at FVTPL.

Fair values versus carrying amounts

Financial instruments include cash and cash equivalents, trade and other receivables, trade and other payables, equipment loans and obligations under financing leases. The Corporation's cash and cash equivalents are designated as held-for-trading and are recorded at fair value. Trade and other receivables are designated as loans and receivables and are recorded at amortized cost, which approximates fair value due to the short-term nature of the instrument. Trade and other payables and , equipment loans, and obligations under financings leases are designated as other liabilities and are recorded at amortized cost. The fair values of trade and other payables approximate their carrying values due to the short-term nature of these instruments. The fair value of the equipment financing and obligations under financing leases approximates their carrying value as the interest rates applicable to these instruments reflect current market rates.

Management's Discussion & Analysis

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

| (\$ millions) | December 31, 2011 | | December 31, 2010 | |
|---------------------------------------|-------------------|-------------|-------------------|-------------|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| Assets carried at fair value: | | | | |
| Cash and cash equivalents | 0.2 | 0.2 | 2.0 | 2.0 |
| Total | 0.2 | 0.2 | 2.0 | 2.0 |
| Assets carried at amortized cost | | | | |
| Trade and other receivables | 26.2 | 26.2 | 16.6 | 16.6 |
| Total | 26.2 | 26.2 | 16.6 | 16.6 |
| Liabilities carried at amortized cost | | | | |
| Secured bank loans | 8.2 | 8.2 | 7.5 | 7.5 |
| Financing lease liabilities | 0.2 | 0.2 | 0.6 | 0.6 |
| Trade and other payables | 12.7 | 12.7 | 10.3 | 10.3 |
| Bank indebtedness | 4.5 | 4.5 | – | – |
| Total | 25.6 | 25.6 | 18.4 | 18.4 |

Interest rates used for determining fair value

The interest rates used to discount estimated cash flows, when applicable, are based on the Government of Canada yield curve at the reporting date plus an adequate credit spread, and were as follows at December 31:

| | 2011 | 2010 |
|----------------------|--------------|--------------|
| Loans and borrowings | 5.73% | 5.92% |
| Total | 5.73% | 5.92% |

Foreign exchange

Foreign exchange risk represents the effect of changes in foreign exchange rates on the fair value or future cash flows of the Corporation's financial assets or liabilities. The Corporation enters into transactions denominated in United States dollars (USD) for which the related revenues, expenses and working capital balances are subject to exchange fluctuations. Exposure to exchange rate fluctuations are minor due to the short-term nature of these working capital balances and the fact that assets and revenues in USD are largely offset by liabilities and expenses in the same currency. During the year ended December 31, 2011, the Corporation recognized \$1.3 million (2010 – \$0.8 million) of sales denominated in USD and incurred purchases of \$2.5 million (2010 – \$1.1 million) denominated in USD.

Capital management

The Corporation manages its capital in order to provide financial flexibility to preserve its ability to meet current and long-term financial obligations. The Corporation's capital, which includes current and long-term portions of borrowed funds, including debt and capital lease obligations, is monitored on the basis of the debt-to-capitalization ratio. Capital, which the Corporation defines as its capitalization, is calculated as the total of debt and shareholders' equity. The Corporation's objective when managing its capital is to strike a balance between maintaining investor, creditor and market confidence while sustaining its future development. The Corporation has consistently maintained a debt-to-capitalization ratio of less than 50%.

❖ Management's Discussion & Analysis

The Corporation's operating credit facility as described in Note 15 to the 2011 annual consolidated financial statements requires the Corporation to maintain a debt-to-capitalization ratio of not greater than 50%. The Corporation was in compliance with its financial covenants as at December 31, 2011, December 31, 2010, and January 1, 2010. The debt-to-capitalization ratio was as follows:

| (\$ millions) | December 31, 2011 | December 31, 2010 | January 1, 2010 |
|--|-------------------|-------------------|-----------------|
| Total debt | 8.4 | 8.1 | 12.3 |
| Less: cash and cash equivalents | (4.3) | 2.0 | 0.2 |
| Net debt | 12.7 | 6.0 | 12.1 |
| Total equity | 45.8 | 46.4 | 52.9 |
| Total capitalization | 58.5 | 52.4 | 65.0 |
| Debt to capitalization ratio at December 31 | 21.7% | 11.5% | 18.6% |

Access to the facility depends on financial covenants that require the Corporation maintain a debt-to-capitalization ratio of not greater than 50%, interest service coverage greater than 3.0:1, and a debt to trailing EBITDA ratio of less than 2.5:1. At December 31, 2011 the Corporation was in compliance with each ratio and is forecast to remain in compliance. Management is committed to a highly selective capital spending strategy focused entirely on projects with the potential to deliver high returns on investment. Two of the biggest challenges today are assessing risk and determining value. The Corporation is looking for opportunities that make sense, add value and do not increase the risk profile in a material way.

As at December 31, 2011, the Corporation had letters of credit outstanding in the amount of \$0.1 million.

The corporation changed its capital management during 2011. In previous years the Corporation financed most of its equipment purchases using debt financing. As at December 31, 2011, the Corporation's capital management strategy consisted of a blend of equipment financing and short term equipment rentals.

Liquidity Risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they become due. The Corporation is exposed to liquidity risk if it is unable to collect its trade accounts receivable balances on a timely basis, which in turn could impact the Corporation's ability to meet commitments under its credit facilities. In order to manage its liquidity risk, the Corporation has a policy to maintain a positive working capital balance, a diverse clientele of well-established and well financed entities, and sufficient capacity within its operating credit facility to meet any immediate liquidity requirements. The Corporation believes that forecasted cash flows from operating activities, along with available lines of credit, will provide a sufficient cash resource to fund the Corporation's operating requirements and capital expenditures.

The Corporation has the following commitments tied to operating leases:

| (\$ millions) | Operating lease payments due |
|---------------|------------------------------|
| 2012 | 0.8 |
| 2013 | 0.2 |
| 2014 | 0.1 |
| Total | 1.1 |

❖ Management's Discussion & Analysis

SHARE CAPITAL

On June 30, 2011 the Corporation issued 2.9 million common shares at a stated price of \$0.38 per share as partial consideration for the acquisition of RB2.

| | 2011 | 2010 |
|--------------------------------|-------------|-------------|
| On issue at January 1 | 84.5 | 84.5 |
| Issued on business acquisition | 2.9 | – |
| On issue at December 31 | 87.4 | 84.5 |

Common shares

At December 31, 2011 the Corporation was authorized to issue an unlimited number of common shares. The holders of common shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Corporation. All shares rank equally with regard to the Corporation's residual assets.

Consolidated deficit

On August 17, 2011 the Corporation's shareholders approved the elimination of the Corporation's consolidated deficit as at September 30, 2011 in the amount of \$59.6 million, without a reduction to the Corporation's stated capital or paid-up capital.

| | 2011 | 2010 |
|---------------------------------|-------------|--------------|
| Balance at January 1 | 101.2 | 101.2 |
| Elimination of deficit | (59.6) | – |
| Issued on business acquisitions | 1.1 | – |
| Balance at December 31 | 42.7 | 101.2 |

OFF-BALANCE-SHEET ARRANGEMENTS

As at December 31, 2010, the Corporation had no off-balance-sheet arrangements except for operating leases previously described.

Non-IFRS Terms

Cordy reports on certain key financial performance measures that are used by management to evaluate its performance, which are not recognized financial terms and measures under IFRS. Management believes these non-IFRS terms are useful supplemental measures. They do not have standardized meanings and may not be comparable to similar measures presented by other entities. Specifically EBITDAS is not recognized by nor defined under IFRS.

EBITDAS

EBITDAS is defined as earnings before interest, taxes, depreciation, amortization, impairment and stock-based compensation. EBITDAS is not a recognized measure under IFRS. Management believes, in addition to net earnings, EBITDAS is a useful supplemental measure as it provides an indication of the results generated from the Corporation's principal business activities prior to considering financing activities and taxation thereon. Readers are cautioned that EBITDAS should not be construed as an alternative to net income in accordance with IFRS as an indicator of the Corporation's performance. The Corporation's method of calculating EBITDAS may differ from that of other companies and, accordingly, EBITDAS may not be comparable to measures used by other companies.

The following is a reconciliation of EBITDAS for the years ended December 31, 2011 and 2010:

| Years ended December 31 (\$ millions) | 2011 \$ | 2010 \$ |
|---|-------------|------------|
| Net income (loss) from continued operations | 3.7 | (3.0) |
| Add (deduct): | | |
| Amortization and accretion | 5.6 | 6.0 |
| Interest expense | 0.4 | 0.5 |
| Income taxes (recovery) | 1.4 | (1.2) |
| Loss (gain) on disposal | (0.2) | 1.0 |
| EBITDAS | 10.9 | 3.3 |

Critical Accounting Estimates

MEASUREMENT UNCERTAINTY (USE OF ESTIMATES)

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Accounts receivable are stated after evaluation as to their collectability and appropriate allowance for doubtful accounts is provided when considered necessary. Provisions are made for slow-moving and obsolete inventory. Amortization is based on the estimated useful lives of property, equipment and intangible assets. Goodwill is tested for impairment at least annually.

These estimates and assumptions are reviewed periodically and, as adjustments become necessary, are reported in earnings in the periods in which they become known. The Corporation has to make several significant accounting estimates as detailed below.

GOODWILL AND INTANGIBLE ASSETS

During 2011 the Corporation performed impairment tests on its goodwill and reviewed intangible assets for impairment indicators and concluded that there were no impairment losses (2010 – nil). Assumptions regarding the future profitability of the Corporation and demand for its services were factored into the impairment tests. The Corporation estimated future performance based upon past operating results and industry outlook. Differences between estimated future results for the Corporation and actual results could have a material impact on the valuation of goodwill and intangible assets.

AMORTIZATION

Amortization expense is an estimate designed to apportion the value of depreciable assets over their estimated useful lives. The Corporation estimates the useful life of its property and equipment and intangible assets based on experience, industry practices and the market for these assets. Differences between the actual useful lives of these assets and estimates can materially affect future results and amortization expense. In 2011, the Corporation recorded amortization expense on property and equipment of \$5.0 million (2010 – \$5.5 million) and amortization expense on intangible assets of \$0.6 million (2010 – \$0.5 million).

BAD DEBT EXPENSE

The Corporation regularly reviews its accounts receivable for bad debts on a customer-by-customer basis and provides a reserve for accounts that may be deemed uncollectible. This is an estimate as some of the reserved accounts may subsequently be collected whereas other accounts currently deemed collectible may become uncollectible. At December 31, 2011, the Corporation had an allowance for doubtful accounts of \$0.2 million (December 31, 2010 – \$0.5 million) netted against accounts receivable of \$26.2 million (December 31, 2010 – \$17.1 million). To be reasonable, however, actual bad debts incurred could differ from the reserves provided.

NEW IFRS PRONOUNCEMENTS

IFRS 1 First-Time Adoption of International Financial Reporting Standards provides guidance for the initial adoption of IFRS. Under IFRS 1 the standards are applied retrospectively at the transition date with adjustments to assets and liabilities being offset to Retained earnings (deficit) unless certain exemptions are applied. Cordy has applied the following exemptions to its opening consolidated IFRS statement of financial position dated January 1, 2010:

a) Business combination exemption

Cordy had the option to apply IFRS 3 Business Combinations for all business combinations prior to January 1, 2010. The Corporation elected to use the exemptions made available under IFRS 1 and as a result business combinations prior to January 1, 2010 were not restated with the exception of earn-out bonuses related to acquisitions prior to January 1, 2010. Under IFRS, subsequent adjustments to goodwill measured in a business combination are not permitted, therefore derecognition of this portion of goodwill in the amount of \$0.3 million was required on transition.

b) GAAP fair value and historical cost as deemed cost

Under IFRS 1 Cordy has the option to use the historical cost or a previously recognized GAAP fair value assessment as the deemed cost on an item-by-item basis for property and equipment. These GAAP fair values were measured at the date of acquisition in a business combination and identified on an item-by-item basis. Items not acquired by way of a business combination are measured at historical cost.

IFRS 1 also outlines specific guidelines that a first time adopter must adhere to under certain circumstances. Cordy is required to apply the standards under IAS 36 Impairment of Assets on the January 1, 2010 transition date. Under Canadian GAAP, goodwill is tested for impairment by comparing the carrying value of goodwill at the reporting level compared to its fair value. Historically Cordy aggregated its Business Units into its four operating segments, namely Heavy Construction, Pipeline, Environmental and Manufacturing for the purposes of goodwill impairment testing. Under IFRS, goodwill is tested for impairment at the lower CGU level. The CGUs at Cordy are the Business Units that make up the operating segments. As a result of this disaggregation under IFRS, Cordy recognized a goodwill impairment of \$2.4 million in the Hartwell CGU with an offset in the opening deficit.

Further adjustments to goodwill resulted from a reclassification of goodwill recognized on the contingent liability (bonus paid to seller based on future earnings) related to the Tawow business acquisition in 2009. Under IFRS, earn-out bonuses payable on an acquisition are recognized as a liability at their estimated fair value on the acquisition date. Subsequent changes in the payable, if any, are recorded in profit and loss. At January 1, 2010, Cordy accrued \$0.8 million with respect to the earn-out bonus payable in 2010 and 2011 with respect to the Tawow acquisition. The offsetting amount was included in the deficit at January 1, 2010. The earn-out bonus paid in 2010 of \$0.3 million was recorded as a reduction of the amount accrued on transition to IFRS versus goodwill as was previously done under Canadian GAAP.

❖ Management's Discussion & Analysis

The following table outlines the new accounting pronouncements issued by the International Accounting Standards Board that are applicable to, or may have a future impact on, Cordy. These new pronouncements are effective for financial statements with annual periods beginning on or after January 1, 2013.

| IFRS Title | Nature of Change | IFRS Application Date | Note | Impact of Adoption |
|---|--|-----------------------|------|---|
| IFRS 10 – Consolidated Financial Statements | Establishes the principles under financial results. which a reporting issuer would be required to consolidate an investee's | January 1, 2013 | 1 | Following initial assessment, none anticipated. |
| IFRS 11 – Joint Arrangements | Establishes the principles under which a reporting issuer accounts for its interest in a joint arrangement, including joint ventures or joint operations. | January 1, 2013 | 1 | Following initial assessment, none anticipated. |
| IFRS 12 – Disclosure of Interests in Other Entities | Establishes the disclosure requirements for a reporting issuer that has interests in subsidiaries, joint arrangements, associates or other unconsolidated investments. | January 1, 2013 | 1 | Following initial assessment, none anticipated. |
| IFRS 13 – Fair Value Measurement | Defines fair value, sets out a single IFRS framework for measuring fair value and requires disclosures about fair value measurements. | January 1, 2013 | 2 | Following initial assessment, none anticipated. |

⁽¹⁾ This IFRS is applied retroactively and early adoption is permitted. IFRS 10, IFRS 11 and IFRS 12 must be adopted simultaneously.

⁽²⁾ This IFRS is applied prospectively and early adoption is permitted.

IFRS Reconciliation

This is the Corporation's first annual filing prepared in accordance with IFRS and, therefore, IFRS 1 – First-time Adoption of International Financial Reporting Standards has been applied. Any reference to Canadian GAAP refers to the accounting principles applied to the Corporation's accounts prior to adopting IFRS.

GOODWILL IMPAIRMENT

Under IFRS, Cordy is required to assess goodwill in each CGU rather than in each operating segment. As at the date of transition, the Environmental Services segment had goodwill with a book value of \$3.8 million, with \$1.4 million attributable to the CSC CGU and \$2.4 million attributable to the Hartwell CGU. As a result of disaggregating the cash flows of the CGUs, Hartwell could no longer support the carrying value of the goodwill and Cordy recognized a decrease in goodwill of \$2.4 million and a corresponding impact to deficit on its opening consolidated IFRS statement of financial position dated January 1, 2010.

CONTINGENT LIABILITY

Under IFRS, earn-out bonuses payable on an acquisition are recognized as a liability at their estimated fair value on the acquisition date. Subsequent changes in the payable, if any, are recorded in profit and loss. At January 1, 2010, Cordy accrued \$0.8 million with respect to earn-out bonuses payable in 2010 and 2011 with respect to the Tawow acquisition. The offsetting amount was included in the deficit at January 1, 2010. The earn-out bonus paid in 2010 of \$0.4 million was recorded as a reduction of the amount accrued on transition to IFRS versus goodwill as was previously done under Canadian GAAP.

Forward-looking Statements

This MD&A contains certain statements that constitute forward-looking statements. These statements relate to future events or the Corporation's future performance. All statements, other than statements of historical fact, that address activities, events or developments that the Corporation or a third party expects or anticipates will or may occur in the future, are forward-looking statements. These include the Corporation's future growth, results of operations, performance and business prospects and opportunities; prevailing economic conditions; commodity prices; sourcing, pricing and availability of raw materials, components and parts, equipment, suppliers, facilities and skilled personnel; dependence on major customers; uncertainties in weather and temperature affecting the duration of the service periods and the activities that can be completed; regional competition; and other factors, many of which are beyond the Corporation's control. These other factors include future prices of oil and natural gas and oil and natural gas industry activity, including the effect of changes in commodity prices on oil and natural gas exploration and development activity, the ability to complete strategic acquisitions and realize the anticipated benefits of any acquisitions that are completed, the Corporation's outlook regarding the competitive environment it operates in, and the assumptions underlying any of the foregoing. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. These statements involve known and unknown risks, uncertainties and other factors, many of which are beyond the Corporation's control, including those discussed under "Risks and Uncertainties" and elsewhere in this MD&A, that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Corporation believes that the expectations reflected in those forward-looking statements are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this MD&A should not be unduly relied upon. These statements speak only as of the date of this MD&A. The Corporation does not intend, and does not assume any obligation, to update these forward-looking statements, whether as a result of new information, future events or otherwise, except as required under applicable securities laws. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.