

# Interim Financial Report

Period Ended March 31, 2020



**NOTICE OF NO AUDITORS' REVIEW OF INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the interim financial statements they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of Cordy Oilfield Services Inc. ("Cordy or the "Corporation") have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these financial statements.

# Interim Condensed Consolidated Statement of Financial Position

<b>(Unaudited)</b> <b>(\$000's)</b>	<b>March 31,</b> <b>2020</b>	<b>December 31,</b> <b>2019</b>
<b>Assets</b>		
Current assets		
Cash	-	397
Trade and other receivables (note 5)	5,425	2,937
Inventory	80	80
Prepaid and other assets	267	334
	<b>5,772</b>	<b>3,748</b>
Non-current assets		
Property and equipment (note 6)	14,259	10,222
	<b>14,259</b>	<b>10,222</b>
<b>Total assets</b>	<b>20,031</b>	<b>13,970</b>
<b>Liabilities and equity</b>		
Current liabilities		
Bank indebtedness (note 7)	2,332	1,650
Trade and other payables	1,807	2,040
Related party notes payable (note 8)	1,000	-
Current portion of lease liability (note 7)	3,033	2,409
	<b>8,172</b>	<b>6,099</b>
Non-current liabilities		
Lease liability (note 7)	12,720	10,353
	<b>12,720</b>	<b>10,353</b>
Equity		
Share capital	44,145	43,395
Share-purchase warrants	-	163
Contributed surplus	7,864	7,701
Deficit	(52,870)	(53,741)
	<b>(861)</b>	<b>(2,482)</b>
<b>Total liabilities and equity</b>	<b>20,031</b>	<b>13,970</b>

Going concern (note 3)

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

## Interim Condensed Consolidated Statement of Comprehensive Income

For the periods ended March 31, (unaudited) (\$000s except per share amounts)	Three months	
	2020	2019
<b>Revenue</b>	<b>7,646</b>	5,156
<b>Expenses</b>		
Direct operating expenses	<b>5,869</b>	3,824
General and administrative expenses	<b>331</b>	360
Depreciation expense (note 6)	<b>465</b>	496
Financing expense	<b>110</b>	185
Gain on disposal of equipment	-	-
Earnings before tax	<b>871</b>	291
Income tax expense	-	-
<b>Net and comprehensive income</b>	<b>871</b>	291
<b>Earnings per share from (note 9)</b>		
Basic and diluted (\$)	<b>0.00</b>	0.00

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

## Interim Condensed Consolidated Statement of Changes in Equity (Deficit)

(unaudited) (\$'000's except numbers of shares)	Shares Outstanding	Share Capital	Share Purchase Warrants	Contributed Surplus	Deficit	Total
	(000's)	\$	\$	\$	\$	\$
<b>Balance at January 1, 2019</b>	<b>206,162</b>	<b>43,395</b>	<b>163</b>	<b>7,701</b>	<b>(53,269)</b>	<b>(2,010)</b>
Earnings for the period	-	-	-	-	291	291
<b>Balance at March 31, 2019</b>	<b>206,162</b>	<b>43,395</b>	<b>163</b>	<b>7,701</b>	<b>(52,978)</b>	<b>(1,719)</b>
<b>Balance at January 1, 2020</b>	<b>206,162</b>	<b>43,395</b>	<b>163</b>	<b>7,701</b>	<b>(53,741)</b>	<b>(2,482)</b>
Earnings for the period	-	-	-	-	871	871
Issued common shares - acquisition	25,000	750	-	-	-	750
Expiry of warrants	-	-	(163)	163	-	-
<b>Balance at March 31, 2020</b>	<b>231,162</b>	<b>44,145</b>	<b>-</b>	<b>7,864</b>	<b>(52,870)</b>	<b>(861)</b>

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

# Interim Condensed Consolidated Statement of Cash Flows

For the three months ended March 31,  
(Unaudited)

(\$000's)	2020	2019
<b>Cash flows from operating activities</b>		
Net earnings:	871	291
Add (deduct) non-cash items:		
Depreciation expense	465	496
Gain on disposal of property and equipment	-	-
Finance costs	110	185
Changes in non-cash working capital	(2,652)	(931)
Cash flows generated from (used in) operating activities	(1,206)	41
<b>Cash flows from financing activities</b>		
Increase in bank indebtedness (note 6)	682	1,150
Proceeds from related party note payable	1,000	-
Repayment of lease liabilities	(601)	(548)
Financing expense	(121)	(185)
Cash flows generated from (used in) financing activities	960	417
<b>Cash flows from investing activities</b>		
Purchase of property and equipment	(151)	(7)
Proceeds on disposal of property and equipment	-	-
Cash flows generated from (used in) investing activities	(151)	(7)
<b>Increase (decrease) in cash</b>	<b>(397)</b>	<b>451</b>
<b>Cash - beginning of the period</b>	<b>397</b>	<b>257</b>
<b>Cash - end of the period</b>	<b>-</b>	<b>708</b>

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

# Notes to the Interim Condensed Consolidated Financial Statements

*For the three months ended March 31, 2019 and 2018 (unaudited)*

*Tabular amounts are stated in thousands of dollars except per share amounts and certain other exceptions as noted*

## 1. REPORTING ENTITY

Cordy Oilfield Services Inc. was incorporated under the Business Corporations Act of Alberta and is a publicly-traded Corporation listed on the TSX Venture Exchange under the symbol "CKK". The address of the Corporation's registered office is 5366 55 St SE, Calgary, Alberta, T2C 3G9. These unaudited interim condensed consolidated financial statements of the Corporation as at and for the three months ended March 31, 2020 and 2019 comprise the Corporation and its subsidiaries. Cordy and its subsidiaries are primarily involved in energy services, municipal services, and construction throughout western Canada. The business of Cordy is conducted through two reportable segments: Heavy Construction and Environmental Services.

## 2. BASIS OF PRESENTATION

### A. Statement of compliance

These unaudited interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34"). The unaudited interim condensed consolidated financial statements should be read in conjunction with the Corporation's annual audited consolidated financial statements and accompanying notes for the year ended December 31, 2019.

The unaudited interim condensed consolidated financial statements were authorized for issuance by the Board of Directors on July 7, 2020.

### B. Basis of measurement

The unaudited interim condensed consolidated financial statements were prepared on the historical cost basis.

### C. Functional and presentation currency

The consolidated financial statements are presented in Canadian Dollars which is the Corporation's functional and presentation currency.

## 3. GOING CONCERN

The unaudited interim condensed consolidated financial statements have been prepared on a going concern basis, which assumes that the Corporation will be able to realize its assets and discharge its liabilities in the normal course of business. The financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis was not appropriate for these financial statements, then adjustments would be necessary to the carrying values of assets and liabilities.

On March 11, 2020, the COVID-19 outbreak was declared a global pandemic by the World Health Organization. Measures enacted to prevent the spread of the virus have resulted in global business disruption with significant economic repercussions. The current economic climate has caused uncertainty and extraordinary volatility in the oil and gas industry, particularly in the Western Canadian Sedimentary Basin. The demand for oil has significantly deteriorated and has been further impacted by certain actions taken by the Organization of Petroleum Exporting Countries. The convergence of these events has created an unprecedented simultaneous impact of a decline in global oil demand and a risk of a substantial increase in oil supply.

These events have negatively impacted, and are expected to continue to negatively impact, Cordy's business for the remainder of 2020. Due to the significant demand destruction for crude oil and related hydrocarbons resulting in major customers cutting or suspending capital programs for Canadian operations, Cordy anticipates a significant decline relative to its initial forecasts.

Although the debts of the Corporation contain no financial covenants, its ability to continue as a going concern and to realize the carrying value of its assets and discharge its liabilities when due, is dependent on the economic conditions that will exist over the next twelve months. The overall impact and influence these conditions will have on demand for the Company's services, remains highly uncertain and is directly correlated to the impact it has on the capital spending of the Company's customers.

Management has taken several steps, including revising the terms of its lease and lending agreements, and participating in various government emergency relief programs, to improve its short-term liquidity. If for any reason the Corporation is unable to continue as a going concern, it could impact the Corporation's ability to realize assets at their recognized values and to meet liabilities in the ordinary course of business at the amounts stated in the consolidated financial statements.

# Notes to the Interim Condensed Consolidated Financial Statements

For the three months ended March 31, 2020 and 2019 (unaudited)

Tabular amounts are stated in thousands of dollars except per share amounts and certain other exceptions as noted

## 4. SIGNIFICANT ACCOUNTING POLICIES, JUDGMENTS, AND ESTIMATES

The accounting policies and use of judgments and estimates used in the preparation of these unaudited interim condensed consolidated financial statements have been applied consistently for all periods presented and are unchanged from the accounting policies, judgments and estimates disclosed in the notes to the consolidated financial statements for the year ended December 31, 2019.

## 5. TRADE AND OTHER RECEIVABLES

	March 31, 2020	December 31, 2019
Trade receivables	5,697	3,368
Other receivables	199	73
Allowance for doubtful accounts	(471)	(504)
<b>Total net receivables</b>	<b>5,425</b>	<b>2,937</b>
Current	1,726	1,200
31 – 60 days	2,509	614
61 – 90 days	305	231
Over 90 days	1,157	1,323
<b>Total trade receivables</b>	<b>5,697</b>	<b>3,368</b>

On July 19, 2018, the Corporation received a notice and statement (the "Notice") from a court appointed receiver and manager of Ranch Energy Corporation, OpsMobil Inc., OpsMobil Construction Inc., OpsMobil Energy Corporation Air Dallaire Ltd., 1734163 Alberta Inc., 1859821 Alberta Inc. and K.L. Capital Corp. (collectively, the "Corporations") that it has taken possession and control of the property of Corporations. Cordy provided logistic services related to soil reclamation and remediation of BC Crown land, pursuant to General Order 2017-091 issued by the BC Oil and Gas Commission, (the "Project") to the Corporations in the spring of 2018, and has an unsecured receivable owing from the Corporations in the amount of \$0.76 million. Cordy is pursuing all available options for amounts owing, which includes filing a claim during Q1 2020, in the province of British Columbia, against all parties, including naming the BC Oil and Gas Commission, for amounts owing. Timing and amount of collection is uncertain, therefore, Corporation has a bad debt provision of \$0.2 million.

## 6. PROPERTY AND EQUIPMENT

	Heavy equipment and Vehicles	Other	Office and Shop	Total
<b>Cost</b>				
Balance at January 1, 2020	16,513	2,520	1,253	20,286
Additions	92	9	-	101
Acquired - asset acquisitions	4,401	-	-	4,401
Disposals	-	-	-	-
<b>Balance at March 31, 2020</b>	<b>21,006</b>	<b>2,529</b>	<b>1,253</b>	<b>24,788</b>
<b>Accumulated Depreciation</b>				
Balance at January 1, 2020	8,386	1,320	358	10,064
Depreciation for the period	370	6	89	465
Disposals	-	-	-	-
<b>Balance at March 31, 2020</b>	<b>8,756</b>	<b>1,326</b>	<b>447</b>	<b>10,529</b>
<b>Net book value</b>				
<b>Balance at March 31, 2020</b>	<b>12,250</b>	<b>1,203</b>	<b>806</b>	<b>14,259</b>

Assets under lease/right of use is \$12.1 million heavy equipment and vehicles, \$0.02 million other, \$0.8 million office, and shop.

# Notes to the Interim Condensed Consolidated Financial Statements

For the three months ended March 31, 2020 and 2019 (unaudited)

Tabular amounts are stated in thousands of dollars except per share amounts and certain other exceptions as noted

## 7. LOANS AND OTHER BORROWING

	March 31, 2020	December 31, 2019
Current liabilities		
Bank indebtedness	2,332	1,650
Related party notes payable (note 8)	1,000	-
Lease obligations - equipment and vehicles	2,668	2,059
Lease obligations - office and shop	365	350
Current portion of debt	6,365	4,059
Non-current liabilities		
Lease obligations - equipment and vehicles	12,255	9,787
Lease obligations - office and shop	465	566
Non-current portion of debt	12,720	10,353

### Lease obligations – equipment and vehicles

The Corporation operates under several lease agreements with its equipment lender (“the Leases”), the Leases consist of consolidated monthly payments of \$288,000. The Leases bear interest at 4.95% to 7.45% until August 2020 at which point the interest rate on certain leases change to a variable rate equal to prime plus 2.0%. All future payments are subject to change as the Corporation has the option to sell the equipment and have all proceeds applied against the remaining principal balance. In the event of default the Corporation is subject to additional interest and penalties.

### Lease obligations – office and shop

The corporation operates under a single lease agreement with its landlord (“the Landlord”), the lease consists of monthly payments of \$33,000 per month, with a maturity date of June 2022.

### Bank indebtedness

The Corporation entered into a line of credit agreement, with a private lender (the “Lender”), pursuant to which it may borrow up to an amount equal to 50% of eligible receivables (the “Maximum Amount”), on a revolving basis (the “Credit Facility”), unless otherwise approved by the Lender. As at March 31, 2020 Cordy has borrowed \$2.3 million, the Maximum Amount available or approved by the Lender as at quarter-end. The Corporation expects the Maximum Amount to decrease in Q2, as the eligible receivables will decrease with collections and are not anticipated to be offset by new receivables as Q2 is typically Cordy’s slowest quarter. The Agreement includes a General Security Agreement (“GSA”) that grants the Creditor a continuing security interest in all present and after acquired property of Cordy and its subsidiaries. The Credit Facility bears interest at the rate equal to the Bank of Canada prime rate plus 4% per annum, matures in September 2020 subject to earlier demand being made by the lender, or an extension being obtained by Cordy.

## 8. TRANSACTIONS WITH RELATED PARTIES

Heart River Holdings (“HRH”) and 1279107 AB Ltd. (“107”) are considered related parties; each being wholly-owned by Craig Heitrich (“Heitrich”) (collectively, the “Parties”), the Chief Operating Officer (“COO”) of Cordy. Heitrich, through 107, holds approximately 10.8% (2019 – nil %) of Cordy’s outstanding common shares. All the transactions between Cordy and the Parties stem from an asset acquisition (the “Transaction”), which closed March 18th, 2020 (“Closing”). As partial compensation, on Closing, Cordy issued 25,000,000 million common shares to 107, issued \$1.0 million in promissory notes (\$0.75 million to 107 and \$0.25 million to HRH) (the “Notes”), and entered into an employment arrangement whereas Heitrich assumed the COO role at Cordy. At the time of the Transaction Cordy and the Parties were considered arm’s length parties and all transactions were measured at the exchange amount.

# Notes to the Interim Condensed Consolidated Financial Statements

For the three months ended March 31, 2020 and 2019 (unaudited)

Tabular amounts are stated in thousands of dollars except per share amounts and certain other exceptions as noted

## Related party Notes payable

The Corporation issued promissory notes on March 18<sup>th</sup>, 2020 to 107 -\$0.75 million and HRH -\$0.25 million. The Notes' are interest free with the principal amount due and payable on August 9, 2020 (the "Maturity Date"). Amounts of principal that remain unpaid after the Maturity Date, bear interest at a rate of five percent per annum, payable on demand, from the date of such non-payment until such amount is paid in full. The Notes are secured by GSAs on all present and after-acquired personal property; subordinate to security held by Cordy's Lender.

	March 31 2020	December 31, 2019
Related party loan payable	1,000	-

## 9. PER SHARE AMOUNTS

The calculation of basic and diluted earnings was based on the net earnings divided by the weighted average number of Common Shares outstanding for the period. Net earnings for the three months ended March 31, 2020 was \$0.9 million (2019 net earnings - \$0.3 million). The weighted average number of Common Shares outstanding for the three months ended March 31, 2020 and 2019 was calculated as follows and there were no dilutive securities.

### Weighted average number of ordinary shares

(000's)	Three months ended March 31,	
	2020	2019
Shares outstanding (basic and diluted)	209,773	206,162
Weighted average number of common shares (basic and diluted)	209,773	206,162

## 10. SEGMENTED INFORMATION

Management regards the Corporation's activities as being conducted in reportable business segments organized according to the products and services they provide. All activities and equipment of the Corporation are located in Canada.

### Environmental Services

The Environmental Services segment provides clean-up, hazardous goods transportation and containment services to the oil and natural gas industry and also to industrial and commercial customers in Alberta. This segment provides general water truck and vacuum truck services to oilfield and non-oilfield related 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.

### Heavy Construction

The Heavy Construction segment services include pipeline integrity management; clean-up services; low-pressure gas tie-ins; insulated pipeline installation; cement-lined pipeline installation; fiberglass 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.

Inter-segment transactions are recorded at values that approximate third-party selling prices and are eliminated for segmented reporting. Segment performance is measured based on operating earnings, as included in the internal management reports which are reviewed at least quarterly by the Chief Executive Officer, Chief Operating Officer and other senior management. Segment operating earnings is believed to be the most relevant measure of performance as it enables comparison against the results of the other Cordy entities and competitors operating in the same industries.

# Notes to the Interim Condensed Consolidated Financial Statements

For the three months ended March 31, 2020 and 2019 (unaudited)

Tabular amounts are stated in thousands of dollars except per share amounts and certain other exceptions as noted

Selected segmented information from operations for the three month periods ended March 31, 2020 and 2019 is as follows:

Three months ended March 31, 2020	Environmental	Heavy	Corporate	Total
	Services	Construction		
Revenue	7,490	149	7	7,646
Segment operating earnings (loss)	1,562	78	(194)	1,446
Net earnings (loss)	1,012	77	(218)	871
Depreciation	464	-	1	466
Capital expenditures	4,493	-	-	4,493
Total assets at March 31, 2020	19,707	243	81	20,031

Three months ended March 31, 2019	Environmental	Heavy	Corporate	Total
	Services	Construction		
Revenue	5,026	129	1	5,156
Segment operating earnings (loss)	1,167	58	(253)	972
Net earnings (loss)	507	47	(263)	291
Depreciation	483	11	2	496
Capital expenditures	7	-	-	7
Total assets at March 31, 2019	16,254	454	633	17,341

## 11. SUBSEQUENT EVENTS

### Government Assistance

The Company, and its wholly owned subsidiaries, applied for the Canada Emergency Wage Subsidy ("CEWS") which was passed by the Government of Canada to support employers facing financial hardship, as measured by certain revenue declines, as a result of the COVID-19 pandemic. CEWS provides a reimbursement of compensation expense for the twenty-four-week period from March 15 to August 29, 2020 of 75% of the amount of remuneration paid up to a maximum benefit of \$847 per week, per employee. Subsequent to March 31, 2020, the Company applied for the periods from March 15 to April 11, April 12 to May 9 and May 10 to June 6, respectively, and has since received funds of \$395 thousand for the aforementioned periods. Wage recover of \$68 thousand was recognized as at March 31, 2020.

The Company continues to evaluate and apply for government assistance where the Company is eligible and the programs are available.

### Leases

Subsequent to March 31, 2020, the Company revised certain terms of its leases with its equipment lender (the "Revised Leases"). The Revised Leases bear interest at fixed rates of 6.45% to 6.95% and contain varying terms of 36 months to 60 months. If the Revised Leases had been in place at March 31, 2020, the net impact would have been a reduction in current portion of lease liability of \$0.2 million and corresponding increase to non-current lease liability.

### Credit Facility

Subsequent to March 31, 2020, to provide temporary liquidity while managing the economic impact the COVID – 19, Cordy and its Lender agreed to amend certain terms of its Credit Facility, increasing the Maximum Amount from 50% to 90% of eligible receivables (the "Amended Terms"). As at July 7, 2020, Cordy had a balance drawn on its Credit Facility of \$0.6 million, with a Maximum Amount of \$1.4 million (\$0.8 million available) under the Amended Terms

### Related party Notes payable

Subsequent to March 31, 2020, HRH and 107 agreed to amend certain terms of the Notes, extending the Maturity Dates, for the principal amount due and payable, to December 31, 2020 or such time that the Corporation is in a position to re-pay. The Notes continue to be non-interest bearing, until August 9th, 2020. Interest thereafter will remain at five percent.

# Corporate Information

## **DIRECTORS AND OFFICERS**

**Darrick Evong, CPA, CA, CBV**

Chief Executive Officer

**Craig Heitrich**

Chief Operating Officer

**David Mullen** <sup>(1)</sup> <sup>(2)</sup>

Chairman of the Board

**Stuart King, CPA, CA** <sup>(1)</sup> <sup>(2)</sup>

Director

**Timothy H. Urquhart, ICD.D** <sup>(1)</sup> <sup>(2)</sup>

Director

<sup>(1)</sup> Member of the Audit Committee

<sup>(2)</sup> Member of the Governance and Compensation Committee

## **CORPORATE OFFICE**

**Cordy Oilfield Services Inc.**

5366 55 St SE

Calgary, Alberta T2C 3G9

Phone: 403.262.7667

Email: IR@cordy.ca

## **BANKER**

**TD Commercial Banking**

Calgary, Alberta

## **LAWYERS**

**DLA Piper (Canada) LLP**

Calgary, Alberta

## **AUDITORS**

**KPMG LLP**

Calgary, Alberta

## **STOCK EXCHANGE**

**TSX Venture**

Trading Symbol: CKK

## **TRANSFER AGENT AND REGISTRAR**

**Computershare**

Calgary, Alberta