



ZEDCOR ENERGY INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

**FOR THE THREE AND NINE MONTHS ENDED
SEPTEMBER 30, 2018 AND 2017**

Dated November 13, 2018

ZEDCOR ENERGY INC.
Management's Discussion and Analysis
For the three and nine months ended September 30, 2018

The following management's discussion and analysis ("MD&A") provides an overview of the events and transactions that have affected the performance of Zedcor Energy Inc. (the "Company" or "our" or "we") formerly Canadian Equipment Rentals Corp. for the three and nine months ended September 30, 2018 when compared to the three and nine months ended September 30, 2017. The MD&A should be read in conjunction with the audited consolidated financial statements and accompanying notes thereto of Zedcor Energy Inc. for the years ended December 31, 2017 and 2016. These consolidated financial statements are available on the Company's website at www.zedcor.ca as well as on SEDAR at www.sedar.com.

This MD&A is management's assessment of the Company's operations and financial results, as well as management's view of future prospects. These assessments and views are based on certain assumptions related to future events which are uncertain. Statements related to assessments and views which are not statements of historical fact are considered to be forward-looking statements. For a discussion on the risks and uncertainties related to such information please refer to "Forward-Looking Statements" at the end of this MD&A.

This MD&A has been prepared by management and reviewed and approved by the Board of Directors of Zedcor Energy Inc. as of November 13, 2018.

OVERVIEW AND CORPORATE PROFILE

Zedcor Energy Inc. is a Canadian public corporation and is currently the parent company to Zedcor Energy Services Corp. ("Zedcor"). Zedcor is engaged in the rental of surface equipment and accommodations, and providing security and surveillance services in Western Canada. The Company trades on the TSX Venture Exchange under the symbol "ZDC".

The Company provides surface equipment rentals and wellsite accommodations rentals to support the drilling and completions operations of energy and production companies operating in the Western Canada Sedimentary Basin and also provides rental equipment, security and surveillance services to support construction and infrastructure projects in the same region. The Company operates as Zedcor Energy Services Corp. from its main facility in Leduc, Alberta, sales office in Calgary, Alberta and operating yards in Grande Prairie, Alberta, and Fort St. John, British Columbia.

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EXECUTIVE SUMMARY:

Selected Financial Highlights

Amounts in the following tables are presented in thousands of dollars, except for per share amounts and percentages.

(in \$000s)	Three months ended Sept. 30		Nine months ended Sept. 30	
	2018	2017	2018	2017
Revenue	3,992	3,539	12,628	10,330
Adjusted EBITDA^{1,2}	1,112	1,287	3,249	2,514
Adjusted EBIT^{1,2}	(656)	(336)	(2,223)	(2,525)
Net loss from continuing operations	(1,608)	(1,254)	(4,984)	(5,751)
Net loss per share from continuing operations				
Basic	(0.03)	(0.02)	(0.10)	(0.12)
Diluted	(0.03)	(0.02)	(0.10)	(0.12)

¹ Adjusted for severances and refinancing costs

² See Financial Measures Reconciliations below

- Revenue for the quarter ended September 30, 2018 increased by \$453 or 11% from \$3.5 million to \$4.0 million compared to the same quarter in 2017. This increase was due to revenue generated from the Company's new fleet of hybrid solar light towers and related security and surveillance offering. Revenue from oilfield rentals remained relatively flat due to lower than expected activity in September as a result of wet weather.
- During the first three quarters of 2018, the Company purchased 107 new hybrid solar light towers, many of which are equipped with high resolution security cameras to provide customers with surveillance services. These new solar light towers and related surveillance services resulted in \$784 of revenue in the quarter ended September 30, 2018.
- Adjusted EBITDA for the quarter ended September 30, 2018 was \$1,112, a decrease of \$175 from the quarter ended September 30, 2017. This decrease is a result of general and administrative costs increasing by \$332 quarter over quarter. This increase in general and administrative costs is due to additional headcount in sales and operations management to support the security and surveillance offering.
- Adjusted EBITDA for the nine months ended September 30, 2018 increased by \$735 or 23% from \$2.5 million to \$3.2 million when compared to the same quarter in 2017. The increase is a result of revenue increasing by 18% and general and administrative costs decreasing by 17% in the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017.
- Net loss from continuing operations increased by \$354 for the quarter ended September 30, 2018 when compared to the same quarter in 2017. As referenced above, the increase is a result of increased general and administrative costs.
- On September 28, 2018, the Company renewed the Loan and Security Agreement in the amount of \$15.9 million for an additional 6 months. See Liquidity and Capital Resources section.

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SELECTED QUARTERLY FINANCIAL INFORMATION

(Unaudited - in \$000s)	Sept 30 2018	Jun 30 2018	Mar 31 2018	Dec 31 2017	Sept 30 2017	Jun 30 2017	Mar 31 2017	Dec 31 2016
Revenue	3,992	3,408	5,228	4,306	3,539	2,348	4,442	3,444
Net loss from continuing operations	(1,608)	(2,760)	(616)	(2,618)	(1,254)	(3,529)	(969)	(3,106)
Net income (loss) from discontinued operation	—	—	—	—	211	—	(427)	(3,062)
Adjusted EBITDA¹	1,112	365	1,772	1,417	1,287	36	1,191	505
Adjusted EBITDA per share - basic¹	0.02	0.01	0.03	0.03	0.03	0.00	0.03	0.01
Net loss per share from continuing operations								
Basic	(0.03)	(0.05)	(0.01)	(0.05)	(0.02)	(0.07)	(0.02)	(0.08)
Diluted	(0.03)	(0.05)	(0.01)	(0.05)	(0.02)	(0.07)	(0.02)	(0.08)
Net income (loss) per share from discontinued operation								
Basic	—	—	—	—	0.00	—	(0.01)	(0.08)
Diluted	—	—	—	—	0.00	—	(0.01)	(0.08)
Adjusted free cash flow¹	120	1,114	(324)	168	(348)	222	(315)	386

¹ See Financial Measures Reconciliations below

OPERATIONS REVIEW

Q3 2018 vs Q3 2017

Commodity prices in the oil and gas sector in Western Canada in the third quarter of 2018 were similar to the third quarter of 2017. Drilling activity in the first two months of the third quarter of 2018 were similar to the second quarter 2017, however September 2018 saw a decline in activity due to weather conditions, which resulted in lower than expected rental revenue for the month. Rental prices for the quarter ending September 30, 2018 were marginally higher than the quarter ending September 30, 2017. Despite this marginal increase in rental rates there is still strong competition from other service providers with idle assets which is preventing a full recovery in rental pricing.

During the third quarter of 2018, the Company sold under-utilized assets with a net book value of \$1.5 million for proceeds of \$1.4 million. The Company also purchased \$1.9 million of equipment including wellsite trailers and hybrid solar light towers, with almost half the hybrid solar light towers equipped with high resolution security cameras to provide customers with surveillance services. The new hybrid solar light towers and related services has allowed the Company to continue to expand its customer base to new industry segments including pipeline construction, resulting in increased revenue.

For the quarter ended September 30, 2018 revenue was \$4.0 million, an increase of \$453 compared to the same period in 2017. This increase is a direct result of revenue generated from the security and surveillance offering. Gross margin, excluding loss on sale of assets, increased by \$101 compared to the three months ended September 30, 2017 as a result of the increased revenue.

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OTHER EXPENSES

(in \$000s)	Three months ended Sept 30			Nine months ended Sept 30		
	2018	2017	% change	2018	2017	% change
General and administrative	1,436	1,104	23%	4,379	5,106	-16%
Depreciation of administrative assets	32	34	-6%	85	112	-32%
Amortization of intangible assets	165	165	0%	495	495	0%
Finance costs	944	912	3%	2,706	2,678	1%

For the three months ended September 30, 2018, total general and administrative expenses increased 23% compared to the same quarter in 2017. This increase is a result of additional headcount in sales and operations management to support the security and surveillance offering. For the nine months ended September 30, 2018, total general and administrative decreased by 16% when compared to the nine months ended September 30, 2017 as a result of refinancing costs booked in the first two quarters of 2017.

OUTLOOK

There is currently an absence of stability and confidence in the Canadian energy market due to the lack of market access which is demonstrated by widening differentials between the West Texas Intermediate and Western Canadian Select. While global commodity prices and drilling activities increased in the oil and gas industry, in Canada drilling and completion activity levels, along with commodity pricing have only increased marginally year over year and are forecasted to remain flat into 2019. While the Company was able to achieve some pricing increases on its rental assets the first half of 2018, the lack of increased drilling activity since then has prevented the Company from achieving any further pricing improvements or expanded utilization of its rental fleet.

The Company anticipates that demand for rental equipment which supports drilling and completions activity in the Western Canadian Sedimentary Basin (“WCSB”), along with its associated rental rates, will remain flat throughout the remainder of 2018 and into 2019. As a result, the Company continues to strengthen its fleet of rental assets with newer equipment which generates higher utilization and pricing, along with lower repairs and maintenance costs while selling off older assets

The Company is also successfully expanding its market reach and customer base from beyond its traditional upstream energy services customers with its surveillance and security service offering. These services are targeted to alternative industry segments including industrial facilities, pipeline and commercial construction. By year end the Company will have purchased 130 new hybrid solar light towers, many of these being equipped with high resolution security cameras to meet anticipated demand for services.

Following the April 24, 2018 announcement that the Company had signed an Amendment to the Exclusive Distributorship and Supply Agreement which provided Zedcor exclusivity in selling hybrid solar powered lighting systems in Western Canada; on July 17, 2018 the Company announced it had signed a Security Services Contract with a Canadian based pipeline company to provide exclusive surveillance and security services for a pipeline replacement project. This project commenced in mid-September and will continue into the spring of 2019, utilizing almost half of the fleet of new hybrid solar light towers along with supporting security and surveillance services.

The Company continues to focus on strengthening the balance sheet by selling underutilized assets, managing working capital and reducing debt. The Company is further committed to improving its operational and financial performance through efficiencies and cost reductions in its operations while creating shareholder value for the long term.

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SEASONALITY OF OPERATIONS

Zedcor Energy Inc. operates in an industry that is seasonal by nature. The Company operates in the Western Canadian Sedimentary Basin (WCSB), where the activity levels in the oilfield services industry are subject to the ability to move heavy equipment in the oil and natural gas fields. This mobility is dependent on weather conditions. As warm weather returns in the spring, the winter's frost coming up out of the ground renders many secondary roads incapable of supporting the weight of heavy equipment until they have thoroughly dried out ("spring breakup"). In addition, many exploration and production areas in Northern Canada are accessible only in the winter months when the ground is frozen and hard enough to support heavy equipment ("winter freeze up"). The timing of winter freeze up and spring breakup affects the ability to move equipment in and out of these areas, which directly affects the activities of the exploration and development companies serviced by the Company.

LIQUIDITY AND CAPITAL RESOURCES

Sources and Uses of Cash

The following table shows a summary of the Company's cash flows by source or (use) for the nine months ended September 30, 2018 and 2017:

(Unaudited - in \$000s)	Nine months ended September 30		
	2018	2017	Change
Cash flow from (used by) continuing operating activities	589	(1,043)	1,632
Cash flow from (used by) continuing investing activities	(4,388)	7,780	(12,168)
Cash flow from (used by) continuing financing activities	3,065	(8,690)	11,755

The following table presents a summary of working capital information:

(Unaudited - in \$000s)	Nine months ended September 30			
	2018	2017	change	% change
Current assets	4,718	6,080	(1,362)	-29%
Current liabilities *	19,027	21,575	(2,548)	-13%
Working capital	(14,309)	(15,495)	1,186	-8%
Bank working capital ratio **	2.60	5.02	-2.42	-93%

*Includes \$17.4 million loan facility

** Bank working capital ratio is defined as current assets divided by current liabilities, excluding the current portion of long term debt

The primary uses of funds are operating expenses, maintenance and growth capital spending, interest and principal payments on debt facilities. The Company has a variety of sources available to meet these liquidity needs, including cash generated from operations and equity issuances. In general, the Company funds its operations with cash flow generated from operations, while growth capital and acquisitions are typically funded by issuing new equity or debt.

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Principal Credit Facility

	Interest rate	Final maturity	Facility maximum	Outstanding as at Sept 30, 2018	Outstanding as at December 31, 2017
Loan and security facility	12.75%	2018	17,500	15,938	19,431
Operating loan facility	6.75%	revolving	3,000	—	—
Term loan facility	6.75%	2020	2,500	2,500	—
Equipment term loan facility	6.10%	2021	8,000	4,294	—
				22,732	19,431
Current portion				(17,433)	(19,431)
Long term debt				5,299	—

Loan and security facility:

On April 21, 2017, the Company entered into a Loan and Security Agreement with a new lender. The Loan and Security Agreement in the amount of \$20.4 million was used to repay the Syndicated Credit Facility, bears interest at a rate of 12.75% and had a term of 12 months with an option to extend for an additional 12 months at the satisfaction of the lender. The Loan and Security Agreement was to be serviced by six months of interest only payments, followed by six months of blended principal and interest payments. The Loan and Security Agreement does not require quantitative financial covenants, but imposes restrictions on the Loan's collateral, being the property and equipment of the Company.

On April 21, 2017, the Company issued the lender 3,651,501 share purchase warrants. Each warrant entitles the lender to acquire one common share in the Company at an exercise price of \$0.25 per warrant. The warrants expire on July 21, 2019. The warrants fair value of \$300 was recorded as a transaction cost of the loan and is being expensed over the term of the loan.

On March 28, 2018, the Company renewed the Loan and Security agreement in the amount of \$17.5 million for an additional six months with an option to renew for an additional six months at the satisfaction of the lender. The renewed Loan and Security agreement bears interest at 12.75% and is serviced by six months of interest only payments, followed by six months of principal and interest payments in the event that it is renewed. The Company also entered into a Warrant Amendment Agreement which amended the exercise price of the previously issues warrants to \$0.27 per share from \$0.25 per share and extended the expiry date to July 21, 2020. The facility no longer has any shareholder guarantees pledged as security, and all covenants and collateral remain the same.

On September 28, 2018, the Company renewed the Loan and Security agreement in the amount of \$15.9 million for an additional six months with an option to renew for an additional six months at the satisfaction of the lender. The renewed Loan and Security agreement bears interest at 12.75% and is serviced by six months of interest only payments, followed by six months of interest only payments in the event that it is renewed. The Company also entered into a Warrant Amendment Agreement which amended the exercise price of the previously issues warrants to \$0.20 per share from \$0.27 per share and extended the expiry date to January 21, 2021. All covenants and collateral remain the same.

On October 1, 2018, the Company issued the lender and additional 248,209 share purchase warrants. Each warrant entitles the lender to acquire one common share in the Company at an exercise price of \$0.20 per warrant. The warrants expire on January 21, 2021.

The Company has entered into discussions with the lender to renew the loan and security agreement for an additional year after the current maturity date of March 28, 2019. Management is confident that an extension will be executed.

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Operating loan, term loan and equipment term loan facility:

On May 10, 2017, the Company signed a \$1 million operating loan agreement bearing interest at a rate of prime plus 3.3% and secured by the Company's accounts receivables and restricted cash. The operating loan facility required that the Company's current ratio does not fall below 1.50:1.00 and effective September 30, 2017, the debt service coverage ratio not be less than 1.50:1.00, calculated in accordance with the formula set forth in the agreement.

On March 28, 2018, the Company signed a \$13.5 million credit facility, comprised of a \$3 million operating loan facility, which replaces the \$1 million operating loan facility, a \$2.5 million non-revolving term loan facility, which was used to pay out the guarantee from the Loan and Security agreement, and an \$8 million equipment finance term loan facility. The operating loan facility is payable on demand by the lender, bears interest at a rate of prime plus 3.3% and is secured by the Company's accounts receivable. The term facility matures in two years, bears interest at a rate of prime plus 3.3% and is secured by a shareholder guarantee. The shareholder guarantee bears interest at a rate of 5.0% per annum and is paid monthly through the issuance of shares. The equipment finance loan is amortized over 36 months, bears interest at a rate of 6.1% and is repayable in equal monthly installments of principal and interest over the term. The equipment finance loan will be used to finance 75% of the cost of new equipment purchased. The credit facility requires that the Company's current ratio does not fall below 1.50:1.00, the debt service coverage ratio does not fall below 1.25:1.00 and the share value of the shares pledged under the shareholder guarantee not be less than 1.25 times the value of the outstanding term facility.

As at September 30, 2018, the Company's current ratio, as defined to exclude the current portion of debt, was 3.52:1.00 and the debt service coverage ratio was 1.26:1.00.

Commitments and obligations

The following table shows the undiscounted contractual maturities of the Company's financial liabilities and finance and operating lease obligations as at September 30, 2018:

(in \$000s)	1 Year	2-3 years	4-5 years	Thereafter	Total	Carrying value
Accounts payable and accrued liabilities	1,343	—	—	—	1,343	1,343
Current debt	17,433	—	—	—	17,433	17,433
Long-term debt	—	5,299	—	—	5,299	5,296
Note payable	—	3,281	—	—	3,281	2,652
Onerous and operating leases	1,654	2,684	1,937	3,490	9,765	836
Total	20,430	11,264	1,937	3,490	37,121	27,560

OUTSTANDING SECURITIES

At November 13, 2018, the Company had the following securities outstanding:

- 52,664,583 common shares issued and outstanding.
- 4,400,000 preferred shares issued and outstanding.
- 2,725,000 options are outstanding and exercisable at prices ranging from \$0.25 per share to \$2.71 per share.

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OFF BALANCE SHEET ARRANGEMENTS

The Company has not entered into any off-balance sheet arrangements other than the operating leases for the premises and equipment described above under Liquidity and Capital Resources above.

BUSINESS RISKS AND UNCERTAINTIES

Business risks and uncertainties remain substantially unchanged from those disclosed in the annual Management Discussion and Analysis dated March 28, 2018. For a discussion of the business risks and uncertainties related to Zedcor Energy Inc., please refer to the annual Management Discussion and Analysis dated March 28, 2018 and to Zedcor Energy Inc.’s Annual Information Form dated March 28, 2018 both of which can be found on the Company’s website or at www.SEDAR.com.

FINANCIAL MEASURES RECONCILIATIONS

Zedcor Energy Inc. uses certain measures in this MD&A which do not have any standardized meaning as prescribed by International Financial Reporting Standards (“IFRS”). These measures which are derived from information reported in the consolidated statements of operations and comprehensive income may not be comparable to similar measures presented by other reporting issuers. These measures have been described and presented in this MD&A in order to provide shareholders and potential investors with additional information regarding the Company.

Investors are cautioned that EBITDA, adjusted EBITDA, adjusted EBITDA per share, adjusted EBIT and adjusted free cash flow are not acceptable alternatives to net income or net income per share, a measurement of liquidity, or comparable measures as determined in accordance with IFRS.

EBITDA and Adjusted EBITDA

EBITDA refers to net income before finance costs, income taxes, depreciation and amortization. Adjusted EBITDA is calculated as EBITDA before costs associated with severance, refinancing costs and share based compensation. These measures do not have a standardized definition prescribed by IFRS and therefore may not be comparable to similar captioned terms presented by other issuers.

Management believes that EBITDA and Adjusted EBITDA are useful measures of performance as they eliminate non-recurring items and the impact of finance and tax structure variables that exist between entities. “Adjusted EBITDA per share – basic” refers to Adjusted EBITDA divided by the weighted average basic number of shares outstanding during the relevant periods.

A reconciliation of net income to Adjusted EBITDA is provided below:

(in \$,000s)	Three months ended Sept 30		Nine months ended Sept 30	
	2018	2017	2018	2017
Net income from continuing operations	(1,608)	(1,254)	(4,984)	(5,751)
Add:				
Finance costs	944	912	2,706	2,678
Depreciation	1,585	1,452	4,940	4,538
Amortization of intangibles	165	165	495	495
Income taxes	(28)	(19)	(43)	(612)
EBITDA	1,058	1,256	3,114	1,348
Add:				
Stock based compensation	18	6	37	6
Severance costs	36	25	98	121
Refinancing costs	—	—	—	1,039
Adjusted EBITDA	1,112	1,287	3,249	2,514

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Adjusted EBIT

Adjusted EBIT refers to earnings before interest and finance charges, taxes, refinancing costs and severance costs.

A reconciliation of net income to Adjusted EBIT is provided below:

(in \$,000s)	Three months ended Sept 30		Nine months ended Sept 30	
	2018	2017	2018	2017
Net income from continuing operations	(1,608)	(1,254)	(4,984)	(5,751)
Add:				
Finance costs	944	912	2,706	2,678
Income taxes	(28)	(19)	(43)	(612)
Severance costs	36	25	98	121
Refinancing costs	—	—	—	1,039
Adjusted EBIT	(656)	(336)	(2,223)	(2,525)

Adjusted free cash flow

Adjusted free cash flow is defined by management as net income plus non-cash expenses, plus or minus the net change in non-cash working capital, plus refinancing costs and severance costs, less maintenance capital. Maintenance capital is also a non-IFRS term. Management defines maintenance capital as the amount of capital expenditure required to keep its operating assets functioning at the same level of efficiency and to maintain the average age of the rental fleet at approximately the same average age as it was at the end of the previous year. Management believes that adjusted free cash flow reflects the cash generated from the ongoing operation of the business. Adjusted free cash flow is a non-IFRS measure generally used as an indicator of funds available for re-investment, debt payment and dividend payment. There is no standardized method of determining free cash flow, adjusted free cash flow or maintenance capital prescribed under IFRS and therefore the Company's method of calculating these amounts is unlikely to be comparable to similar terms presented by other issuers.

Adjusted free cash flow from continuing operations is calculated as follows:

(in \$000s)	Three months ended Sept 30		Nine months ended Sept 30	
	2018	2017	2018	2017
Net income from continuing operations	(1,608)	(1,254)	(4,984)	(5,751)
Add non-cash expenses:				
Depreciation	1,585	1,452	4,940	4,538
Amortization of intangibles	165	165	495	495
Stock based compensation	18	6	37	6
Finance costs (non-cash portion)	108	154	372	374
Deferred taxes	—	(4)	—	(590)
	268	519	860	(928)
Add non-recurring expenses:				
Severance	36	25	98	121
Refinancing costs	—	—	—	1,039
	304	544	958	232
Change in non-cash working capital from continuing operations	(184)	(1,003)	(41)	(509)
Maintenance capital	—	(93)	(7)	(142)
Adjusted Free Cash Flow	120	(552)	910	(419)

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FORWARD-LOOKING STATEMENTS

Certain statements included or incorporated by reference in this MD&A constitute forward-looking statements or forward-looking information, including management's belief that streamlining rental assets with newer equipment will drive improvements in equipment rental rates and utilization, and that the expanded market reach and customer base will lead to more diversity in the Company's revenue stream and increase utilization. Forward-looking statements or information may contain statements with the words "anticipate", "believe", "expect", "plan", "intend", "estimate", "propose", "budget", "should", "project", "would have realized", "may have been" or similar words suggesting future outcomes or expectations. Although the Company believes that the expectations implied in such forward-looking statements or information are reasonable, undue reliance should not be placed on these forward-looking statements because the Company can give no assurance that such statements will prove to be correct. Forward-looking statements or information are based on current expectations, estimates and projections that involve a number of assumptions about the future and uncertainties. These assumptions include that the Company's new solar hybrid light tower and related security and surveillance service offerings will lead to more diversity in revenue streams and protect against future down swings in the economic environment. Although management believes these assumptions are reasonable, there can be no assurance that they will prove to be correct, and actual results will differ materially from those anticipated. For this purpose, any statements herein that are not statements of historical fact may be deemed to be forward-looking statements. The forward-looking statements or information contained in this MD&A are made as of the date hereof and the Company assumes no obligation to update publicly or revise any forward-looking statements or information, whether as a result of new contrary information, future events or any other reason, unless it is required by any applicable securities laws. The forward-looking statements or information contained in this MD&A are expressly qualified by this cautionary statement.

This MD&A also makes reference to certain non-IFRS measures, which management believes assists in assessing the Company's financial performance. Readers are directed to the section above entitled "Financial Measures Reconciliations" for an explanation of the non-IFRS measures used.

ADDITIONAL INFORMATION

Information about Zedcor Energy Inc. may be found on the SEDAR website at www.sedar.com on the Company's website at www.zedcor.ca. The Company trades on the TSX Venture Exchange under the symbol ZDC.