

Q3 2018
Management's
Discussion and Analysis



READER ADVISORY

The Management's Discussion and Analysis ("MD&A") for the three and nine month periods ended September 30, 2018 of Cordy Oilfield Services Inc. ("Cordy" or the "Corporation"), prepared as at November 22, 2018, focuses on the unaudited interim condensed consolidated financial statements and related notes for the respective periods and pertains to principal risks and uncertainties related to the Corporation's business segments. This discussion should not be considered all-inclusive as it does not include all changes regarding general economic, political, governmental and environmental events. This discussion should be read in conjunction with the Corporation's 2017 audited Annual Consolidated Financial Statements, the December 31, 2017 MD&A, the unaudited interim condensed consolidated financial statements and related notes as at and for the three and nine month periods ended September 30, 2018 and the cautionary statement regarding forward-looking information and statements on the last page of this document.

This MD&A contains certain statements that constitute forward-looking statements under the meaning of applicable securities laws. Please see "*Forward-Looking Information, Assumptions and Risk Factors*" on page 9 for a discussion regarding Cordy's use of such information. For the reader's reference, the definition, calculation and reconciliation of non-GAAP terms are provided in "Non-GAAP Terms" on page 8. Readers are cautioned that these non-GAAP terms should not replace net earnings (loss), earnings (loss) per share, purchases and proceeds on sale of property, plant and equipment and debt as indicators of GAAP performance.

This MD&A and the interim financial statements were reviewed by the Audit Committee of the Corporation's Board of Directors and approved by Cordy's Board of Directors on November 22, 2018.

CORPORATE OVERVIEW

Cordy is a service provider to the western Canadian oil and gas sector. Cordy is headquartered in Calgary, Alberta, Canada, and is listed on the TSX Venture Exchange under the trading symbol "CKK". Cordy's operating businesses are separate legal entities that service two business segments in Alberta. The entities are:

Cordy Environmental Inc. ("Environmental Services"); 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. 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.

Cordy Construction Inc. ("Heavy Construction"); Heavy Construction services include pipeline integrity management; clean-up services; 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.

OUTLOOK

Cordy continues to experience improved results as compared to the previous year. A steady supply of municipal infrastructure projects, as well as an increase in oilfield market share, has had a positive impact on the business. Although pricing levels have remained competitive, Cordy's continued focus on selling, coupled with benefits associated with its acquisition of Hornet Hydrovac ("Hornet"), continue to yield results. Cordy will continue to expand service offerings to pre-existing Hornet customers and further build relationships in the hydro excavation market.

For the balance of 2018, the trend Cordy has experienced for the first nine months will remain constant. Cordy will continue to surpass 2017 numbers, revenue is anticipated to surpass last year results, while Cordy's cost structure will remain in place to ensure margins stay consistent. Current trends in the oil and gas sector cause alarm, as Cordy still waits on our major oil and gas clients to release capital budgets, we are optimistic that our efforts in municipal and industrial revenue streams will continue to improve over last year. Subsequent to quarter end, Cordy disposed of underutilized equipment, resulting in an improved balance sheet and reduced monthly payments. Cordy continues to re-evaluate its equipment mix to ensure capital is being allocated for the highest return. Cordy's equipment lender has been and will be critical in helping liquidate underperforming assets while enabling Cordy to strategically tweak its equipment fleet to meet any upcoming demand.

While remaining focused on operational and financial performance, Cordy will continue to seek out acquisitions and or consolidation opportunities that complement its diversification strategy and provide platforms for organic growth. Cordy is actively reviewing numerous opportunities, however Cordy will remain committed to ensuring any acquisition meets our strategic initiatives and financial thresholds. Cordy will continue to consider multiple avenues to reach strategic objectives and provide shareholder value.

SELECTED FINANCIAL INFORMATION

(\$ 000's except share information amounts)	Three months ended September 30,			Nine months ended September 30,		
	2018	2017	(\$ Change	2018	2017	(\$ Change
Financial results from continuing operations						
Revenue	3,925	2,620	1,305	12,368	8,443	3,925
Gross Margin ⁽¹⁾	974	708	266	2,753	2,383	370
Operating earnings	608	347	261	1,482	1,215	267
Net loss	(120)	(417)	297	(291)	(1,090)	799
Cash generated from operating activities	(128)	335	(463)	228	616	(388)
Share Information						
Share Price	0.02	0.02	-	0.02	0.02	-
Loss per share from all operations	-	-	-	-	(0.01)	0.01
Other Information						
Capital expenditures	7	42	(35)	7	121	(114)

(\$ 000's)	September 30,		(\$ Change
	2018	December 31, 2017	
Financial Position			
Total assets	16,028	15,704	324
Total debt obligations (includes current portion)	15,626	15,663	(37)
Total liabilities	17,748	17,133	615
Net assets	(1,720)	(1,429)	(291)

⁽¹⁾ Gross Margin is a non-IFRS term and is defined as revenue less direct operating expenses, see reconciliation on page 8 of this document.

OVERALL PERFORMANCE

For the nine month period ended September 30, 2018, Cordy's consolidated revenues increased by \$3.9 million or 46 percent, from the comparative period in 2017. Cordy's normalized operating earnings⁽²⁾ increased by \$0.5 million or 39 percent from the comparative period.

The Environmental Services segment saw an increase in revenue for the nine months ended September 30, 2018, of \$3.9 million, from the comparative period in 2017. Cordy saw increased revenue in each quarter: In the first quarter Cordy's sales efforts and competitive pricing allowed Cordy to gain market share over competitors, specifically oilfield customers; Cordy's second and third quarter increases can be attributed to Cordy's diversification strategy, this has resulted in new customers and increased demand for municipal services. Environmental's normalized operating earnings⁽²⁾ increased to \$2.3 million for the nine months ended 2018, as compared to \$1.6 million in the comparative period.

⁽²⁾ Normalized operating earnings (loss) is a non-IFRS term and is defined as revenue less direct operating expenses, see reconciliation on page 8 of this document.

The Construction segment saw minimal changes in revenue for the nine months ended September 30, 2018, compared to the nine months ended September 30, 2017; this is due to the reduced demand for services and minimal activity year over year.

Overall consolidated net loss for the nine months ended September 30, 2018, has improved by \$0.8 million or 73 percent from the comparative period in 2017. This improving net loss is due to improving results, reduced interest rate and diminishing balance calculation of depreciation.

ANALYSIS OF CONSOLIDATED RESULTS OF OPERATIONS

(\$ 000's)	Three months ended September 30,			Nine months ended September 30,		
	2018	2017	(\$ Change)	2018	2017	(\$ Change)
Revenue						
Environmental Services	3,829	2,457	1,372	12,015	8,079	3,936
Heavy Construction	94	128	(34)	337	315	22
Corporate	2	35	(33)	16	49	(33)
	<u>3,925</u>	<u>2,620</u>	<u>1,305</u>	<u>12,368</u>	<u>8,443</u>	<u>3,925</u>
Direct operating expenses						
Environmental Services	2,861	1,896	965	9,375	6,066	3,309
Heavy Construction	90	11	79	240	(18)	258
Corporate	-	5	(5)	-	12	(12)
	<u>2,951</u>	<u>1,912</u>	<u>1,039</u>	<u>9,615</u>	<u>6,060</u>	<u>3,555</u>
General and administrative expenses						
Environmental Services	100	137	(37)	577	396	181
Heavy Construction	1	1	-	2	6	(4)
Corporate	265	223	42	692	766	(74)
	<u>366</u>	<u>361</u>	<u>5</u>	<u>1,271</u>	<u>1,168</u>	<u>103</u>
Operating earnings (loss)						
Environmental Services	868	424	444	2,063	1,617	446
Heavy Construction	3	116	(113)	95	327	(232)
Corporate	(263)	(193)	(70)	(676)	(729)	53
	<u>608</u>	<u>347</u>	<u>261</u>	<u>1,482</u>	<u>1,215</u>	<u>267</u>
Normalized operating earnings (loss) ⁽¹⁾						
Environmental Services	868	424	444	2,286	1,625	661
Heavy Construction	3	116	(113)	95	327	(232)
Corporate	(263)	(193)	(70)	(676)	(729)	53
	<u>608</u>	<u>347</u>	<u>261</u>	<u>1,705</u>	<u>1,223</u>	<u>482</u>
Depreciation	485	538	(53)	1,430	1,660	(230)
Finance costs	187	238	(51)	471	760	(289)
Gain (loss) on disposal	56	(4)	60	(128)	(75)	(53)
Share-based recovery	-	(8)	8	-	(40)	40
Loss before tax	<u>(120)</u>	<u>(417)</u>	<u>297</u>	<u>(291)</u>	<u>(1,090)</u>	<u>799</u>
Income tax expense	-	-	-	-	-	-
Net loss	<u>(120)</u>	<u>(417)</u>	<u>297</u>	<u>(291)</u>	<u>(1,090)</u>	<u>799</u>

⁽¹⁾ Normalized operating earnings (loss) is a non-IFRS term and is defined as revenue less direct operating expenses, see reconciliation on page 9 of this document.

Revenue

For the three months ended September 30, 2018 Cordy's consolidated revenues increased by \$1.3 million or 50 percent as compared to the period ended September 30, 2017. Cordy's revenue for the three months ended September 30, 2018 consisted of 31 percent (2017 – 28 percent) oilfield service revenue and 69 percent (2017 – 72 percent) municipal and industrial revenue. The increase for the three months ended September 30, 2018 is directly tied to increased demand from all service lines.

For the nine months ended September 30, 2018, Cordy's consolidated revenues increased by \$3.9 million or 46 percent to \$12.4 million as compared to the nine months ended September 30, 2017. The Environmental segment accounts for the period-over-period increase; Environmental saw increased revenues stemming from increased market share from oilfield customers in the first quarter of 2018, coupled with the expansion of service offerings to pre-existing Hornet customers and continued organic sales efforts.

Direct operating expenses ("DOE")

For the three months ended September 30, 2018 consolidated DOE were \$3.0 million compared to \$1.9 million in the same period of the prior year. As a percentage of revenue DOE increased to 75 percent from 73 percent. The majority of the expenses relate to the Environmental Services segment; where DOE as a percentage of revenue was 75 percent compared to 77 percent in 2017. The decrease is due to increased revenues, reducing fixed costs as a percentage of revenue.

For the nine months ended September 30, 2018, consolidated DOE were \$9.6 million compared to \$6.1 million in the same period of the prior year. As a percentage of revenue DOE increased to 78 percent from 72 percent. The majority of the expenses relate to the Environmental Services segment; where DOE as a percentage of revenue was 78 percent compared to 75 percent in 2017. The increase is due to increased fuel costs, labour costs due to lack of availability of workforce, coupled with no opportunity to increase pricing.

General and administrative expenses (“G&A”)

G&A includes the cost of maintaining a corporate office, all publicly traded company-related expenses as well as the G&A incurred at each of the business units. For the three months ended September 30, 2018 and 2017, G&A remained consistent at \$0.4 million.

For the nine months ended September 30, 2018, G&A was \$1.3 million as compared to \$1.2 million for the same period of the prior year. As a percentage of revenue G&A has decreased to 10 percent from 14 percent or normalized for bad debt expense G&A has decreased to 8 percent from 14 percent. The decrease is due to increased revenue and maintaining the existing corporate cost structure.

Depreciation

Depreciation remained consistent at \$0.5 million for the three months ended September 30, 2018 and 2017. For the nine months ended September 30, 2018 depreciation was \$1.4 million as compared to \$1.7 million for the nine months ended September 30, 2017. The decrease is due to less depreciation annually due to the diminishing balance calculation of depreciation.

Finance costs

Finance costs remained consistent at \$0.2 million for the three months ended September, 2018 and 2017. For the nine months ended September 30, 2018 finance costs were \$0.5 million as compared to \$0.8 million for the nine months ended September 30, 2017, finance costs are lower due to reduced borrowing amounts coupled with reduced interest rates.

Gain on disposal

For the nine months ended September 30, 2018 the Corporation disposed of property and equipment with a carrying value of \$0.8 million (2017 - \$0.4 million) for proceeds of \$0.9 million (2017 - \$0.5 million) resulting in a gain of \$0.1 million (2017 - \$0.1 million).

OFF-BALANCE-SHEET ARRANGEMENTS

As at September 30, 2018, the Corporation had no off-balance-sheet arrangements (September 30, 2017 – \$nil) except for operating leases previously described in the 2017 MD&A.

QUARTERLY SUMMARY

The table below summarizes Cordy's quarterly results for the previous eight financial quarters. 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. During spring break-up, the ground thaws and 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 higher in the first and fourth quarters and lower in the second and third quarters.

FINANCIAL RESULTS

(\$ millions) (except per share information)	2018			2017			2016	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenue	3.9	3.3	5.1	2.7	2.6	2.1	3.7	2.6
Operating earnings	0.6	0.1	0.8	0.3	0.3	0.2	0.7	0.1
Net income (loss)	(0.1)	(0.4)	0.2	(0.3)	(0.4)	(0.5)	(0.1)	(1.0)
Earnings (loss) per share	0.00	0.00	0.00	0.00	0.00	0.00	0.00	(0.01)
Operating cash flow from (used in) operations	(0.1)	0.1	0.2	0.2	0.3	0.2	0.1	(0.3)

The following items are key events that occurred in each quarter:

- Q3 2018 saw a significant increase in revenue stemming from Cordy's increased focus on sales efforts, additionally Cordy continues to focus on its diversification strategy, resulting in additional revenue streams.
- Q2 2018 continued to trend similar to the first quarter, in that demand for services continued to improve. In the quarter Cordy recognized a bad debt of \$0.2 million, with respect to remediation services performed on a pipeline spill.
- Q1 2018 saw increased demand for Cordy's services, recovering commodity prices, coupled with Cordy's sales efforts resulted in increased revenue for the quarter.
- Q4 2017 trended similarly to Q4 2016. Operating earnings were \$0.2 million higher due to 2016 incurring legal costs and a bad debt expense that did not reoccur in 2017.

- Q3 2017 showed a slight improvement in activity over Q3 2016. A majority of the increase came from the municipal market with Oilfield sales trending slightly higher quarter over quarter. Subsequent to Q3 2017, the Corporation entered into two restated lease agreements, these agreements reduced payments, reduced interest rate and reduce cash flow pressures for 2018.
- Q2 2017 trended consistently with the prior year; historically Q2 is a slower quarter for Cordy based on the seasonality of oilfield work. Cordy continued to closely monitor margins and maintain a tight cost structure.
- Q1 2017 saw consolidated revenue growth of \$1.0 million. This increase can be attributed to a slight increase in oilfield demand from Cordy's major oilfield customers.
- Q4 2016 provided evidence that optimism and a slow recovery of commodity prices are beginning to have an effect on Cordy's revenue. Cordy's Environmental segment showed revenue growth from Q4 2015, and improving margins as Cordy's cost cutting focus began to yield results. During the quarter Cordy also completed a private placement for proceeds of \$1.0 million.

FINANCIAL RESOURCES AND LIQUIDITY

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.

An analysis of the Corporation's short-term liquidity is as follows:

<i>as at September 30, 2018</i> (\$ 000's)	Environmental Services	Heavy Construction	Corporate	Total
Liquid assets ⁽¹⁾	3,859	153	192	4,204
Current liabilities	4,070	86	598	4,754
Net liquid assets	(211)	67	(406)	(550)

<i>as at December 31, 2017</i> (\$ 000's)	Environmental Services	Heavy Construction	Corporate	Total
Liquid assets ⁽¹⁾	1,971	313	320	2,604
Current liabilities	2,066	109	596	2,771
Net liquid assets	(95)	204	(276)	(167)

⁽¹⁾Liquid assets is a non-IFRS term and is defined as assets quickly converted into cash, and trade and other receivables as defined on page 8.

The Corporation has taken significant steps over the past several years to improve its liquidity and financial performance including increasing cash flow from operations, refinancing the finance lease agreements, reducing the working capital deficit and settling the amount owing to Lyncorp.

The Corporation has recorded net loss of \$0.3 million for the nine months ended September 30, 2018. Earnings and cash flow from operations need to increase further to support the future obligations of the Corporation. These conditions create a material uncertainty that may cast significant doubt about the Corporation's ability to continue as a going concern. Subsequent to quarter end, the Corporation sold underutilized equipment for proceeds of \$1.2 million and used all funds to pay down finance leases, the paydown resulted in reduced monthly payments going forward.

The ability of the Corporation 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 continuation of the improvements in the financial results. Management believes that the regular payment of the lease obligations will be met out of operating cash flows or cash from equipment sales or alternate financing or the raising of funds. 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.

FINANCIAL MANAGEMENT

Nine months ended September 30

(\$ 000's)	2018	2017	\$ Change
Cash generated provided by (used in):			
Operating activities	228	616	(388)
Financing activities	(1,458)	(1,792)	334
Investing activities	950	341	609
Decrease in cash	(280)	(835)	555

Cash flows from operating activities decreased in the nine month period ended September 30, 2018 from the same period in 2017 by \$0.4 million due to timing differences of working capital. Cordy saw significant ramp up in the third quarter that saw a corresponding increase to receivables, with a lesser ramp up of payables.

Cash flows from financing activities increased by \$0.3 million in the nine month period ended September 30, 2018 from the same period in 2017. The increase is due to reduced interest, coupled with the funds received from the credit facility.

Cash flows from investing activities increased in the nine month period ended September 30, 2018 from the same period in 2017 by \$0.6 million as the Corporation realized proceeds from the sale of property and equipment in 2018.

WORKING CAPITAL

Management believes that the regular payment of the lease obligations will be met out of cash, operating cash flows or cash from equipment sales or alternate financing or the raising of funds.

(\$ 000's)	September 30, 2018	December 31, 2017	\$ Change
Cash	-	280	(280)
Bank indebtedness	550	-	550
Loans and finance leases	15,076	15,380	(304)
Net cash	(15,626)	(15,100)	(526)
Working capital (deficit)	(239)	202	(441)

Working capital has decreased for the period due to increased short-term obligations under finance leases; receivables were \$4.2 million as at September 30, 2018 as compared to \$2.3 million as at December 31, 2017. The \$1.9 million increase in receivables, was only offset partially by an increase of \$0.6 million to payables. These working capital increases have been offset by short-term obligations under finance leases that increased from \$1.0 million at December 31, 2017 to \$2.1 million at September 30, 2018. The increase in short-term finance lease obligations is due to increase payments starting September 2018. Subsequent to quarter end, the Corporation sold underutilized equipment for proceeds of \$1.2 million and used all funds to pay down finance leases, the paydown will result adjusted short term finance lease obligation of \$1.8 million and a working capital of \$0.1 million.

LOANS AND BORROWING

The Corporation operates under several finance lease agreements with its equipment lender ("the Leases"), the Leases consist of consolidated monthly payments of \$230,000 with an increase to \$240,000 in July 2019. The Leases bear interest at 4.95% until August 2020 at which point the interest rate will be a variable rate equal to prime plus 2.0%.

During the quarter the Corporation entered into a line of credit agreement, with a private lender, pursuant to which it may borrow up to an amount equal to 50% of eligible receivables, on a revolving basis (the "Credit Facility"). Based on the current level of eligible receivables Cordy's availability under the Credit Facility is approximately \$2.0 million, as at September 30, 2018 Cordy has borrowed \$0.5 million to fund working capital requirements. The Agreement includes a General Security Agreement 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 and has an initial term of two years subject to earlier demand being made by the lender.

Subsequent to quarter end, the Corporation disposed of underutilized equipment with a net book value of \$0.9 million for gross proceeds of \$1.2 million. The Corporation repaid \$1.2 million of finance lease obligations, resulting in decreased monthly payments of \$31,000 (consolidated monthly payments will be \$199,000 until July 2019 where they will increase to \$209,000).

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.

(\$ 000's)	September 30, 2018	December 31, 2017
Current liabilities:		
Bank indebtedness	550	-
Related party loan payable	-	283
Current portion of finance lease obligations	2,132	1,018
Current portion of debt	2,682	1,301
Non-current liabilities:		
Finance lease obligations	12,944	14,362
Non-current portion of debt	12,944	14,362
Total term debt obligations	15,626	15,663

TRANSACTIONS WITH RELATED PARTIES

Lyncorp International Ltd ("Lyncorp") is considered a related party; a company wholly-owned by David Mullen, the Chairman and a Director of Cordy. Together, David Mullen and Lyncorp hold approximately 13.2% (2017 – 13.2%) of Cordy's outstanding common shares. All of the transactions with Lyncorp occurred in the normal course of operations with terms consistent with those offered to arm's length parties and are measured at the exchange amount.

Related party loan payable

The Corporation entered into a loan agreement on December 22, 2014 with Lyncorp. The loan bore interest at 15%. During the first quarter of 2018, the Corporation entered into a settlement agreement with Lyncorp. Pursuant thereto, the Corporation made a payment of \$0.125 million in January 2018, \$0.125 million in March 2018 for full and final settlement of all interest and debt owing to Lyncorp.

Related party transactions (\$ 000's)	September 30, 2018	December 31, 2017
Related party loan payable	-	283

NON - GAAP TERMS

Cordy reports on certain key financial performance measures that are used by management to evaluate the performance of Cordy. These key financial performance measures are not recognized financial terms ("Non-GAAP Terms") under Canadian generally accepted accounting principles (Canadian "GAAP"). For publicly accountable enterprises, such as Cordy, Canadian GAAP is governed by principles based on International Financial Reporting Standards ("IFRS") and interpretations of the International Financial Reporting Interpretation Committee ("IFRIC"). Management believes these Non-GAAP Terms are useful supplemental measures. Specifically, EBITDAS is not recognized by nor is it defined under IFRS. These Non-GAAP Terms do not have standardized meanings and may not be comparable to similar measures presented by other entities.

LIQUID ASSETS

Liquid assets are defined as current assets less inventory, prepaid and other assets, and current taxes recoverable. Management believes this is useful as supplemental information to current assets as it specifies assets that are quickly convertible into cash. Readers are cautioned that liquid assets should not be construed as an alternative to current assets in accordance with IFRS. The Corporation's method of calculating liquid assets may differ from that of other companies and accordingly, may not be comparable to measures used by other companies.

Non-GAAP Term As at (\$ 000's)	30-Sep-18	31-Dec-17
Current assets	4,565	2,973
Deduct:		
Inventory	80	91
Prepaid and other assets	231	228
Restricted cash	50	50
Liquid assets	4,204	2,604

GROSS MARGIN

Gross margin is defined as revenue less direct operating expenses. The Corporation's method of calculating gross margin may differ from that of other companies and accordingly, may not be comparable to measures used by other companies.

Non-GAAP Term Periods ended September 30 (\$ 000's)	Three Months		Nine Months	
	2018	2017	2018	2017
Revenue	3,925	2,620	12,368	8,443
Deduct:				
Direct operating expenses	2,951	1,912	9,615	6,060
Gross margin	974	708	2,753	2,383

Normalized Operating Earnings (Loss)

Normalized operating earnings (loss) is defined as earnings before interest, taxes, depreciation, amortization, impairment, share-based payments, and bad debt expense. Normalized operating earnings (loss) is not a recognized measure under IFRS. Management believes this is a useful supplemental measure as it provides an indication of the results generated from the Corporation's business activities regardless of the means used to finance the property and equipment. Readers are cautioned that normalized operating earnings (loss) 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 normalized operating earnings (loss) may differ from that of other companies and, accordingly, normalized operating earnings (loss) may not be comparable to measure used by other companies.

Non-GAAP Term

Periods ended September 30,

(\$ millions)

	Three months		Nine months	
	2018	2017	2018	2017
Net loss	(120)	(417)	(291)	(1,090)
Add (deduct):				
Depreciation expense	485	538	1,430	1,660
Financing expense	187	238	471	760
Loss (gain) on disposal of equipment	56	(4)	(128)	(75)
Shared-based payments	-	(8)	-	(40)
Bad debt expense	-	-	223	8
Normalized operating earnings	608	347	1,705	1,223

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Corporation prepares its interim condensed consolidated financial statements in accordance with IFRS. In preparing its financial statements, management is required to make various estimates and judgments in determining the reported amounts of assets and liabilities, revenues and expenses, as well as the disclosure of commitments and contingencies. Management bases its estimates and judgments on its own experience and various other assumptions believed to be reasonable at the time and under the circumstances in existence when the financial statements were prepared. Anticipating future events cannot be done with certainty; therefore, these estimates may change as new events occur, more experience is acquired or the Corporation's operating environment changes. More detailed information regarding the accounting estimates believed by management to require the most difficult, subjective or complex judgments and which are material to the Corporation's financial reporting results are discussed in the Corporation's Annual MD&A for the year ended December 31, 2017.

KEY RISKS AND UNCERTAINTIES

The Corporation is exposed to market risks and other operational risks. For a detailed discussion of these risks, readers should refer to the section "Principal Risks and Uncertainties" in the MD&A for the year ended December 31, 2017, which is available at www.sedar.com.

ADDITIONAL CORPORATE INFORMATION

The Corporation is a publicly-traded Corporation listed on the TSX Venture Exchange under the symbol "CKK". Additional information relating to the Corporation, can be found on SEDAR at www.sedar.com.

FORWARD-LOOKING INFORMATION, ASSUMPTIONS AND RISK FACTORS

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, 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 "Principal Risks and Uncertainties" in the MD&A for the year ended December 31, 2017 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.

In particular, forward-looking information, assumptions and statements include discussion reflecting the Corporation's belief that:

- Cordy intends to continue to re-evaluate its business and deploy its people and equipment to achieve a reasonable return on investments over the long-term. Management plans to continue to adjust the equipment fleet to reflect business realities;
- Cordy intends to use the anticipated cash flow from operating activities and the proceeds on disposition of equipment and other assets for the remainder of 2018 to finance working capital requirements, debt repayments and capital expenditures, while seeking additional financing;
- Cordy's belief that 2018 will continue to be a growth year, this forward-looking statement is based on the assumption that demand for Cordy's services will continue to improve along with the Western Canadian economy;
- Cordy will also continue to evaluate potential mergers and or business combinations. Cordy cannot give assurances of mergers or combinations being consummated, even though the Corporation has had initial discussion with several companies. Suitable candidates include companies with synergistic operations, stable or increasing revenues, sustainable cash flows and access to capital;
- Cordy will use the anticipated cash flow from operating activity, financing activities, and proceeds from disposition of equipment and other assets in 2018 to finance on-going working capital and repay debt. This assumption is based on Cordy's belief that its access to cash will exceed its expected requirements;
- Cordy will continue to benefit from our business restructuring initiatives, execute its strategy and achieve its revenue, net profit, and cash flow forecasts for 2018;
- Our customers and potential customers continuing to invest in the oil sands and other resource developments and to outsource activities for which we are capable of providing services;
- Our success will be dependent on managing our business, maintaining and growing customer relationships, obtaining new customers, competing in the bidding process to secure new projects, and identifying and implementing improvements in our maintenance, fleet management practice and the ability to secure financing;
- Cordy's diversification strategy will continue to bring new customers, grow other service lines and achieve reasonable margins.

Forward looking statements address future events and conditions and, therefore, involve inherent risk and uncertainties. Risk factors and other uncertainties that could cause actual results to differ materially from those anticipated in such forward-looking statements. Canada's oil and natural gas industry is resource rich but market constrained. The oil and natural gas industry and its supporting oilfield services industry sector will continue to be impacted by price fluctuations for oil and natural gas and related products and services; political and economic conditions; industry competition; Cordy's ability to attract and retain key personnel; the availability of future debt and equity financing; changes in laws or regulations, including taxation and environmental regulations; and fluctuations in foreign exchange or interest rates and other market factors.

Readers are cautioned that the foregoing factors are not exhaustive. Additional information on these and other factors that could affect the Corporation's operations and financial results is included in reports on file with securities regulatory authorities in Canada and may be accessed through the SEDAR website (www.sedar.com) or at the Corporation's website. The forward-looking statements and information contained in this MD&A are expressly qualified by this cautionary statement. The Corporation does not undertake any obligation to publicly update or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.