

# Interim Financial Report

Period Ended March 31, 2018



**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>2018</b>	<b>December 31,</b> <b>2017</b>
<b>Assets</b>		
Current assets		
Cash	156	280
Restricted cash	50	50
Trade and other receivables (note 5)	3,148	2,324
Inventory	93	91
Prepaid and other assets	244	228
	<b>3,691</b>	<b>2,973</b>
Non-current assets		
Property and equipment	11,926	12,731
<b>Total assets</b>	<b>15,617</b>	<b>15,704</b>
<b>Liabilities and equity</b>		
Current liabilities		
Related party loan payable (note 7)	-	283
Trade and other payables	1,788	1,470
Obligations under financing leases (note 6)	1,446	1,018
	<b>3,234</b>	<b>2,771</b>
Non-current liabilities		
Obligations under financing leases (note 6)	13,617	14,362
	<b>13,617</b>	<b>14,362</b>
Equity		
Share capital	43,395	43,395
Share-purchase warrants	163	163
Contributed surplus	7,701	7,701
Deficit	(52,493)	(52,688)
	<b>(1,234)</b>	<b>(1,429)</b>
<b>Total liabilities and equity</b>	<b>15,617</b>	<b>15,704</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 (loss)

For the periods ended March 31, (unaudited) (\$000s except per share amounts)	Three months	
	2018	2017
<b>Revenue</b>	5,127	3,694
<b>Expenses</b>		
Direct operating expenses	4,041	2,596
General and administrative expenses	314	429
<b>Operating earnings</b>	772	669
Depreciation expense	481	553
Financing expense	114	276
Gain on disposal of equipment	(18)	(17)
Share-based recovery	-	(16)
	195	796
Earnings (loss) before tax	195	(127)
Income tax expense	-	-
<b>Net and comprehensive income (loss)</b>	195	(127)
<b>Earnings (loss) per share from (note 8)</b>		
Basic and diluted (\$)	0.00	(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, 2017</b>	<b>206,162</b>	<b>43,395</b>	<b>163</b>	<b>7,741</b>	<b>(51,286)</b>	<b>13</b>
Loss for the period	-	-	-	-	(127)	(127)
Share-based recovery	-	-	-	(16)	-	(16)
<b>Balance at March 31, 2017</b>	<b>206,162</b>	<b>43,395</b>	<b>163</b>	<b>7,725</b>	<b>(51,413)</b>	<b>(130)</b>
<b>Balance at January 1, 2018</b>	<b>206,162</b>	<b>43,395</b>	<b>163</b>	<b>7,701</b>	<b>(52,688)</b>	<b>(1,429)</b>
Earnings for the period	-	-	-	-	195	195
<b>Balance at March 31, 2018</b>	<b>206,162</b>	<b>43,395</b>	<b>163</b>	<b>7,701</b>	<b>(52,493)</b>	<b>(1,234)</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)	2018	2017
<b>Cash flows from operating activities</b>		
Net earnings (loss):	195	(127)
Add (deduct) non-cash items:		
Depreciation expense	481	553
Gain on disposal of property and equipment	(18)	(17)
Share-based recovery	-	(16)
Gain on related party loan settlement	(76)	-
Finance costs	114	276
Changes in non-cash working capital	(482)	(579)
Cash flows generated from operating activities	214	90
<b>Cash flows from financing activities</b>		
Repayment of related party loan payable	(250)	-
Repayment of financing leases	(317)	(385)
Financing expense	(114)	(276)
Cash flows used in financing activities	(681)	(661)
<b>Cash flows from investing activities</b>		
Purchase of property and equipment	(7)	(46)
Proceeds on disposal of property and equipment	350	40
Cash flows generated from (used in) investing activities	343	(6)
<b>Decrease in cash</b>	<b>(124)</b>	<b>(577)</b>
<b>Cash - beginning of the period</b>	<b>280</b>	<b>1,283</b>
<b>Cash - end of the period</b>	<b>156</b>	<b>706</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, 2018 and 2017 (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, 2018 and 2017 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, 2017.

The unaudited interim condensed consolidated financial statements were authorized for issuance by the Board of Directors on May 23, 2018.

### 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.

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 earnings of \$0.2 million for the three months ended March 31, 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.

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.

## 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, 2017, except as noted below.

The nature of the business and timely preparation of the unaudited interim condensed consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions, and use judgment regarding assets,

# Notes to the Interim Condensed Consolidated Financial Statements

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liabilities, revenues and expenses. Such estimates primarily relate to the accrual of unsettled transactions, collectability of accounts receivable, recognition of provisions and contingent obligations, the useful lives of property and equipment, and the fair value of share-based payment awards. Accordingly, actual results may differ from estimated amounts. Management has also used judgment in the determination of control, definition of a business and determination of cash generating units.

If the underlying estimates and assumptions, upon which the unaudited interim condensed consolidated financial statements are based, change in future periods, actual amounts may differ from those included in the accompanying unaudited interim condensed consolidated financial statements.

The company adopted the following accounting policies effective January 1, 2018:

## *IFRS 15 Revenue from Contracts with Customers ("IFRS 15")*

The standard establishes a single revenue recognition and measurement framework to determine the timing and measurement of revenue from contracts with customers. Cordy applied IFRS 15 prospectively with no quantitative impact or significant changes, given the typical length and terms of Cordy's contracts with customers. Cordy's services are provided based upon orders and contracts with customers that include fixed or determinable prices and are based upon daily, hourly or contracted rates. Contract terms do not include the provision of post-service obligations. Cordy recognizes the amount of revenue to which it expects to be entitled for the transfer of promised services or goods to customers.

The Company reviewed its revenue streams and major contracts with customers using the IFRS 15 five-step model and there were no material changes to net earnings.

## *IFRS 9 Financial Instruments*

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income ("FVOCI"); or fair value through profit or loss ("FVTPL"). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IFRS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification. The new standard also introduces an expected credit loss model for evaluating impairment of financial assets, which results in credit losses being recognized earlier than the previous standard.

Cash and accounts receivable continue to be measured at amortized cost and are now classified as "amortized costs". There was no change to the Company's classification of accounts payable and accrued liabilities. The Company has not designated any financial instruments as FVOCI or FVTPL.

Cordy adopted IFRS 9, Financial Instruments on January 1, 2018. The transition to IFRS 9 had no material effect on the Company's financial statements.

# Notes to the Interim Condensed Consolidated Financial Statements

For the three months ended March 31, 2018 and 2017 (unaudited)

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## 5. TRADE AND OTHER RECEIVABLES

	March 31, 2018	December 31, 2017
Trade receivables	3,240	2,351
Other receivables	57	128
<b>Total receivables</b>	<b>3,297</b>	2,479
Current	1,240	1,224
31 – 60 days	1,228	563
61 – 90 days	225	203
Over 90 days	547	489
Allowance for doubtful accounts	(149)	(155)
<b>Total net receivables</b>	<b>3,148</b>	2,324

## 6. LOANS AND OTHER BORROWING

	March 31, 2018	December 31, 2017
Current liabilities		
Related party loan payable (note 7)	-	283
Financing lease obligations	1,446	1,018
<b>Current portion of debt</b>	<b>1,446</b>	1,301
Non-current liabilities		
Financing lease obligations	13,617	14,362
<b>Non-current portion of debt</b>	<b>13,617</b>	14,362
<b>Total debt obligations</b>	<b>15,063</b>	15,663

The Corporation operates under several finance lease agreements with its equipment lender, the leases consist of consolidated monthly payment of \$140,000, payments reduce in January, February, July and August, reduced payment schedule is a \$5,000 payment in January 2018, \$10,000 payment February 2018, \$10,000 payment July 2018 and \$10,000 payment August 2018. The consolidated monthly payment increases to \$230,000 in September 2018 with a further 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%.

All future payments are subject to change as Cordy has the option to sell the equipment and have all proceeds applied against the remaining principal balance. In the event of default Cordy is subject to additional interest and penalties.

## 7. 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 quarter, 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

# Notes to the Interim Condensed Consolidated Financial Statements

For the three months ended March 31, 2018 and 2017 (unaudited)

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and debt owing to Lyncorp.

	March 31 2018	December 31, 2017
Related party loan payable	-	283

## 8. PER SHARE AMOUNTS

The calculation of basic and diluted earnings (loss) was based on the net earnings (loss) divided by the weighted average number of Common Shares outstanding for the period. Net earnings for the three months ended March 31, 2018 was \$0.2 million (2017 net loss - \$0.1 million). The weighted average number of Common Shares outstanding for the three months ended March 31, 2018 and 2017 was calculated as follows and there were no dilutive securities.

### Weighted average number of ordinary shares

(000's)	Three months ended March 31,	
	2018	2017
Shares outstanding (basic and diluted)	206,162	206,162
Weighted average number of common shares (basic and diluted)	206,162	206,162

## 9. 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 Financial Officer and other senior management. 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, 2018 and 2017 (unaudited)*

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Selected segmented information from operations for the three month periods ended March 31, 2018 and 2017 is as follows:

Three months ended March 31, 2018	Environmental Services	Heavy Construction	Corporate	Total
Revenue	4,983	142	2	5,127
Operating earnings (loss)	908	39	(175)	772
Net earnings (loss)	276	20	(101)	195
Depreciation	461	18	2	481
Capital expenditures	7	-	-	7
Total assets at March 31, 2018	14,477	639	501	15,617

Three months ended March 31, 2017	Environmental Services	Heavy Construction	Corporate	Total
Revenue	3,607	74	13	3,694
Operating earnings (loss)	774	184	(289)	669
Net earnings (loss)	12	180	(319)	(127)
Depreciation	525	21	7	553
Capital expenditures	46	-	-	46
Total assets at March 31, 2017	14,893	548	2,151	17,592

# Corporate Information

## **DIRECTORS AND OFFICERS**

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

Chief Executive Officer

**Rick Manhas, P.AG.**

Chief Operating Officer

**Luke Caplette, CPA, CA**

Chief Financial Officer

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

Chairman of the Board

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

Director

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

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.**

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Calgary, Alberta T2C 3G9

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## **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