Zedcor

Zedcor Energy Inc. Announces 2019 Year End Results and Salary Reductions

CALGARY, ALBERTA – April 7, 2020: Zedcor Energy Inc. (the "Company") (TSX VENTURE: ZDC) provided a series of announcements today, including 2019 year end results and salary reductions.

Salary Reductions:

The Company is taking measures to improve its operational and financial performance under the current economic outlook while continuing to provide essential services to customers. Fixed operating costs, along with general and administrative costs are being reduced throughout the organization, including a further 17% reduction to the salary of the President and CEO following a 10% reduction taken in the fourth quarter of 2019, reductions in management salaries and a suspension of board of director fees.

Financial and Operating Results for the Year Ended December 31, 2019:

Highlights

Amounts in the following tables are presented in thousands of dollars, except for per share amounts.

	Three months ended December 31		Twelve months ended December 31	
(in $000s)	**2019**	**2018**	**2019**	**2018**
Revenue	3,384	4,824	16,962	17,452
Net loss	(3,930)	(15,176)	(8,035)	(20,160)
Adjusted EBITDA[1,2]	1,303	1,402	6,834	4,650
Adjusted EBIT[1,2]	(718)	(964)	(1,705)	(3,150)
Net loss per share				
Basic	($0.07)	($0.29)	($0.15)	($0.39)
Diluted	($0.07)	($0.29)	($0.15)	($0.39)

[1] *Adjusted for severances, impairment of goodwill and property and equipment, and stock based compensation.*

[2] *See Financial Measures Reconciliations below*

SELECT FINANCIAL RESULTS

- Revenues for the quarter ended December 31, 2019 decreased by $1,440 or 30% from $4,824 to $3,384 compared to the similar quarter in 2018. This decrease is due to the substantial decline in drilling activity in the second half of 2019 compared to the second half of 2018.
- Net loss from continuing operations for the quarter ended December 31, 2019 decreased by $11,246 from a loss of $15,176 to a loss of $3,930 compared to the similar quarter in 2018. This decrease is the result of a $7,228 derecognition of the deferred tax asset and a $5,746 impairment of goodwill related to the Energy Services segment that were recognized in the last quarter of 2018 compared to only a $2,252 impairment of property and equipment related to the Energy Services segment that was recognized in the last quarter of 2019.
- Adjusted EBITDA for the quarter ended December 31, 2019 was $1,303, a decrease of $99 from the quarter ended December 31, 2018. This decrease is a result of the decrease in revenue and margin from the Energy Services segment in the last quarter.

- For the year ended December 31, 2019, revenue decreased by $490 or 3% from $17,452 to $16,962 compared to the year ended December 31, 2018. However, Adjusted EBITDA increased by $2,184 or 47% from $4,650 to $6,834. Of this increase, $1,887 is related to the impact of IFRS 16, the balance is a result of the EBITDA generated from the Security and Surveillance segment, along with a decrease in general and administrative costs. The decrease in general and administrative costs for the twelve months ended December 31, 2019 compared to the twelve months ended December 31, 2018 is due to a continued focus on cost reductions and operational efficiencies.
- Net loss from continuing operations decreased by $12,125 for the year ended December 31, 2019 compared to the year ended December 31, 2018. This decrease is due to a $7,228 derecognition of deferred tax assets and a goodwill impairment of $5,746 related to the Energy Services segment that were recognized in the last quarter of 2018 and a $2,252 impairment of property and equipment that was recognized in the last quarter of 2019.
- During 2019, the Company sold underutilized assets, with the proceeds of $2,270 being used to reduce debt.
- On March 25, 2019, the Company renewed the Loan and Security Agreement in the amount of $14,314 for an additional 12 months with the option to renew for an additional 12 months at the satisfaction of the lender. See Liquidity and Capital Resources section.
- On September 26, 2019, the Company signed an amending agreement to the $13,500 credit facility by extending the non-revolving term loan facility, reducing the equipment finance term loan facility and amending covenants. See Liquidity and Capital Resources section.
- On December 11, 2019, the Company signed a second amending agreement to the $13,500 credit facility extending the non-revolving term loan facility and further amending covenants. See Liquidity and Capital Resources section.
- On December 31, 2019, the Company renewed the Loan and Security Agreement in the amount of $12,471 for an additional 15 months with an option to renew for an additional 12 months at the satisfaction of the lender. See Liquidity and Capital Resources section.

SELECTED QUARTERLY FINANCIAL INFORMATION

(Unaudited – in $000s)	Dec 31 2019	Sept 30 2019	June 30 2019	March 31 2019	Dec 31 2018	Sept 30 2018	June 30 2018	Mar 31 2018
Revenue	3,384	3,865	3,750	5,963	4,824	3,992	3,408	5,228
Net loss from operations	(3,930)	(1,617)	(1,805)	(683)	(15,176)	(1,608)	(2,760)	(616)
Adjusted EBITDA[1]	1,303	1,509	1,264	2,758	1,402	1,112	365	1,771
Adjusted EBITDA per share - basic[1]	0.02	0.03	0.02	0.05	0.03	0.02	0.01	0.03
Net loss per share from operations								
Basic	(0.07)	(0.03)	(0.03)	(0.01)	(0.29)	(0.03)	(0.05)	(0.01)
Diluted	(0.07)	(0.03)	(0.03)	(0.01)	(0.29)	(0.03)	(0.05)	(0.01)
Adjusted free cash flow[1]	1,240	(264)	2,450	695	(219)	120	1,114	(324)

1 *See Financial Measures Reconciliations below*

LIQUIDITY AND CAPITAL RESOURCES

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.

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.

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.

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.

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.

OUTLOOK

The oilfield service industry was impacted by low activity levels across the Western Canadian Sedimentary Basin in 2019. This decline in activity levels was due to an uncertain economic and regulatory environment, fluctuating commodity prices, constrained takeaway capacity and the resulting decrease of capital budgets for Western Canadian customers. Uncertainty remains in the 2020 outlook due to significant fluctuations in commodity prices, declining drilling activity and the economic impact of the COViD-19 global pandemic, therefore the industry, along with Zedcor, continues to take a measured approach to spending.

The Company anticipates that demand for rental equipment which supports drilling and completions activity in the Western Canadian Sedimentary Basin ("WCSB") will decline during the first half of 2020 and possibly into the third and fourth quarter of 2020. This decline is largely due to the impact of the COVID-19 global pandemic and the volatility in the oil and gas sector, including the oil price war between Russia and Saudi Arabia. As a result, the Company continues to focus on maintaining strong relationships with existing customers and cost reductions.

Despite the challenging operating environment, the Company continues to execute on its long-term strategy of growing its Security and Surveillance division by diversifying through different product lines, geographies and customers. Utilization of the Company's fleet of solar hybrid light towers with high resolution cameras increased significantly in 2019 and the growth trajectory is expected to continue throughout 2020. As market interest and demand for the security and surveillance services offerings continues to increase, the Company remains focused on successful expansion through a growing fleet, while maintaining strong operational performance.

The Company is committed to generating strong free cash flow from operations in order to further reduce debt and strengthen the statement of financial position. In conjunction, Zedcor continues to strive to improve its operational and financial performance through efficiencies and cost reductions in its operations while creating shareholder value for the long term.

NON-IFRS MEASURES RECONCILIATION

Zedcor Energy Inc. uses certain measures in this press release which do not have any standardized meaning as prescribed by International Financial Reporting Standards ("IFRS"). These measures which are derived from information reported in the consolidated statements of loss and comprehensive loss may not be comparable to similar measures presented by other reporting issuers. These measures have been described and presented in this press release in order to provide shareholders and potential investors with additional information regarding the Company.

Investors are cautioned that EBITDA, adjusted EBITDA, adjusted EBITDA per share, adjusted EBIT and adjusted free cash flow are not acceptable alternatives to net income or net income per share, a measurement of liquidity, or comparable measures as determined in accordance with IFRS.

EBITDA and Adjusted EBITDA

EBITDA refers to net income before finance costs, income taxes, depreciation and amortization. Adjusted EBITDA is calculated as EBITDA before costs associated with severance, impairment of goodwill and property and equipment, gains or losses on disposal of property and equipment and share based compensation. These measures do not have a standardized definition prescribed by IFRS and therefore may not be comparable to similar captioned terms presented by other issuers.

Management believes that EBITDA and Adjusted EBITDA are useful measures of performance as they eliminate non-recurring items and the impact of finance and tax structure variables that exist between entities. "Adjusted EBITDA per share – basic" refers to Adjusted EBITDA divided by the weighted average basic number of shares outstanding during the relevant periods.

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

	Three months ended December 31		**Twelve months ended December 31**	
(in $000s)	**2019**	**2018**	**2019**	**2018**
Net loss from continuing operations	(3,930)	(15,176)	(8,035)	(20,160)
Add:				
Finance costs	954	1,005	4,050	3,711
Depreciation	1,621	1,466	6,832	5,811
Amortization of intangibles	—	165	440	660
Income taxes (recovery)	(18)	7,201	(74)	7,158
EBITDA	(1,373)	(5,339)	3,213	(2,820)
Add:				
Stock based compensation	23	15	87	52
Loss on disposal of property and equipment	400	735	1,267	1,329
Impairment of goodwill	—	5,746	—	5,746
Impairment of property and equipment	2,252	—	2,252	—
Severance costs	1	245	15	343
Adjusted EBITDA	1,303	1,402	6,834	4,650

Adjusted EBIT

Adjusted EBIT refers to earnings before interest and finance charges, stock based compensation, income taxes, impairment of goodwill and property and equipment, and severance costs.

A reconciliation of net loss to Adjusted EBIT is provided below:

	Three months ended December 31	**Twelve months ended December 31**

(in $000s)	2019	2018	2019	2018
Net loss from continuing operations	(3,930)	(15,176)	(8,035)	(20,160)
Add:				
Finance costs	954	1,005	4,050	3,711
Stock based compensation	23	15	87	52
Impairment of goodwill	—	5,746	—	5,746
Impairment of property and equipment	2,252	—	2,252	—
Income taxes (recovery)	(18)	7,201	(74)	7,158
Severance costs	1	245	15	343
Adjusted EBIT	(718)	(964)	(1,705)	(3,150)

No Conference Call

No conference call will be held in conjunction with this release. Full details of the Company's financial results, in the form of the consolidated financial statements and notes for the year ended December 31, 2019 and Management's Discussion and Analysis of the results are available on SEDAR at www.sedar.com and on the Company's website at www.zedcor.ca.

CFO Appointment

Zedcor also announces that Ms. Kim Cotter, along with her family, will be relocating to Winnipeg, Manitoba and therefore will be resigning as CFO effective April 10, 2020. Zedcor is pleased to announce that Mr. Amin Ladha will be appointed as the new CFO on that date.

About Zedcor Energy Inc.

Zedcor Energy Inc. is a Canadian public corporation and is currently the parent company to Zedcor Energy Services Corp. ("Zedcor"). Zedcor is engaged in the rental of surface equipment and accommodations, and providing security and surveillance services in Western Canada. The Company trades on the TSX Venture Exchange under the symbol "ZDC".

FORWARD-LOOKING STATEMENTS

Certain statements included or incorporated by reference in this press release constitute forward-looking statements or forward-looking information, including management's belief that improvement in demand should begin to drive improvements in equipment rental rates and that the expanded market reach and customer base will lead to more diversity in the Company's revenue stream and increase utilization. Forward-looking statements or information may contain statements with the words "anticipate", "believe", "expect", "plan", "intend", "estimate", "propose", "budget", "should", "project", "would have realized', "may have been" or similar words suggesting future outcomes or expectations. Although the Company believes that the expectations implied in such forward-looking statements or information are reasonable, undue reliance should not be placed on these forward-looking statements because the Company can give no assurance that such statements will prove to be correct. Forward-looking statements or information are based on current expectations, estimates and projections that involve a number of assumptions about the future and uncertainties. These assumptions include that the Company's cost cutting measures that have been implemented will protect future margins and that the Company's lean operations will protect against profound down swings in the economic environment. Although management believes these assumptions are reasonable, there can be no assurance that they will be proved to be correct, and actual results will differ materially from those anticipated. For this purpose, any statements herein that are not statements of historical fact may be deemed to be forward-looking statements. The forward-looking statements or information contained in this press release are made as of the date hereof and the Company assumes no obligation to update publicly or revise any forward-looking statements or information, whether as a result of new contrary information, future events or any other reason, unless it is required by any applicable securities laws. The forward-looking statements or information contained in this press release are expressly qualified by this cautionary statement.

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