Zedcor

Zedcor Inc. Announces Third Quarter Results for 2021

CALGARY, ALBERTA – November 16, 2021: Zedcor Inc. (the "Company") (TSX VENTURE: ZDC) today announced its financial and operating results for the three and nine months ended September 30, 2021.

The third quarter results reflect the Company's continued execution of its strategy and pivot away from its traditional oilfield equipment rentals business. Q3 2021 was the first quarter which show standalone results for Zedcor's Security & Surveillance operations. The Company is pleased to announce positive net income, earnings per share and that revenues more than doubled when compared to Q3 2020. This transition away from oilfield equipment rentals was fully completed subsequent to September 30 with the announcement of a $6.1 million fully committed 5-year term loan and a $3.0 million equipment financing facility. This will significantly reduce financing costs, improve cash flow and provide additional financing for continued expansion.

Financial and Operating Results for the three and nine months ended September 30, 2021:

	Three months ended September 30		Nine months ended September 30	
(in $000s, except per share amounts)	**2021**	**2020**	**2021**	**2020**
Revenue from continuing operations	3,684	1,673	9,474	4,543
Revenue from discontinued operations	—	995	3,052	5,252
Adjusted EBITDA[1,2]	1,349	1,154	5,003	4,121
Adjusted EBITDA from continuing operations[1,2]	1,349	856	3,442	1,838
Adjusted EBIT[1,2]	726	461	1,197	735
Net income (loss) from continuing operations	296	(421)	(1,045)	(1,771)
Net income (loss) from operations	296	(1,006)	(3,097)	(2,428)
Net income (loss) per share from continuing operations				
Basic	0.01	(0.01)	(0.02)	(0.03)
Diluted	0.01	(0.01)	(0.02)	(0.03)

[1] *Adjusted for severance costs and discontinued operations*

[2] *See Financial Measures Reconciliations below*

On June 30, 2021, the Company announced the sale of its Rental Segment assets. Accordingly, these operations were classified as discontinued operations on the Company's financial statements. The discussion throughout our MD&A reflect continuing operations of the Company's security and surveillance services, unless otherwise noted. Zedcor recorded $1,349 and $3,442 of adjusted EBITDA from continuing operations for the three and nine months ended September 30, 2021. This compares to $856 and $1,838 of adjusted EBITDA from continuing operations for the three and nine months ended September 30, 2020. The Company's security and surveillance services segment saw increased revenues and EBITDA compared to 2020 due to increased customer demand of its larger fleet of MobileyeZ security towers.

Zedcor is actively managing the increased customer demand for security solutions by adding to its fleet of towers. The Company has also increased the size of its sales team and opened an equipment branch in British Columbia to market its services in the Lower Mainland and Fraser Valley.

Financial and operational highlights for the three and nine months ended September 30, 2021 include:

- Revenue for the quarter ended September 30, 2021 increased by $2,011 from $1,673 to $3,684. This increase was driven by a larger fleet of MobileyeZ security towers. During Q3 2020, the Company was in the process of retrofitting its existing fleet of solar hybrid light towers to MobileyeZ security towers. This process was completed in Q4 2020 and Zedcor continued to add to its fleet allowing it to generate additional revenues.

- The Company announcing the award of two long term contracts for its Solar Hybrid MobileyeZ. One contract was for the rental and service of 100 Solar Hybrid MobileyeZ to a pipeline contractor. The second contract was a 21 month rental contract for 15 Solar Hybrid MobileyeZ to a large engineering and construction joint venture. These contracts were expanded in Q3 2021 allowing the Company to maintain its high utilization rates.

- Expanding its fleet of security towers to: 175 Solar Hybrid MobileyeZ and 46 Electric MobileyeZ. Of the 175 Solar Hybrid MobileyeZ, 125 are equipped with ground disturbance sensors which further enhances the capabilities of these units. In addition, the Company deployed 8 of its new Hybrid MobileyeZ towards the end of the quarter. These units are battery powered with a diesel engine backup. They double as small power generation for remote infrastructure projects and construction sites. The Company will continue to manage its supply chain and logistics by constructing additional security towers based on customer demand and expansion plans into other strategic markets in Canada.

- Net income from continuing operations was $296 for the three months ended September 30, 2021. This compares to a net loss of ($421) for the three months ended September 30, 2020. For the nine months ended September 30, 2021, net loss was ($1,045) compared to ($1,771) for the nine months ended September 30, 2020. The reduction in net loss was a result of higher revenues driven by an increased fleet size and higher utilization for the Company's security tower fleet.

- The Company announcing the closing of the sale of its Rental Segment assets for total proceeds of $11.3 million on June 30, 2021 in line with its strategy to sell these assets and reduce debt on the balance sheet. The proceeds were used entirely to reduce high interest debt. In addition to the proceeds of $11.3 million the Company will continue to help manage those assets and will be paid a monthly management fee of $25 per month for up to 36 months. This transaction also allows the Company to capitalize on potential oilfield activity upside by providing for a 35% annual bonus if certain targets are exceeded. This transaction resulted in a $2.7 million loss on sale but significantly reduced the Company's balance sheet leverage and allows the Company to focus on expanding its security business throughout North America. In addition, this allowed the Company to access traditional financing subsequent to the end of the quarter. This financing will reduce financing costs and increase cash flow going forward.

- Reducing debt and finance lease liabilities in the first nine months of the year. The Company exited Q3 2021 with $5,081 outstanding on its credit facilities compared to $17,317 as at December 31, 2020. Subsequent to the end of the quarter, the Company announced that it had entered into a new credit facility which includes a $6.1 million fully committed 5 year term loan, a $3.0 million revolving equipment financing facility and a $3.0 million revolving line of credit. This facility will significantly reduce financing costs and provide additional capital for growth.

SELECTED QUARTERLY FINANCIAL INFORMATION

(Unaudited – in $000s)	Sept 30 2021	June 30 2021	Mar 31 2021	Dec 31 2020	Sept 30 2020	Jun 30 2020	Mar 31 2020	Dec 31 2019
Revenue from continuing operations	3,684	3,103	2,687	2,458	1,673	1,441	1,429	1,081
Net income (loss) from continuing operations	296	(935)	(406)	95	(443)	(1,341)	(52)	(1,253)
Adjusted EBITDA[1]	1,349	1,492	2,162	1,789	1,154	877	2,093	1,305
Adjusted EBITDA per share - basic[1]	0.02	0.03	0.04	0.03	0.02	0.02	0.04	0.02
Net income (loss) per share from continuing operations								
Basic	0.01	(0.02)	(0.01)	(0.00)	(0.01)	(0.01)	(0.01)	(0.02)
Diluted	0.01	(0.02)	(0.01)	(0.00)	(0.01)	(0.01)	(0.01)	(0.02)
Net income (loss) per share from discontinued operations								
Basic	—	(0.05)	0.01	(0.04)	(0.01)	(0.01)	0.01	(0.02)
Diluted	—	(0.05)	0.01	(0.04)	(0.01)	(0.01)	0.01	(0.02)
Adjusted free cash flow[1]	2,068	198	(280)	190	518	1,860	(1,861)	1,240

[1] *See Financial Measures Reconciliations below*

LIQUIDITY AND CAPITAL RESOURCES

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 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.

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.

OUTLOOK

Despite the challenging operating environment and reduced economic activity as a result of the COVID-19 pandemic, the Company continues to execute on its long-term strategy of growing its S&S segment. We continued to effectively use cash flow to purchase additional MobileyeZ security towers in order to use it to provide surveillance services. The Company has also used technological solutions to reduce the capital costs of expanding this service line.

Utilization of the Company's surveillance towers fitted with high resolution cameras and supported by live verified, 24/7 remote monitoring, continues to be high and we expect the utilization rates to remain steady going forward. As Canada starts to emerge from the COVID-19 pandemic, Zedcor is seeing increased activity and demand for its services. The Company has also grown its salesforce to focus on growing on-site security personnel and remote monitoring revenues, in addition to expanding its geographical footprint in British Columbia. With the recently announced financing, additional access to capital available to the Company via the $3.0 million equipment financing facility and lower debt costs, Zedcor is in a strong position to grow all service lines.

As a result of the sale of its Rental segment assets, the Company has significantly reduced leverage on its balance sheet and can focus on its main priorities:

1) Expand its fleet of security towers. The Company plans to aggressively grow its fleet of security towers throughout 2022. In addition, the Company plans to continue to invest in research & development. Zedcor plans to launch a new type of fully electric security tower in late Q4 2021 which is geared towards residential contractors. This is in addition to the newly developed Hybrid MobileyeZ which was launched in late Q3 2021 and targeted towards customers with remote infrastructure projects and power generation needs.

2) Expand its geographical footprint in Western Canada and expand to Eastern Canada. In Q4 2021, the Company opened an equipment branch in British Columbia in order to serve the rapidly growing Lower Mainland and Fraser Valley. The Company has plans to expand to Ontario in Q2 2022 with an equipment branch and an Eastern Canada monitoring center.

3) Increase revenue from fixed monitoring sites allowing for a base of contracted monthly revenues.

NON-IFRS MEASURES RECONCILIATION

Zedcor 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.

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

(in $000s)	Three months ended September 30 2021	2020	Nine months ended September 30 2021	2020
Net loss from continuing operations	296	(421)	(1,045)	(1,771)
Add:				
Finance costs	430	887	2,198	2,488
Depreciation of property & equipment	407	350	1,177	993
Depreciation of right-of-use assets	177	139	394	198
Loss on sale of equipment	52	—	52	—
Gain (loss) on disposal of right-of-use asset	(46)	(105)	527	(116)
Income tax recovery	—	(22)	—	(65)
EBITDA from continuing operations	1,316	828	3,303	1,727
Add:				
Stock based compensation	33	11	95	28
Severance costs	—	17	44	83
Adjusted EBITDA from continuing operations	1,349	856	3,442	1,838
Discontinued operations	—	298	1,561	2,283
Adjusted EBITDA	1,349	1,154	5,003	4,121

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:

(in $000s)	Three months ended September 30 2021	2020	Nine months ended September 30 2021	2020
Net income (loss)	296	(1,006)	(3,097)	(2,428)
Add:				
Finance costs	430	887	2,198	2,488
Income tax recovery	—	(22)	—	(65)
Severance costs	—	17	44	83
Discontinued operations	—	585	2,052	657
Adjusted EBIT from continuing operations	726	461	1,197	735

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:

(in $000s)	Three months ended September 30 2021	2020	Nine months ended September 30 2021	2020
Net income (loss) from continuing operations	296	(443)	(1,045)	(1,836)
Add non-cash expenses:				
Depreciation of property & equipment	407	350	1,177	993
Depreciation of right-of-use assets	177	139	394	198
Stock based compensation	33	11	95	28
Finance costs (non-cash portion)	262	85	776	366
Current taxes	—	(22)	—	(65)
	1,175	120	1,397	(316)
Add non-recurring expenses:				
Severance	—	17	44	83
	1,175	137	1,441	(233)
Change in non-cash working capital	893	(655)	395	750
Adjusted free cash flow from continuing operations	2,068	(518)	1,836	517

No Conference Call

No conference call will be held in conjunction with this release. Full details of the Company's financial results, in the form of the condensed consolidated interim financial statements and notes for the three and six months ended June 30, 2021 and 2020 and Management's Discussion and Analysis of the results are available on SEDAR at www.sedar.com and on the Company's website at www.zedcor.ca.

About Zedcor Inc.

Zedcor Inc. is a Canadian public corporation and parent company to Zedcor Security Solutions Corp. Driven by our guiding principles of being pioneers, innovators and honest, Zedcor is engaged in providing technology based security & surveillance services in Western and Central Canada. The Company is disrupting the security industry with its 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 trades on the TSX Venture Exchange under the symbol "ZDC".

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.

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