



**ZEDCOR ENERGY INC.**

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**FOR THE THREE MONTHS ENDED MARCH 31, 2020 AND 2019**

**NOTICE OF NO AUDITOR REVIEW OF INTERIM  
FINANCIAL STATEMENTS**

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its external auditors have not reviewed the unaudited condensed interim consolidated financial statements for the three months ended March 31, 2020.

**ZEDCOR ENERGY INC.**  
**CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION**  
(Unaudited)

(Stated in thousands of Canadian dollars)

**March 31, 2020**      **December 31, 2019**

**Assets**

Current assets:

Cash	\$	209	\$	170
Accounts receivable		3,596		2,696
Current portion of finance lease receivable		153		150
Income taxes recoverable		93		74
Prepaid expenses and deposits		277		316
		<u>4,328</u>		<u>3,406</u>

Non-current assets:

Finance lease receivable		1,140		1,180
Property and equipment (note 3)		28,693		29,305
Right-of-use assets		7,997		8,334
		<u>37,830</u>		<u>38,819</u>

**Total assets**

\$	42,158	\$	42,225
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**Liabilities and Shareholders' Equity**

Current liabilities:

Accounts payable and accrued liabilities	\$	1,696	\$	911
Current portion of finance lease liability		1,215		1,242
Current debt (note 4)		15,149		2,736
Note payable (note 5)		3,046		—
		<u>21,106</u>		<u>4,889</u>

Non-current liabilities:

Finance lease liability		9,220		9,453
Long term debt (note 4)		3,852		16,709
Note payable (note 5)		—		2,979
		<u>13,072</u>		<u>29,141</u>

Total liabilities

\$	34,178	\$	34,030
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Shareholders' equity

Share capital (note 6)	\$	107,351	\$	107,320
Preferred equity (note 6)		2,864		2,864
Warrants (note 7)		500		468
Contributed surplus		1,514		1,505
Deficit		(104,249)		(103,962)
	\$	<u>7,980</u>		<u>8,195</u>

**Total liabilities and shareholders' equity**

\$	42,158	\$	42,225
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*The accompanying notes are an integral part of these condensed consolidated financial statements*

**ZEDCOR ENERGY INC.**  
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE**  
**LOSS**  
(Unaudited)

	<b>Three months ended March 31,</b>	
	<b>2020</b>	<b>2019</b>
(Stated in thousands of Canadian dollars, except per share amounts)		
<b>Revenues</b>	<b>\$ 4,715</b>	<b>\$ 5,963</b>
<b>Direct expenses</b>		
Direct operating costs	1,803	2,323
Depreciation of equipment (note 3)	1,184	1,425
	<u>2,987</u>	<u>3,748</u>
<b>Gross margin</b>	<b><u>1,728</u></b>	<b><u>2,215</u></b>
<b>Operating expenses</b>		
General and administrative	897	912
Depreciation of other property and equipment (note 3)	32	28
Depreciation of right-of-use assets	337	340
(Gain) loss on sale of equipment (note 3)	(51)	381
Amortization of intangible assets	—	165
	<u>1,215</u>	<u>1,826</u>
<b>Other expenses</b>		
Finance costs (note 8)	819	1,091
	<u>2,034</u>	<u>2,917</u>
<b>Loss before income taxes</b>	<b>(306)</b>	<b>(702)</b>
<b>Income tax recovery</b>		
Current recovery	(19)	(19)
Deferred recovery	—	—
	<u>(19)</u>	<u>(19)</u>
<b>Net loss and comprehensive loss for the period</b>	<b><u>\$ (287)</u></b>	<b><u>\$ (683)</u></b>
<b>Basic and diluted loss per share</b>	<b>\$ (0.005)</b>	<b>\$ (0.013)</b>
<b>Weighted average number of shares outstanding</b>		
Basic	54,441,391	53,114,488
Diluted	54,441,391	53,114,488

*The accompanying notes are an integral part of these condensed consolidated financial statements*

**ZEDCOR ENERGY INC.**  
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS'**  
**EQUITY**  
(Unaudited)

(Stated in thousands of Canadian dollars)	Share capital	Preferred shares	Warrants	Contributed surplus	Deficit	Total
<b>Balance – December 31, 2018</b>	\$ 107,195	\$ 2,864	\$ 412	\$ 1,418	\$ (95,720)	16,169
Stock based compensation	—	—	—	87	—	87
Amendment of exercise price (note 7)	—	—	56	—	—	56
Shares issued as consideration for loan guarantee	125	—	—	—	—	125
Adjustment on initial application of IFRS 16	—	—	—	—	(207)	(207)
Net loss	—	—	—	—	(8,035)	(8,035)
<b>Balance – December 31, 2019</b>	107,320	2,864	468	1,505	(103,962)	8,195
Stock based compensation	—	—	—	9	—	9
Issuance of warrants (note 7)	—	—	6	—	—	6
Amendment of exercise price (note 7)	—	—	26	—	—	26
Shares issued as consideration for loan guarantee	31	—	—	—	—	31
Comprehensive loss	—	—	—	—	(287)	(287)
<b>Balance – March 31, 2020</b>	\$ 107,351	\$ 2,864	\$ 500	\$ 1,514	\$ (104,249)	7,980

*The accompanying notes are an integral part of these condensed consolidated financial statements*

**ZEDCOR ENERGY INC.**  
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOW**  
(Unaudited)

(Stated in thousands of Canadian dollars)	<b>Three months ended March 31,</b>	
	<b>2020</b>	<b>2019</b>
<b>Cash provided by (used in):</b>		
<b>Operating</b>		
Net loss from continuing operations	\$ (287)	\$ (683)
Depreciation of property and equipment (note 3)	1,216	1,453
Depreciation of right-of-use assets	337	340
(Gain) loss on disposal of property and equipment (note 3)	(51)	381
Amortization of intangible assets	—	165
Stock based compensation	9	26
Non-cash interest expense and other financing costs	130	146
Receipt of finance lease receivable	37	35
	<u>1,391</u>	<u>1,863</u>
Changes in non-cash working capital	(436)	(1,137)
<b>Cash flow from operating activities</b>	<b><u>955</u></b>	<b><u>726</u></b>
<b>Investing</b>		
Change in non-cash working capital related to investing activities	341	(611)
Purchase of property and equipment (note 3)	(688)	(742)
Proceeds from sale of property and equipment (note 3)	135	465
<b>Cash flow used by investing activities</b>	<b><u>(212)</u></b>	<b><u>(888)</u></b>
<b>Financing</b>		
Proceeds from debt	115	1,172
Repayment of debt	(559)	(614)
Payment of finance lease liability	(260)	(384)
<b>Cash flow from (used by) financing activities</b>	<b><u>(704)</u></b>	<b><u>174</u></b>
Net change in cash in the period	39	12
Cash, beginning of year	170	161
<b>Cash, end of period</b>	<b><u>\$ 209</u></b>	<b><u>\$ 173</u></b>

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**ZEDCOR ENERGY INC.**  
**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2020 AND 2019**  
(Unaudited)  
IN THOUSANDS OF CANADIAN DOLLARS

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**1. CORPORATE INFORMATION:**

Zedcor Energy Inc. (the “Company”) was formed under the laws of Alberta as a corporation on August 10, 2011. On June 27, 2017, the Company received shareholder approval for the name change from Canadian Equipment Rentals Corp. to Zedcor Energy Inc.

The Company operates with two primary service lines across Western Canada:

- 1) Security & surveillance which provides technology based remote surveillance, live monitoring and security personnel to customers involved in pipeline construction, civil & municipal construction, oil & gas exploration and emergency response.
- 2) Rentals (formerly energy services) which provides surface equipment rentals, temporary accommodation rentals, and power generation rentals to customers involved in oil & gas exploration, construction, and emergency response.

The Company is listed on the TSX Venture Exchange under the symbol ZDC.

**2. BASIS OF PREPARATION:**

**a) Statement of compliance**

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34 – Interim Financial Reporting. These condensed consolidated interim financial statements do not include all of the information required for full financial disclosure. The disclosures provided below are incremental to those included in the annual financial statements and certain disclosures, which are normally required to be included in the notes to annual financial statements, have been condensed or omitted. The same accounting policies and methods of computation were followed in the preparation of these interim financial statements as were followed in the preparation of the Company’s annual financial statements for the year ended December 31, 2019. Accordingly, these condensed consolidated interim financial statements should be read in conjunction with the Company’s consolidated financial statements and notes thereto for the year ended December 31, 2019.

These consolidated financial statements were approved by the Board of Directors on May 19, 2020 and are presented in Canadian dollars, which is the Company’s functional currency.

**b) Basis of presentation and going concern**

These consolidated financial statements have been prepared based on accounting policies applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. In the presentation of financial statements, Management is required to identify where events or conditions indicate that significant doubt may exist about the Company’s ability to continue as a going concern.

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**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2020 AND 2019**  
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IN THOUSANDS OF CANADIAN DOLLARS

---

For the period ending March 31, 2020, the Company was not in compliance with all financial covenants pertaining to its bank debt. Due to the current volatility in the oil and gas sector and the economic instability caused by the COVID-19 global pandemic the shares pledged under the shareholder guarantee for the Company's Term Loan Facility have dropped below the minimum trade value requirement. As a result of this covenant breach on the Term Loan Facility, the Company is also in default with another lender on the terms of its Loan and Security Facility (see Note 4). Any event of default under the Term Loan Facility triggers an event of default under the inter creditor agreement with the Loan and Security Facility. Subsequent to the end of the period, the Company's lenders have acknowledged the breach. However, the lenders have the right to demand repayment of all amounts under the facilities.

In addition, given the significant decline in oil prices and the economic uncertainty due to the COVID-19 pandemic there is uncertainty as to whether the Company will remain in compliance with its debt covenants during 2020.

These circumstances cause material uncertainties that may cast significant doubt regarding the Company's ability to continue as a going concern. If the going concern basis was not appropriate for these consolidated financial statements, adjustments would be necessary to the carrying value of assets and liabilities, the reported revenues and expenses and the statement of financial position classification used, such adjustments could be material.

**c) Significant accounting policies**

The significant accounting policies adopted in the preparation of these condensed consolidated financial statements are the same as those set out in the annual audited consolidated financial statements for the year ended December 31, 2019. Unless otherwise stated, these policies have been consistently applied to all periods presented.

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**3. PROPERTY AND EQUIPMENT:**

	<b>Rental equipment</b>	<b>Automotive &amp; other equipment</b>	<b>Office furniture &amp; equipment</b>	<b>Leasehold improvements</b>	<b>Total</b>
<b>At December 31, 2018</b>	61,433	367	1,000	130	62,930
Additions	1,346	6	105	40	1,497
Disposals	(6,017)	(135)	(4)	—	(6,156)
<b>At December 31, 2019</b>	56,762	238	1,101	170	58,271
Additions	670	—	18	—	688
Disposals	(140)	—	—	—	(140)
<b>At March 31, 2020</b>	57,292	238	1,119	170	58,819

  

<b>Accumulated depreciation</b>	<b>Rental equipment</b>	<b>Automotive &amp; other equipment</b>	<b>Office furniture &amp; equipment</b>	<b>Leasehold improvements</b>	<b>Total</b>
<b>At December 31, 2018</b>	22,882	260	611	102	23,855
Depreciation	5,284	42	130	22	5,478
Elimination on disposal	(2,523)	(94)	(2)	—	(2,619)
Impairment	2,252	—	—	—	(2,252)
<b>At December 31, 2019</b>	27,895	208	739	124	28,966
Depreciation	1,175	5	32	4	1,216
Elimination on disposal	(56)	—	—	—	(56)
<b>At March 31, 2020</b>	29,014	213	771	128	30,126

  

<b>Net Book Value</b>	<b>Rental equipment</b>	<b>Automotive &amp; other equipment</b>	<b>Office furniture &amp; equipment</b>	<b>Leasehold improvements</b>	<b>Total</b>
<b>At December 31, 2019</b>	28,867	30	362	46	29,305
<b>At March 31, 2020</b>	28,278	25	348	42	28,693

During the three months ended March 31, 2020, the Company sold assets with a net book value of \$84 for proceeds of \$135, resulting in a gain of \$51 (three months ended March 31, 2019 - (\$381)).

The Company reviews the carrying value of its long-lived assets and cash generating units at each reporting date to determine whether there is any indication of impairment. No triggers for impairment were identified for the Security & Surveillance cost generating unit ("CGU").

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Due to declines in commodity prices and economic activity as a result of the global COVID-19 pandemic, the Company performed an impairment test at March 31, 2020 for property and equipment on the Rentals CGU. The Company determined the recoverable amount on the basis of value in use ("VIU"). The VIU was determined by discounting the future cash flows to be generated from the operations of the cash generating unit, using a 5-year model, a post-tax discount rate of 14% (pre-tax discount rate of 19%) and a terminal value growth of 2.0%. Revenue, EBITDA and cash flow projection assumptions were based on a combination of past results, current corporate structure and expectations of future growth at the balance sheet date Budgeted EBITDA margins for the CGU was forecasted using historical margins and taking into consideration external and internal factors present at the reporting date. EBITDA is a non-IFRS measure which is defined as earnings before interest, taxes, depreciation and amortization.

As a result of the impairment test performed, it was determined that no impairment needed to be recorded. This impairment test is subject to significant estimates and judgement by management, and is sensitive to these estimates and judgments. A 3% change in EBITDA margin would result in a change of \$1,688 in recoverable value. A 0.5% change in discount rate would result in a change of \$764 in recoverable value.

**4. CREDIT FACILITIES:**

	<b>Interest rate</b>	<b>Final maturity</b>	<b>Facility maximum</b>	<b>Outstanding as at March 31, 2020</b>	<b>Outstanding as at December 31, 2020</b>
Loan and Security Facility	12.75%	2020	14,300	12,064	12,094
Operating Loan Facility	6.15%	revolving	3,000	993	878
Term Loan Facility	6.15%	2020 2020 to	2,500	2,500	2,500
Equipment Term Loan Facility	6.10%	2023	8,000	3,444	3,973
				19,001	19,445
Current portion				(15,149)	(2,736)
Long term debt				3,852	16,709

Loan and Security Facility:

The Loan and Security Facility, which was renewed in December 2019, bears interest at a rate of 12.75% and has a term of 15 months from the renewal date with an option to renew for an additional 12 months at the satisfaction of the lender. The Loan and Security Facility does not require quantitative financial covenants, but imposed restrictions on the Loan's collateral, being the property and equipment of the Company.

On January 10, 2020, as part of the renewal, the Company issued the lender an additional 112,565 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 25, 2023. The Company also entered into a Warrant Amendment Agreement which extended the expiry dated of the previously issued warrants to January 25, 2023.

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**FOR THE THREE MONTHS ENDED MARCH 31, 2020 AND 2019**  
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Operating Loan, Term Loan and Equipment Term Loan Facilities:

The Operating Loan Facility, the Term Loan Facility and the Equipment Term Loan Facility are comprised of a:

- \$3.0 million Operating Loan Facility which 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.
- \$2.5 million term loan which matures on August 16, 2021, bears interest at a rate of Prime plus 3.3%, is secured by a shareholder guarantee and a pledge of shares owned by a shareholder.
- \$8.0 million equipment finance term loan which is amortized over 36 to 60 months, bears interest at a rate of 6.10% to 6.35% and is repayable in equal monthly installments of principal and interest over the term and is secured by certain assets of the Company.

These loans require the Company's current ratio does not fall below 1.50:1.00 and the debt service coverage ratio does not fall below 1.00:1.00 till December 31, 2020 and 1.25:1.00 after that; in addition, the shares pledged under the shareholder guarantee must maintain a minimum trading value.

As at March 31, 2020, the Company's current ratio, as defined to exclude the current portion of debt, was 1.61:1.00; the debt service coverage ratio, calculated in accordance with IAS 17 per agreement with lender, was 1.08:1.00. The value of the shares pledged under the shareholder guarantee were below the minimum trade value requirements which resulted in the covenant breach. Subsequent to March 31, 2020, the lender acknowledged the breach and will not call the Credit Facilities but still maintains the right to demand repayment of all amounts under the facility. In addition, the interest rate on the Operating Loan Facility and Term Loan Facility were increased from Prime plus 3.3% to Prime plus 5.0%. The shares pledged under the shareholder guarantee traded above the minimum value requirements subsequent to March 31, 2020, but due to the volatility in the markets as a result of the COVID-19 pandemic, the Company is reliant on the continued support of its lenders. In addition, given the given the unprecedented factors discussed above there is uncertainty as to whether the Company will remain in compliance with its debt covenants during 2020 (see Note 2(b)).

**5. NOTE PAYABLE**

<b>Balance, December 31, 2018</b>	<b>\$ 2,716</b>
Interest payable	125
Accretion of note payable discount	138
<b>Balance, December 31, 2019</b>	<b>\$ 2,979</b>
Interest payable	31
Accretion of note payable discount	36
<b>Balance, March 31, 2020</b>	<b>\$ 3,046</b>

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**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2020 AND 2019**  
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The unsecured, subordinated Note Payable, which is due to a corporation controlled by a director of the company, matures on February 2, 2021 at its nominal value of \$2.5 million and bears interest at 5% per annum, accruing daily from the issue date. Interest is payable annually but the Company has not made any interest payments on the note, in agreement with the holder. The Note Payable is unsecured and subordinated to the Loan and Security Facility and interest payments are subject to certain restrictions in the Loan and Security Facility.

Subsequent to the end of the period, the Company has determined to change certain terms and conditions of the Note Payable. In particular, and subject to the prior approval of the TSX Venture Exchange, it is proposed that the interest rate provided for under the Note Payable will be changed from 5% to 7% and the maturity date thereunder will be changed from February 2, 2021 to February 2, 2022.

**6. SHARE CAPITAL**

<b>Common shares issued and fully paid:</b>	<b>Number of shares</b>	<b>\$</b>
<b>Balance, December 31, 2018</b>	<b>52,881,469</b>	<b>107,195</b>
Issued as consideration for loan guarantee	1,363,306	125
<b>Balance, December 31, 2019</b>	<b>54,244,775</b>	<b>107,320</b>
Issued as consideration for loan guarantee	560,098	31
<b>Balance, March 31, 2020</b>	<b>54,804,873</b>	<b>107,351</b>

  

<b>Preferred shares issued:</b>	<b>Number of shares</b>	<b>\$</b>
<b>Balance, December 31, 2019 and March 31, 2020</b>	<b>4,400,000</b>	<b>2,864</b>

The Preferred Shares are non-voting and non-transferrable, have a stated value of \$0.70 per share and a term of five years. The Preferred Shares have a cumulative dividend of 5% of the stated value commencing on January 31, 2017 until January 31, 2018 and a 10% cumulative dividend from January 31, 2018 thereafter, with dividend payments being subject to certain restrictions in the Company's existing secured credit facilities, and at the discretion of the Board of Directors. The dividend can be settled at the discretion of the Company in either cash or through the issuance of Common Shares based on the conversion price of \$0.70.

After January 31, 2019, the Preferred Shares may be converted by the holder thereof into the Company's Common Shares at a conversion price of \$0.70 per share, subject to the right of Company to redeem the Preferred Shares prior to such conversion for a cash amount per share equal to the lesser of: (i) \$2.00; and (ii) the current market price of the Common Shares.

The Company shall have the right to redeem the Preferred Shares at any time if the current market price of the Common Shares exceeds \$2.00 by either, at Company's sole option, (i) payment of cash of \$2.00 per Preferred Share; or (ii) through the issuance of 4,400,000 Common Shares, subject to certain adjustments.

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**FOR THE THREE MONTHS ENDED MARCH 31, 2020 AND 2019**  
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The Preferred Shares may be redeemed at the end of the term, at the Company's sole option, for either (i) a cash amount per share equal to the lesser of \$2.00 and the current market price; or (ii) 4,400,000 Common Shares, subject to certain adjustments.

**7. WARRANTS:**

Changes in the outstanding number, weighted average exercise price and movements in warrants are as follows:

<b>Warrants issued:</b>	<b>Number of warrants</b>	<b>\$</b>
<b>Balance, December 31, 2018</b>	<b>3,899,710</b>	<b>412</b>
Amendment of exercise price – March 25, 2019	—	56
Additional warrants issued per financing agreement – March 25, 2019	2,068	—
<b>Balance, December 31, 2019</b>	<b>3,901,778</b>	<b>468</b>
Amendment of expiry date – January 10, 2020	—	26
Additional warrants issued per financing agreement – January 10, 2020	112,565	6
<b>Balance, March 31, 2020</b>	<b>4,014,343</b>	<b>500</b>

On January 10, 2020, the Company entered into a Warrant Amendment Agreement which extended the expiry date to January 25, 2023.

On January 10, 2020, the Company issued the lender an additional 112,565 shares 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 25, 2023. The Black-Scholes estimate of fair value used the following assumptions:

<b>Issue date</b>	<b>January 10, 2020</b>	<b>2019</b>
Expected annual dividend	\$0.00	\$0.00
Expected volatility	126.8%	120.9%
Risk-free interest rate	1.66%	1.47%
Expected life of warrants	3.1 years	2.8 years

**8. FINANCE COSTS:**

Finance costs are comprised of the following:

	<b>For the three months ended March 31,</b>	
	<b>2020</b>	<b>2019</b>
Bank charges and interest	4	5
Interest on debt	583	902
Interest on note payable	67	63
Interest on finance leases	165	121
	<b>819</b>	<b>1,091</b>

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**9. OPERATING SEGMENTS:**

The Company structures its operations in two operating and reportable segments: (i) Security & Surveillance and (ii) Rentals (formerly Energy Services), based on the way that management organizes the Company's businesses for making operating decisions and assessing performance.

Information regarding results of the segments are included below. Performance is measured based on segment earnings, which is earnings before income tax, depreciation, amortization and finance costs, as included in internal management reports.

The following is a summary of the Company's results by segment for the three months ended March 31, 2020 and 2019:

<b>Three months ended March 31, 2020</b>				
	<b>Security &amp; Surveillance</b>	<b>Rentals</b>	<b>Corporate</b>	<b>Total</b>
Total segment revenue	1,429	3,286	—	4,715
Segment earnings	641	1,627	(253)	2,015
Depreciation of property and equipment	247	958	11	1,216
Depreciation of right-of-use assets	—	206	131	337
(Gain) loss on sale of equipment	—	(51)	—	(51)
Amortization of intangible assets	—	—	—	—
Additions to property and equipment	627	61	—	688

<b>Three months ended March 31, 2019</b>				
	<b>Security &amp; Surveillance</b>	<b>Rentals</b>	<b>Corporate</b>	<b>Total</b>
Total segment revenue	1,797	4,166	—	5,963
Segment earnings	815	2,242	(329)	2,728
Depreciation of property and equipment	182	1,258	13	1,453
Depreciation of right-of-use assets	—	209	131	340
Loss on sale of equipment	12	369	—	381
Amortization of intangible assets	—	165	—	165
Additions to property and equipment	126	616	—	742

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**FOR THE THREE MONTHS ENDED MARCH 31, 2020 AND 2019**  
(Unaudited)  
IN THOUSANDS OF CANADIAN DOLLARS

The following is a summary of the Company's assets by segment as at March 31, 2020 and December 31, 2019:

<b>As at March 31, 2020</b>				
	<b>Security &amp; Surveillance</b>	<b>Rentals</b>	<b>Corporate</b>	<b>Total</b>
Property and equipment	6,847	21,752	94	28,693
Right-of-use assets	1,369	3,287	3,341	7,997

  

<b>As at December 31, 2019</b>				
	<b>Security &amp; Surveillance</b>	<b>Rentals</b>	<b>Corporate</b>	<b>Total</b>
Property and equipment	4,609	24,591	105	29,305
Right-of-use assets	1,377	3,484	3,473	8,334

A reconciliation of segment earnings to loss before taxes is as follows:

	<b>Three months ended March 31,</b>	
	<b>2020</b>	<b>2019</b>
Segment earnings	2,015	2,728
Deduct:		
Finance costs	819	1,091
Amortization of intangibles	—	165
Depreciation of equipment	1,216	1,453
Depreciation of right-of-use assets	337	340
Gain (loss) on sale of equipment	(51)	381
Loss before taxes	(306)	(702)