

Interim Financial Report

Period Ended June 30, 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

(Unaudited) (\$000's)	June 30, 2020	December 31, 2019
Assets		
Current assets		
Cash	331	397
Trade and other receivables (note 5)	2,535	2,937
Inventory	80	80
Prepaid and other assets	248	334
	3,194	3,748
Non-current assets		
Property and equipment (note 6)	13,607	10,222
	13,607	10,222
Total assets	16,801	13,970
Liabilities and equity		
Current liabilities		
Bank indebtedness (note 7)	625	1,650
Trade and other payables	1,484	2,040
Related party notes payable (note 8)	1,000	-
Current portion of lease liability (note 7)	2,723	2,409
	5,832	6,099
Non-current liabilities		
Lease liability (note 7)	12,407	10,353
	12,407	10,353
Equity		
Share capital	44,145	43,395
Share-purchase w warrants	-	163
Contributed surplus	7,864	7,701
Deficit	(53,447)	(53,741)
	(1,438)	(2,482)
Total liabilities and equity	16,801	13,970

Going concern (note 3)

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

Interim Condensed Consolidated Statement of Comprehensive (Loss) income

For the periods ended June 30, (unaudited) (\$000s except per share amounts)	Three months		Six months	
	2020	2019	2020	2019
Revenue	2,114	3,644	9,760	8,800
Expenses				
Direct operating expenses	1,346	2,802	7,215	6,626
General and administrative expenses	336	435	667	795
	432	407	1,878	1,379
Depreciation expense (note 6)	652	496	1,117	992
Financing expense	357	215	467	400
Gain on disposal of equipment	-	(397)	-	(397)
(Loss) earnings before tax	(577)	93	294	384
Income tax expense		-	-	-
Net and comprehensive (loss) income	(577)	93	294	384
(Loss) earnings per share (note 9)				
Basic and diluted (\$)	(0.00)	0.00	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)	\$	\$	\$	\$	\$
Balance at January 1, 2019	206,162	43,395	163	7,701	(53,269)	(2,010)
Earnings for the period	-	-	-	-	384	384
Balance at June 30, 2019	206,162	43,395	163	7,701	(52,885)	(1,626)
Balance at January 1, 2020	206,162	43,395	163	7,701	(53,741)	(2,482)
Earnings for the period	-	-	-	-	294	294
Issued common shares - acquisition	25,000	750	-	-	-	750
Expiry of warrants	-	-	(163)	163	-	-
Balance at June 30, 2020	231,162	44,145	-	7,864	(53,447)	(1,438)

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 and six months ended June 30, 2020 and 2019 (unaudited)

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

For the six months ended June 30,

(Unaudited)

(\$000's)

	2020	2019
Cash flows from operating activities		
Net earnings	294	384
Add (deduct) non-cash items:		
Depreciation expense	1,117	992
Gain on disposal of property and equipment	-	(397)
Finance costs	467	400
Changes in non-cash working capital	(67)	(793)
Cash flows generated from operating activities	1,811	586
Cash flows from financing activities		
Increase (decrease) in bank indebtedness	(1,025)	1,150
Proceeds from related party note payable	1,000	-
Repayment of lease liabilities	(1,224)	(2,125)
Interest paid	(477)	(400)
Cash flows used in financing activities	(1,726)	(1,375)
Cash flows from investing activities		
Purchase of property and equipment	(151)	(7)
Proceeds on disposal of property and equipment	-	1,021
Cash flows generated from investing activities	(151)	1,014
Increase (decrease) in cash	(66)	225
Cash - beginning of the period	397	257
Cash - end of the period	331	482

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 and six months ended June 30, 2020 and 2019 (unaudited)

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1. REPORTING ENTITY

Cordy Oilfield Services Inc. ("Cordy" or the "Corporation") 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 and six months ended June 30, 2020 and 2019 comprise the Corporation and its subsidiaries. Cordy and its subsidiaries are primarily providing environmental services, specifically waste transportation and logistics solutions, to the energy, municipal and construction industries, 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 August 27th, 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 unaudited interim condensed consolidated financial statements are presented in Canadian dollars which is the Corporation's reporting 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.

These events have negatively impacted, and are expected to continue to negatively impact, Cordy's business for the remainder of 2020. The significant volatility in demand for crude oil and related hydrocarbons resulted in a number of Cordy's major customers swiftly cutting or suspending capital programs for Canadian operations. The uncertainty of the coronavirus pandemic continues to plague the energy industry and 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 and six months ended June 30, 2020 and 2019 (unaudited)

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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, except as noted below.

Government Subsidies

During the six-month period ending June 30, 2020, the Corporation adopted the policy as a result of qualifying for the Canada Emergency Wage Subsidy (“CEWS”) program first enacted on April 11, 2020, and amended with Bill C-20, passed by the federal Government of Canada, on July 27th, 2020.

Government subsidies are recognized when there is reasonable assurance that the subsidy will be received, and that the Corporation will comply with all the relevant conditions. Government subsidies related to the current expenses are recorded as a reduction of the related expenses.

During the six month period ending June 30, 2020, the Corporation qualified for the CEWS program and recognized \$0.5 million as a reduction to wage expense with \$0.4 million allocated to direct operating expenses and \$0.1 million to general and administrative expenses.

COVID-19-Related Rent Concessions (Amendments to IFRS 16)

In May 2020, the IASB published COVID-19-Related Rent Concessions, which amends IFRS 16, Leases, to provide lessees with a practical expedient that relieves lessees from assessing whether a COVID-19-related rent concession is a lease modification. The amendment becomes effective for annual reporting periods beginning on or after June 1, 2020. Earlier application is permitted. The Company adopted the amendment effective for the current year ending December 31, 2020 and has elected to apply the provided practical expedient. The Company will account for any change in lease payments resulting from a COVID-19-related rent concession the same way it would account for the change if the change were not a lease modification.

5. TRADE AND OTHER RECEIVABLES

	June 30, 2020	December 31, 2019
Trade receivables	2,692	3,368
Other receivables	158	73
Allowance for doubtful accounts	(315)	(504)
Total net receivables	2,535	2,937
Current	945	1,200
31 – 60 days	410	614
61 – 90 days	258	231
Over 90 days	1,079	1,323
Total trade receivables	2,692	3,368

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.

Notes to the Interim Condensed Consolidated Financial Statements

For the three and six months ended June 30, 2020 and 2019 (unaudited)

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6. PROPERTY AND EQUIPMENT

	Heavy equipment and Vehicles	Office Other and Shop	Total
Cost			
Balance at January 1, 2020	16,513	2,520	12,533
Additions	92	9	-
Acquired - asset acquisitions	4,401	-	-
Disposals	-	-	-
Balance at June 30, 2020	21,006	2,529	1,253
Accumulated Depreciation			
Balance at January 1, 2020	8,386	1,320	358
Depreciation for the period	925	14	178
Disposals	-	-	-
Balance at June 30, 2020	9,311	1,334	536
Net book value			
Balance at June 30, 2020	11,695	1,195	717

Assets under lease/right of use are \$11.5 million heavy equipment and vehicles, \$0.02 million other, \$0.5 million office and shop.

7. LOANS AND OTHER BORROWING

	June 30, 2020	December 31, 2019
Current liabilities		
Bank indebtedness	625	1,650
Related party notes payable (note 8)	1,000	-
Lease obligations - equipment and vehicles	2,353	2,059
Lease obligations - office and shop	370	350
Current portion of debt	4,348	4,059
Non-current liabilities		
Lease obligations - equipment and vehicles	11,985	9,787
Lease obligations - office and shop	422	566
Non-current portion of debt	12,407	10,353
Total debt obligations	16,755	14,412

Lease obligations – equipment and vehicles

During Q2, the Company consolidated and revised certain terms of its leases with the Company's equipment lender (the "Revised Leases"). The Revised Leases consist of three leases, which bear interest at fixed rates of 6.45% to 6.95% and contain terms of 36 months (\$0.2 million), 48 months (\$4.4 million) and 60 months (\$9.7 million) respectively. The Revised Leases consist of consolidated monthly payments, including interest, of \$0.3 million. All future payments are subject to change as the Corporation has the option, with no early payment penalties or fees, 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.

Notes to the Interim Condensed Consolidated Financial Statements

For the three and six months ended June 30, 2020 and 2019 (unaudited)

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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 revised certain terms of its line of credit agreement, held with a private lender (the “Lender”), pursuant to which it may borrow up to an amount totalling 90% of eligible receivables (the “Maximum Amount”), on a revolving basis (the “the Revised Credit Facility”). Prior to entering the Revised Credit Facility, the Maximum Amount, was limited to 50% of eligible receivables (the “Credit Facility”). As at June,30 2020 Cordy had drawn \$0.6 million, or 36% of eligible receivables, leaving a remaining amount available under the Revised Credit Facility of approximately \$1.0 million. The Corporation expects the Maximum Amount to increase in the third quarter of 2020, as eligible receivables are anticipated to increase given the Alberta economy has reopened during Phase II of the governments COVID-19 recovery plan.

The remaining terms of the Revised Credit Facility are unchanged from the Credit Facility as follow:

- General Security Agreement (“GSA”) that grants the Lender a continuing security interest in all present and after acquired property of Cordy and its subsidiaries;
- interest at Bank of Canada prime rate plus 4% per annum; and
- payable on demand at the request of the Lender;

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.

Related party Notes payable

The Corporation issued promissory notes on March 18th, 2020 to 107 -\$0.75 million and HRH -\$0.25 million. The Notes’ are interest free if the principal amount is paid on or before August 9th, 2020 (the “Initial Maturity Date”). Amounts of principal that remain unpaid after the Initial Maturity Date, bear interest at a rate of five percent per annum, payable monthly, 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 the Lender. During the quarter, Cordy, HRH and 107 agreed to amend certain terms of the Notes, extending the Initial Maturity Dates, for the principal amount due and payable, to December 31, 2020 or at such time as mutually agreed by Cordy and the Parties.

	June 30 2020	December 31, 2019
Related party loan payable	1,000	-

Notes to the Interim Condensed Consolidated Financial Statements

For the three and six months ended June 30, 2020 and 2019 (unaudited)

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9. PER SHARE AMOUNTS

The calculation of basic and diluted earnings was based on the net earnings (loss) divided by the weighted average number of Common Shares outstanding for the period. Net earnings (loss) for the three months and six months ended June 30, 2020 was (\$0.6) million and \$0.3 million respectively (2019 net earning \$0.1 and \$0.4 million). Cordy has no outstanding dilutive securities. The weighted average number of Common Shares outstanding for the three and six months ended June 30, 2020 and 2019 was calculated as follow:

Weighted average number of ordinary shares

(000's)	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Shares outstanding (basic and diluted)	231,161,981	206,162	220,526,622	206,162
Weighted average number of common shares (basic and diluted)	231,161,981	206,162	220,526,622	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 and six months ended June 30, 2020 and 2019 (unaudited)

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Selected segmented information from operations for the three and six month periods ended June 30, 2020 and 2019 is as follows:

Three months ended June 30, 2020	Environmental	Heavy	Corporate	Total
	Services	Construction		
Revenue	2,043	63	8	2,114
Operating earnings (loss)	610	35	(213)	432
Net earnings (loss)	(368)	35	(244)	(577)
Depreciation	651	-	1	652
Capital additions	-	-	-	-
Total assets at June 30, 2020	16,108	240	453	16,801

Three months ended June 30, 2019	Environmental	Heavy	Corporate	Total
	Services	Construction		
Revenue	3,478	161	5	3,644
Operating earnings (loss)	560	80	(233)	407
Net earnings (loss)	180	177	(264)	93
Depreciation	488	6	2	496
Capital additions	1,771	-	-	1,771
Total assets at June 30, 2019	14,667	290	565	15,522

Six months ended June 30, 2020	Environmental	Heavy	Corporate	Total
	Services	Construction		
Revenue	9,533	212	15	9,760
Operating earnings (loss)	2,173	112	(407)	1,878
Net earnings (loss)	645	112	(463)	294
Depreciation	1,115	-	2	1,117
Capital additions	9	-	-	9
Total assets at June 30, 2020	16,108	240	453	16,801

Six months ended June 30, 2019	Environmental	Heavy	Corporate	Total
	Services	Construction		
Revenue	8,504	291	5	8,800
Operating earnings (loss)	1,726	139	(486)	1,379
Net earnings (loss)	686	224	(526)	384
Depreciation	972	17	3	992
Capital additions	1,771	-	-	1,771
Total assets at June 30, 2019	14,667	290	565	15,522

Corporate Information

DIRECTORS AND OFFICERS

Darrick Evong, CPA, CA, CBV

Chief Executive Officer

Craig Heitrich

Chief Operating Officer

David Mullen ⁽¹⁾₍₂₎

Chairman of the Board

Stuart King, CPA, CA ⁽¹⁾₍₂₎

Director

Timothy H. Urquhart, ICD.D ⁽¹⁾₍₂₎

Director

(1) Member of the Audit Committee

(2) 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