ZEDCOR ENERGY INC.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Zedcor Energy Inc.

Opinion

We have audited the consolidated financial statements of Zedcor Energy Inc. (the "Company"), which comprise:

- the consolidated statements of financial position as at December 31, 2019 and December 31, 2018;
- the consolidated statements of loss and comprehensive loss for the years then ended;
- the consolidated statements of changes in shareholders' equity for the years then ended;
- the consolidated statements of cash flows for the years then ended;
- and notes to the consolidated financial statements, including a summary of significant accounting policies.

Hereinafter referred to as the "financial statements".

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2019 and December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "*Auditors' Responsibilities for the Audit of the Financial Statements*" section of our auditors' report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 (b) in the financial statements which indicates that the Company is currently in breach of its debt covenants and is reliant on its lenders' continued support to provide necessary liquidity to fund operations. As stated in Note 1 (b) in the financial statements, these events or conditions, along with other matters as set forth in Note 1 (b) the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis to be filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the Management's Discussion and Analysis to be filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other

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information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represents the underlying transactions and events in a manner that achieves fair presentation.

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- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this auditors' report is Lee Bardwell.

KPMG LLP

Chartered Professional Accountants

April 7, 2020

Calgary, Canada

ZEDCOR ENERGY INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
IN THOUSANDS OF CANADIAN DOLLARS

	December 31, 2019	December 31, 2018
Assets		
Current assets:		
Cash	170	161
Accounts receivable (note 21(b))	2,696	4,036
Current portion of finance lease receivable (note 2(p))	150	—
Income taxes recoverable	74	70
Prepaid expenses and deposits	316	350
	3,406	4,617
Non-current assets:		
Finance lease receivable (note 2(p))	1,180	—
Property and equipment (note 3)	29,305	39,075
Right-of-use assets (note 4)	8,334	—
Intangibles assets (note 6)	—	440
	38,819	39,515
Total assets	42,225	44,132
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	911	1,923
Current portion of onerous lease liability	—	258
Current portion of lease liabilities (note 8)	1,242	—
Current debt (note 7)	2,736	16,749
	4,889	18,930
Non-current liabilities:		
Note payable (note 9)	2,979	2,716
Onerous lease liabilities	—	529
Lease liability (note 8)	9,453	—
Long term debt (note 7)	16,709	5,788
	29,141	9,033
Total liabilities	34,030	27,963
Shareholders' equity		
Share capital (note 11)	107,320	107,195
Preferred equity (note 11)	2,864	2,864
Warrants (note 12)	468	412
Contributed surplus	1,505	1,418
Deficit	(103,962)	(95,720)
	8,195	16,169
Total liabilities and shareholders' equity	42,225	44,132

Subsequent event (Notes 7 and 22)
Going Concern (Note 1(b))

Approved on behalf of the Board of Directors:

(Signed) *"Dean Swanberg"*
Dean Swanberg – Director

(Signed) *"Brian McGill"*
Brian McGill – Director

See accompanying notes to the Consolidated Financial Statements

ZEDCOR ENERGY INC.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
IN THOUSANDS OF CANADIAN DOLLARS

	Year ended December 31	
	2019	**2018**
Revenues	16,962	17,452
Direct expenses		
Direct operating costs	6,758	7,217
Depreciation of equipment (note 3)	5,348	5,683
	12,106	12,900
Gross margin	4,856	4,552
Operating expenses		
General and administrative (note 15)	3,474	5,919
Depreciation of other property and equipment (note 3)	130	128
Loss on sale of equipment (note 3)	1,267	1,329
Depreciation of right-of-use assets (note 4)	1,354	—
Amortization of intangible assets (note 6)	440	660
Impairment of goodwill	—	5,746
Impairment of property and equipment (note 3)	2,252	—
Foreign exchange (gain) loss	(2)	61
	8,915	13,843
Other expenses		
Finance costs (note 16)	4,050	3,711
Loss before income taxes	**(8,109)**	**(13,002)**
Income taxes (note 10)		
Current (recovery) expense	(74)	(70)
Deferred (recovery) expense	—	7,228
	(74)	**7,158**
Net loss and comprehensive loss	**(8,035)**	**(20,160)**
Basic and Diluted Net loss per share	($0.15)	($0.39)
Weighted average number of shares outstanding		
Basic	53,564,747	52,252,179
Diluted	53,564,747	52,252,179

ZEDCOR ENERGY INC.
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
IN THOUSANDS OF CANADIAN DOLLARS

(Stated in thousands of Canadian dollars)	Share capital	Preferred shares	Warrants	Contributed surplus	Deficit	Total
Balance – December 31, 2017	106,905	2,864	300	1,366	(75,560)	35,875
Stock based compensation	—	—	—	52	—	52
Amendment of exercise price	—	—	92	—	—	92
Issuance of warrants	—	—	20	—	—	20
Shares issued as consideration for loan guarantee	108	—	—	—	—	108
Shares issued as consideration of lease termination fee	182	—	—	—	—	182
Net loss	—	—	—	—	(20,160)	(20,160)
Balance – December 31, 2018	107,195	2,864	412	1,418	(95,720)	16,169
Adjustment on initial application of IFRS 16 (note 2(p))	—	—	—	—	(207)	(207)
Stock based compensation	—	—	—	87	—	87
Amendment of exercise price	—	—	56	—	—	56
Shares issued as consideration for loan guarantee	125	—	—	—	—	125
Net loss	—	—	—	—	(8,035)	(8,035)
Balance – December 31, 2019	107,320	2,864	468	1,505	(103,962)	8,195

See accompanying notes to the Consolidated Financial Statements

ZEDCOR ENERGY INC.
CONSOLIDATED STATEMENTS OF CASH FLOW
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
IN THOUSANDS OF CANADIAN DOLLARS

	Year ended December 31	
	2019	**2018**
Cash provided by (used in):		
Operating		
Net loss	(8,035)	(20,160)
Depreciation of property and equipment (note 3)	5,478	5,811
Loss on disposal of property and equipment (note 3)	1,267	1,329
Depreciation of right-of-use assets (note 4)	1,354	—
Amortization of intangible assets (note 6)	440	660
Stock based compensation	87	52
Non-cash interest expense and other financing costs	445	519
Receipt of finance lease receivable	56	—
Impairment of goodwill	—	5,746
Impairment of property and equipment (note 3)	2,252	—
Income taxes (paid) recovered	70	(230)
Deferred income taxes	—	7,228
Cash flow from operating activities before changes in non-cash working capital	3,414	955
Changes in non-cash working capital (note 17)	786	(829)
Cash flow provided by operating activities	4,200	126
Investing		
Change in non-cash working capital related to investing activities (note 17)	(585)	615
Proceeds from sale of operating segment	—	600
Purchase of property and equipment (note 3)	(1,497)	(9,206)
Proceeds from sale of property and equipment (note 3)	2,270	3,030
Cash flow provided by (used in) investing activities	188	(4,961)
Financing		
Change in non-cash working capital related to financing activities	22	—
Proceeds from debt (note 7)	275	9,014
Repayment of debt (note 7)	(3,280)	(5,851)
Payment of finance lease liability	(1,396)	—
Cash flow (used in) provided by finance activities	(4,379)	3,163
Net change in cash in the year	9	(1,672)
Cash, beginning of year	161	1,833
Cash, end of year	170	161

CORPORATE INFORMATION:

Zedcor Energy Inc. (formerly Canadian Equipment Rentals Corp. and prior thereto CERF Incorporated) (the "Company") was formed under the laws of Alberta as a corporation on August 10, 2011. Prior to October 1, 2011, operations were carried on as Canadian Equipment Rental Fund Limited Partnership (the "Partnership"), which had been formed under the laws of Alberta as a limited partnership on January 21, 2005. On June 27, 2017, the Company received shareholder approval for the name change from Canadian Equipment Rentals Corp. to Zedcor Energy Inc.

The Company is presently engaged in the rental of surface equipment and accommodations, and providing security and surveillance services. The Company is listed on the TSX Venture Exchange under the symbol ZDC.

1. BASIS OF PREPARATION:

a) Statement of compliance

These consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

These consolidated financial statements were authorized for issue by the Company's Board of Directors on April 7, 2020.

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. All currency amounts have been rounded to the nearest thousand dollars, unless otherwise indicated.

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

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.

For the year ending December 31, 2019, the Company was in compliance with all financial covenants pertaining to its bank debt. However, 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 Debt have dropped below the minimum trade value requirement (see Note 7). The Company is currently in the process of negotiating covenant relief. No agreement is in place as of the date of the financial statements and therefore, there can be no assurance that such agreement will be reached. The Company does, however, expect that the negotiation process will be successful and suitable terms for covenant relief will be achieved. However, if a resolution is not obtained the lender has the right to demand repayment of all amounts under the facility. Any event of default under the Term Debt triggers an event of default under the inter creditor agreement with the Loan and Security agreement.

In addition, given the significant decline in oil prices subsequent to December 31, 2019 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) Critical accounting estimates and judgments

The following judgments and estimates are those deemed by management to be material to the Company's consolidated financial statements.

Critical Accounting Estimates

Amounts recorded for depreciation and amortization are based on the estimated useful lives and residual values of the underlying assets. Useful lives and residual values are based on Management's best estimate using knowledge of past transactions and as such are subject to measurement uncertainty. The estimates are reviewed at least annually and are updated if expectations change as a result of physical wear and tear and legal or other limitations to use. It is possible that changes in these factors may cause changes in the estimated useful lives and residual values of the Company's property, plant and equipment, right of use assets, and intangible assets in the future.

The Corporation estimates the collectability of accounts receivable, including unbilled accounts receivable related to current period service revenue. An analysis of historical bad debts, client creditworthiness, the age of accounts receivable and current economic trends and conditions are used to evaluate the adequacy of the allowance for doubtful accounts and the collectability of receivables. Significant estimates must be made and used in connection with establishing the allowance for doubtful accounts in any accounting period. Material differences may result if management made different judgments or utilized different estimates.

Tax interpretations, regulations, and legislation, in the various jurisdictions in which the Company operates are subject to change. As such, income taxes are subject to measurement uncertainty. Deferred taxes are assessed by Management at the end of the reporting period to determine the likelihood that they may be realized from future taxable earnings.

Significant Management Judgments

The Corporation is required to make a judgment regarding the need for impairment testing at each reporting date by evaluating conditions specific to the organization that may lead to the impairment of assets. The Company's assets are segregated into cash-generating-units ("CGU") based on their ability to generate largely independent cashflows and used for impairment testing. The determination of the Company's cash-generating-units is subject to Management's judgment. The going concern assessment, the related disclosures of liquidity and the ability to find a resolution to the shares pledged under the shareholder guarantee for the Company's term debt dropping below the minimum trade value requirement value was a matter of significant judgement.

Recoverability of assets

The Company assesses impairment on its non-financial assets when it has determined that a potential indicator of impairment exists. The assessment of the existence of impairment indicators is based on various internal and external factors and involves management's judgement. Goodwill is tested annually for impairment or when an indicator is present. Impairment exists when the carrying value of a non-financial asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use.

The required valuation methodology and underlying financial information that is used to determine value in use requires significant estimates to be made by management. The key estimates the Company normally applies in determining the recoverable amount of an individual asset, CGU or group of CGUs include expected levels of activity within the oil and gas industry, future sustaining capital costs, discount rates, tax rates, and operating margins. Assumptions that are valid at the time of preparing the cash flow models may change significantly when new information becomes available. Changes to these estimates may affect the recoverable amounts of an individual asset, CGU or group of CGUs which may then require a material adjustment to their related carrying value.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements.

a) Basis of consolidation:

These financial statements include the accounts of Zedcor Energy Inc. and its wholly owned subsidiaries. Subsidiaries are those entities controlled by Zedcor Energy Inc. Control exists when Zedcor Energy Inc. has power over an investee, exposure or rights to variable returns from its involvement with its investees and the ability to use its power to affect its return from the investee. Subsidiaries are fully consolidated from the date on which control is transferred to Zedcor Energy Inc. They are deconsolidated from the date that control ceases. The following entities have been included in these consolidated financial statements:

Zedcor Energy Inc.	Parent
Zedcor Energy Services Corp.	100% owned

Inter-entity balances, transactions and any unrealized gains or losses arising from inter-entity transactions are eliminated in the preparation of these consolidated financial statements.

b) Business combinations:

The acquisitions of businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets obtained, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquired business. The acquired business' identifiable net assets, including intangible assets, liabilities and contingent liabilities, are recognized at their fair values at the acquisition date.

To the extent the fair value of consideration paid exceeds the fair value of the net identifiable tangible and intangible assets, goodwill is recognized. To the extent the fair value of consideration paid is less than the fair value of net identifiable tangible assets and intangible assets, the excess is recognized in the statement of income.

Transaction costs, other than those associated with the issuance of debt or equity securities, incurred in connection with a business combination, such as legal fees, due diligence fees and other professional and consulting fees, are expensed as incurred.

c) Property and equipment:

Property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributed to the acquisition of the asset.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and are recognized in the statement of income.

The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

Depreciation is provided for at the following rates and methods:

Oilfield accommodation equipment	10 years straight line
Industrial and other oilfield equipment	5% to 30% declining balance
Automotive and other equipment	20% to 30% declining balance
Furniture and office equipment	20% to 100% declining balance

Leasehold improvements and right-of-use assets are amortized over the term of the lease.

d) Impairment of non-financial assets:

The carrying value of long-term assets, excluding goodwill, is reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset or CGU may not be recoverable. If indicators of impairment exist, the recoverable amount of the asset or CGU is estimated. An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in the statement of income. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or CGU is the greater of its fair value less costs of disposal and its value in use ("VIU"). Fair value is determined to be the amount for which the asset could be sold for in an arm's length transaction. The Company bases its impairment calculation on maintaining EBITDA, which refers to net income before finance costs, income taxes, depreciation and amortization. The VIU calculation is based on a discounted cash flow model. The cash flows are derived from the Company's forecast and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

Reversals of impairments are recognized when the indicators that an impairment loss recognized in prior periods may no longer exist, or may have decreased. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. In this event, the carrying amount of the asset or CGU is increased to its revised recoverable amount with an impairment reversal recognized in net earnings. The recoverable amount is limited to the original carrying amount less depreciation and amortization as if no impairment had been recognized for the asset or CGU for prior periods. An impairment loss in respect of goodwill is not reversed.

e) Leases:

The Company has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

Policy applicable from January 1, 2019

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in IFRS 16.

This policy is applied to contracts entered into, on or after January 1, 2019.

i. As a lessee

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case, the right-of-use asset will be depreciated over the useful life of the underlying asset. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The Company determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise of the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounted expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension options, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is reameasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets

The Company has elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the term of the lease.

ii. As a lessor

At inception or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

When the Company acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Company makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Company considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Company is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Company applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, then the Company applies IFRS 15 to allocate the consideration in the contract.

The Company applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease. The Company further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

The Company recognises lease payments received under operating leases as income on a straight-line basis over the lease term.

Policy applicable before January 1, 2019

i. As a lessee

In the comparative period, as a lessee the Company classified leases that transferred substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent. Subsequent to initial recognition, the assets were accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases were classified as operating leases and were not recognized in the Company's statement of financial position. Payments made under operating leases were recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognized as an integral part of the total lease expense, over the term of the lease.

ii. As a lessor

When the Company acted as a lessor, it determined at lease inception whether each lease was a finance lease or an operating lease.

To classify each lease, the Company made an overall assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset. If this was the case, then the lease was a finance lease; if not, then it was an operating lease. As part of this assessment, the Company considered certain indicators such as whether the lease was for the major part of the economic life of the asset.

f) Provisions:

A provision is recognized if, as a result of a past event, the Company has a legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

g) Onerous contracts:

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Company recognises any impairment loss on the asset associated with that contract.

h) Revenue recognition:

Revenue from rentals, in both the Energy Services segment and Security & Surveillance segment, is recognized over time as the rental service is rendered, based upon agreed daily, weekly or monthly rates, and collectability is reasonably assured.

i) Equity settled transactions:

The Company has a share-based compensation plan that allows employees, officers and directors, who have been granted options, to purchase common shares at a set price over a specified time period. Option exercise prices approximate the market price of the shares on the date the options are granted. Options granted under the plan vest over three years and expire five years after the grant date.

Share based compensation expense is determined based on the estimated fair value of the options on the date they are granted. The fair value of the options granted is estimated using the Black-Scholes option pricing model. Factors used in this model include expected volatility, expected dividends and risk-free interest rates.

The compensation expense is recognized in earnings over the vesting period, with a corresponding increase in contributed surplus.

Consideration paid on the exercise of the options is recorded as an increase in shareholders' equity together with corresponding amounts previously recognized in contributed surplus. Forfeitures are estimated for at date of grant, which may result in a reduction of compensation expense in the period of the forfeiture.

j) Finance costs:

Finance costs are comprised of interest expense on borrowings and are recognized in earnings when incurred. Borrowing costs that are not directly attributable to the acquisition of a qualifying asset are recognized in profit or loss.

k) Income taxes:

Income tax expense is comprised of current and deferred tax. Current and deferred tax is recognized in profit or loss except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or recoverable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to the tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for:

- Temporary differences on the initial recognition of assets and liabilities in a transaction that is not a business combination and that will not affect accounting nor taxable profit or loss.
- Temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- Taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be in effect when the temporary differences reverse, based on laws that have been enacted or substantially enacted at the reporting date.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available in sufficient amount in the near term to offset the tax losses, credits and temporary differences.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized in the near term.

l) Net income and comprehensive income per share:

Basic net income per share is determined by dividing the net income by the weighted average number of shares outstanding during the year. Diluted net income per share reflects the potential dilution that would occur if stock options and warrants were exercised. The treasury stock method is used to determine the dilutive effect of stock options and warrants. Under the treasury stock method only "in-the-money" options and warrants impact the dilution calculation.

m) Foreign currency translation:

Transactions denominated in foreign currencies are translated into Canadian dollars at the rate of exchange in effect at the transaction date. Monetary assets and liabilities denominated in foreign currency at the year end are translated into Canadian dollars at the yearend spot rate. Foreign currency gains and losses resulting from fluctuations in exchange rates between the transaction dates and reporting dates are included in income in the period in which they occur. The Canadian dollar is the Company's functional currency.

n) Financial Instruments:

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL"). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

The "expected credit loss" model applies to financial assets measured at amortized cost, and contract assets and debt instruments at FVOCI.

Non-derivative financial assets

The Company initially recognizes accounts receivable and deposits on the date that they originate. All other financial assets (including assets designated at fair value through net income or loss) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position only when the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Impairment

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

An impairment loss in respect of a financial asset measured at amortized cost is calculated using the "expected credit loss" model and recognizes expected credit losses as a loss allowance. The Corporation recognizes an amount equal to the lifetime expected credit losses based on the Corporation's historical experience and including forward-looking information. The carrying amount of these assets in the consolidated statement of financial position is net of any loss allowance. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

The Company has the following non-derivative financial assets:

Financial instrument	Initial measurement	Subsequent measurement
Cash and cash equivalents	Amortized cost	Amortized cost
Accounts receivable	Amortized cost	Amortized cost
Deposits	Amortized cost	Amortized cost

Cash and cash equivalents comprise of cash balances and cash deposits with original maturities of three months or less.

The Company initially recognizes trade and other receivable on the date that they originate. Impairment of trade and other receivables is recognized in selling, general and administration expenses when evidence of impairment arises. If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss, or a portion of such is reversed. The amount of the impairment loss reversed may not exceed the original impairment amount.

Other assets are measured at fair value. Gains and losses relating to the change in fair value are recognized entirely through profit or loss.

Non-derivative financial liabilities

The Company initially recognizes debt securities issued and subordinated liabilities on the date that they originate. All other financial liabilities are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expired. Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company has the following non-derivative financial liabilities:

Financial instrument	Initial measurement	Subsequent measurement
Accounts payable and accrued liabilities	Amortized cost	Amortized cost
Note payable	Amortized cost	Amortized cost
Debt	Amortized cost	Amortized cost

Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method. Interest, losses and gains relating to the financial liability are recognized in profit or loss.

Financial derivatives not using hedge accounting

The Company holds derivative financial instruments at times to hedge its interest rate exposure. Financial derivatives not using hedge accounting are recognized initially at fair value; attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are recognized at fair value and changes therein are accounted for in profit or loss.

o) Segment reporting:

The Company's operating segments are organized based on the operating structure of the Company's business and are reported in a manner consistent with the internal reporting provided to the chief operating decision maker ("CODM"). The CEO has authority for resource allocation and assessment of the Company's performance and is therefore the CODM.

p) Changes in significant accounting policies:

The Company applied IFRS 16 Leases from January a, 2019 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings at January 1, 2019. Accordingly, the comparative information presented for 2018 is not restated, it is presented as previously reported under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

Definition of a lease

Previously, the Company determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 *Determining Whether an Arrangement contains a Lease.* The Company now assesses whether a contract is or contains a lease based on the new definition of a lease, as explained in Note 2 (e).

On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after January 1, 2019.

As a lessee

As a lessee, the Company leases many assets including property, vehicles and IT equipment. The Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company. Under IFRS 16, the Company recognizes right-of-use assets and lease liabilities for most leases (leases are on-statement of financial position).

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price.

However, for leases of property the Company has elected not to separate non-lease components and account for the lease and associated non-lease components as a single lease component.

Leases classified as operating leases under IAS 17

Previously, the Company classified property leases and vehicle leases as operating leases under IAS 17. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at January 1, 2019 (see Note 2 (e)(i)). Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

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The Company has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

The Company used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Company:

- did not recognize right of use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application.
- did not recognize right-of-use assets and liabilities for leases of low value assets (i.e. less than $5,000 USD)
- applied a single discount rate to a portfolio of leases with reasonably similar characteristics.
- excluded initial direct cost from measuring the right of use asset at the date of initial application.
- used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.
- Relied on assessment of whether a lease is onerous by applying IAS 37 *Provision, Contingent Liabilities and Contingent Assets* immediately before January 1, 2019. Therefore, the right-of-use asset at the date of initial application is adjusted by the provision for onerous lease recognized on the statement of financial position immediately before January 1, 2019.

As a lessor

The Company is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor, except for a sub-lease.

The Company sub-leases some of its properties. Under IAS 17, the head lease and sub-lease contracts were classified as operating leases. On transition to IFRS 16, the right-of-use assets recognized from the head leases are measured at fair value on transition to IFRS 16. The sub-lease contracts are classified as either operating leases or finance leases based on whether all the risk and rewards of ownership transfer to the lessee. The Company has one sub-lease that has been classified as a finance lease, the amounts due from the lessee under the finance lease are recognized as a finance lease receivable.

Impacts on financial statements

On transition to IFRS 16, the Company recognized additional right-of-use assets, finance lease receivable and finance lease liabilities, with the difference recognized in retained earnings. The impact on transition is summarized below:

	January 1, 2019
Finance lease receivable	1,386
Right-of-use assets	9,711
Finance lease liabilities	12,091
Onerous lease liability	(787)
Retained earnings	(207)

When measuring lease liabilities for leases that were classified as operating leases, the Company used discounted lease payments for vehicles leases using the interest rate implicit in the lease. For properties, the Company used its incremental borrowing rate at January 1, 2019. The weighted average rate applied is 6.8%.

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	January 1, 2019
Operating lease commitment at December 31, 2018 as disclosed in the Company's consolidated financial statements	8,524
Discounted using the implicit interest rate or incremental borrowing rate at January 1, 2019	9,386
Add: extension options reasonably certain to be exercised	2,758
Less: exemption for leases with less than 12 months of lease term at transition	(53)
Lease liabilities recognized at January 1, 2019	12,091

Impacts for the period

As a result of initially applying IFRS 16, the Company has recognized depreciation and interest costs, instead of operating leases. See notes 4 and 16 for the amount of these costs.

3. PROPERTY AND EQUIPMENT:

Cost	Rental equipment	Automotive and other equipment	Office furniture & equipment	Leasehold improvements	Total
At December 31, 2017	59,463	454	808	109	60,834
Additions	8,993	—	192	21	9,206
Disposals	(7,023)	(87)	—	—	(7,110)
At December 31, 2018	61,433	367	1,000	130	62,930
Additions	1,346	6	105	40	1,497
Disposals	(6,017)	(135)	(4)	—	(6,156)
At December 31, 2019	56,762	238	1,101	170	58,271

Accumulated depreciation	Rental equipment	Automotive and other equipment	Office furniture & equipment	Leasehold improvements	Total
At December 31, 2017	20,000	235	486	75	20,796
Depreciation	5,590	69	125	27	5,811
Elimination on disposal	(2,708)	(44)	—	—	(2,752)
At December 31, 2018	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 (note 5)	2,252	—	—	—	2,252
At December 31, 2019	27,895	208	739	124	28,966

IN THOUSANDS OF CANADIAN DOLLARS

Net Book Value	Rental equipment	Automotive and other equipment	Office furniture & equipment	Leasehold improvements	Total
At December 31, 2018	38,551	107	389	28	39,075
At December 31, 2019	28,867	30	362	46	29,305

During the year ended December 31, 2019, the Company sold assets with a net book value of $3,537 for proceeds of $2,270, resulting in a loss of $1,267 (2018: loss of $1,329).

4. RIGHT-OF-USE ASSETS:

Cost	Properties	Vehicles	Total
At January 1, 2019	**9,243**	**468**	**9,711**
Disposals	—	(31)	(31)
At December 31, 2019	9,243	437	9,680

Accumulated Depreciation	Properties	Vehicles	Total
At January 1, 2019	—	—	—
Depreciation	1,124	230	1,354
Elimination on disposal	—	(8)	(8)
At December 31, 2019	1,124	222	1,346

Net Book Value	Properties	Vehicles	Total
At December 31, 2019	8,119	215	8,334

On January 1, 2019, the Company adopted IFRS 16, as a result right-of-use assets are recognized representing the Company's right to use the underlying asset. (see note 2)

5. IMPAIRMENT OF GOODWILL AND TANGIBLE ASSETS:

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 and Surveillance CGU.

At December 31, 2019, the Company performed an impairment test for property and equipment on the Energy Services 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 15% (pre-tax discount rate of 20%) and a terminal value growth of 2.0%. Budgeted EBITDA margins for the CGUs were 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.

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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. Impairment losses reduce the carrying amount of property, plant and equipment in the CGU.

As a result of the impairment test performed, it was determined the carrying value of the Energy Services CGU exceeded its estimated recoverable amount. Accordingly, the Company has recorded property and equipment impairment of $2,252 for the year ended December 31, 2019. A 5% change in the revenue forecast would result in a $1,217 change in VIU. A 3% change in the EBTIDA margin would result in a $796 change in VIU. A 0.5% change in the discount rate would result in a $555 change in VIU. For the year ended December 31, 2018, the Company recorded a goodwill impairment of $5,746 for the Energy Services CGU.

6. GOODWILL AND INTANGIBLES:

Cost	Goodwill	Customer Relationships	Total
At December 31, 2017	**5,746**	**1,760**	**7,506**
Amortization	—	(660)	(660)
Impairment	(5,746)	—	(5,746)
At December 31, 2018	—	**440**	**440**
Amortization	—	(440)	(440)
At December 31, 2019	—	—	—

7. CREDIT FACILITIES:

	Interest rate	Final maturity	Facility maximum	Outstanding as at December 31, 2019	Outstanding as at December 31, 2018
Loan and security facility	12.75%	2021	12,471	12,094	14,162
Operating loan facility	7.25%	Revolving	3,000	878	690
Term loan facility	7.25%	2021	2,500	2,500	2,500
Equipment term loan facility	6.10-6.35%	2024	4,788	3,973	5,185
				19,445	22,537
Current portion				(2,736)	(16,749)
Long term debt				16,709	5,788

Loan and security facility:

On April 21, 2017, the Company entered into a Loan and Security Agreement with a new lender. The Loan and Security Agreement in the amount of $20.4 million was used to repay the prior credit facility, bore interest at a rate of 12.75% and had a term of 12 months with an option to extend for an additional 12 months at the satisfaction of the lender. The Loan and Security Agreement was to be serviced by six months of interest only payments, followed by six months of blended principal and interest payments. The Loan and Security

Agreement did not require quantitative financial covenants, but imposed restrictions on the Loan's collateral, being the property and equipment of the Company.

On April 21, 2017, the Company issued the lender 3,651,501 share purchase warrants. Each warrant entitled the lender to acquire one common share in the Company at an exercise price of $0.25 per warrant. The warrants had an expiry date of July 21, 2019. The warrants fair value of $300 was recorded as a transaction cost of the loan and is being expensed over the term of the loan. (see note 12)

On March 28, 2018, the Company renewed the Loan and Security agreement in the amount of $17.5 million for an additional six months with an option to renew for an additional six months at the satisfaction of the lender. The renewed Loan and Security agreement bore interest at 12.75% and was serviced by six months of interest only payments, followed by six months of principal and interest payments in the event that it was renewed. The Company also entered into a Warrant Amendment Agreement which amended the exercise price of the previously issued warrants to $0.27 per share from $0.25 per share and extended the expiry date to July 21, 2020. The facility no longer has any shareholder guarantees pledged as security, and all covenants and collateral remain the same.

On September 28, 2018, the Company renewed the Loan and Security agreement in the amount of $15.9 million for an additional six months with an option to renew for an additional six months at the satisfaction of the lender. The renewed Loan and Security agreement bears interest at 12.75% and is serviced by six months of interest only payments, followed by six months of interest only payments in the event that it is renewed. The Company also entered into a Warrant Amendment Agreement which amended the exercise price of the previously issued warrants to $0.20 per share from $0.27 per share and extended the expiry date to January 21, 2021. All covenants and collateral remain the same. (see note 12)

On October 1, 2018, the Company issued the lender an additional 248,209 share purchase warrants. Each warrant entitles the lender to acquire one common share in the Company at an exercise price of $0.20 per warrant. The warrants expire on January 21, 2021. (see note 12)

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

On March 25, 2019, the Company issued the lender an additional 2,068 share purchase warrants. Each warrant entitles the lender to acquire one common share in the Company at an exercise price of $0.145 per warrant. The warrants expire on January 21, 2022. (see note 12)

On December 31, 2019, the Company renewed the Loan and Security agreement in the amount of $12.5 million for an additional 15 months with an option to renewal for an additional 12 months at the satisfaction of the lender. The renewed Loan and Security agreement bears interest at 12.75% as is serviced by 12 months of interest only payments. All covenants and collateral remain the same.

On January 10, 2020, 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.

Operating loan, term loan and equipment term loan facility:

On May 10, 2017, the Company signed a $1 million operating loan agreement bearing interest at a rate of prime plus 3.3% and secured by the Company's accounts receivables and restricted cash. The operating loan facility required that the Company's current ratio does not fall below 1.50:1.00 and effective September 30, 2017, the debt service coverage ratio not be less than 1.50:1.00, calculated in accordance with the formula set forth in the agreement.

On March 28, 2018, the Company signed a $13.5 million credit facility, comprised of a $3 million operating loan facility, which replaces the $1 million operating loan facility, a $2.5 million non-revolving term loan facility, which was used to pay out the guarantee from the Loan and Security agreement, and an $8 million equipment finance term loan facility. The operating loan facility is payable on demand by the lender, bears interest at a rate of prime plus 3.3% and is secured by the Company's accounts receivable. The term facility matures in two years, bears interest at a rate of prime plus 3.3% and is secured by a shareholder guarantee. The shareholder guarantee bears interest at a rate of 5.0% per annum and is paid monthly through the issuance of shares. The equipment finance loan is amortized over 36 to 60 months, bears interest at a rate of 6.1% to 6.35% and is repayable in equal monthly installments of principal and interest over the term. The equipment finance loan will be used to finance 75% of the cost of new equipment purchased. The credit facility requires that the Company's current ratio does not fall below 1.50:1.00, the debt service coverage ratio does not fall below 1.25:1.00 and the share value of the shares pledged under the shareholder guarantee not be less than 1.25 times the value of the outstanding term facility.

On September 26, 2019, the Company signed an amending agreement to the $13.5 million credit facility. The amending agreement extended the $2.5 million non-revolving term loan facility to March 15, 2021. The $8 million equipment finance term loan facility was reduced to $4.8 million. The debt service coverage ratio was amended to 1.05:1:00 for the quarter ending March 31, 2020 and 1.10:1.00 for the quarter ending June 30, 2020. The shares pledged under the shareholder guarantee was revised from the 1.25 times the values of the outstanding term facility to a minimum trade value.

On December 11, 2019, the Company signed a second amending agreement to the $13.5 million credit facility. The second amending agreement extended the $2.5 million non-revolving term loan facility to August 16, 2021. The debt service coverage ratio was amended to 1.00:1.00 for the period beginning December 31, 2019 and ending December 31, 2020.

As at December 31, 2019, the Company's current ratio, as defined to exclude the current portion of debt, was 1.82:1.00, the debt service coverage ratio, calculated in accordance with IAS 17 per agreement with lender, was 1.15:1.00 and the value of the shares pledged under the shareholder guarantee was greater than minimum trade value requirement.

Subsequent to year end, the shares pledged under the shareholder guarantee dropped below the minimum trade value requirement. The Company is currently in discussions with its lender on a resolution and management is of the view that a resolution will be reached. However, if a resolution is not obtained the lender has the right to demand repayment of all amounts under the facility, thus the Company is reliant on the continued support of its lenders. (see note 1 (b))

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8. LEASE LIABILITES:

Maturity Analysis – contractual undiscounted cash flows	Total
Less than one year	1,934
One to five years	5,364
More than five years	2,275
Total undiscounted lease payables as at December 31, 2019	**9,573**
Implicit Interest	1,122
Total lease liabilities as at December 31, 2019	**10,695**

9. NOTE PAYABLE:

On February 2, 2016, the Company issued a $5,000,000 Canadian dollar vendor take-back note as part of an acquisition. The vendor take-back note matures five years from the issue date at its nominal value and bears interest at five per cent per annum, accruing daily from the issue date. Accrued and unpaid interest is due upon maturity. The vendor take-back note is unsecured and subordinated to the Credit Facilities and interest payments are subject to certain restrictions in the Credit Facility.

On April 27, 2017, the Company repaid $2.5 million of the principal amount of the vendor take-back note by issuing 10,000,000 Common Shares of the Company to the note holder, representing a price of $0.25 per share. The fair value of the shares on the date of repayment was $0.18 per share.

As at December 31, 2019, the note payable had a carrying value of $2,979.

Balance, December 31, 2017	**$ 2,467**
Interest payable	125
Accretion of note payable discount	124
Balance, December 31, 2018	**$ 2,716**
Interest payable	125
Accretion of note payable discount	138
Balance, December 31, 2019	**$ 2,979**

10. INCOME TAXES:

The major components of income tax expense are as follows:

	December 31, 2019	December 31, 2018
Current income tax	(74)	(70)
Deferred tax	—	7,228
Provision for income taxes	(74)	7,158

Deferred tax assets and liabilities are attributable to the following temporary differences:

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	Excess book value	Intangibles	Tax loss carry forwards	Share issue costs & warrants	Net deferred tax asset (liability)
As at December 31, 2017	(186)	(297)	7,646	65	7,228
Recognized in profit or loss	186	178	(7,513)	(79)	(7,228)
As at December 31, 2018	—	(119)	133	(14)	—
Recognized in profit or loss	—	—	—	—	—
As at December 31, 2019	—	—	—	—	—

Reconciliation of effective tax rate:

	December 31, 2019	December 31, 2018
Net Loss before income tax	(8,109)	(13,002)
Statutory Tax rate	26.5%	27%
Expected tax	(2,149)	(3,511)
Non-deductible expenses	76	(4)
Impairment	597	1,551
Unrecognized capital and non-capital losses	1,402	9,122
Tax expense (recovery)	(74)	7,158

As at December 31, 2019 the Company had non-capital loss carry forwards of approximately $31,824 (2018 - $33,927) which are available to reduce future taxable income. These losses begin to expire in 2035. The Company will recognize a deferred tax asset to the extent that it is probable future taxable profits will be available in the near term to offset the tax losses, credits and temporary differences. Also included in the December 31, 2019 tax pools are net capital losses of $2,196 (2018 - $2,196), which are available to reduce future capital gains. However, these loses are unrecognized as a deferred income tax asset at December 31, 2019 and 2018, as management does not believe sufficient future net capital gains will be generated.

11. SHARE CAPITAL:

Authorized:
The Company is authorized to issue an unlimited number of common shares without par value and an unlimited number of preferred shares without par value.

Common shares issued and fully paid:	Number of shares	$
Balance, December 31, 2017	**51,448,708**	**106,905**
Issued as consideration of lease termination fee	776,334	182
Issued as consideration for loan guarantee	656,427	108
Balance, December 31, 2018	**52,881,469**	**107,195**
Issued as consideration for loan guarantee	1,363,306	125
Balance, December 31, 2019	**54,244,775**	**107,320**

IN THOUSANDS OF CANADIAN DOLLARS

Preferred shares issued:	**Number of shares**	**$**
Balance, December 31, 2017, December 31, 2018 & December 31, 2019	**4,400,000**	**2,864**

On February 2, 2016, the Company issued 4,400,000 preferred shares at a stated value of $0.70 per share as part of an acquisition. The fair value of the preferred shares at the acquisition date was estimated to be $2,864. The preferred shares valuation was determined using a Monte Carlo simulation and Longstaff-Schwartz algorithm. The assumptions used in the valuation include the historical stock price of the Company, the historical volatility of the Company stock price and a Company credit rating of 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.

Zedcor Energy Inc. 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 the 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.

12. WARRANTS:

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

Warrants issued:	**Number of warrants**	**$**
Balance, December 31, 2017	**3,651,501**	**300**
Amendment of exercise price – March 28, 2018	—	11
Amendment of exercise price – September 28, 2018	—	81
Additional warrants issued per financing agreement – October 1, 2018	248,209	20
Balance, December 31, 2018	**3,899,710**	**412**
Amendment of exercise price – March 25, 2019	—	56
Additional warrants issued per financing agreement – March 25, 2019	2,068	—
Balance, December 31, 2019	**3,901,778**	**468**

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On April 27, 2017, the Company issued 3,651,501 share purchase warrants (see note 7). Each warrant can be used to acquire one common share in the Company at an exercise price of $0.25 per warrant. The warrants had an expiry date of July 21, 2019.

On March 28, 2018, the Company entered into a Warrant Amendment Agreement which amended the exercise price of the warrants to $0.27 per share and extended the expiry date to July 21, 2020.

On September 28, 2018, the Company entered into a Warrant Amendment Agreement which amended the exercise price of the warrants to $0.20 per share and extended the expiry date to January 21, 2021.

On October 1, 2018, the Company issued the lender and additional 248,209 share purchase warrants. Each warrant entitles the lender to acquire one common share in the Company at an exercise price of $0.20 per warrant. The warrants expire on January 21, 2021.

On March 25, 2019, the Company entered into a Warrant Amendment Agreement which amended the exercise price of the warrants to $0.145 per share and extended the expiry date to January 21, 2022.

On March 25, 2019, the Company issued the lender an additional 2,068 share purchase warrants. Each warrant entitles the lender to acquire one common share in the Company at an exercise price of $0.145 per warrant. The warrants expire on January 21, 2022. The Black-Scholes estimate of fair value used the following assumptions:

Issue date	**March 25, 2019**	**2018**
Expected annual dividend	$0.00	$0.00
Expected volatility	120.9%	90-113%
Risk-free interest rate	1.47%	1.92-2.21%
Expected life of warrants	2.8 years	2-3 years

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.

13. STOCK OPTIONS:

Changes in outstanding and exercisable employee options are as follows:

	Number of options	Vested/ Exercisable	Exercise price	Remaining contractual life in years	Weighted average exercise price
Options as at December 31, 2017	**2,906,500**	**356,497**	**—**	**3.97**	**0.35**
Options forfeited	(2,050,000)	(499,998)	0.33	—	—
Options expired	(6,500)	(6,500)	3.00	—	—
Options vested	—	874,996	0.32	—	—
Options granted January 15, 2018	575,000	—	0.25	4.04	0.25
Options granted April 3, 2018	925,000	—	0.34	4.25	0.34

IN THOUSANDS OF CANADIAN DOLLARS

Options granted June 19, 2018	225,000	—	0.25	4.46	0.25
Options granted August 16, 2018	75,000	—	0.25	—	0.25
Options granted November 15, 2018	250,000	—	0.25	4.87	0.25
Options as at December 31, 2018	**2,900,000**	**724,995**	—	**3.61**	**0.31**
Options vested	—	966,665	0.31	—	—
Options forfeited	(100,000)	(25,000)	0.29	—	—
Options granted March 25, 2019	700,000	—	0.15	**4.24**	**0.15**
Options as at December 31, 2019	**3,500,000**	**1,666,660**	—	**2.91**	**0.28**

The Company estimated the fair value of the 700,000 employee stock options issued using the Black-Scholes method of valuation. The Black-Scholes estimate of fair value used the following assumptions:

Issue date	**March 25, 2019**	**2018**
Expected annual dividend	$0.00	$0.00
Expected volatility	87.5%	68.8-73.7%
Risk-free interest rate	1.47%	1.8-2.25%
Expected life of options	3 years	3 years

During the year ended December 31, 2019, $87 of stock based compensation related to these stock options was recorded in general and administrative expenses (2018 - $52). At December 31, 2019, the weighted average price of exercisable options was $0.28.

14. PER SHARE AMOUNTS:

Net income per share has been calculated based on the weighted average number of shares outstanding during the years ended December 31, 2019 and 2018. The basic weighted average number of shares outstanding for the years then ended was 53,564,747 and 52,252,179 respectively.

The diluted weighted average number of shares was 53,564,747 for 2019 and 52,252,179 for 2018. The diluted weighted average reflects the dilutive effect of “in-the-money” options outstanding. As at December 31, 2019 and 2018 no options or warrants were “in-the-money”.

15. GENERAL AND ADMINISTRATIVE EXPENSES:

General and administrative expenses are comprised of the following:

	December 31, 2019	**December 31, 2018**
Administrative salaries and office costs	2,624	4,926
Professional and consulting fees	413	441
Advertising, promotion, and investor relations	157	168
Computer and technology related expenses	223	242
Bad debt expenses	57	142
	3,474	5,919

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For the year ended December 31, 2019 severance costs of $15 (2018 - $343) were include in administrative salaries and office costs.

16. FINANCE COSTS:

Finance costs are comprised of the following:

	December 31, 2019	December 31, 2018
Bank charges and interest	24	23
Interest on debt	3,131	3,487
Interest on note payable	264	249
Interest on finance leases	631	—
Other interest income	—	(48)
	4,050	3,711

17. CHANGES IN NON-CASH WORKING CAPITAL:

Changes in non-cash working capital related to operating activities

	December 31, 2019	December 31, 2018
Accounts receivable	1,340	(717)
Prepaid expenses and deposits	(53)	(185)
Accounts payable and accrued liabilities	(427)	327
Onerous lease	—	(197)
Income taxes payable	(74)	(57)
	786	(829)
Change in accounts payable related to investing activities	(585)	615
Changes in lease liabilities related to financing activities	22	—
Total change in non-cash working capital	223	(214)
Supplementary information:		
Interest paid	3,606	3,253
Taxes (recovered) paid	(70)	230

18. RELATED PARTY TRANSACTIONS:

a) Key management personnel compensation

In addition to their salaries, the Company also provides non-cash benefits to executive officers. The Company has no retirement or post-employment benefits available to its directors and executive officers.

The remuneration of key management personnel and directors during the year ended December 31 was:

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	2019	2018
Short term employment salary and benefits	487	625
Termination benefits	—	276

b) Transactions with key management personnel and directors:

On February 2, 2016 the Company issued a vendor take back note as part of an acquisition. During 2017, the holder of the vendor take back note was elected as a director of the Company. As at December 31, 2019, the note payable had a carrying value of $2,979. (see note 9)

On April 27, 2017, a director of the Company provided a $2,500 guarantee for the Loan and Security Agreement the Company entered into on April 21, 2017. The Company paid interest of 3.0% per annum, through the issuance of shares on the value of the guarantee that remained outstanding. On March 28, 2018, the shareholder guarantee was released from the Loan and Security Agreement and secured against the term loan. (Note 7) The Company pays interest of 5.0% per annum, through the issuance of shares on the value of the guarantee that remains outstanding. As at December 31, 2019 the amount outstanding on the guarantee is $2,500.

During the year ended December 31, 2019, the Company paid rent for two buildings of $372 (2018 - $310) to a company owned by a director of the Company.

c) Other:

During the year ended December 31, 2019, the Company paid $212 (2018 - $141) in wages to close family members of directors and executive officers for employment services.

These related party transactions are in the normal course of business and have been recorded at the exchange amount. At December 31, 2019 the amount receivable from related parties that was unpaid was $2 (2018 - NIL).

19. OPERATING SEGMENTS:

The Company structured its 2019 operations in two operating and reportable segments: (i) Energy Services and (ii) Security & Surveillance, 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 twelve months ended December 31, 2019 and 2018:

Twelve months ended December 31, 2019				
	Energy Services	Security & Surveillance	Corporate	Total
Total segment revenue	11,612	5,350	—	16,962
Segment earnings	5,832	1,965	(1,067)	6,730

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Depreciation of property and equipment	4,640	785	53	5,478
Depreciation of right-of-use-assets	782	47	525	1,354
Loss on sale of equipment	1,255	12	—	1,267
Impairment of property and equipment	2,252	—	—	2,252
Amortization of intangible assets	440	—	—	440
Additions to property and equipment	657	839	1	1,497

Twelve months ended December 31, 2018				
	Energy Services	Security & Surveillance	Corporate	Total
Total segment revenue	13,865	3,587	—	17,452
Segment earnings	5,522	1,075	(2,281)	4,316
Depreciation of property and equipment	5,251	509	51	5,811
Loss on sale of equipment	1,339	—	(10)	1,329
Impairment of goodwill	5,746	—	—	5,746
Amortization of intangible assets	660	—	—	660
Additions to property and equipment	4,759	4,361	86	9,206

Twelve months ended December 31, 2019				
	Energy Services	Security & Surveillance	Corporate	Total
Property and equipment	24,591	4,609	105	29,305
Right-of-use assets	3,484	1,377	3,473	8,334

Twelve months ended December 31, 2018				
	Energy Services	Security & Surveillance	Corporate	Total
Property and equipment	35,067	3,852	156	39,075
Intangibles and goodwill	440	—	—	440

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

	Year ended December 31, 2019	Year ended December 31, 2018
Segment earnings	6,730	4,316
Deduct:		
Finance costs	4,050	3,711
Amortization of intangibles	440	660
Depreciation of equipment	5,478	5,811
Depreciation of right-of-use assets	1,354	—
Loss on sale of equipment	1,267	1,329
Impairment of goodwill	—	5,746
Impairment of property and equipment	2,252	—
Foreign exchange (gain) loss	(2)	61
Loss before taxes	(8,109)	(13,002)

20. CAPITAL MANAGEMENT:

The Company's objective when managing capital is to prudently exercise financial discipline and to deliver positive returns. The Company's capital management strategy remained unchanged during the year ended December 31, 2019.

The Company monitors capital based on the ratio of debt to Adjusted EBITDA (Adjusted EBITDA is a non-GAAP measure and defined as net income before interest, taxes, depreciation, amortization, gain or loss on disposal of property and equipment and non-cash share based compensation plus non-recurring charges such as acquisition expenses, refinancing charges and severance payments). This ratio is calculated as debt, defined as total liabilities excluding trade payables and other accrued current liabilities incurred in the ordinary course of business, and deferred income taxes divided by Adjusted EBITDA. The Company's strategy is to maintain the current ratio and debt service coverage ratios within the parameters as set out in the Company's current Operating Loan Facility (note 7).

The Company considers its capital structure to include shareholders' equity, credit facilities, and working capital. In order to maintain or adjust its capital structure, the Company may from time to time, issue shares and adjust its capital spending to manage the level of its short-term borrowings, or may revise the terms of its credit facilities to support future growth initiatives.

21. FINANCIAL INSTRUMENTS:

a) Fair value:

The fair value of the Company's financial instruments consisting of cash, accounts receivable, accounts payable and accrued liabilities, current debt, note payable and long term debt approximate their carrying value as at December 31, 2019 and 2018, due to their short-term maturities or floating interest rates.

b) Credit risk:

Credit risk is the risk of financial loss resulting from a customer or counter party to a financial instrument failing to meet its obligation to the Company.

The Company is exposed to credit risk with respect to accounts receivable as it has a concentration of customers involved in the oil and gas industry. The Company's accounts receivable represent balances owing by a number of unrelated companies with no significant exposure to any individual customer, other than one large pipeline company with an accounts receivable balance in excess of 18% of the total year end receivable balance. Management believes that the Company's credit risk with respect to accounts receivable is limited due to the Company's broad customer base and management's conservative credit policy. Historically credit losses have not been significant.

The allowance for doubtful accounts in respect of trade receivables is used to record impairment losses unless the Company is satisfied that a recovery of the amount owing is extremely remote, at which point the amounts are considered irrecoverable and are written off against the trade receivables directly.

Aging of accounts receivable is as follows:

IN THOUSANDS OF CANADIAN DOLLARS

	December 31, 2019	December 31, 2018
Trade receivables, gross:		
Outstanding 1 - 30 days	1,243	1,683
Outstanding 30 – 60 days	792	1,168
Outstanding over 60 days	410	371
	2,445	3,222
Allowance for doubtful accounts	(38)	(18)
Trade receivables, net	2,407	3,204
Sales tax and other receivables	289	832
Accounts receivable	2,696	4,036

The movement in the allowance for doubtful accounts in respect of trade receivables during the years ended December 31, 2019 and 2018 was as follows:

	2019	2018
Balance as at January 1	18	21
Increase (decrease) in allowance of trade receivables	20	(3)
Balance as at December 31	38	18

Based on historical default rates, the Company believes that no additional impairment allowance is necessary in respect of trade receivables.

c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due.

At December 31, 2019, the Company had negative working capital of $(1,483). The Company believes that future cash flows from operations will be sufficient to meet its obligations as they arise. (see Note 7)

The following table shows the undiscounted contractual maturities of the Company's financial liabilities and financial lease obligation as at December 31, 2019:

	1 Year	2-3 years	4-5 years	Thereafter	Total	Carrying value
Accounts payable and accrued liabilities	911	—	—	—	911	911
Current debt	2,736	—	—	—	2,736	2,736
Long-term debt	—	17,086	—	—	17,086	16,709
Note Payable	—	3,281	—	—	3,281	2,979
Finance lease liabilities	1,934	3,179	2,185	2,275	9,573	10,695
Total	5,581	23,546	2,185	2,275	33,587	34,030

The Company is actively managing its financing and cash flow from operations to ensure adequate liquidity is available through fiscal year 2020. This expectation could be adversely affected by a material negative change or a longer than anticipated downturn in the oilfield service industry. The Company regularly prepares and updates budgets and forecasts in order to monitor its liquidity and ability to meet its financial obligations and commitments, including the ability to comply with the financial covenants (note 7). Due to a significant decline in oil prices subsequent to December 31, 2019 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. If available liquidity is not sufficient to meet the Company's operating and debt servicing obligations as they come due, management's plans include further expenditure reductions, asset dispositions, or pursuing other corporate strategic alternatives. (see note 1 (b))

d) Market risk

Interest rate risk:

Interest rate risk is the risk that the fair value of a financial instrument or its cash flows will fluctuate as a result of changes in interest rates.

At December 31, 2019, a 1% change in interest rates on the floating rate debt would result in an increase or decrease in annual net income before income taxes of $34.

Currency risk:

Currency risk is the risk that the fair value of a financial instrument will fluctuate as a result of changes in foreign exchange rates.

The Company purchases equipment, parts and supplies from foreign suppliers that are denominated in United States dollars. At December 31, 2019 accounts payable and accrued liabilities did not include any material amounts denominated in foreign currencies. Management does not believe that its foreign currency risk would result in a material loss due to the short term nature of the foreign currency denominated payables and does not employ derivative instruments to manage foreign currency risk.

22. SUBSEQUENT EVENTS:

On January 10, 2020, 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.

Subsequent to year end, the shares pledged under the shareholder guarantee dropped below the minimum trade value requirement. The Company is currently in discussions with its lender on a resolution and management is of the view that a resolution will be reached. However, if a resolution is not obtained the lender has the right to demand repayment of all amounts under the facility, thus the Company is reliant on the continued support of its lenders.

Subsequent to December 31, 2019, the COVID-19 outbreak was declared a pandemic by the World Health Organization. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy, commodity prices, and the financial effect on our business is not known at this time. These circumstances could result in an impact on our liquidity position, impairments in the value of our long-lived assets, or potential future decreases in revenue or the profitability of our ongoing operations.