Cordy
Oilfield Services Inc.

2013
Annual Information Form

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This Annual Information Form is dated April 7, 2014 and, unless specifically stated otherwise, all information disclosed in this form is provided as at December 31, 2013, the end of Cordy's most recently completed fiscal year. In this Annual Information Form ("AIF"), "Corporation" and "Cordy" refer to Cordy Oilfield Services Inc., its predecessors and acquired companies and, unless otherwise expressly indicated, all references to "$" or "dollars" are to Canadian dollars.

## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Information Form contains certain forward looking statements and forward looking information (collectively referred to herein as "forward looking statements") within the meaning of applicable Canadian securities laws. All statements other than statements of present or historical fact are forward looking statements. Forward looking information is often, but not always, identified by the use of words such as "could", "should", "can", "anticipate", "expect", "believe", "will", "may", "projected", "sustain", "continues", "strategy", "potential", "projects", "grow", "take advantage", "estimate", "well positioned" or similar words suggesting future outcomes. In particular, this Annual Information Form contains forward looking statements relating to:

1. the future opportunities for the Corporation;
2. the business strategy of the Corporation; and
3. the competitive advantage of the Corporation.

Forward looking information respecting:

1. the business opportunities for the Corporation are based on the views of management of the Corporation and current and anticipated market conditions; and
2. the perceived benefits of the growth strategy and operating strategy of the Corporation are based upon the financial and operating attributes of the Corporation as at the date hereof, as well as the anticipated operating and financial results.

Other forward looking statements regarding the Corporation are located in the documents incorporated by reference in this Annual Information Form and are based on certain key expectations and assumptions of the Corporation concerning anticipated financial performance, business prospects, strategies, commodity prices, sourcing, pricing and availability of raw materials, component 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, the sufficiency of budgeted capital expenditures in carrying out planned activities, and the ability to obtain financing on acceptable terms, which are subject to change based on market conditions and potential timing delays. Although management of the Corporation consider these assumptions to be reasonable based on information currently available to them, they may prove to be incorrect.

By their very nature, forward looking statements involve inherent risks and uncertainties (both general and specific) and risks that forward looking statements will not be achieved. Undue reliance should not be placed on forward looking statements, as a number of important factors could cause the actual results to differ materially from the beliefs, plans, objectives, expectations and anticipations, estimates and intentions expressed in the forward looking statements, including those set out below and those detailed elsewhere in this Annual Information Form (and in documents incorporated herein by reference):

1. inability of the Corporation to continue to meet the listing requirements of the TSX Venture Exchange;
2. competition for, among other things, capital, materials and customers; and
3. the risk factors set forth under "Risk Factors".

Readers are cautioned that the foregoing list is not exhaustive.

The reader is further cautioned that the preparation of financial statements in accordance with IFRS requires management to make certain judgments and estimates that affect the reported amounts of assets, liabilities, revenues and expenses. These estimates may change, having either a negative or positive effect on net earnings as further information becomes available, and as the economic environment changes.

The information contained in this Annual Information Form, including the documents incorporated by reference herein, identifies additional factors that could affect the operating results and performance of the Corporation. We urge you to carefully consider those factors.

The forward looking statements contained herein are expressly qualified in their entirety by this cautionary statement. The forward looking statements included in this Annual Information Form are made as of the date of this Annual Information Form and the Corporation does not undertake and is not obligated to publicly update such forward looking statements to reflect new information, subsequent events or otherwise unless so required by applicable securities laws.

## GLOSSARY

In this Annual Information Form, unless the context otherwise requires, the following words and phrases have the meanings set out below.

“ABCA” means the Business Corporations Act (Alberta), including the regulations promulgated thereunder, as amended;

“Battle River” means Battle River Oilfield Construction Ltd., a corporation incorporated under the ABCA;

“Calgary Septic” means Calgary Septic Co. Ltd., a corporation incorporated under the ABCA;

“company” unless specifically indicated otherwise, means a corporation, incorporated association or organization, body corporate, partnership, trust, association or other entity other than an individual;

"Cordy Drilling Innovations" means Cordy Drilling Innovations Inc., a corporation incorporated under ABCA;

"Cordy Manufacturing" means Cordy Manufacturing Inc., a corporation resulting from the amalgamation of Sphere, Lamont, Cordy Drilling Innovations, and Cordy Manufacturing Inc. on January 1, 2013 under the ABCA;

“Cordy Shares” or “Common Shares” means the common shares in the capital of Cordy, as presently constituted;

“Corporation” or “Cordy” means Cordy Oilfield Services Inc., a corporation incorporated under the ABCA;

“Coverall” means Coverall Pipeline Construction Ltd., a corporation incorporated under the ABCA;

“CSC” means CSC Ltd., a corporation incorporated under the ABCA, a wholly-owned subsidiary of Calgary Septic;

“Exchange” means the TSX Venture Exchange Inc.;

“Hartwell” means Hartwell Oilfield Ltd. (formerly 522532 Alberta Ltd.), a corporation incorporated under the ABCA;

“Lamont” means Lamont Bit Services Ltd., a corporation incorporated under the ABCA;

“Nohels” means Nohels Group Inc., a corporation incorporated under the Business Corporations Act (British Columbia);

“New West” means New West Pipelines Ltd., a corporation incorporated under the ABCA;

“person” means a company or an individual;

“RB2” means RB2 Energy Services Inc., a corporation incorporated under the ABCA;

“Sphere” means Sphere Drilling Supplies Ltd. (formerly Sphere Drilling Fluids Ltd.), a corporation incorporated under the ABCA;

“Tawow” means Tawow Resources Inc., a corporation incorporated under the ABCA;

“Top-Notch” means Top-Notch Oilfield Services Ltd., a corporation incorporated under the ABCA; and

“U.S.” means the United States of America.

## CORPORATE STRUCTURE

The Corporation was incorporated on April 30, 1998 pursuant to the provisions of the ABCA as "783223 Alberta Ltd." By a Certificate of Amendment issued on October 9, 1998, the Corporation changed its name to "QCC Technologies Inc.". By a Certificate of Amendment issued on September 21, 2005, the Corporation changed its name to "Cordy Oilfield Services Inc."

The head office of the Corporation is located at 5366 55th St S.E., Calgary, Alberta, T2C 3G9. The registered office of the Corporation is located at 1000, 250 - 2nd Street S.W., Calgary, Alberta, T2P 0C1.

## INTERCORPORATE RELATIONSHIPS

Cordy is a holding company that owns 100% of the shares of each company listed below (unless otherwise specified). This list is presented as of December 31. 2013. It is through these subsidiaries that Cordy performs its business. These companies are incorporated under the laws of Alberta and British Columbia.

During 2013 Cordy subsidiaries included:

- Battle River Oilfield Construction Ltd.[4]
- Coverall Pipeline Construction Ltd.[1]
- Top-Notch Oilfield Services Ltd.[1]
- New West Pipelines Ltd.[1]
- Sphere Drilling Supplies Ltd.[2]
- Lamont Bit Services Ltd. [2]
- CSC Ltd. [3]
- Calgary Septic Ltd.[3]
- Hartwell Oilfield Ltd.[3]
- Tawow Resources Inc.
- Cordy Logistics Inc.
- Cordy Drilling Innovations Inc. [2]
- Cordy Drilling Innovations (U.S.) Inc.
- Dene-Cor Construction Ltd. (49%)
- Dene-Cor Construction Limited Partnership (49%)
- RB2 Energy Services Inc.[3]
- Nohels Group Inc.[5]

As of January 1, 2014 Cordy Oilfield Services Inc. went through a corporate re-organization such that Cordy's subsidiaries are now comprised of the following:

- Cordy Environmental Inc.[4]
- Cordy Construction Inc.[5]
- Cordy Manufacturing Inc.
- Tawow Resources Inc.[6]
- Cordy Drilling Innovations (U.S.) Inc.
- Dene-Cor Construction Ltd. (49%)
- Dene-Cor Construction Limited Partnership (49%)

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1 Effective April 1, 2013 Coverall Pipeline Construction Ltd., Top-Notch Oilfield Services Ltd. and New-West Pipelines Ltd. amalgamated to form Cordy Pipelines Inc.

2 Effective January 1, 2013 Sphere Drilling Supplies Ltd., Lamont, Cordy Drilling Innovations, and Cordy Manufacturing amalgamated under the name of Cordy Manufacturing Inc.

3 Effective May 1, 2013 CSC Ltd., Calgary Septic Ltd., RB2 Energy Services Inc., and Hartwell Oilfield Ltd. amalgamated under the name of Cordy Environmental Inc.

4 Effective January 1, 2014 Cordy Environmental Inc., Cordy Developments Inc., and Battle River Oilfield Construction Ltd. amalgamated to form Cordy Environmental Inc.

5 Effective January 1, 2014 0421374 B.C. LTD., 315461 BRITISH COLUMBIA LTD., Cal-West Mining Ltd., Cordy Construction Inc., Cordy Pipelines Inc. and Nohels Group Inc. amalgamated to form Cordy Construction Inc.

6 Effective January 1, 2014 Cordy Logistics Inc. and Tawow Resources Inc. amalgamated to form Tawow Resources Inc.

## GENERAL DEVELOPMENT OF THE BUSINESS

### Three Year History

The Corporation entered the energy services and construction industries in 2006 and between January 2006 and May 2007 acquired eleven businesses located in Alberta and British Columbia. Following completion of these acquisitions, the Corporation carried on business through four industry segments: Heavy Construction, Pipeline and Facilities, Manufacturing and Supply, and Environmental Services. See "DESCRIPTION OF THE BUSINESS OF THE CORPORATION".

The following table summarizes the revenue mix by segment for the past three years.

| | 2011 | | 2012 | | 2013 | |
|---|---|---|---|---|---|---|
| ($ millions) | Revenue | % of total | Revenue | % of total | Revenue | % of total |
| Heavy Construction | 45.3 | 48% | 51.2 | 44% | 55.4 | 47% |
| Environmental Services | 19.8 | 21% | 28.3 | 25% | 33.9 | 29% |
| Manufacturing and Supply | 12.6 | 13% | 14.3 | 12% | 13.0 | 11% |
| Pipeline and Facilities | 16.5 | 18% | 21.6 | 19% | 15.7 | 13% |
| Total | 94.2 | | 115.4 | | 118.0 | |

### 2011

2011 was a year of recovery for Cordy. The economic challenges that appeared in 2007 but became predominant in 2008 resulted in a substantial decrease in commodity prices causing a reduction in activity in the energy services industry not seen since the early 1980s. As the economic crisis unfolded, Cordy's revenues from continuing operations decreased from $109.6 million in 2008 to their lowest point of $47.8 million in 2009, an aggregate decline of $61.8 million, precipitating aggregate impairment losses of $42.6 million in 2008 and 2009. Marginal improvements were realized in 2010 as the price of commodities recovered and advancements in energy extraction technology utilizing horizontal wells completed with multi-stage hydraulic fracturing generated activity in the energy sector. The much stronger financial results of 2011 indicate that the energy sector has recovered and the Corporation has emerged from the downturn in an enviable position. Revenues, operating margins, and earnings from continued operation neared or exceeded the levels attained in 2007 and the Corporation exited the year with minimal debt and an overall strong balance sheet. This in turn positions the Corporation favourably as the outlook in the energy industry appears positive, along with the overall economic climate across Canada's Prairie provinces.

During the latter part of 2011, Cordy developed a new down-hole tool that is applied in the horizontal drilling process. Efforts have been made throughout 2012 to market this tool. In November, 2011 the Corporation entered into a sale agreement to sell the Bob Quinn camp for a total consideration of $1.9 million. The camp was held within the Heavy Construction segment. Near the end of 2011, a board approved plan was implemented to discontinue Mesken Contracting Ltd. operating in the Heavy Construction segment operations.

On June 30, 2011, the Corporation acquired all of the issued and outstanding shares of RB2 Energy Services Inc. in consideration of the payment of 2,900,000 Common Shares at a deemed price of $0.50 per Common Share, a cash payment of approximately $0.6 million, a promissory note of approximately $0.3 million, and the assumption of debt and repayment of shareholder loans in the amount of approximately $0.8 million. This acquisition increased the Corporation's Environmental Services segment equipment fleet and contributed to the year-over-year growth of the segment in terms of both revenue and earnings.

In the six months to December 31, 2011 RB2 contributed revenue of $2.4 million and net earnings of $0.2 million. If the acquisition had occurred on January 1, 2011, management estimates that consolidated revenue would have been $5.2 million, and consolidated profit for the period would have been $0.3 million. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on January 1, 2011.

## 2012

Cordy's revenues from continuing operations increased in 2012 to $115.4 million. While revenues increased in 2012, the Corporation had much stronger financial earnings in 2011.

During 2011 and into 2012 Cordy undertook two key strategic investments. The first was the growth of the equipment fleet (rented and owned) which was undertaken to meet customer needs in the Heavy Construction and Environmental Service segments where new opportunities for long term growth in the Cold Lake Oil Sands Region ("Oil Sands Region"). In addition Cordy's Manufacturing and Supply segment introduced to the market a new customized down-hole PDC drill-bit that is applied in the horizontal drilling process.

Results for Cordy's Heavy Construction operations in the Oil Sands Region and its environmental operations serving the oil sands related business in the Fort McMurray region were favourable. In 2012, Cordy's Pipeline and Facilities segment benefited from an extensive clean-up project.

## 2013

Cordy generated consolidated revenue of $118.0 million in 2013. On a year over year comparative basis, consolidated revenue increased by $2.6 million. Consolidated revenue in the first, second, and fourth quarters of 2013 increased year over year by $1.8 million, $1.5 million and $1.3 million respectively, which was partially offset by a year over year decrease in consolidated revenue in the third quarter of $2.0 million.

The Environmental Services segment experienced the largest revenue increase of $5.5 million or 19 percent for the year ended December 31, 2013 compared to 2012. The revenue increase is primarily attributable to increased activity in the oil sands region and the 2013 Alberta flood clean-up. The Heavy Construction segment had increased revenue of $4.3 million or 8 percent for the year ended December 31, 2013 compared to 2012. This was primarily attributable to growth in the oil sands region. The Manufacturing and Supply segment had decreased revenue of $1.3 million or 9% for the year ended December 31, 2013, which was primarily attributable to a decline in drilling activity and loss of customers earlier in the year which was then partially offset by demand for PDC drill bits used in horizontal drilling. The Pipeline and Facilities segment had decreased revenue of $5.9 million or 27 percent for the year ended December 31, 2013. During the year the focus was to eliminate lower margin projects and reduce operations from two locations to one, which resulted in a decrease in revenue.

## Outlook for 2014

Cordy has diverse business units which have had stronger first and third quarters. In fiscal 2013, Cordy experienced revenue growth in both its Heavy Construction and Environmental Service segments; however, our fourth-quarter results were below expectations, as there was an unanticipated slowdown due to customer delays as to when their projects were to commence. Our segments did not generate their expected fourth-quarter ramp-up in activity that is historically experienced due to customer delays in the fourth quarter of 2013 as well as the first quarter of 2014.

The Corporation is dependent, to a degree, on the overall health of western Canada's oil, natural gas, and mining sectors. Generally, these sectors have projected reduced capital expenditure budgets for 2014 and have delayed projects. These factors mean that our industry remains highly competitive with few opportunities to realize pricing gains in 2014.

Cordy continues to re-evaluate the allocation of our investment of people and equipment. During 2014, the Corporation will reallocate its resources to focus on Heavy Construction, Environmental Services and Manufacturing as its primary business segments. Effective January 1, 2014, Cordy amalgamated its Pipeline segment into its Heavy Construction segment. As a result, Cordy now operates in three segments in 2014:

- Heavy Construction;
- Environmental Services; and
- Manufacturing and Supply

The prospects for the oil sands region is anticipated to be the primary driver of potential growth for our Heavy Construction and Environmental Services segments. In 2014, we anticipate this will be slower in the first half of the year until customers fully ramp-up their projects. Heavy Construction customers in the natural gas sector are also anticipated to be slower in 2014 while mining sector and Environmental Service clients are anticipated to increase activity in the second half of 2014. Any significant growth will be dependent upon winning new customers or new projects from existing customers in 2014. In our Manufacturing segment, drilling activity in western Canada is the primary driver of our business in 2014, we anticipate expanding sales of our PDC drill bits in both North America and select International locations.

Management continues to seek opportunities to expand or realign Cordy's operations in sectors where its business segments operate and to refinance the business to support the Corporation in the long term.

### Significant Acquisitions

There were no significant acquisitions or significant dispositions by the Corporation during the financial year ended December 31, 2013.

## DESCRIPTION OF THE BUSINESS OF THE CORPORATION

The Corporation is an energy services and construction company. The Corporation conducts its business through four industry segments: Heavy Construction, Pipeline and Facilities, Manufacturing and Supply and Environmental Services.

### A. Heavy Construction

The Heavy Construction segment of Cordy's business is conducted through Battle River, Nohels; and Tawow (the "Heavy Construction Segment").

#### Summary

The Heavy Construction Segment accounts for 47% of the 2013 total revenue generated by the Corporation (44% in 2012). The majority of the services are provided to oil and gas production companies, private developers, public infrastructure and mines in Alberta and British Columbia.

Services provided by the Heavy Construction Segment include:

- Mining services;
- Infrastructure construction and maintenance including roads, reservoirs, deep and shallow water sewage and storm water reticulation;
- Construction, maintenance and reclamation of oilfield leases and lease roads;
- Heavy haulage;
- Gravel supply and delivery;
- Right of way clearing;
- Bridge and culvert installation; and
- Camp services.

Geographic diversity is important for Cordy. The Corporation maintains a presence and is an integral part of the communities where it typically works. This enables the business leaders to develop and maintain solid relationships with customers and employees. The Heavy Construction Segment operations are based out of Manning, the Tsuu T'ina Nation in Alberta and Sparwood, British Columbia.

i) Services

The Heavy Construction Segment uses its own equipment and employees in providing its services and utilizes rented or leased operational facilities, equipment and subcontractors as necessary. The operational facilities include shops and yards that are used to maintain and repair equipment as well as for storage.

The Heavy Construction Segment operates and maintains approximately 100 pieces of automotive equipment (winch tractors, picker trucks, tractors, trailers, one ton trucks and pick-up trucks), 107 pieces of earthmoving equipment (dozers, rock trucks, scrapers, side booms, graders, loaders and excavators) and two permanent camps which can accommodate, in aggregate, 205 people.

ii) Specialized Skills and Knowledge

In order for the Heavy Construction Segment to meet the demands for its products and services, the Corporation must continue to invest in additional resources.

This segment continuously strives to put the right people in the right place and ensure a high level of skills and knowledge through a combination of development, training and recruitment to meet the demands of all its operations.

This segment looks to provide customers with the specialized talent, front-line management and tradespeople to successfully handle their projects in both difficult locations and conditions. Experience, skill and innovation, ability to plan, organize and work efficiently in challenging, geographically diverse locations and in the extreme western Canadian climate represent some of the Corporation's specialized skills in this segment.

The Heavy Construction Segment is conversant in a wide range of complex and multi-disciplined roles. The business leaders work proactively and closely with customers to deliver the optimum economics of construction and long-term operational results within defined parameters and with a clear focus and pursuit of quality and safety. The goal is to execute on each project in the spirit of teamwork and cooperation from start to finish.

iii) Competitive Conditions

In general, the markets served by the Heavy Construction Segment are highly competitive. Competition for larger capital project services is narrower and primarily limited to those capable of providing comprehensive equipment, tool and management services.

The barriers to entry are financially and logistically low with the result that this industry segment is highly fragmented. An increasing number of companies are competing in the markets served by this segment of the Corporation's business.

The key competitive factors in this segment are price, service, quality, breadth of service, capacity to perform, the ability to identify and retain qualified personnel and geographical coverage. The ability and reputation of successfully providing the project execution skills required for completing complex projects in a safe, timely and cost-efficient manner is a differentiator.

While there are many competitors that provide similar services in the Heavy Construction Segment, the Corporation derives its competitive strength from its diversity, reputation for quality, access to a large modern fleet of equipment, technology, cost-effectiveness, project management expertise, geographic coverage, ability to meet customer requirements on projects of varying sizes and its safety record.

The fact that the Heavy Construction Segment has established its operations in set geographical locations also provides it with a competitive advantage as the business leaders remain proximate to work sources and have an intimate knowledge of the regions serviced. Management believes:

- its key elements of competition in providing services in this area are reputation, long-term relationships, commitment and price access to a modern fleet of equipment which allows for greater uptime and improved efficiency; and
- the Corporation's operational systems, resources and customer relationships provide it with the ability to compete in this market

iv) Components

The majority of equipment used in the Heavy Construction Segment is provided by Lyncorp International Ltd., a company wholly-owned by David Mullen. The equipment made available from Lyncorp is newer than what is typically available and is provided at rates equal to, or better than what is available on the open market. The labour market in western Canada is a highly fragmented market with companies increasingly competing nationally and internationally for skilled labour.

v) Cycles

The Heavy Construction Segment is affected by seasonal changes. In general, the level of activity is influenced by seasonal weather patterns. The peak activity period is during the months when the ground is dry or frozen with the non-peak seasons being the months when the ground is too wet to move or use heavy equipment. Historically, the Heavy Construction Segment has been able to secure sufficient projects during the non-peak seasons to enable it to retain its core work and properly utilize its equipment in a profitable manner.

vi) Contractual Conditions

While the basic terms and conditions of the contracts performed may vary considerably, generally the Heavy Construction Segment performs its work under cost reimbursable contracts.

Under cost reimbursable contracts, the customer reimburses the project costs and pays a pre-determined fee or a fee based upon a percentage of the costs incurred on the project. The Corporation's profit may be in the form of a fee, a mark-up applied to costs incurred in performing the contract, or a combination of the two. The fee element may also vary. The fee may be an incentive fee based upon achieving certain performance factors, milestones or targets; it may be a fixed amount in the contract; or it may be based upon a percentage of the cost incurred.

vii) Environmental Protection

Management of the Corporation believes the Heavy Construction Segment is in compliance with all environmental protection regulations governing its activities. The financial and operational effects of environmental protection requirements on the capital expenditures, earnings and competitive positions of the Heavy Construction Segment are not expected to be significant in the current financial year or in future years.

viii) Employees

The Heavy Construction Segment, as at December 31, 2013, employed approximately 134 full-time employees and approximately 7 subcontractors. During the peak heavy construction season the segment employed approximately 276 full-time employees and 54 subcontractors.

## B. PIPELINE AND FACILITIES

The Pipeline and Facilities construction segment of Cordy's business is conducted through Cordy Pipelines Inc. (the "Pipeline Segment").

### Summary

The Pipeline Segment accounts for 13% of the 2013 total revenue generated by the Corporation (19% in 2012). The primary focus of this segment is to serve as a general contractor for construction of small to medium diameter pipeline construction, primarily less than 12" in diameter. In conjunction with pipeline construction, the Pipeline Segment also undertakes the construction and modification of production well sites, metering sites, oil batteries and gas compression and processing facilities. The majority of the services are provided to large and midsized oil and gas production companies.

Services provided by the Pipeline Segment include:

- Pipeline integrity management;
- Right of Way clearing and preparation;
- Environmental reclamation and lease maintenance;
- Oil & Gas gathering systems;
- Well head hook ups;
- Metering facilities;
- Oil batteries and satellites;
- Sweet and sour facilities and low pressure gas tie-ins;
- Dehydrators and separators;
- Compressors and tank farms;
- Pipeline installations;
- Water injection lines;
- Pipeline maintenance and repairs;
- Decommissioning old well sites; and
- Transport of facility components to production sites.

The Pipeline Segment operations are based out of Sundre, Alberta.

i) Services

The Pipeline Segment uses its own equipment and employees in providing its services and utilizes rented or leased operational facilities, equipment and subcontractors as necessary. The operational facilities contain shops and yards that are used to maintain and repair equipment as well as for storage.

The Pipeline Segment operates and carefully maintains approximately 36 pieces of automotive equipment (picker trucks, tractors, trailers, one ton trucks and pick-up trucks) and 28 pieces of earthmoving equipment (dozers, side booms, graders, loaders and excavators). The equipment used is modern and tailored to operate within the geographic areas served by the Pipeline Segment.

ii) Specialized Skills and Knowledge

The Pipeline Segment recognizes the changing economic conditions of the oil and gas industry. The Corporation has assembled the expertise to take on projects that pose a variety of challenges such as location, terrain, and requirements for new processes and technology. Business leaders carefully consider the projects undertaken and assemble the best team possible for each project. The Pipeline Segment's commitment also extends to leaving the smallest environmental footprint in the areas of work.

The Pipeline Segment is committed to ensuring that every project meets the standards for safety and efficiency. Management believes that with an experienced front line management team, talented trades people, local facilities, modern equipment and tight controls the Pipeline Segment is able to achieve efficiencies and successfully complete customers' projects on time. The business leaders operate on the premise that the Corporation is understanding and aware of the time-critical requirements of its customers and the demands on the oil and natural gas producers and distributors to meet strict schedules.

iii) Competitive Conditions

In general, the markets served by the Pipeline Segment are highly competitive. The Pipeline segment has relatively few barriers to entry for companies wishing to offer one or more services that the Pipeline Segment provides. An increasing number of companies are competing in the markets served by this segment.

The key competitive factors in this segment are price, service, quality, breadth of service, capacity to perform, the ability to identify and retain qualified personnel, safety, and geographical coverage. The ability and reputation of successfully providing the project execution skills required for completing complex projects in a safe, timely and cost-efficient manner is a differentiator. Time is one of the greatest challenges in this industry segment with pressure from the oil and natural gas producers and the distributors to meet strict deadlines. While there are many competitors that provide the same services as the Pipeline Segment, the Corporation derives its competitive strength from relationships and the ability to communicate effectively with customers and employees. The business leaders are realistic about what can and cannot be completed within a certain time frame. This segment has a reputation as a reliable contracting service capable of meeting customers' needs safely and on time. The business leaders take pride in developing strong relationships with customers. This segment's objective is to maintain the reputation developed as a leader in pipeline and facilities construction by continuously using the utmost of care for public and personal safety and minimizing damage to the environment.

The fact that the Pipeline Segment has established its operations in set geographical locations provides it with a competitive advantage as it remains proximate to work sources and has an intimate knowledge of the regions serviced.

Management believes the key elements of competition in providing services in this area are reputation, long-term relationships, commitment and price. Management considers the Pipeline Segment's reputation and favourable relationships enable it to compete. The Corporation's operational systems, resources and customer relationships provide it with the ability to compete in this market.

iv) Components

The majority of equipment used in the Segment is provided by Lyncorp International Ltd., a company wholly-owned by David Mullen. The equipment made available from Lyncorp is newer than what is typically available and is provided at rates equal to, or better than what is available on the open market. The labour market in western Canada is a highly fragmented market with companies increasingly competing nationally and internationally for skilled labour.

v) Cycles

The Pipeline Segment provides its services to the oil and gas production industry and is affected by the seasonal nature of that industry in Canada. In general, the level of activity is influenced by seasonal weather patterns. The peak activity period is during the winter months when the ground is frozen with the non-peak seasons being the spring and summer months. Historically, the Pipeline Segment has been able to secure sufficient projects during non-peak seasons to enable it to retain its core work force and properly utilize its owned equipment.

vi) Contractual Conditions

The basic terms and conditions of the contracts performed may vary considerably. Generally, the Pipeline Segment's work is performed under two types of contracts: hourly rates or fixed bid price.

vii) Environmental Protection

Management of the Corporation believes the Pipeline Segment is in compliance with all environmental protection regulations governing its activities. The financial and operational effects of environmental protection requirements on the capital expenditures, earnings and competitive positions are not expected to be significant in the current financial year or in future years.

viii) Employees

The Pipeline Segment, as at December 31, 2013, employed approximately 34 full-time employees and approximately 5 subcontractors. During the peak season the segment employed approximately 40 full-time employees and approximately 10 subcontractors.

## C. MANUFACTURING AND SUPPLY

The Manufacturing and Supply segment of Cordy's business is conducted through Cordy Manufacturing Inc. (the "Manufacturing and Supply Segment").

### Summary

The Manufacturing and Supply Segment accounts for 11% of the 2013 total revenue generated by the Corporation (12% in 2012). This segment provides products and services to the oil sands exploration and seismic industry as well as drilling solutions to the mining, construction, environmental, geotechnical and water well industries. The Corporation has designed, developed and manufactured an innovative PDC drill bit product for oil and gas applications. There has been a demand from international customers for the segment's products and services; however, the majority of this segment's customers are located in western Canada.

Services provided by the Manufacturing and Supply Segment include:

- Manufacturing and supplying of stock and customized drill bits, down hole hammers and hammer bits, rock bits, construction drilling products, mining drilling products and seismic drilling products;
- Manufacturing and supplying of stock and customized mining tools;
- Designing, developing and manufacturing PDC drill bit products for oil and gas drilling applications;
- Selling, renting and servicing bottom hole assemblies and their components;
- Renting large diameter hammers and accessories for wide diameter casing systems such as pilings and elevator shafts; and
- Providing customized drilling solutions through in-house design and manufacturing capabilities whereby overall assistance is provided with respect to job design, product design, start-up, training and job completion.

i) Products and Services

Approximately 50% of the products provided by the Manufacturing and Supply Segment are produced in-house while the remaining 50% of the products provided are purchased from suppliers and resold. Included in the products produced in-house are the PDC drill bits. These bits are sold, serviced and rented to customers in the oil and gas industry.

The Manufacturing and Supply Segment uses its own equipment and employees in providing its products and services. The operational facilities are located in Calgary, Alberta and contain manufacturing equipment such as computer numerical control ("CNC") machine tools, a CNC five axis machining centre, manual machine tools, sub arc welding equipment and computerized welding equipment. Most of the equipment used by the Manufacturing and Supply Segment is state of the art, well maintained and tailored to operate within the areas and industries served by this segment.

ii) Specialized Skills and Knowledge

The Manufacturing and Supply Segment focuses on adopting productivity-enhancing manufacturing techniques and obtaining the tools, people and resources it needs to improve the manufacturing process and performance. This segment has built and maintained an outstanding reputation for dedicated customer service and meeting the specific and unique needs of its customers. The Manufacturing and Supply Segment has the technical expertise required to be innovative and supportive to customers in each industry served.

The Manufacturing and Supply Segment's quality management system for the design and manufacturing of down hole drilling tools is registered with the quality management system requirements of ISO 9001:2008 and ISO/TS 29001-2010.

iii) Competitive Conditions

Management believes the Manufacturing and Supply Segment is a leader in its principal markets and has a competitive advantage over many of its competitors by being able to provide a complete range of solutions rather than one product or service. Management has identified other factors it believes contribute to this segment's competitive advantage including:

- Strong network contacts, relationships and trust-based partnerships within the industries served;
- A focus on total quality and customer satisfaction;
- Systematic continuous improvement and the elimination of non-value adding activities using technologically advanced equipment; and
- Employee involvement, training and empowerment, and

- Unique and innovative PDC bit designs.

iv) Components
Long-standing relationships have been established with suppliers. Most of the equipment and material used in the operations is readily available from several sources at competitive prices.

v) Cycles
The Manufacturing and Supply Segment has a relatively stable business cycle. The products and services are provided to a number of businesses that are predominately in the oil and gas sector.

During the winter months the concentration is on the oil sands and seismic exploration. For the remainder of the year the segment concentrates on supplying drill bits to mining production drilling, mineral exploration, water well drilling and geotechnical drilling businesses.

vi) Economic Dependence
In tough times customers are more fickle, skeptical, demanding and pricing is the primary driver. Although conditions have somewhat improved, management continues to focus on isolating the areas where cost containment efforts can strengthen the segment's ability to withstand market uncertainty while positioning the segment for future success.

vii) Environmental Protection
Management believes the Manufacturing and Supply Segment is in compliance with all environmental protection regulations governing its activities. The financial and operational effects of environmental protection requirements on the capital expenditures, earnings and competitive positions of the Manufacturing and Supply Segment are not expected to be significant in the current financial year or in future years.

viii) Employees
The Manufacturing and Supply Segment, as at December 31, 2013, employed approximately 44 full-time employees with the same number of employees during its peak season.

## D. ENVIRONMENTAL SERVICES

The Environmental Services segment of Cordy's business is conducted through Cordy Environmental Inc. (the "Environmental Services Segment").

### Summary

The Environmental Services Segment accounts for 29% of the 2013 total revenue generated by the Corporation (25% in 2012). The Environmental Services Segment is generally involved in providing environmental clean-up, hazardous goods transport and containment services that organizations require to operate in a safe and environmentally responsible manner.

The Environmental Services Segment provides its services to the oil and gas services, production, industrial and commercial industries. The services are provided to customers located throughout Alberta.

Services provided by the Environmental Segment include:

- Fluid hauling
  - Hydro-Excavation
  - Exposing Gas, Electrical, Phone, and Cable lines
  - Contaminated Soil and Spill Removal
  - Vessel Cleaning, Steam and Pressure Wash
  - Dangerous Goods Transport
  - Trenching
  - Test holes
- Water Blasting
  - Pressure Washing
  - Towers and Vessels
  - Heat exchanges (tube and shell)
  - 3D pressure
  - Specialty tools
- Projects and Turnarounds
  - Drilling Rigs
  - Transfer and Spread Drilling Fluids
  - Oil Field and Industrial Services
  - 24-Hour Emergency Response
  - Dangerous Goods Transport
  - Confined Space Entry
  - Facility Turnarounds
  - High Pressure and Steam Cleaning
  - Line and Sewer Flushing
  - Commercial Lift Station and Field Installation
  - Water Hauling
  - Pressure Testing
  - Thawing Frozen Lines

i) Services

The Environmental Services Segment uses its own equipment and employees in providing its services and utilizes rented or leased equipment and subcontractors as necessary. The operational facilities contain shops and yards that are used to maintain and repair equipment as well as for storage.

The Environmental Services Segment operates and carefully maintains a modern fleet of specialized equipment including: approximately, 32 vacuum trucks, 9 hydro vac trucks, 28 water trucks, 4 semi vac trucks, 2 combo vac units, 2 quad wagons, 2 high pressure units, 2 chemical trucks, 2 septic tankers, 11 gravel trucks and 20 well-site trailers.

ii) Specialized Skills and Knowledge

This segment of the Corporation provides superior standards of service and performance with importance placed on the protection, health, and safety of employees, the community and the environment. The business leaders believe in teamwork and encourage continuous personal and professional improvements. Each equipment operator is required to complete training for numerous certifications including, TDG, H2S Alive, WHIMIS, Confined Space Entry and CPR. These instructional courses along with a hands-on training period, enable this segment's employees to acquire the skill and knowledge needed to make responsible decisions. Employee Health and Safety and Substance Abuse Programs have been designed around the strictest of health, safety and environmental standards.

iii) Competitive Conditions
The Environmental Services Segment competes with a number of companies that provide the same or similar services. A number of these competitors are relatively small, some are new businesses consisting of one or two pieces of equipment and, while these operations may acquire some of the available business, management of the Corporation does not see them as posing a material threat. Most of the significant competition comes from larger entities, some of which are public companies. Management believes the Environmental Services Segment is able to set itself apart by maintaining a solid reputation, developing an understanding of the industries it serves and through retention of key employees who are able to maintain long-term relationships with customers.

iv) Cycles
The environmental services provided to the energy sector are affected by weather conditions. The thawing that occurs during spring break-up renders many secondary roads incapable of supporting heavy equipment resulting in this being a slower period for this particular business line. Increasingly, the Environmental Services Segment has been able to secure sufficient projects during non-peak seasons to enable it to retain its core work force, properly utilize its owned equipment and maintain profitability.

v) Economic Dependence
A significant portion of the Environmental Services Segment revenue is generated from industrial services. Customers in the industrial services sector are not as immediately susceptible to the impact of a downturn in the oil and gas industry. However, a portion of the Environmental Services Segment revenue is generated from customers operating in the oil and gas industry in western Canada. A decline in commodity prices for oil and gas, regulatory changes and technological changes could result in a decline in oil and gas production. This segment is susceptible to these types of changes. To the extent appropriate, management has adopted business practices, including diversification of its customer base, to protect the Corporation from the changing conditions of the oil and gas industry specifically.

vi) Environmental Protection
The Environmental Services Segment is heavily impacted by environmental protection requirements. Management takes a proactive approach to these requirements and attempts to position the segment ahead of the current regulations through the use of new technologies. Management believes the cost of compliance by the Environmental Services Segment with increased environmental protection regulations is offset by the increase in demand for the Environmental Segment's services that these new regulations generally create. Environmental protection requirements have impacted capital expenditures and it is expected by management that similar expenditures will occur into the reasonably foreseeable future.

vii) Employees
The Environmental Services Segment, as at December 31, 2013, employed approximately 132 full-time employees with a total of approximately 167 people during the peak season.

## RISK FACTORS

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

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

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

## MARKET RISK

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

### Oil and Natural Gas Drilling Activity

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

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

### Competition

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

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

### Dependence on Suppliers

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

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

### Economic Dependence

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

In 2013, 61% of the Heavy Construction Segment's sales were concentrated with three of its largest customers. Likewise, three of the largest customers of the Environmental Segment comprised 45% of sales. The Manufacturing and Supply Segment's largest three customers accounted for 31% of the sales. 51% of the Pipeline and Facilities Construction Segment sales were generated from three of its largest customers. There can be no assurance that the Corporation's relationship with these customers will continue, and a significant reduction or total loss of the business from these customers, if not offset by sales to new or existing customers, could have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows.

Two customers represented 16% and 11% of the Corporation's consolidated revenue for the year ended December 31, 2013 respectively.

### Government Regulation

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

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

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

### Environmental Liability

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

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

### Operating Risks and Insurance

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

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

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

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

### Operating Equipment Risks

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

### First Nation Relationships

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

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

### Legal Proceedings

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

### Environmental Risks

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

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

### Access to Additional Financing

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

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

### Vulnerability to Market Changes

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

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

### Volatility of Industry Conditions

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

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

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

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

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

### Seasonality

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

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

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

### Alternatives to and Changing Demand for Petroleum Products

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

### Reliance on Personnel

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

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

### Failure to Realize Anticipated Benefits of Acquisitions and Dispositions

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

Acquisitions involve numerous risks, including:

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

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

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

Management will continue to use its best efforts to address all of these uncertainties in the evaluation of acquisitions or dispositions.

## FINANCIAL RISKS

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

### Credit risk

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

At December 31, 2013, the Corporation had an allowance for doubtful trade accounts receivable of $1.7 million (December 31, 2012 – $1.2 million). Management considers its trade accounts receivable to be overdue if outstanding for more than 30 days.

Trade receivables are categorized as follows:

| Carrying amount ($ millions) | 2013 | 2012 |
|---|---|---|
| Trade receivables | 15.5 | 19.3 |
| Other receivables (includes accrued revenue, GST and other receivables) | 2.3 | 1.8 |
| Total receivables | 17.8 | 21.1 |

### Impairment risk

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

### Interest risk

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

At December 31, 2013 and 2012, the interest rate profile of the Corporation's interest-bearing financial instruments was:

| Carrying amount ($ millions) | 2013 | 2012 |
|---|---|---|
| Fixed-rate instruments | | |
| Financial assets | – | – |
| Financial liabilities | 14.4 | 17.3 |
| Total | 14.4 | 17.3 |

### Fair value sensitivity analysis for fixed-rate instruments

Interest rate risk arises on borrowings issued at variable rates, which exposes risk to future cash flows if interest rates were to rise. The Corporation's various financing loans are all issued at fixed rates. As at December 31, 2013, assuming all other variables were held constant, if interest rates were to increase by 1.0 percent on the $14.4 million of the Corporation's debt, including the loan payable, the Corporation would incur additional annual interest expense of approximately $0.1 million. Cordy does not account for any fixed rate financial assets and liabilities at Fair Value through Profit or Loss ("FVTPL").

### Fair values versus carrying amounts

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

The carrying values of financial assets and liabilities approximate their fair values.

### Interest rates used for determining fair value

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

| | 2013 | 2012 |
|---|---|---|
| Loans and borrowings | 12.21% | 5.58% |
| Total | 12.21% | 5.58% |

### Foreign exchange

Foreign exchange risk represents the effect of changes in foreign exchange rates on the fair value or future cash flows of the Corporation's financial assets or liabilities. The Corporation enters into transactions denominated in United States dollars (USD) for which the related revenues, expenses and working capital balances are subject to exchange fluctuations. Exposure to exchange rate fluctuations is minor due to the short-term nature of these working capital balances and the fact that assets and revenues in USD are largely offset by liabilities and expenses in the same currency. During the year ended December 31, 2013, the Corporation recognized $6.5 million (2012 – $2.6 million) of sales denominated in USD and incurred purchases of $3.7 million (2012 – $3.3 million) denominated in USD.

### Capital management

The Corporation's capital structure is comprised of shareholders' equity, long-term debt, obligations under finance leases, and a short term secured loan. Cordy's objectives in managing its capital are the following:

- To maintain flexibility as to preserve the Corporation's access to capital and its ability to meet its financial obligations
- To finance growth, including potential acquisitions

The Corporation manages its capital structure and makes adjustments in light of changing market conditions along with new opportunities, while remaining cognizant of the cyclical nature of the energy services sector and other sectors it operates in. In order to maintain or adjust its capital structure, Cordy may revise capital spending, issue new shares or new debt or repay existing debt.

| As at December 31 | 2013 | 2012 |
|---|---|---|
| Loan Payable | 5,787 | - |
| Total debt obligations | 8,485 | 16,982 |
| Operating facility | - | 6,697 |
| Obligations under finance lease | 115 | 334 |
| Total debt | 14,387 | 24,013 |
| Total equity | 39,787 | 42,707 |
| Less: Cash | (5,590) | (2,839) |
| Total capitalization | 48,584 | 63,881 |

As at December 31, 2013, the Corporation manages capital based on the following ratios:

- Minimum fixed charge coverage ratio ("FCCR") of 1.1 to 1[7]
- Maximum debt to total capitalization of 1 to 1

The Corporation is compliant with its covenants and ratios as at December 31, 2013.

### Liquidity Risk

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

[7] *Fixed charge coverage ratio consolidated is equal to EBITDA adjusted for the payments of income taxes and certain capital expenditures to Debt Service Charges comprised of all interest payments plus principal payments on long-term debt and finance lease obligations.*

equipment and other assets, along with available financing, will provide a sufficient cash resource to fund the Corporation's operating requirements, debt repayments and capital expenditures.

The Corporation has the following commitments tied to operating leases:

| Operating lease payments due | ($ millions) |
|---|---|
| 2014 | 1.4 |
| 2015 | 0.9 |
| 2016 | 0.7 |
| 2017 | 0.5 |
| Total | 3.5 |

## SHARE CAPITAL

On November 27, 2013, the Corporation issued 1.5 million common shares at a price of $0.135 as partial consideration for the loan payable of $6.0 million.

On August 31, 2012, the Corporation issued 0.6 million common shares at a price of $0.25 as contingent consideration for the acquisition of RB2.

| Year ended December 31<br>(# of shares in millions) | 2013 | 2012 |
|---|---|---|
| On issue at January 1 | 88.0 | 87.4 |
| Issued as partial consideration for secured loan | 1.5 | - |
| Issued on contingent consideration | - | 0.6 |
| On issue at December 31 | 89.5 | 88.0 |

### Common shares

At December 31, 2013, the Corporation was authorized to issue an unlimited number of common shares. The holders of common shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Corporation. All shares rank equally with regard to the Corporation's residual assets.

| Equity (# of shares in millions) | 2013 | 2012 |
|---|---|---|
| Balance at January 1 | 42.7 | 44.8 |
| Loss for the period | (1.8) | (3.2) |
| Share-based payments | 0.1 | 0.4 |
| Issued as partial consideration for secured loan | 0.2 | - |
| Issued on contingent consideration | - | 0.1 |
| Other Comprehensive Income | 0.1 | - |
| Distributions | (0.5) | - |
| Non-Controlling interest | 0.3 | 0.6 |
| Balance at December 31 | 41.1 | 42.7 |

Summary information with respect to share options outstanding at December 31, 2013 is provided below:

| Options outstanding | Exercise price | Grant date | Expiry date |
|---|---|---|---|
| 3,363,000 | 0.29 | March 23, 2012 | March 23, 2017 |
| 150,000 | 0.29 | August 10, 2012 | August 10, 2017 |
| 200,000 | 0.24 | December 18, 2012 | December 18, 2017 |

## OFF-BALANCE-SHEET ARRANGEMENTS

As at December 31, 2013, the Corporation had no off-balance-sheet arrangements except for operating leases previously described.

## CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2013, the Corporation adopted IFRS 7- Financial Instruments: Disclosures; IFRS 10 – Consolidated Financial Statements; IFRS 11 – Joint Arrangements; IFRS 12- Disclosure of Interest in Other Entities; and IFRS 13 – Fair Value Measurement. IFRS 10, 11 and 12 were applied retrospectively. IFRS 13 was applied prospectively.

IFRS 7, 'Financial Instruments: Disclosures', develop common disclosure requirements for financial assets and financial liabilities that are offset in the financial statements, or that are subject to enforceable master netting arrangements or similar agreements. The adoption of this standard did not have a material effect on the Corporation.

IFRS 10- Consolidated Financial Statements established the principles under which the Corporation has to present its consolidated financial statements. Management has concluded that Cordy has the power to govern the financial and operating policies of Dene-Cor. This has resulted in a change in how Cordy accounts for its 49% investment in Dene-Cor from equity accounting to full consolidation with the partner's 51% share in the investment reported as non-controlling interest. IFRS 10 was applied retrospectively in these consolidated financial statements and the comparative financial statements were restated to conform with the current period presentation.

IFRS 11, 'Joint Arrangements', establishes the principles under which a reporting issuer accounts for its interest in a joint arrangement, including joint ventures or joint operations. This standard is effective for the annual periods beginning on or after January 1, 2013. The adoption of this standard did not have a material effect on the Corporation.

IFRS 12, 'Disclosures of Interests in Other Entities', includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The standard is effective for the annual periods beginning on or after January 1, 2013. The adoption of this standard did not have a material effect on the Corporation.

IFRS 13, Fair value measurement, establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The standard is effective for annual periods beginning on or after January 1, 2013. The adoption of this standard did not have a material effect on the Corporation.

The Corporation early adopted the amendments of IAS 36.

## NEW IFRS PRONOUNCEMENTS

The new pronouncement set forth below is effective for financial statements with annual periods beginning on or after January 1, 2014:

IAS 32, 'Financial Instruments: Presentation', clarifies existing requirements for offsetting financial assets and financial liabilities for the annual periods beginning on or after January 1, 2014. Management has completed its initial assessment of the amendments to IAS 32. Based on such assessment, the Corporation does not anticipate a material impact on its financial statements.

## DIVIDENDS AND DISTRIBUTIONS

The Corporation declared a distribution to the Cold Lake First Nations in the amount of $0.5 million through the Dene-Cor partnership. The Corporation has not declared any amount of cash dividends on its Common Shares and currently intends to reinvest any earnings to fund the development and growth of its business. Any future payments of dividends or distributions will be at the discretion of the board of directors and will depend upon the financial condition, capital requirements and earnings of the Corporation as well as other factors it may deem relevant. The Corporation's Articles of Incorporation do not contain any restrictions on the payments of dividends or distributions.

## DESCRIPTION OF CAPITAL STRUCTURE

The Corporation is authorized to issue an unlimited number of Common Shares. The Corporation had 89,453,810 Common Shares outstanding as at December 31, 2013.

The holders of Common Shares are entitled to receive notice of, and to one vote per share at, every meeting of shareholders of the Corporation, to receive such dividends as the board of directors declares, and to share equally in the assets of the Corporation remaining upon the liquidation of the Corporation after the creditors of the Corporation have been satisfied.

## MARKET FOR SECURITIES

The Corporation's Common Shares are listed on the TSX Venture Exchange under the symbol "CKK". The following table sets forth the monthly price ranges and volumes of trading of the Common Shares on the Exchange from January 1, 2013 until December 31, 2013.

| Period | High $ | Low $ | Volume |
|---|---|---|---|
| January | $0.27 | $0.21 | 668,500 |
| February | $0.23 | $0.20 | 462,800 |
| March | $0.22 | $0.19 | 535,600 |
| April | $0.19 | $0.17 | 615,200 |
| May | $0.19 | $0.15 | 253,400 |
| June | $0.19 | $0.16 | 400,000 |
| July | $0.20 | $0.17 | 327,300 |
| August | $0.20 | $0.17 | 286,600 |
| September | $0.18 | $0.15 | 1,196,100 |
| October | $0.18 | $0.14 | 1,763,300 |
| November | $0.15 | $0.13 | 1,514,300 |
| December | $0.16 | $0.14 | 3,539,200 |

## PRIOR SALES

The following table summarizes the issuances of Common Shares or securities convertible into Common Shares during the year ended December 31, 2013.

| Date of Issuance | Securities | Number of securities | Price per security[1] |
|---|---|---|---|
| March 23, 2012 | Options to purchase Common Shares ("Options") | 4,335,000 | $0.29 |
| August 10, 2012 | Options | 150,000 | $0.29 |
| December 18, 2012 | Options | 200,000 | $0.24 |

Note:
(1) Represents the exercise price per Option

## DIRECTORS AND OFFICERS

The following table sets forth information with respect to the directors and executive officers of the Corporation as at December 31, 2013. The term of office of each director will expire at the end of the next annual meeting of Shareholders of the Corporation.

| Name, Municipality of Residence, Office and Date became a Director | Principal Occupation and Positions Held During the Past Five Years | Number and Percentage of Common Shares Held[(1)(2)] |
|---|---|---|
| David Mullen<br>Calgary, Alberta, Canada<br>Chief Executive Officer, Chairman and Director<br><br>Director since August 8, 2005 | Mr. Mullen is currently the Chairman of the Board and Chief Executive Officer of the Corporation. Prior to joining the Corporation, Mr. Mullen spent 27 years in various capacities with Mullen Trucking LP. At the time of his departure, he was Senior Vice President of Mullen Trucking LP located in Aldersyde, Alberta. Mr. Mullen has been a director of Golconda Resources Ltd, a publically traded mineral and resource exploration company on the TSX-V Exchange, since December 2008 and was appointed to the Mullen Group Ltd. Board of Directors in May 2011. | 17,169,534 [(6)]<br>(19.19%) |

| Name, Municipality of Residence, Office and Date became a Director | Principal Occupation and Positions Held During the Past Five Years | Number and Percentage of Common Shares Held(1)(2) |
|---|---|---|
| Robert N. Waddell, CMA, FCMA(3) (4) (5)<br>Calgary, Alberta, Canada<br>Director<br><br>Director since July 5, 2005 | Mr. Waddell has held senior financial management positions during his 40 year career as a professional accountant. He is currently consulting to Graycon Group Ltd. and prior to that was the Chief Financial Officer for Kenn Borek Air Ltd. Between October 2003 and November 2005 Mr. Waddell served as Chief Financial Officer of the Corporation. From 2000 to 2003 he was Controller with AVMAX Group Inc. Prior to that time he spent sixteen years with AGRA Inc., (a TSX public company until 2000) in several positions including Vice President Finance. Mr. Waddell has been awarded the FCMA designation by CMA Canada in recognition of his many years of contribution to the profession and the community. | Nil |
| David E. Olson, CA, ICD. D.(3) (4) (5)<br>Calgary, Alberta, Canada<br>Director<br><br>Director since November 29, 2010 | Mr. Olson retired, on July 31, 2010, as the Vice President of Finance and Chief Financial Officer of the Mullen Group Ltd., a TSX listed company. Mullen Group is a growth-oriented company providing transportation and oilfield services. He has over 40 years of business experience of which the last seventeen years were as a CFO of the Mullen Group. During that time he was involved in over 40 acquisitions, two private debt placements and three equity issues. He has been a Chartered Accountant since 1973, and also has a Bachelor of Arts (Economics major). He is a member of the Institute of Chartered Accountants of Alberta, the Financial Executives Institute, and received his I.C.D.D. designation from the Institute of Corporate Directors in 2011. | 200,000<br>(0.22%) |
| Timothy H. Urquhart, ICD. D.(3) (4) (5)<br>Calgary, Alberta, Canada<br>Director<br><br>Director since August 17, 2011 | Mr. Urquhart has over 30 years of senior business experience in the Canadian Building Materials Industry. He has been President and Chief Executive Officer of the TIM-BR MART Group of Companies from 2004 to 2013. During this period, the company grew from $600 million to $2.5 billion with over 750 sales locations and 5 distribution centres across Canada. As a growth specialist he has successfully completed 3 acquisitions, 4 mergers and 1 joint venture. Mr. Urquhart was a director of SPANCAN Inc. from 2007 to 2013 and served as Chairman of the Board of Directors. He became an Advisory Board Member of The President's Council in 2011. He is a member of the BSIA, WRLA, LBMAO and ABSDA Industry Associations. Mr. Urquhart has completed the Directors Education Program at the University of Calgary – Haskayne School of Business and is a member of the Institute of Corporate Directors. | 70,000<br>(0.08%) |

| Name, Municipality of Residence, Office and Date became a Director | Principal Occupation and Positions Held During the Past Five Years | Number and Percentage of Common Shares Held[(1)(2)] |
|---|---|---|
| Melvin Ternan, P.Eng.[(3) (4) (5)]<br>Okotoks, Alberta<br>Director<br><br>Director since August 10, 2012 | Mr. Ternan served as the founding President of PipeLine Machinery International LP from its inception in 2005 until his retirement in January 2011. This company is the Caterpillar dealership with the unique responsibility for serving the pipeline construction industry globally. PLM is headquartered in Houston, with offices in Edmonton, The Hague, Beijing, Melbourne, and Singapore. Prior to that, Mr. Ternan was employed by Finning (Canada), one of the four partners in PLM, as GM of Pipelines and Construction, and by Powell Equipment, the Caterpillar dealer in Winnipeg in various operations and sales management positions. Ternan worked in the Heavy Construction industry in Canada, USA, Central America, and Africa from 1968 to 1983. Mr. Ternan served on the Board of Pipe Line Contractors of Canada from 1996 through 2006. His consulting firm, Ternan Management Services Inc., currently acts as a consultant to clients engaged in the planning, design, and construction of major strategic pipeline projects. Mr. Ternan graduated as a civil engineer in 1968 with a B.A.Sc. degree from the University of Waterloo and is currently a member of APEGA in Alberta. | Nil |
| David J. Boomer, CA, CPA<br>Calgary, Alberta, Canada<br>Chief Financial Officer | Mr. Boomer was appointed Cordy's Chief Financial Officer on September 15, 2012. Prior to joining Cordy, Mr. Boomer was a partner at a big four accounting firm and has a Canadian C.A., a U.S. CPA, an Economics degree and 27 years of experience advising public and private corporations. He is involved in several community boards as Board Chair of Between Friends, Board member and Treasurer of Aviation Alberta, and external audit committee advisor for the Calgary Catholic Separate School Board. | 1,100,000<br>(1.23%) |

Notes:

(1) Common Shares beneficially owned, directly or indirectly, or over which control or direction is exercised, as at December 31, 2013, based upon information furnished to the Corporation by the above individuals.
(2) A total of 89,453,810 Common Shares were issued and outstanding as at December 31, 2013.
(3) Member of the Audit Committee.
(4) Member of the Governance and Compensation Committee.
(5) Member of the Nominating Committee.
(6) 16,334,534 of these shares are held by Lyncorp International Ltd., a company wholly-owned by David Mullen.

Excluding Common Shares that may be issued pursuant to the exercise of stock options, as of December 31, 2013, the directors and executive officers of the Corporation as a group beneficially owned, directly or indirectly 18,539,534 Common Shares representing approximately 20.72% of the issued and outstanding Common Shares. The information as to the beneficial ownership of such shares, not being within the knowledge of the Corporation, has been confirmed by the directors and executive officers of the Corporation.

### Cease Trade Orders, Bankruptcies, Penalties or Sanctions

No director or executive officer of the Corporation is, or within ten years prior to the date of this AIF, has been a director, a chief executive officer or a chief financial officer of any company (including the Corporation), that:

(a) was subject to: (i) a cease trade order; (ii) an order similar to a cease trade order; or (iii) an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days (collectively, an "Order"), that was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer; or

(b) was subject to an Order that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

No director or executive officer of the Corporation, or a shareholder holding a sufficient number of securities of the Corporation to affect materially control of the Corporation, is, or within ten years prior to the date of this AIF, has been a director or executive officer of any company (including the Corporation) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

No director or executive officer or a shareholder holding a sufficient number of securities of the Corporation to affect materially control of the Corporation, has, within the past ten years prior to the date of this AIF, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or was subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of such person.

No director or executive officer of the Corporation, or a shareholder holding a sufficient number of securities of the Corporation to affect materially control of the Corporation, has been subject to (i) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority, or (ii) any other penalties or sanctions imposed by a court or regulatory body that would be likely to be considered important to a reasonable investor in making an investment decision.

### Conflict of Interest

The Corporation's governance policies contain "conflict of interest" provisions similar to those contained in the ABCA. Each director and officer of the Corporation are required to disclose any interest in a material contract or transaction or proposed material contract or transaction with the Corporation or the fact that such person is a director or officer of or otherwise has a material interest in any person who is a party to a material contract or transaction or proposed material contract or transaction with the Corporation.

An agreement was entered into on March 31, 2011 between Cordy and Lyncorp International Ltd., a company wholly-owned by David Mullen. The rental agreement is for new pieces of heavy equipment on a month-to-month basis. The agreement was approved by non-affiliated directors and includes terms and conditions equal to or better than what is currently available in the open market. All transactions related to this agreement have been disclosed in the related party section of the Corporation's 2013 Audited Financial Statements.

## LEGAL PROCEEDINGS AND REGULATORY ACTIONS

The Corporation is subject to legal proceedings, claims and legal actions arising In the ordinary course of business as at December 31, 2013. The Corporation's Management does not expect that the ultimate costs to resolve these matters will have a material adverse effect on the Corporation's consolidated financial position, comprehensive income or cash flows.

There are no penalties or sanctions imposed against the Corporation by a court relating to securities legislation or by a securities regulatory authority during legal proceedings material to the Corporation to which the Corporation is a party or of which any of its property is the subject matter, and there are no such proceedings known to the Corporation to be contemplated during the financial year ended December 31, 2013.

## INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Other than as disclosed herein, none of the directors, executive officers or principal shareholders of the Corporation and no known associate or affiliate of any of them, has or had any material interest, direct or indirect, in any transaction within the three years prior to the date of this Annual Information Form or in any proposed transaction, that has materially affected or will materially affect the Corporation.

## TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Common Shares is Computershare Trust Company of Canada at its principal offices in Calgary, Alberta, and Toronto, Ontario.

## MATERIAL CONTRACTS

Other than as set forth herein, or as previously disclosed, the Corporation is not aware of any material interests, direct or indirect, by way of beneficial ownership of securities or otherwise, of any director or executive officer, proposed nominee for election as a director or any shareholder holding more than 10% of the voting rights attached to the Common Shares or any associate or affiliate of any of the foregoing in any transaction in the preceding financial year or any proposed or ongoing transaction which has or will materially affect the Corporation.

An agreement was entered into on March 31, 2011 between Cordy and Lyncorp International Ltd. (“Lyncorp”), a company wholly-owned by David Mullen. The rental agreement is for new pieces of heavy equipment on a month-to-month basis. The agreement was approved by non-affiliated directors and includes terms and conditions equal to or better than what is currently available in the open market. All transactions related to this agreement have been disclosed in the related party section of the Corporation’s 2013 Audited Financial Statements.

In addition, an asset purchase agreement was entered into on September 27, 2013 between Cordy and Lyncorp, pursuant to which Cordy sold 2 CAT D11Ts to Lyncorp for a sales price of $2,776,250.

## INTERESTS OF EXPERTS

KPMG LLP has prepared the auditors' report on the consolidated financial statements of the Corporation for the year ended December 31, 2013. KPMG LLP is independent in accordance with the rules of professional conduct of the Institute of Chartered Accountants of Alberta.

## ADDITIONAL INFORMATION

Additional information, including directors’ and officers’ remuneration, principal holders of the Corporation’s securities and securities authorized for issue under equity compensation plans, is contained in the Corporation’s most recent Information Circular. Additional financial information is provided in the Corporation’s Consolidated Financial Statements and Management’s Discussion and Analysis for the year ended December 31, 2013.

Additional information relating to the Corporation may be found on SEDAR at www.sedar.com.