Zedcor Energy Inc. Announces 2020 First Quarter Results

CALGARY, ALBERTA –May 19, 2020: Zedcor Energy Inc. (the "Company") (TSX VENTURE: ZDC) today announced its financial and operating results for the three months ended March 31, 2020 and 2019.

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

Highlights

	Three months ended March 31	
(in $000s)	**2020**	**2019**
Revenue	4,715	5,963
Adjusted EBITDA[1,2]	2,066	2,758
Adjusted EBIT[1,2]	555	393
Net loss from operations	(287)	(683)
Net loss per share from operations		
Basic	(0.005)	(0.013)
Diluted	(0.005)	(0.013)

[1] *Adjusted for severances*

[2] *See Financial Measures Reconciliations below*

SELECT FINANCIAL RESULTS

- Revenue for the quarter ended March 31, 2020 decreased by $1,248 from $5,963 to $4,715 compared to the same quarter in 2019. This decrease was due to:
  - the decrease in revenues in the Security & Surveillance segment which wrapped up a large security project in the first part of the quarter; and
  - the decrease in Rentals segment revenues from low utilization of rental equipment as a result of low commodity prices.
- Operating gross margins for both the Security & Surveillance segment and the Rentals segment were mostly consistent for the quarter ended March 31, 2020 when compared to the same quarter in 2019; EBITDA for the quarter ended March 31, 2020 was $2,066, a decrease of $692 from the quarter ended March 31, 2019. This decrease is a result of the decrease in revenues in both operating segments.
- During the quarter ended March 31, 2020, the Company retrofitted 45 hybrid solar light towers with high resolution security cameras and motion sensor technology to expand the fleet of surveillance towers to 110. Of these 110 security towers, 45 units are outfitted with both high resolution cameras and ground disturbance sensor technology. The Company also purchased the assets to retrofit an additional 20 units which will increase the fleet to 130.
- A less capital intensive surveillance tower with expanded industrial application was designed and deployed during the quarter. All security towers saw high utilization for the quarter ended March 31, 2020.
- Net loss from operations decreased by $396 for the quarter ended March 31, 2020 when compared to the quarter ended March 31, 2019. The decrease in net loss is largely due to a gain of $51 on sale of equipment compared to a loss of $381 for the quarter ended March 31, 2019 and lower finance costs.

SELECT OPERATING RESULTS

Security & Surveillance Segment

In the first quarter of 2018, the Company signed a security services contract with a Canadian based pipeline company to provide exclusive security and surveillance services for a pipeline replacement project. The project wrapped up in the first part of Q1 2020 which resulted in the decrease in revenues by 20% compared to Q1 2019. This also resulted in operating gross margin being lower by 25%. The decreases in revenue and margin were offset by higher utilization and expanded fleet of the Company's security tower rentals.

The Security and Surveillance segment continues to expand as it moves into alternative industry segments including industrial facilities and commercial construction. The company exited the quarter with 130 security towers outfitted with high resolution cameras and ground disturbance sensing technology.

Rentals Segment

While the first two months of the quarter saw high utilization of rental assets, activity declined significantly in March as a result of decreased commodity prices and reduced economic activity as a result of the COVID-19 pandemic. The Company also experienced reductions in pricing.

For the quarter ended March 31, 2020 revenue was $3,286, a decrease of $880 when compared to the same period in 2019. Gross margin decreased by $292 compared to the quarter ended March 31, 2019. The decrease in both revenue and gross margin is a direct result of the decrease in oilfield activity in the second half of the quarter. However, gross margin as a percent of revenue remained steady 35% for the three months ended March 31, 2020 as a result of a continued focus on streamlining costs and improving operational efficiencies.

SELECTED QUARTERLY FINANCIAL INFORMATION

(Unaudited – in $000s)	March 31 2020	Dec 31 2019	Sept 30 2019	Jun 30 2019	Mar 31 2019	Dec 31 2018	Sept 30 2018	Jun 30 2018
Revenue	4,716	3,384	3,865	3,750	5,963	4,824	3,992	3,408
Net loss from continuing operations	(287)	(3,930)	(1,617)	(1,805)	(683)	(15,176)	(1,608)	(2,760)
Adjusted EBITDA[1]	2,066	1,303	1,509	1,264	2,758	1,402	1,112	365
Adjusted EBITDA per share - basic[1]	0.04	0.02	0.03	0.02	0.05	0.03	0.02	0.01
Net loss per share from continuing operations								
Basic	(0.005)	(0.07)	(0.03)	(0.03)	(0.01)	(0.29)	(0.03)	(0.05)
Diluted	(0.005)	(0.07)	(0.03)	(0.03)	(0.01)	(0.29)	(0.03)	(0.05)
Adjusted free cash flow[1]	903	1,240	(264)	2,450	695	(219)	120	1,114

[1] *See Financial Measures Reconciliations in MD&A for the three months ended March 31, 2020 and 2019*

LIQUIDITY AND CAPITAL RESOURCES

Sources and Uses of Cash

The following table shows a summary of the Company's cash flows by source or (use) for the three months ended March 31, 2020 and 2019:

	Three months ended March 31		
(Unaudited – in $000s)	**2020**	**2019**	**Change**
Cash flow from (used in) operating activities	955	726	229
Cash flow used in investing activities	(212)	(888)	676
Cash flow from (used in) financing activities	(704)	174	(878)

The following table presents a summary of working capital information:

	Three months ended March 31			
(Unaudited – in $000s)	**2020**	**2019**	**change**	**% change**
Current assets	4,328	5,818	(1,490)	(26%)
Current liabilities *	21,106	22,185	(1,079)	(5%)
Working capital	(16,778)	(16,367)	(411)	(3%)
Bank working capital ratio **	1.61	4.40	(2.79)	

**Includes $15.1 million of debt in 2020 and $19.6 million of debt in 2019*

*** Bank working capital ratio is defined as current assets divided by current liabilities, excluding the current portion of debt and finance lease receivable/liabilities, plus the amount drawn on the Operating Loan Facility.*

The primary uses of funds are operating expenses, maintenance and growth capital spending, interest and principal payments on debt facilities. The Company has a variety of sources available to meet these liquidity needs, including cash generated from operations and equity issuances. In general, the Company funds its operations with cash flow generated from operations, while growth capital and acquisitions are typically funded by issuing new equity or debt.

As at March 31, 2020, the Company's current ratio, as defined to exclude the current portion of debt, was 1.61:1.00; the debt service coverage ratio, calculated in accordance with IAS 17 per agreement with lender, was 1.08:1.00. The value of the shares pledged under the shareholder guarantee were below the minimum trade value requirements which resulted in the covenant breach. Subsequent to March 31, 2020, the lender acknowledged the breach and will not call the Credit Facilities but still maintains the right to demand repayment of all amounts under the facility. In addition, the interest rate on the Operating Loan Facility and Term Loan Facility were increased from Prime plus 3.3% to Prime plus 5.0%. The shares pledged under the shareholder guarantee traded above the minimum value requirements subsequent to March 31, 2020, but due to the volatility in the markets as a result of the COVID-19 pandemic, the Company is reliant on the continued support of its lenders. Also, due to these unprecedented factors there is uncertainty regarding future compliance with the Company's debt service coverage ratio. The Company has reviewed its forecasts and while current projections do not show a default, there is no guarantee that projections will be met in order to comply with this ratio in future quarters.

In addition, subsequent to the end of the quarter, the Company has determined to change certain terms and conditions of the unsecured, subordinated Note Payable presently held by a corporation controlled by a director of the Company. In particular, and subject to the prior approval of the TSX Venture Exchange, it is proposed that the interest rate provided for under the Note Payable will be changed from 5.0% to 7.0% and the maturity date thereunder will be changed from February 2, 2021 to February 2, 2022.

OUTLOOK

The public health containment measures in place to limit the spread of COVID-19 have significantly reduced economic activity and reduced global oil demand, pressuring oil prices to historical lows. While containment measures are being eased across the world, the pandemic is an unprecedented situation whose ultimate duration and magnitude are currently unknown. While the Company has diversified its revenue streams away from being solely reliant on exploration and production companies in Canada, a large portion of the Company's revenues are still reliant on oilfield activity in Western Canada.

Rental equipment utilization has declined during the first quarter of the year with a significant decline experienced in the second half of March 2020 to historical lows. While the agreement to cut global oil production which was signed on April 12, 2020 was a positive for oil prices, the Company anticipates that demand for rental equipment which supports drilling and completions activity in the Western Canadian Sedimentary Basin ("WCSB") will stay at historical lows during the second quarter of 2020 and possibly into the third and fourth quarter of the year. There may also be further pricing pressure. While the decrease in pricing and low utilization rates were factored into the Company's forecasts, the outlook remains uncertain with a number of customers removing their external guidance. As a result, the Company continues to focus on maintaining strong relationships with existing customers and cost reductions.

Despite the challenging operating environment and reduced economic activity, the Company continues to execute on its long term strategy of growing its Security & Surveillance segment. We continued to effectively use cash flow to retrofit existing equipment in order to use it in providing surveillance services. In addition, the Company has used technological solutions in order to reduce the capital costs of expanding this service line. Utilization of the Company's surveillance towers fitted with high resolution cameras and supported by live, 24/7 remote monitoring, continues to see high utilization. With construction activity expected to increase in the second half of the year as a result of government stimulus, we anticipate that this utilization will continue through the rest of 2020. In addition, the Company continues to expand its security service offerings with on-site security personnel services.

Zedcor is committed to generating strong free cash flow from operations, by focusing on cost efficiencies, in order to further reduce debt and strengthen the statement of financial position. The Company will also strengthen the balance sheet by selling underutilized assets where the opportunity arises.

No Conference Call

No conference call will be held in conjunction with this release. Full details of the Company's financial results, in the form of the condensed consolidated interim financial statements and notes for the three months ended March 31, 2020 and 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.

About Zedcor Energy Inc.

Zedcor Energy Inc. is a Canadian public corporation and parent company to Zedcor Energy Services Corp. ("Zedcor"). Zedcor is engaged in the providing security & surveillance services, and rental of surface equipment & accommodations in Western Canada. The Company trades on the TSX Venture Exchange under the symbol "ZDC". Zedcor operates with two business segments: Security & Surveillance and Rentals (formerly Energy Services).

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 streamlining rental assets with newer equipment will drive improvements in equipment rental rates and utilization, and that the expanded market reach and customer base will lead to more diversity in the Company's revenue stream and increase utilization. Forward-looking statements or information may contain statements with the words "anticipate", "believe", "expect", "plan", "intend", "estimate", "propose", "budget", "should", "project", "would have realized', "may have been" or similar words suggesting future outcomes or expectations. Although the Company believes that the expectations implied in such forward-looking statements or information are reasonable, undue reliance should not be placed on these forward-looking statements because the Company can give no assurance that such statements will prove to be correct. Forward-looking statements or information are based on current expectations, estimates and projections that involve a number of assumptions about the future and uncertainties. These assumptions include that the Company's new solar hybrid light tower and related security and surveillance service offerings will lead to more diversity in revenue streams and protect against future down swings in the economic environment. Although management believes these assumptions are reasonable, there can be no assurance that they will prove to be correct, and actual results will differ materially from those anticipated. For this purpose, any statements herein that are not statements of historical fact may be deemed to be forward-looking statements. The forward-looking statements or information contained in this 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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