



**ZEDCOR ENERGY INC.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FOR THE THREE MONTHS ENDED  
MARCH 31, 2019 AND 2018**

Dated May 14, 2019

**ZEDCOR ENERGY INC.**  
**Management's Discussion and Analysis**  
**For the three months ended March 31, 2019**

IN THOUSANDS OF CANADIAN DOLLARS

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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 months ended March 31, 2019 when compared to the three months ended March 31, 2018. 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, 2018 and 2017 and the condensed consolidated interim financial statements for the three months ended March 31, 2019 and 2018. These consolidated financial statements are available on the Company's website at [www.zedcor.ca](http://www.zedcor.ca) as well as on SEDAR at [www.sedar.com](http://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 May 14, 2019.

**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". Zedcor operates with two business segments: Energy Services and Security and Surveillance.

The Energy Services segment provides surface equipment rentals and wellsite accommodations to support the drilling and completions operations of energy and production companies operating in the Western Canada Sedimentary Basin. With a fleet of hybrid solar light towers equipped with high resolution security cameras monitored by a central command center, the Security and Surveillance segment provides services to the energy industry, as well as the construction and pipeline industry. The Company operates as Zedcor Energy Services Corp. from its main facility in Leduc, Alberta, with 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**

<b>(in \$000s)</b>	<b>Three months ended March 31</b>	
	<b>2019</b>	<b>2018</b>
<b>Revenue</b>	5,963	5,228
<b>Adjusted EBITDA<sup>1,2</sup></b>	2,758	1,772
<b>Adjusted EBIT<sup>1,2</sup></b>	393	205
<b>Net loss from operations</b>	(683)	(616)
<b>Net loss per share from operations</b>		
<b>Basic</b>	(0.01)	(0.01)
<b>Diluted</b>	(0.01)	(0.01)

<sup>1</sup> Adjusted for severance costs

<sup>2</sup> See Financial Measures Reconciliations below

- Revenue for the quarter ended March 31, 2019 increased by \$735 or 12% from \$5.2 million to \$5.9 million compared to the same quarter in 2018. This increase was due to the revenue generated from the Security and Surveillance segment, as revenue from the Energy Services segment decreased by \$485 quarter over quarter.
- Adjusted EBITDA for the quarter ended March 31, 2019 was \$2,758, an increase of \$986 from the quarter ended March 31, 2018. This increase is a result of the increase in revenue, along with a decrease in general and administrative costs. General and administrative costs decreased by \$467, or 51%, in the first quarter of 2019 when compared to the first quarter of 2018. This decrease is due to the impact of IFRS 16, which resulted in a decrease in rent expense of \$469 in the first quarter of 2019.
- During the quarter ended March 31, 2019, the Company sold underutilized assets with a net book value of \$846 for proceeds of \$465. The proceeds were used to pay down debt.
- Net loss from operations increased by \$67 for the quarter ended March 31, 2019 when compared to the quarter ended March 31, 2018. The increase in net loss is largely due to the \$381 loss on sale of equipment. Included in net loss from operations is a positive \$8 impact from the adoption of the new IFRS 16 accounting standard.
- On March 25, 2019, the Company renewed the Loan and Security Agreement in the amount of \$14.3 million for an additional 12 months with the option to renew for an additional 12 months at the satisfaction of the lender. See Liquidity and Capital Resources section.

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**SELECTED QUARTERLY FINANCIAL INFORMATION**

<b>(Unaudited - in \$000s)</b>	<b>March 31 2019</b>	<b>Dec 31 2018</b>	<b>Sept 30 2018</b>	<b>Jun 30 2018</b>	<b>Mar 31 2018</b>	<b>Dec 31 2017</b>	<b>Sept 30 2017</b>	<b>Jun 30 2017</b>
<b>Revenue</b>	5,963	4,824	3,992	3,408	5,228	4,306	3,539	2,348
<b>Net loss from continuing operations</b>	(683)	(15,176)	(1,608)	(2,760)	(616)	(2,618)	(1,254)	(3,529)
<b>Net income (loss) from discontinued operation</b>	—	—	—	—	—	—	211	—
<b>Adjusted EBITDA<sup>1</sup></b>	2,758	1,402	1,112	365	1,772	1,417	1,287	36
<b>Adjusted EBITDA per share - basic<sup>1</sup></b>	0.05	0.03	0.02	0.01	0.03	0.03	0.03	0.00
<b>Net loss per share from continuing operations</b>								
<b>Basic</b>	(0.01)	(0.29)	(0.03)	(0.05)	(0.01)	(0.05)	(0.02)	(0.07)
<b>Diluted</b>	(0.01)	(0.29)	(0.03)	(0.05)	(0.01)	(0.05)	(0.02)	(0.07)
<b>Net income (loss) per share from discontinued operation</b>								
<b>Basic</b>	—	—	—	—	—	—	0.00	—
<b>Diluted</b>	—	—	—	—	—	—	0.00	—
<b>Adjusted free cash flow<sup>1</sup></b>	676	(280)	120	1,114	(342)	351	(348)	222

<sup>1</sup> See Financial Measures Reconciliations below

**OPERATING SEGMENT REVIEW**

The Company structures its operations in two operating and reportable segments, the Energy Services segment and the Security and Surveillance segment, based on the way that management organizes the Company's business for making operating decisions and assessing performance.

**Energy Services Segment**

The Energy Services segment provides surface equipment rentals and wellsite accommodation rentals to support the drilling and completions operations of energy and production companies operating in the Western Canada Sedimentary Basin and provides rental equipment to support construction and infrastructure projects in the same region.

**ENERGY SERVICES SEGMENT RESULTS**

<b>(in \$000s)</b>	<b>Three months ended March 31</b>		
	<b>2019</b>	<b>2018</b>	<b>% change</b>
<b>Revenue</b>	4,166	4,651	-11%
<b>Direct costs and depreciation of operating assets *</b>	2,725	3,060	-12%
<b>Margin</b>	1,441	1,591	-10%
<b>Margin %</b>	35%	34%	

\* Depreciation excludes gain/loss on disposal of assets in segment results.

# ZEDCOR ENERGY INC.

## Management's Discussion and Analysis

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#### Operational Review

*Q1 2019 vs Q1 2018*

Commodity prices in the oil and gas sector in Western Canada increased in the first quarter of 2019 when compared to the first quarter of 2018, however drilling activity declined significantly over the same period. As a result rental rates remained similar in the first quarter of 2019 as the first quarter of 2018 and utilization declined slightly.

During the first quarter of 2019, the Company sold under-utilized assets with a net book value of \$846 for proceeds of \$465. The Company also purchased additional stadium towers for \$534 in order to meet customer demand for this offering.

For the quarter ended March 31, 2019 revenue was \$4.2 million, a decrease of \$485 when compared to the same period in 2018. Gross margin decreased by \$150 compared to the quarter ended March 31, 2018. The decrease in both revenue and gross margin is a direct result of the decrease in drilling activity. However, gross margin as a percent of revenue increased from 34% to 35% for the three months ended March 31, 2019 as a result of a continued focus on streamlining costs and improving operational efficiencies.

#### Security and Surveillance Segment

The Security and Surveillance segment began operations in 2018 on the heels of a contract signed with a Canadian based pipeline company to provide exclusive security and surveillance services for a pipeline replacement project. With a growing fleet of hybrid solar light towers equipped with high resolution security cameras monitored by a central command center, the Security & Surveillance segment is providing services to the energy industry, along with the construction and pipeline industry.

#### SECURITY AND SURVEILLANCE SEGMENT RESULTS

(in \$000s)	Three months ended March 31		
	2019	2018	% change
Revenue	1,797	577	68%
Direct costs and depreciation of operating assets *	1,023	398	61%
Margin	774	179	77%
Margin %	43%	31%	

\* Depreciation excludes gain/loss on disposal of assets in segment results.

#### Operational Review

*Q1 2019 vs Q1 2018*

In the third quarter of 2018, the Company signed a Security Services Contract with a Canadian based pipeline company to provide exclusive security and surveillance services for a pipeline replacement project. The project began in the fall of 2018 and will continue into the summer of 2019.

The Security and Surveillance segment continues to expand as it moves into alternative industry segments including industrial facilities and commercial construction. As result of this growth, in the first quarter of 2019 an additional eight solar hybrid light towers were equipped with high resolution security cameras in order to increase the size of the security and surveillance fleet and meet demand.

Revenue for the quarter ended March 31, 2019 increased by \$1.2 million, or 68%, due to increased activity on the pipeline replacement project and expansion of the segments customer base. As a result gross margin increased 77% from \$179 for the quarter ended March 31, 2018 to \$774 for the quarter ended March 31, 2019.

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#### OTHER EXPENSES

(in \$000s)	Three months ended March 31		
	2019	2018	% change
General and administrative	912	1,379	-51%
Depreciation of administrative assets	28	32	-14%
Amortization of intangible assets	165	165	0%
Finance costs	1,091	836	23%

For the three months ended March 31, 2019, total general and administrative expenses decreased 51% compared to the same quarter in 2018. This decrease is due to IFRS 16 which introduced a single, on-statement of financial position accounting model for lessees as of January 1, 2019 (see Accounting Policy Changes section). The impact of IFRS 16 on general and administrative expenses in the first quarter of 2019 was a \$469 reduction of rent expense. Finance costs increased by 23% for the quarter ended March 31, 2019 when compared to the quarter ended March 31, 2018, due to the \$121 impact from IFRS 16 and the equipment finance term loan facility entered into on March 28, 2018 (see Liquidity and Capital Resources section).

#### OUTLOOK

Commodity prices in Canada improved significantly in the first quarter of 2019 from a difficult three months ending December 31, 2018. The differential between West Texas Intermediate and Western Canadian Select narrowed in the first three months of 2019 primarily due to the Alberta government's mandated curtailment of crude oil production in the province. However, drilling and completions activity in the Western Canadian Sedimentary Basin ("WCSB") decreased in the first quarter of 2019 when compared to 2018, this coupled with the lack of market access continues to leave uncertainty in the outlook for commodity prices and drilling activity levels for the remainder of 2019.

The Company anticipates that demand for rental equipment which supports drilling and completions activity in the WCSB, along with its associated rental rates, will remain flat throughout the remainder of 2019. As a result, the Company continues to focus on increasing market share and strengthening its fleet of rental assets. The Company will continue to sell older under-utilized assets which will decrease repairs and maintenance costs, improve the bottom line and further reduce debt.

Zedcor continues to successfully expand its market reach and customer base from beyond its traditional upstream energy services customers with its security and surveillance service offering. These services are targeted to alternative industry segments including industrial facilities, pipeline and commercial construction. During the first quarter of 2019, the Company added high resolution cameras to existing solar hybrid light towers, in order to expand its security and surveillance fleet to meet market demand. The Company expects to continue to increase its fleet of solar hybrid light towers with high resolution cameras as the customer base strengthens in this segment.

The Company remains focused 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.

#### SEASONALITY OF OPERATIONS

Zedcor Energy Inc. operates in an industry that is seasonal by nature. The Company operates in the 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

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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 Zedcor.

**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 three months ended March 31, 2019 and 2018:

<b>(Unaudited - in \$000s)</b>	<b>Three months ended March 31</b>		
	<b>2019</b>	<b>2018</b>	<b>Change</b>
<b>Cash flow from (used by) operating activities</b>	726	(550)	1,276
<b>Cash flow used by investing activities</b>	(888)	(63)	(825)
<b>Cash flow from (used by) financing activities</b>	174	(164)	338

The following table presents a summary of working capital information:

<b>(Unaudited - in \$000s)</b>	<b>Three months ended March 31</b>			
	<b>2019</b>	<b>2018</b>	<b>change</b>	<b>% change</b>
<b>Current assets</b>	5,818	4,617	1,201	21%
<b>Current liabilities *</b>	22,185	18,930	3,255	15%
<b>Working capital</b>	(16,367)	(14,313)	(2,054)	13%
<b>Bank working capital ratio **</b>	4.40	2.27	2.13	48%

\*Includes \$19.6 million of debt in 2019 and \$16.7 million of debt in 2018

\*\* Bank working capital ratio is defined as current assets divided by current liabilities, excluding the current portion of debt and finance lease receivable/liabilities.

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.

**Principal Credit Facility**

	<b>Interest rate</b>	<b>Final maturity</b>	<b>Facility maximum</b>	<b>Outstanding as at March 31, 2019</b>	<b>Outstanding as at December 31, 2018</b>
Loan and security facility	12.75%	2020	14,300	13,971	14,162
Operating loan facility	7.25%	revolving	3,000	1,021	690
Term loan facility	7.25%	2020	2,500	2,500	2,500
Equipment term loan facility	6.10%	2021	8,000	5,550	5,185
				23,042	22,537

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Current portion	(19,559)	(16,749)
Long term debt	3,483	5,788

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 prior credit facility, bore 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 did 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 bore interest at 12.75% and was serviced by six months of interest only payments, followed by six months of principal and interest payments in the event that it was renewed. The Company also entered into a Warrant Amendment Agreement which amended the exercise price of the previously issued 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 issued 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 an 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.

On March 25, 2019, the Company renewed the Loan and Security agreement in the amount of \$14.3 million for an additional 12 months with an option to renewal for an additional 12 months at the satisfaction of the lender. The renewed loan and security agreement bears interest at 12.75% and is serviced by 12 months of interest only payments. The Company also entered into a Warrant Amendment Agreement which amended the exercise price of the previously issued warrants to \$0.145 per share from \$0.20 per share and extended the expiry date to January 21, 2022. All covenants and collateral remain the same.

On March 25, 2019, the Company issued the lender an additional 2,068 share purchase warrants. Each warrant entitles the lender to acquire one common share in the Company at an exercise price of \$0.145 per warrant. The warrants expire on January 21, 2022.

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

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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 to 60 months, bears interest at a rate of 6.1% to 6.2% 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 March 31, 2019, the Company's current ratio, as defined to exclude the current portion of debt, was 4.40:1.00, the debt service coverage ratio, calculated in accordance with IAS 17 per agreement with lender, was 1.46:1.00 and the share value of the shares pledged under the shareholder guarantee was greater than 1.25 times the value of the outstanding term facility.

**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 March 31, 2019:

(in \$000s)	1 Year	2-3 years	4-5 years	Thereafter	Total	Carrying value
<b>Accounts payable and accrued liabilities</b>	1,299	—	—	—	1,299	1,299
<b>Current debt</b>	19,884	—	—	—	19,884	19,559
<b>Long-term debt</b>	—	3,483	—	—	3,483	3,483
<b>Note payable</b>	—	3,281	—	—	3,281	2,779
<b>Finance lease liabilities</b>	2,089	3,706	3,712	5,740	15,247	11,707
<b>Total</b>	23,270	10,470	3,712	5,740	43,192	38,827

**OUTSTANDING SECURITIES**

At May 14, 2018, the Company had the following securities outstanding:

- 53,331,230 common shares issued and outstanding.
- 4,400,000 preferred shares issued and outstanding.
- 3,600,000 options are outstanding and exercisable at prices ranging from \$0.15 per share to \$0.50 per share.

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**OFF BALANCE SHEET ARRANGEMENTS**

The Company has not entered into any off-balance sheet arrangements.

**BUSINESS RISKS AND UNCERTAINTIES**

Business risks and uncertainties remain substantially unchanged from those disclosed in the annual Management Discussion and Analysis dated March 26, 2019. 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 26, 2019 and to Zedcor Energy Inc.'s Annual Information Form dated March 26, 2019 both of which can be found on the Company's website or at [www.SEDAR.com](http://www.SEDAR.com).

**ACCOUNTING POLICY CHANGES**

The Company adopted IFRS 16 in its financial statements beginning on January 1, 2019. IFRS 16 introduced a single, on-statement of financial position accounting model for lessees. As a result, the Company, as a lessee, has recognized right of use assets representing its right to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies.

The Company has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings at January 1, 2019. Accordingly, the comparative information presented for 2018 has not been restated, it is presented as previously reported under IAS 17 Leases and related interpretations. The details of the changes in accounting policies are disclosed in the condensed consolidated interim financial statements for the three months ended March 31, 2019 and 2018.

**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, gains and losses on sale of equipment and stock 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.

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

<b>(in \$,000s)</b>	<b>Three months ended March 31</b>	
	<b>2019</b>	<b>2018</b>
<b>Net income from continuing operations</b>	(683)	(616)
Add:		
Finance costs	1,091	836
Depreciation	1,793	1,405
Amortization of intangibles	165	165
Income taxes	(19)	(15)
<b>EBITDA</b>	<b>2,347</b>	<b>1,775</b>
Add:		
Stock based compensation	26	8
Loss (gain) on sale of equipment	381	(11)
Severance costs	4	—
<b>Adjusted EBITDA</b>	<b>2,758</b>	<b>1,772</b>

Included in Adjusted EBITDA for the three months ended March 31, 2019 is a positive \$469 impact from the adoption of IFRS 16 accounting standard.

***Adjusted EBIT***

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

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

<b>(in \$,000s)</b>	<b>Three months ended March 31</b>	
	<b>2019</b>	<b>2018</b>
<b>Net income from continuing operations</b>	(683)	(616)
Add:		
Finance costs	1,091	836
Income taxes	(19)	(15)
Severance costs	4	—
<b>Adjusted EBIT</b>	<b>393</b>	<b>205</b>

Included in Adjusted EBIT for the three months ended March 31, 2019 is a positive \$129 impact from the adoption of IFRS 16 accounting standard.

***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 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. 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 and debt 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:

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<b>(in \$000s)</b>	<b>Three months ended March 31</b>	
	<b>2019</b>	<b>2018</b>
<b>Net income from continuing operations</b>	(683)	(616)
<b>Add non-cash expenses:</b>		
Depreciation	1,793	1,405
Loss (gain) on disposal of property and equipment	381	(11)
Amortization of intangibles	165	165
Stock based compensation	26	8
Finance costs (non-cash portion)	146	148
Current taxes	(19)	(15)
	1,809	1,084
<b>Add non-recurring expenses:</b>		
Severance	4	—
	1,813	1,084
Change in non-cash working capital	(1,137)	(1,419)
Maintenance capital	—	(7)
<b>Adjusted Free Cash Flow</b>	<b>676</b>	<b>(342)</b>

Included in Adjusted Free Cash Flow for the three months ended March 31, 2019 is a positive \$348 impact from the adoption of IFRS 16 accounting standard.

**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.

**ZEDCOR ENERGY INC.**  
**Management's Discussion and Analysis**  
**For the three months ended March 31, 2019**  
IN THOUSANDS OF CANADIAN DOLLARS

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**ADDITIONAL INFORMATION**

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