

ZEDCOR INC.
CONSOLIDATED FINANCIAL STATEMENTS



FOR THE THREE & NINE MONTHS ENDED
SEPTEMBER 30, 2021 AND 2020

SECURITY
SOLUTIONS

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, 2021.

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

(Stated in thousands of Canadian dollars)	September 30, 2021	December 31, 2020
Assets		
Current assets:		
Cash	\$ 171	\$ 761
Accounts receivable	3,323	3,191
Current portion of finance lease receivable	441	447
Income taxes recoverable	88	88
Inventory	130	—
Prepaid expenses and deposits	308	338
	<u>4,461</u>	<u>4,825</u>
Non-current assets:		
Finance lease receivable	2,984	3,280
Property and equipment (note 3)	9,927	22,549
Right-of-use assets	1,329	1,837
	<u>14,240</u>	<u>27,666</u>
Total assets	\$ 18,701	\$ 32,491
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 3,184	\$ 1,596
Current portion of lease liabilities	1,519	1,525
Current portion of long-term debt (note 4)	2,801	2,940
	<u>7,504</u>	<u>6,061</u>
Non-current liabilities:		
Lease liabilities	4,735	5,339
Long term debt (note 4)	2,280	14,377
Note payable (note 5)	3,044	2,696
	<u>10,059</u>	<u>22,412</u>
Total liabilities	<u>\$ 17,563</u>	<u>\$ 28,473</u>
Shareholders' equity		
Share capital (note 6)	\$ 107,768	\$ 107,625
Preferred equity (note 6)	2,864	2,864
Warrants	587	587
Contributed surplus	1,656	1,582
Deficit	(111,737)	(108,640)
	<u>1,138</u>	<u>4,018</u>
Total liabilities and shareholders' equity	\$ 18,701	\$ 32,491

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

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

	For the three months ended		For the nine months ended	
	September 30,	September 30,	September 30,	September 30,
(Stated in thousands of Canadian dollars, except per share amounts)	2021	2020	2021	2020
Revenues	\$ 3,684	\$ 1,673	\$ 9,474	\$ 4,543
Direct expenses				
Direct operating costs	1,619	372	3,927	1,282
Depreciation of equipment (note 3)	369	320	1,081	902
	<u>1,988</u>	<u>692</u>	<u>5,008</u>	<u>2,184</u>
Gross margin	<u>1,696</u>	<u>981</u>	<u>4,466</u>	<u>2,359</u>
Operating expenses				
General and administrative	725	476	2,220	1,531
Depreciation of other property and equipment	38	30	96	91
Depreciation of right-of-use assets	177	139	394	198
Loss on sale of equipment (note 3)	52	—	52	—
(Gain) loss on disposal of right-of-use assets	(46)	(105)	527	(116)
	<u>946</u>	<u>540</u>	<u>3,289</u>	<u>1,704</u>
Other expenses				
Finance costs (note 7)	430	887	2,198	2,488
Loss (gain) on foreign exchange	24	(3)	24	3
	<u>454</u>	<u>884</u>	<u>2,222</u>	<u>2,491</u>
Income (loss) before income taxes from continuing operations	296	(443)	(1,045)	(1,836)
Income taxes recovery				
Current recovery	—	(22)	—	(65)
Net income (loss) from continuing operations	<u>296</u>	<u>(421)</u>	<u>(1,045)</u>	<u>(1,771)</u>
Net loss from discontinued operations (note 8)	—	(585)	(2,052)	(657)
Net income (loss) and comprehensive income (loss) for the period	<u>\$ 296</u>	<u>\$ (1,006)</u>	<u>\$ (3,097)</u>	<u>\$ (2,428)</u>
Basic and diluted loss per share from continuing operations	\$ 0.01	\$ (0.01)	\$ (0.02)	\$ (0.03)
Basic and diluted loss per share from discontinued operations	—	\$ (0.01)	\$ (0.04)	\$ (0.01)
Weighted average number of shares outstanding				
Basic	58,239,094	55,243,280	57,882,505	54,906,680
Diluted	60,146,713	55,243,280	57,882,505	54,906,680

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ZEDCOR 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
Balance – December 31, 2019	\$ 107,320	2,864	468	1,505	(103,962)	8,195
Stock based compensation	—	—	—	28	—	28
Issuance of warrants	—	—	6	—	—	6
Amendment of exercise price	—	—	26	—	—	26
Shares issued as consideration for loan guarantee	85	—	—	—	—	85
Net loss and comprehensive loss	—	—	—	—	(2,428)	(2,428)
Balance – September 30, 2020	107,405	2,864	500	1,533	(106,390)	5,912
Stock based compensation	—	—	—	49	—	49
Extension and amendment of warrant exercise price	—	—	51	—	—	51
Issuance of warrants	—	—	36	—	—	36
Shares issued as consideration for loan guarantee	220	—	—	—	—	220
Comprehensive loss	—	—	—	—	(2,250)	(2,250)
Balance – December 31, 2020	107,625	2,864	587	1,582	(108,640)	4,018
Stock based compensation	—	—	—	95	—	95
Shares issued as consideration for loan guarantee (note 6)	64	—	—	—	—	64
Exercise of stock options	79	—	—	(21)	—	58
Comprehensive loss	—	—	—	—	(3,097)	(3,097)
Balance – September 30, 2021	\$ 107,768	\$ 2,864	\$ 587	\$ 1,656	\$ (111,737)	\$ 1,138

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

	Three months ended		Nine months ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
(Stated in thousands of Canadian dollars)				
Cash provided by (used in):				
Operating				
Net income (loss) from continuing operations	\$ 296	\$ (443)	\$ (1,045)	\$ (1,836)
Depreciation of property and equipment (note 3)	407	350	1,177	993
Depreciation of right-of-use assets	177	139	394	198
Loss on disposal of equipment (note 3)	52	—	52	—
(Gain) loss on disposal of right-of-use asset	(46)	(105)	527	(116)
Stock based compensation	33	11	95	28
Non-cash interest expense and other financing costs	262	85	776	366
Receipt of finance lease receivable	112	13	270	87
Income taxes recovered	—	—	—	74
	1,293	(50)	2,246	(206)
Changes in non-cash working capital	893	(655)	545	750
Cash flow from continuing operating activities	2,186	(605)	2,791	544
Cash flow from discontinued operating activities (note 8)	—	320	1,561	2,348
Cash flow from (used in) operating activities	2,186	(285)	4,352	2,892
Investing				
Change in non-cash working capital related to investing activities	346	75	823	(197)
Purchase of property and equipment (note 3)	(2,045)	(273)	(3,819)	(1,170)
Proceeds from sale of equipment (note 3)	20	—	20	—
Cash flow used by continuing investing activities	(1,679)	(198)	(2,976)	(1,367)
Cash flow from discontinued investing activities (note 8)	—	905	11,825	1,956
Cash flow from (used in) investing activities	(1,679)	707	8,849	589
Financing				
Proceeds from debt	328	—	1,249	—
Repayment of debt	(327)	(711)	(13,843)	(2,807)
Proceeds from exercise of stock options	19	—	57	—
Payment of finance lease liabilities	(357)	(259)	(1,254)	(652)
Cash flow used by financing activities	(337)	(970)	(13,791)	(3,459)
Net change in cash in the period	170	(548)	(590)	22
Cash, beginning of period	1	740	761	170
Cash, end of period	\$ 171	\$ 192	\$ 171	\$ 192

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ZEDCOR INC.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2021 AND 2020
(Unaudited)
IN THOUSANDS OF CANADIAN DOLLARS

1. CORPORATE INFORMATION:

Zedcor Inc. (the "Company") was formed under the laws of Alberta as a corporation on August 10, 2011. On September 17, 2020, the Company received shareholder approval for the name change from Zedcor Energy Inc. to Zedcor Inc.

The Company operates in Western and Central Canada and provides technology based Security & Surveillance services. Specifically the Company has three main service offerings to customers across all market segments: 1) rental, service and remote monitoring of its proprietary MobileyeZ security towers; 2) live monitoring of fixed site locations; and 3) security personnel.

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

In early March 2020, the World Health Organization declared coronavirus outbreak ("COVID-19") to be a pandemic. Responses to the spread of COVID-19 have resulted in significant disruption to business operations and a significant increase in economic uncertainty, with more volatile commodity prices, currency exchange rates, and a marked decline in long-term interest rates. These events are resulting in a challenging economic climate in which it is difficult to reliably estimate the length or severity of these developments and their financial impact. A significant adverse impact to the Company includes, but is not limited to, substantial reductions in revenues and cash flows, increased risk of non-payment from customers and future impairments of property and equipment. Estimates and judgments made in the preparation of these financial statements are increasingly difficult and subject to a higher degree of measurement uncertainty during this volatile period.

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, 2020. 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, 2020.

These condensed consolidated financial statements were approved by the Board of Directors on November 16, 2021 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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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, 2020.

3. PROPERTY AND EQUIPMENT:

Cost	Rental equipment	Automotive & other equipment	Office furniture & equipment	Leasehold improvements	Total
At December 31, 2019	56,762	238	1,101	170	58,271
Additions	1,696	8	74	7	1,785
Disposals	(5,515)	(5)	—	—	(5,520)
At December 31, 2020	52,943	241	1,175	177	54,536
Additions	3,578	—	241	—	3,819
Disposals	(42,290)	(36)	(495)	(113)	(42,934)
At September 30, 2021	14,231	205	921	64	15,421

Accumulated depreciation	Rental equipment	Automotive & other equipment	Office furniture & equipment	Leasehold improvements	Total
At December 31, 2019	27,895	208	739	124	28,966
Depreciation	4,146	17	118	17	4,298
Elimination on disposal	(3,391)	(4)	—	—	(3,395)
Impairment	2,118	—	—	—	2,118
At December 31, 2020	30,768	221	857	141	31,987
Depreciation	1,796	6	99	13	1,914
Elimination on disposal	(27,839)	(31)	(426)	(111)	(28,407)
At September 30, 2021	4,725	196	530	43	5,494

Net Book Value	Rental equipment	Automotive & other equipment	Office furniture & equipment	Leasehold improvements	Total
At December 31, 2020	22,175	20	318	36	22,549
At September 30, 2021	9,506	9	391	21	9,927

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During the nine months ended September 30, 2021, the Company sold assets with a net book value of \$14,527 for proceeds of \$11,845, resulting in a loss of \$2,682 (nine months ended September 2020 – gain of \$70). During the nine months ended September 30, 2021, the Company also disposed of right-of-use assets with a net book value of \$585. This resulted in a loss of \$527 (nine months ended September 2020 – gain of \$116).

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. For the nine months ended September 30, 2021, no triggers for impairment were identified for the Security & Surveillance CGU.

4. CREDIT FACILITIES:

	Interest rate	Final maturity	Facility maximum	Outstanding as at September 30, 2021	Outstanding as at December 31, 2020
Loan and Security Facility	12.75%	January 1, 2023	19,309	3,832	17,317
Operating Loan Facility	Prime + 5.0%	Revolving	3,000	1,249	—
				5,081	\$17,317
Current portion				(2,801)	(2,940)
Long term debt				2,280	14,377

The Company's credit facilities consist of a Loan and Security Facility and an Operating Loan Facility.

Loan and Security Facility:

The Loan and Security Facility was renewed in December 2020. It consists of a one time \$17.3 million draw and a \$2.0 million accordion feature which the Company can draw on subject to approval from the lender. In December 2020, the Company drew \$0.8 million of the accordion feature.

The key terms of the Loan and Security facility are as follows:

- Bears interest at a rate of 12.75% and is secured with a first charge over the Company's assets;
- Extension fee of 2% per annum, a portion of which was capitalized to the loan and a portion of which was paid with the issuance of 2,000,000 common shares of the Company in December 2020;
- Does not require quantitative financial covenants, but imposed restrictions on the Loan's collateral, being the property and equipment of the Company, and has a \$2.5 million personal guarantee from a Board Member of the Company; and
- Term of the Loan and Security Facility was extended to January 1, 2023 with an option to renew for an additional 12 months at the satisfaction of the lender.

As a result of the disposal of the Company's Rental Segment assets at September 30, 2021, the Company has:

- \$3.3 million outstanding on the one time draw of \$17.3 million;
- \$0.5 million outstanding on the \$0.8 million draw on the accordion feature;
- \$ 1.2 million available to draw on the accordion feature, subject to approval from the lender; and
- The lender has released the personal guarantee from the Company's Board Member.

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Operating Loan Facility:

The Operating Loan Facility is comprised of a \$3.0 million line of credit which is payable on demand by the lender and bears interest at a rate of Prime plus 5.0%. The Operating Loan Facility is margined by the Company's accounts receivable, and the available amount is determined monthly based on 75% of the Company's accounts receivable aged less than 90 days and 85% of the Company's accounts receivable aged less than 120 days from investment grade customers.

Subsequent to the end of the quarter, the Company entered into a new financing agreement which consists of:

- 1) A \$6.1 million term loan that is fully committed for five years. The term loan bears interest at 5.15% and will have monthly blended principal and interest payments of \$116.
- 2) A \$3.0 million revolving equipment financing facility. The Company is able to draw on this facility at any time for up to 75% of new equipment purchases. The equipment financing draws bear interest at Prime + 2.0% and each draw will be amortized over 5 years with blended principal and interest payments.
- 3) An authorized overdraft facility up to \$3.0 million, secured by the Company's accounts receivable, up to 75%, less priority payables. The overdraft facility is due on demand and any outstanding overdraft bears interest at Prime + 1.5%.

The new financing agreement is secured with a first charge over the Company's current and after acquired equipment, a general security agreement, a subordination and postponement agreement with a director of the Company with respect to the Note Payable, and other standard non-financial security.

The agreement has the following annual financial covenant requirements:

- For the fiscal year end December 31, 2021, a modified debt servicing covenant of 1.25 to 1.00. The modification relates to the amount of debt payments for 2021 being assumed as \$2.2 million.
- For the fiscal year ends December 31, 2022 and onwards, a debt servicing covenant of 1.25 to 1.00 and a funded debt to EBITDA covenant of 3.00 to 1.00.

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5. NOTE PAYABLE

Balance, December 31, 2019	\$ 2,979
Interest payable	115
Accretion of note payable discount	140
Extinguishment of note payable	(3,234)
Recognition of note payable at fair value	2,658
Interest payable	14
Accretion of note payable discount	24
Balance, December 31, 2020	\$ 2,696
Interest payable	131
Accretion of note payable discount	217
Balance, September 30, 2021	\$3,044

The Note Payable, which is due to a corporation controlled by a director of the Company, matures on January 1, 2023 at its nominal value of \$2.5 million and bears interest at 7% 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 Credit Facilities and interest payments are subject to certain restrictions in the Credit Facilities.

6. SHARE CAPITAL

Common shares issued and fully paid:	Number of shares	\$
Balance, December 31, 2019	54,244,775	107,320
Issued as consideration for loan guarantee	1,366,469	125
Issued as consideration for loan fees	2,000,000	180
Balance, December 31, 2020	57,611,244	107,625
Issued as consideration for loan guarantee	271,416	64
Issued on exercise of stock options	297,283	79
Balance, September 30, 2021	58,179,943	107,768
Preferred shares issued:	Number of shares	\$
Balance, December 31, 2020 and September 30, 2021	4,400,000	2,864

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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, 2020, 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.

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. FINANCE COSTS:

Finance costs are comprised of the following:

	For the three months ended		For the nine months ended	
	September 30,	September 30,	September 30,	September 30,
	2021	2020	2021	2020
Bank charges and interest	8	6	18	14
Interest on debt	253	628	1,687	1,758
Interest on note payable	116	71	348	208
Interest on finance leases	53	182	145	508
	430	887	2,198	2,488

8. DISCONTINUED OPERATIONS:

On June 30, 2021, the Company sold the assets of its Rentals Segment to a company controlled by a Director of the Company for gross proceeds of \$11.3 million. The sale allows the Company to focus on its Security & Surveillance business while reducing the debt on its balance sheet. The comparative condensed consolidated interim statements of income (loss) have been restated to show the discontinued operations separate from continuing operations.

ZEDCOR INC.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
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IN THOUSANDS OF CANADIAN DOLLARS

The following tables summarize the Company's discontinued operations the three and nine months ended September 30, 2021 and 2020:

	For the three months ended		For the nine months ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Revenues	—	995	3,052	5,252
Direct expenses				
Direct operating costs	—	478	1,085	2,255
Depreciation of equipment	—	513	737	2,271
	—	991	1,822	4,526
Gross Margin	—	4	1,230	726
Operating expenses				
General and administrative	—	219	406	714
Depreciation of right-of-use assets	—	162	246	770
Loss (gain) on sale of equipment	—	208	(70)	(101)
	—	589	582	1,383
Operating income (loss)	—	(585)	648	(657)
Loss on sale of discontinued operations	—	—	(2,700)	—
Net loss (income) from discontinued operations	—	(585)	(2,052)	(657)

Cash flows from discontinued operations:

	For the three months ended		For the nine months ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Net cash flow from operating activities	—	320	1,561	2,348
Net cash flow from investing activities	—	905	11,825	1,956
Net cash flow from financing activities	—	—	—	—
Net cash flows	—	1,225	13,386	4,304