



**ZEDCOR INC.
CONSOLIDATED FINANCIAL STATEMENTS**



**FOR THE THREE & NINE MONTHS ENDED
SEPTEMBER 30, 2023 AND 2022**

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 consolidated interim financial statements for the three and nine months ended September 30, 2023.

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

(Stated in thousands of Canadian dollars)	September 30, 2023	December 31, 2022
Assets		
Current assets:		
Cash	\$ 961	\$ 571
Accounts receivable	5,001	4,699
Current portion of finance lease receivable	562	527
Inventory	620	1,315
Prepaid expenses and deposits	244	430
	<u>7,388</u>	<u>7,542</u>
Non-current assets:		
Finance lease receivable	1,939	2,362
Deposits	178	167
Property and equipment (note 3)	25,815	17,563
Right-of-use assets	3,150	2,939
Deferred tax	2,005	2,005
	<u>33,087</u>	<u>25,036</u>
Total Assets	\$ 40,475	\$ 32,578
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 3,814	\$ 3,409
Current portion of finance lease liability	2,008	1,772
Current portion of long term debt (note 4)	3,191	2,198
	<u>9,013</u>	<u>7,379</u>
Non-current liabilities:		
Note payable (note 5)	3,233	3,182
Finance lease liability	4,593	5,179
Long term debt (note 4)	10,858	8,349
	<u>18,684</u>	<u>16,710</u>
Total liabilities	27,697	24,089
Shareholders' equity		
Share capital (note 6)	113,943	113,183
Warrants	1,122	1,368
Contributed surplus	2,071	1,809
Accumulated other comprehensive income	1	—
Deficit	(104,359)	(107,871)
	<u>12,778</u>	<u>8,489</u>
Total Liabilities and Shareholders' Equity	\$ 40,475	\$ 32,578

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

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

	Three months ended		Nine months ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
(Stated in thousands of Canadian dollars, except per share amounts)				
Revenues (note 8)	\$ 6,431	\$ 5,795	\$ 19,090	\$ 15,682
Direct expenses				
Direct operating costs	2,084	2,194	7,206	6,683
Depreciation of equipment (note 3)	892	581	2,299	1,537
	<u>2,976</u>	<u>2,775</u>	<u>9,505</u>	<u>8,220</u>
Gross margin	3,455	3,020	9,585	7,462
Operating expenses				
General and administrative	2,300	1,490	6,022	3,894
Depreciation of other property and equipment (note 3)	108	60	267	173
Depreciation of right-of-use assets	308	255	860	694
(Gain) loss on sale of equipment (note 3)	(3)	(50)	(73)	(124)
Loss on disposal of right-of-use assets	11	(11)	12	(4)
	<u>2,724</u>	<u>1,744</u>	<u>7,088</u>	<u>4,633</u>
Other (income) expenses				
Finance costs (note 9)	440	289	1,152	743
Loss (gain) on foreign exchange	3	21	(8)	47
Other income (note 10)	—	—	(2,159)	(883)
	<u>443</u>	<u>310</u>	<u>(1,015)</u>	<u>(93)</u>
Income before income taxes	288	966	3,512	2,922
Income taxes				
Current income taxes	—	—	—	—
Net income	288	966	3,512	2,922
Other comprehensive income				
Unrealized foreign currency translation gain	1	—	1	—
Comprehensive income	\$ 289	\$ 966	\$ 3,513	\$ 2,922
Net income per share				
Basic	\$ 0.00	\$ 0.01	\$ 0.05	\$ 0.04
Diluted	\$ 0.00	\$ 0.01	\$ 0.04	\$ 0.04
Weighted average number of shares outstanding (note 6)				
Basic	73,908,925	70,892,259	72,846,471	66,558,652
Diluted	79,897,877	75,877,689	78,803,704	71,793,118

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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	Accumulated other comprehensive income	Deficit	Total
Balance - December 31, 2021	\$ 107,807	\$ 2,864	\$ 587	\$ 1,681	\$ —	\$(112,541)	\$ 398
Stock based compensation	—	—	—	83	—	—	83
Exercise of stock options	20	—	—	(1)	—	—	19
Shares issued, net of share issue costs (note 6)	1,203	—	—	—	—	—	1,203
Warrants issued (note 7)	—	—	781	—	—	—	781
Conversion of preferred shares, net of share issue costs (note 6)	2,825	(2,864)	—	—	—	—	(39)
Shares issued for dividend on conversion of preferred shares (note 6)	1,328	—	—	—	—	—	1,328
Dividend on conversion of preferred shares (note 6)	—	—	—	—	—	(1,328)	(1,328)
Net income and comprehensive income	—	—	—	—	—	2,922	2,922
Balance - September 30, 2022	113,183	—	1,368	1,763	—	(110,947)	5,367
Stock based compensation	—	—	—	46	—	—	46
Net income and comprehensive income	—	—	—	—	—	3,076	3,076
Balance - December 31, 2022	113,183	—	1,368	1,809	—	(107,871)	8,489
Stock based compensation	—	—	—	382	—	—	382
Exercise of stock options (note 6)	274	—	—	(120)	—	—	154
Exercise of warrants (note 6)	486	—	(246)	—	—	—	240
Net income	—	—	—	—	—	3,512	3,512
Foreign currency translation gain	—	—	—	—	1	—	1
Balance - September 30, 2023	\$ 113,943	\$ —	\$ 1,122	\$ 2,071	\$ 1	\$(104,359)	\$ 12,778

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

	Three months ended		Nine months ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
(Stated in thousands of Canadian dollars)				
Cash provided by (used in):				
Operating Activities				
Net income	\$ 288	\$ 966	\$ 3,512	\$ 2,922
Depreciation of property and equipment (note 3)	1,000	641	2,566	1,710
Depreciation of right-of-use assets	308	255	860	694
(Gain) on disposal of property and equipment	(3)	(50)	(73)	(124)
(Gain) loss on disposal of right-of-use asset	11	(11)	12	(4)
Stock based compensation	238	10	382	83
Non-cash interest expense and other financing costs	16	53	35	131
Receipt of finance lease receivable	135	106	388	325
Income taxes recovered	—	—	—	88
	1,993	1,970	7,682	5,825
Changes in non-cash working capital	2,814	151	1,414	(1,657)
Cash flow from operating activities	4,807	2,121	9,096	4,168
Investing Activities				
Change in non-cash working capital related to investing activities	(783)	(304)	(440)	118
Purchase of property and equipment (note 3)	(3,066)	(2,714)	(10,858)	(7,284)
Proceeds from sale of property and equipment (note 3)	23	65	113	193
Cash flow (used in) investing activities	(3,826)	(2,953)	(11,185)	(6,973)
Financing Activities				
Proceeds from debt	—	923	5,340	5,223
Repayment of debt	(731)	(469)	(1,791)	(2,162)
Proceeds from Unit issuance, net of costs	—	—	—	1,984
Conversion of preferred shares	—	—	—	(39)
Payment of finance lease liability	(534)	(398)	(1,464)	(1,188)
Proceeds from exercise of stock options	—	—	154	11
Proceeds from exercise of warrants	—	—	240	—
Cash flow from financing activities	(1,265)	56	2,479	3,829
Net change in cash in the period	(284)	(776)	390	1,024
Cash, beginning of period	1,245	1,908	571	108
Cash, end of period	\$ 961	\$ 1,132	\$ 961	\$ 1,132

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ZEDCOR INC.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2023 AND 2022
(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. The Company is a technology enabled business that is changing how physical security services are provided to businesses. Zedcor operates throughout Canada and Texas with branches in British Columbia, Alberta, Manitoba, Ontario, and Houston, Texas. The Company has three main service offerings to customers across all market segments: 1) surveillance and live monitoring through its proprietary MobileyeZ security towers; 2) surveillance and live monitoring of fixed site locations; and 3) security personnel.

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, 2022. 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, 2022.

These condensed consolidated interim financial statements were approved by the Board of Directors on November 16, 2023.

b) Presentation currency and basis of presentation

These condensed consolidated interim financial statements are presented in Canadian dollars which is the Company’s presentation currency. Each of the Company’s subsidiaries determines its functional currency, and items included in the financial statements of each entity are measured using that functional currency. The functional currency of the Canadian operations is the Canadian Dollar and the functional currency of the United States operations is the United States Dollar. All financial information presented in dollars has been rounded to the nearest thousand except for share and per share amounts.

The Company’s condensed consolidated interim financial statements are prepared under the historical cost convention, with the exception of items that IFRS requires to be measured at fair value.

c) Significant accounting policies

The significant accounting policies adopted in the preparation of these condensed consolidated interim financial statements are the same as those set out in the consolidated financial statements for the year ended December 31, 2022 except as noted below.

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Foreign Currency Translation

Assets and liabilities of foreign operations having a functional currency other than the Canadian dollar are translated at the rate of exchange prevailing at the reporting date, and revenues and expenses at average rates during the period. Gains or losses on translation are included as a component of shareholders' equity in accumulated other comprehensive loss.

Transactions in foreign currencies are translated to the respective functional currencies of the Company's entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognized in net income or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency gains and losses are reported on a net basis.

3. PROPERTY AND EQUIPMENT:

Cost	Rental equipment	Automotive & other equipment	Office furniture & equipment	Leasehold improvements	Total
At December 31, 2021	15,234	116	1,120	151	16,621
Additions	8,235	125	519	109	8,988
Disposals	(86)	(4)	(7)	(12)	(109)
At December 31, 2022	23,383	237	1,632	248	25,500
Additions	10,284	—	463	111	10,858
Disposals	(135)	(131)	—	—	(266)
At September 30, 2023	33,532	106	2,095	359	36,092

Accumulated depreciation	Rental equipment	Automotive & other equipment	Office furniture & equipment	Leasehold improvements	Total
At December 31, 2021	4,809	116	575	48	5,548
Depreciation	2,116	19	231	46	2,412
Elimination on disposal	(14)	—	—	(9)	(23)
At December 31, 2022	6,911	135	806	85	7,937
Depreciation	2,245	24	267	30	2,566
Elimination on disposal	(100)	(126)	—	—	(226)
At September 30, 2023	9,056	33	1,073	115	10,277

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Net Book Value	Rental equipment	Automotive & other equipment	Office furniture & equipment	Leasehold improvements	Total
At December 31, 2022	16,472	102	826	163	17,563
At September 30, 2023	24,476	73	1,022	244	25,815

During the nine months ended September 30, 2023, the Company sold assets with a net book value of \$40 for proceeds of \$113, resulting in a gain of \$73 (nine months ended September 30, 2022 – gain of \$124). During the nine months ended September 30, 2023, the Company also disposed of right-of-use assets with a net book value of \$192. This resulted in a loss of \$11 (nine months ended September 30, 2022 – gain of \$4).

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 three months ended September 30, 2023, 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, 2023	Outstanding as at December 31, 2022
Term Loan	5.15%	Oct 2026	6,100	3,876	4,748
Revolving Equipment Financing	Prime + 2.00%	Revolving	15,000	10,173	5,799
Authorized Overdraft	Prime + 1.50%	Revolving	3,000	—	—
				14,049	10,547
Current portion				(3,191)	(2,198)
Long term debt				10,858	8,349

On June 6, 2023, the Company entered into a second amending agreement (“Second Amended Financing Agreement”) which increased the Company’s equipment financing from \$6.0 million to \$15.0 million. As at September 30, 2023, the Second Amended Financing Agreement provides the Company with the following:

1. A \$6.1 million term loan that is fully committed for five years (“Term Loan”). The Term Loan bears interest at 5.15% and will have monthly blended principal and interest payments of \$116.
2. A \$15.0 million revolving equipment financing facility (“Revolving Equipment Financing”). The Company is able to draw on this facility at any time for up to 100% of new equipment purchases. The draws bear interest at Prime + 2.0% and each draw will be amortized over 5 years with blended principal and interest payments. As at September 30, 2023 the Prime Interest Rate was 7.20% and the interest rate on the Revolving Equipment Financing was 9.20%. As the Company pays down the Revolving Equipment Financing, it can borrow back up to the facility maximum of \$15.0 million.

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3. An authorized overdraft facility (“Authorized Overdraft”) up to \$3.0 million, secured by the Company’s accounts receivable, up to 75%, less priority payables which are GST payable, income taxes payable, employee remittances payable and WCB payables. The Authorized Overdraft is due on demand and any outstanding overdraft bears interest at Prime + 1.5%. As at September 30, 2023 the Prime Interest Rate was 7.20% and the interest rate on the Revolving Equipment Financing was 8.70%.

The Second Amended 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 a note payable, and other standard non-financial security.

The agreement has the following quarterly financial covenant requirements, calculated on a trailing twelve month basis:

- a debt servicing covenant of no less than 1.25 to 1.00; and
- a funded debt to EBITDA covenant of no more than 3.00 to 1.00.

As at September 30, 2023, the Company is in compliance with its financial covenant requirements. The debt servicing ratio as calculated based on the Second Amended Financing Agreement was 2.61 to 1.00 and the funded debt to EBITDA was 1.48 to 1.00.

5. NOTE PAYABLE

Balance, December 31, 2021	\$ 3,115
Accretion of note payable discount	67
Balance, December 31, 2022	\$ 3,182
Accretion of note payable discount	51
Balance, September 30, 2023	\$ 3,233

The unsecured, subordinated Note Payable, which is due to a corporation controlled by a director of the company, matures on December 31, 2026 at its nominal value of \$2.5 million and bears interest at 7% per annum, accruing daily from the issue date. In agreement with the lender, the Company started making monthly interest payments in January 2022. The Note Payable is unsecured and subordinated to the Second Amended Financing Agreement and subject to certain restrictions in the Second Amended Financing Agreement.

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6. SHARE CAPITAL

(a) Common share capital

Common shares issued and fully paid:	Number of shares	\$
Balance, December 31, 2021	58,299,943	107,807
Unit issuance, net of issuance costs	5,233,930	1,203
Issued on conversion of preferred shares, net of issuance costs	4,400,000	2,825
Issued for stock dividend on conversion of preferred shares	2,883,386	1,328
Issued on exercise of stock options	75,000	20
Balance, December 31, 2022	70,892,259	113,183
Issued on exercise of stock options	1,016,666	274
Issued on exercise of warrants	2,000,000	486
Balance, September 30, 2023	73,908,925	113,943

One million warrants were exercised for common shares on February 21, 2023. A further one million warrants were exercised for common shares on March 8, 2023 (note 7). Each exercised warrant had an exercise price of \$0.12 per share. Total proceeds from the warrant exercise were \$240.

On March 30, 2022, the Company issued 4,533,930 units ("Units") for \$0.50 per Unit and total gross proceeds of \$2,267. Each Unit consisted of one common share of the Company and one-half of one common share purchase warrant of the Company. Each whole common share purchase warrant entitles the holder thereof to acquire one common share at a price of \$0.70 for a period of two years from the date of issue.

On April 6, 2022, the Company completed a private placement of 700,000 additional Units for \$0.50 per Unit, and total gross proceeds of \$350. As part of the private placement, the Company issued an additional 350,000 warrants which entitle the holders thereof to acquire one common share at a price of \$0.70 for a period of two years from the date of issue.

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(b) Per share amounts

Basic and diluted earnings per share have been calculated on the basis of weighted average number of common shares outstanding as outlined below:

	For the three months ended		For the nine months ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Net income for the period	288	966	3,512	2,922
Less: dividend on preferred shares for the period	—	—	—	(82)
Net income for the period attributable to common shareholders	288	966	3,512	2,840
Weighted average number of shares outstanding – basic	73,908,925	70,892,259	72,846,471	66,558,652
Earnings per share – basic	0.00	0.01	0.05	0.04
Weighted average number of shares outstanding – basic	73,908,925	70,892,259	72,846,471	66,558,652
Share based compensation dilution	3,761,717	1,704,070	3,739,485	1,817,334
Warrant dilution	2,227,235	3,281,360	2,217,749	3,417,132
Weighted average number of shares outstanding – diluted	79,897,877	75,877,689	78,803,704	71,793,118
Earnings per share – diluted	0.00	0.01	0.04	0.04

7. WARRANTS

Changes in the outstanding number and movements in warrants are as follows:

Warrants issued	Number of warrants	\$
Balance, December 31, 2021	4,744,905	587
Warrant issuance – March 30, 2022	2,266,965	667
Warrant issuance – April 6, 2022	350,000	114
Balance, December 31, 2022	7,361,870	1,368
Warrant exercises	(2,000,000)	(246)
Balance, September 30, 2023	5,361,870	1,122

One million warrants were exercised for common shares on February 21, 2023. A further one million warrants were exercised for common shares on March 8, 2023. Total proceeds from the warrant exercises for the nine months ended September 30, 2023 was \$240 (nine months ended September 30, 2022 - \$nil).

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8. REVENUE

Revenue is generated from the following sales and services:

	For the three months ended		For the nine months ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Security tower rental and service	6,075	5,382	17,717	14,428
Fixed site monitoring service	286	271	979	722
Security personnel	70	142	394	532
	6,431	5,795	19,090	15,682

9. FINANCE COSTS:

Finance costs are comprised of the following:

	For the three months ended		For the nine months ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Bank charges and interest	15	4	70	21
Interest on debt	290	162	680	379
Interest on note payable	60	60	181	181
Interest on finance leases	75	63	221	162
	440	289	1,152	743

10. OTHER INCOME:

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. In addition to the gross proceeds, the Company will receive a monthly management fee for up to 36 months after the closing date. The Company received \$275 in management fees which were netted against general and administrative costs for the nine months ended September 30, 2023 (nine months ended September 30, 2022 - \$450). The Company may also receive an annual bonus payment of 35% of EBITDA in excess of certain annual targets (the "Annual Bonus"). The annual targets are calculated on the first, second, and third anniversary dates of closing. The Company recorded \$2,159 in other income for the three and nine month ended September 30, 2023 for the Annual Bonus (three and nine months ended September 30, 2022 - \$883).

11. DEPENDENCE ON MAJOR CUSTOMERS:

The Company generates 33% and 48% of its revenues for the three and nine months ended September 30, 2023 from its top three customers (72% and 72% for the three and nine months ended September 30, 2022). No other customer accounts for more than 10% of revenues. There can be no assurance that the current customers will continue their relationships with the Company. The loss of the Company's major customers, or any significant decrease in services provided to a customer, prices paid or any other changes to the terms of service with customers, could have a material adverse effect on the financial results, cash flows, and the overall financial condition of the Company.