

ZEDCOR INC.
CONSOLIDATED FINANCIAL STATEMENTS



SECURITY
SOLUTIONS

FOR THE YEARS ENDED DECEMBER 31, 2020
AND 2019



KPMG LLP
205 5th Avenue SW
Suite 3100
Calgary AB T2P 4B9
Tel (403) 691-8000
Fax (403) 691-8008
www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Zedcor Inc.

Opinion

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

- the consolidated statements of financial position as at December 31, 2020 and December 31, 2019
- 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 Entity as at December 31, 2020 and December 31, 2019, 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 Entity 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.

Other Information

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

- the information included in Management's Discussion and Analysis 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 and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis 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 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 International Financial Reporting Standards (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 Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity'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 Entity'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 Entity'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 Entity 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 represent the underlying transactions and events in a manner that achieves fair presentation.
- 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

Calgary, Canada
April 9, 2021

ZEDCOR INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT DECEMBER 31, 2020 AND 2019
IN THOUSANDS OF CANADIAN DOLLARS

	December 31, 2020	December 31, 2019
Assets		
Current assets:		
Cash	\$ 761	\$ 170
Accounts receivable (note 22(b))	3,191	2,696
Current portion of finance lease receivable	447	150
Income taxes recoverable	88	74
Prepaid expenses and deposits	338	316
	<u>4,825</u>	<u>3,406</u>
Non-current assets:		
Finance lease receivable (note 4)	3,280	1,180
Property and equipment (note 5)	22,549	29,305
Right-of-use assets (note 6)	1,837	8,334
	<u>27,666</u>	<u>38,819</u>
Total assets	\$ 32,491	\$ 42,225
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,596	\$ 911
Current portion of lease liabilities (note 9)	1,525	1,242
Current debt (note 8)	2,940	2,736
	<u>6,061</u>	<u>4,889</u>
Non-current liabilities:		
Note payable (note 10)	2,696	2,979
Lease liability (note 9)	5,339	9,453
Long term debt (note 8)	14,377	16,709
	<u>22,412</u>	<u>29,141</u>
Total liabilities	<u>28,473</u>	<u>34,030</u>
Shareholders' equity		
Share capital (note 12)	107,625	107,320
Preferred equity (note 12)	2,864	2,864
Warrants (note 13)	587	468
Contributed surplus	1,582	1,505
Deficit	(108,640)	(103,962)
	<u>4,018</u>	<u>8,195</u>
Total liabilities and shareholders' equity	\$ 32,491	\$ 42,225

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 INC.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
IN THOUSANDS OF CANADIAN DOLLARS

	Year ended December 31,	
	2020	2019
Revenues	\$ 13,762	\$ 16,962
Direct expenses		
Direct operating costs	5,156	6,758
Depreciation of equipment (note 5)	4,180	5,348
	<u>9,336</u>	<u>12,106</u>
Gross margin	<u>4,426</u>	<u>4,856</u>
Operating expenses		
General and administrative (note 16)	2,853	3,474
Depreciation of other property and equipment (note 5)	118	130
Depreciation of right-of-use assets (note 6)	1,217	1,354
Loss on sale of equipment (note 5)	84	1,267
Gain on disposal of right-of-use assets (note 6)	(105)	—
Gain on substantial debt modification (note 10)	(576)	—
Amortization of intangible assets	—	440
Impairment of property and equipment (note 7)	2,118	2,252
Foreign exchange loss (gain)	7	(2)
	<u>5,716</u>	<u>8,915</u>
Other expenses		
Finance costs (note 17)	3,476	4,050
	<u>3,476</u>	<u>4,050</u>
Loss before income taxes	(4,766)	(8,109)
Income taxes (note 11)		
Current (recovery) expense	(88)	(74)
	<u>(88)</u>	<u>(74)</u>
Net loss and comprehensive loss	\$ (4,678)	\$ (8,035)
Basic and Diluted Net loss per share	(\$0.08)	(\$0.15)
Weighted average number of shares outstanding		
Basic	55,168,970	53,564,747
Diluted	55,168,970	53,564,747

See accompanying notes to the Consolidated Financial Statements

ZEDCOR INC.
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
IN THOUSANDS OF CANADIAN DOLLARS

	Share capital	Preferred shares	Warrants	Contributed surplus	Deficit	Total
Balance – December 31, 2018	107,195	2,864	412	1,418	(95,720)	16,169
Adjustment on initial application of IFRS 16	—	—	—	—	(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
Stock based compensation (note 14)	—	—	—	77	—	77
Extension and amendment of warrant exercise price (note 13)	—	—	57	—	—	57
Issuance of warrants (note 13)	—	—	62	—	—	62
Shares issued (note 12)	305	—	—	—	—	305
Net loss	—	—	—	—	(4,678)	(4,678)
Balance – December 31, 2020	107,625	2,864	587	1,582	(108,640)	4,018

See accompanying notes to the Consolidated Financial Statements

ZEDCOR INC.
CONSOLIDATED STATEMENTS OF CASH FLOW
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
IN THOUSANDS OF CANADIAN DOLLARS

	Year ended December 31,	
	2020	2019
Cash provided by (used in):		
Operating		
Net loss	\$ (4,678)	\$ (8,035)
Depreciation of property and equipment (note 5)	4,298	5,478
Loss on disposal of property and equipment (note 5)	84	1,267
Depreciation of right-of-use assets (note 6)	1,217	1,354
Amortization of intangible assets	—	440
Stock based compensation	77	87
Non-cash interest expense and other financing costs	538	445
Receipt of finance lease receivable (note 4)	194	56
Gain on disposal of right-of-use assets (note 6)	(105)	—
Gain on substantial debt modification (note 10)	(576)	—
Impairment of property and equipment (note 7)	2,118	2,252
Income taxes recovered	74	70
Cash flow from operating activities before changes in non-cash working capital	3,241	3,414
Changes in non-cash working capital (note 18)	(517)	786
Cash flow provided by operating activities	2,724	4,200
Investing		
Change in non-cash working capital related to investing activities (note 18)	585	(585)
Purchase of property and equipment (note 5)	(1,785)	(1,497)
Proceeds from sale of property and equipment (note 5)	2,041	2,270
Cash flow provided by investing activities	841	188
Financing		
Change in non-cash working capital related to financing activities	—	22
Proceeds from debt (note 8)	5,400	275
Repayment of debt (note 8)	(7,351)	(3,280)
Payment of finance lease liability (note 9)	(1,023)	(1,396)
Cash flow used in finance activities	(2,974)	(4,379)
Net change in cash in the year	591	9
Cash, beginning of year	170	161
Cash, end of year	\$ 761	\$ 170

See accompanying notes to the Consolidated Financial Statements

ZEDCOR INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
IN THOUSANDS OF CANADIAN DOLLARS

1. CORPORATE INFORMATION AND NATURE BUSINESS:

Zedcor Inc. (the "Company") was formed under the laws of Alberta as a corporation on August 10, 2011. On September 17, 2020, the Company received shareholder approval for the name change from Zedcor Energy Inc. to Zedcor Inc.

The Company operates with two primary service lines across Western Canada:

- 1) Security & Surveillance which provides technology based remote surveillance, live monitoring and security personnel to customers involved in pipeline construction, civil & municipal construction, oil & gas exploration and emergency response.
- 2) Rentals (formerly Energy Services) which provides surface equipment rentals, temporary accommodation rentals, and power generation rentals to customers involved in oil & gas exploration, construction, and emergency response.

The Company is listed on the TSX Venture Exchange under the symbol ZDC.

In early March 2020, the World Health Organization declared coronavirus outbreak ("COVID-19") to be a pandemic. Responses to the spread of COVID-19 have resulted in significant disruption to business operations and a significant increase in economic uncertainty, with more volatile commodity prices, currency exchange rates, and a marked decline in long-term interest rates. These events are resulting in a challenging economic climate in which it is difficult to reliably estimate the length or severity of these developments and their financial impact. A significant adverse impact to the Company includes, but is not limited to, substantial reductions in revenues and cash flows, increased risk of non-payment from customers and future impairments of property and equipment. Estimates and judgments made in the preparation of these financial statements are increasingly difficult and subject to a higher degree of measurement uncertainty during this volatile period.

2. 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 9, 2021.

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.

ZEDCOR INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
IN THOUSANDS OF CANADIAN DOLLARS

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.

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 and leases receivable. 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 CGUs is subject to Management's judgment. In addition, the going concern assessment and the related disclosures of liquidity was a matter of significant judgment.

ZEDCOR INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
IN THOUSANDS OF CANADIAN DOLLARS

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. 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.

Assessing for indicators of possible impairment requires judgment in the assessment of facts and circumstances and is a subjective process that often involves a number of estimates and is subject to interpretation. Due to the high level of uncertainty in 2020, it became challenging to predict the full extent and duration of the COVID-19 pandemic's impact on the Company's operations. Information regarding impairment is included in note 7.

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.

3. 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 Inc. and its wholly owned subsidiaries. Subsidiaries are those entities controlled by Zedcor Inc. Control exists when Zedcor 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 Inc. They are derecognized from the date that control ceases. The following entities have been included in these consolidated financial statements:

Zedcor Inc.	Parent
Zedcor Security Solutions Corp.	100% owned
Zedcor Industrial 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.

ZEDCOR INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
IN THOUSANDS OF CANADIAN DOLLARS

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.

ZEDCOR INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
IN THOUSANDS OF CANADIAN DOLLARS

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 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 of 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:

At inception of a contract, the Company assesses whether 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.

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.

ZEDCOR INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
IN THOUSANDS OF CANADIAN DOLLARS

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;
- amounts 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 remeasured 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.

Practical expedient

In response to the COVID-19 pandemic, the IASB has issued amendments to IFRS 16. This amendment introduces a practical expedient which allows lessees not to account for rent concessions as lease modifications if they are a direct consequence of COVID-19 and meet certain other conditions. The Company has applied this guidance to rent concessions received during the period ended December 31, 2020.

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.

ZEDCOR INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
IN THOUSANDS OF CANADIAN DOLLARS

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.

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 a 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 Rentals segment and Security & Surveillance segment, is recognized over time as the rental service is rendered, based upon agreed daily, weekly or monthly rates, and only if 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.

ZEDCOR INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
IN THOUSANDS OF CANADIAN DOLLARS

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.

ZEDCOR INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
IN THOUSANDS OF CANADIAN DOLLARS

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.

ZEDCOR INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
IN THOUSANDS OF CANADIAN DOLLARS

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.

ZEDCOR INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
IN THOUSANDS OF CANADIAN DOLLARS

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) Government subsidies

Government subsidies are recognized only when there is reasonable assurance that (a) the Company will comply with any conditions attached to the subsidy and (b) the subsidy will be received. The government subsidies are recognized in profit or loss on a systematic basis over the periods in which the Company recognizes the expense for the related costs for which the subsidies are intended to compensate. The Company has elected to present these amounts net of the related expense.

ZEDCOR INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
IN THOUSANDS OF CANADIAN DOLLARS

Government subsidies related to current expenses are recorded as a reduction of the related expenses. During the twelve month period ended December 31, 2020, the Company qualified for the Canada Emergency Wage Subsidy and the Canada Emergency Rent Subsidy programs and recognized \$590 as a reduction to direct operating costs (twelve months ended December 31, 2019 - \$nil) and \$346 as a reduction to general and administrative expenses (twelve months ended December 31, 2019 - \$nil).

4. LEASE RECEIVABLE:

Cost	Properties	Equipment	Total
At January 1, 2019	1,386	—	1,386
Additions	—	65	65
Payments	(118)	(3)	(121)
At December 31, 2019	1,268	62	1,330
Additions	2,591	—	2,591
Payments	(164)	(30)	(194)
At December 31, 2020	3,695	32	3,727

During the year, the Company extended its sublease on one of its right-of-use properties resulting in additions to lease receivable of \$2,591 (note 8).

ZEDCOR INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
IN THOUSANDS OF CANADIAN DOLLARS

5. PROPERTY AND EQUIPMENT:

Cost	Rental equipment	Automotive and other equipment	Office furniture & equipment	Leasehold improvements	Total
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
Additions	1,696	8	74	7	1,785
Disposals	(5,515)	(5)	—	—	(5,520)
At December 31, 2020	52,943	241	1,175	177	54,536

Accumulated depreciation	Rental equipment	Automotive and other equipment	Office furniture & equipment	Leasehold improvements	Total
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 7)	2,252	—	—	—	2,252
At December 31, 2019	27,895	208	739	124	28,966
Depreciation	4,146	17	118	17	4,298
Elimination on disposal	(3,391)	(4)	—	—	(3,395)
Impairment (note 7)	2,118	—	—	—	2,118
At December 31, 2020	30,768	221	857	141	31,987

Net Book Value	Rental equipment	Automotive and other equipment	Office furniture & equipment	Leasehold improvements	Total
At December 31, 2019	28,867	30	362	46	29,305
At December 31, 2020	22,175	20	318	36	22,549

For the twelve months ended December 31, 2020, the Company sold assets with a net book value of \$2,125 for proceeds of \$2,041, resulting in a loss of \$84 (twelve months ended December 31, 2019 - loss of \$1,267).

ZEDCOR INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
IN THOUSANDS OF CANADIAN DOLLARS

6. RIGHT-OF-USE ASSETS:

Cost	Properties	Automotive	Total
At January 1, 2019	9,243	468	9,711
Disposals	—	(31)	(31)
At December 31, 2019	9,243	437	9,680
Additions	—	375	375
Disposals	(3,092)	(193)	(3,285)
Elimination on significant change in circumstance	(3,133)	—	(3,133)
At December 31, 2020	3,018	619	3,637

Accumulated Depreciation	Properties	Automotive	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
Depreciation	1,004	213	1,217
Elimination on disposal	(606)	(157)	(763)
At December 31, 2020	1,522	278	1,800

Net Book Value	Properties	Automotive	Total
At December 31, 2019	8,119	215	8,334
At December 31, 2020	1,496	341	1,837

During the year ended December 31, 2020, the Company:

- Disposed of right-of-use automotive assets with a net book value of \$36. This reduced finance lease liabilities by \$47 and resulted in a gain on disposal of \$11 (twelve months ended December 31, 2019 – \$nil).
- Extended its sublease on one of its right-of-use properties. This extension resulted in the sublessor leasing the property for a major part of the economic life of the underlying right-of-use asset. Accordingly, the asset is no longer being recognized as a right-of-use asset and the resulting elimination resulted in an increase to finance lease receivable of \$2,591 and a gain on elimination of \$94 (twelve months ended December 31, 2019 – \$nil).

ZEDCOR INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
IN THOUSANDS OF CANADIAN DOLLARS

- Reassessed its options on the renewal periods that were included on two of its property leases. Management deemed that it is unlikely to exercise the options to extend these leases. These reassessments resulted in a decrease to right of use assets of \$3,133 and a corresponding decrease to the lease liability (as at December 31, 2019 - \$nil).

7. IMPAIRMENT OF PROPERTY AND EQUIPMENT:

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, 2020, the Company performed an impairment test for property and equipment on the Rentals 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 15.25% (pre-tax discount rate of 20.33%) and a terminal value growth of 2.00%. 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.

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 Rentals CGU exceeded its estimated recoverable amount. Accordingly, the Company has recorded property and equipment impairment of \$2,118 for the year ended December 31, 2020. A 5% change in the revenue forecast would result in a \$1,592 change in VIU. A 3% change in the EBTIDA margin would result in a \$1,207 change in VIU. A 0.5% change in the discount rate would result in a \$224 change in VIU. For the year ended December 31, 2019, the Company recorded a goodwill impairment of \$2,252 for the Rentals CGU.

8. CREDIT FACILITIES:

	Interest rate	Final maturity	Facility maximum	Outstanding as at December 31, 2020	Outstanding as at December 31, 2019
		January			
Loan and Security Facility	12.75%	1, 2023	19,309	17,317	12,094
Operating Loan Facility	Prime + 5.0%	Revolving	3,000	—	878
Term Loan Facility	7.25%	N/A	—	—	2,500
Equipment Term Loan Facility	6.10-6.35%	N/A	—	—	3,973
				17,317	19,445
Current portion				(2,940)	(2,736)
Long term debt				14,377	16,709

ZEDCOR INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
IN THOUSANDS OF CANADIAN DOLLARS

Loan and Security Facility:

On December 4, 2020, the Company restructured and extended its Loan and Security Facility. The key terms of and changes to the Loan and Security Facility are as follows:

- Bears interest at a rate of 12.75% and is secured with a first charge over the Company's assets;
- Extension fee of 2% per annum, a portion of which was capitalized to the loan and a portion of which has been paid with the issuance of 2,000,000 common shares of the Company;
- Amortized over 60 months with a monthly blended interest and principal payment of \$391;
- Does not require quantitative financial covenants, but imposed restrictions on the Loan's collateral, being the property and equipment of the Company, and has a \$2.5 million personal guarantee from a Board Member of the Company; and
- Term of the Loan and Security Facility was extended to January 1, 2023 with an option to renew for an additional 12 months at the satisfaction of the lender.

As part of the restructuring, the Company consolidated its Term Loan Facility and Equipment Term Loan Facility into the Loan and Security Facility. In addition, upon approval from the lender, there is a \$2.0 million accordion feature available to the Company under the Loan and Security Facility. \$0.8 million of this accordion feature was drawn upon by the Company on December 29, 2020.

On January 10, 2020, as part of the renewal in 2019, 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 date of the previously issued warrants to January 25, 2023. On December 4, 2020, as part of the restructuring, the Company issued the lender an additional 730,562 share purchase warrants which expire on November 25, 2024. Each warrant entitles the lender to acquire one common share in the Company at an exercise price of \$0.12 per warrant. The Company also amended and extended all previously issued warrants to have the same exercise price and maturity date as those issued on December 4, 2020 (note 13).

Operating loan, term loan and equipment term loan facility:

On December 4, 2020, the Company fully repaid its Term Loan Facility and Equipment Term Loan Facility while leaving the \$3.0 million Operating Loan Facility in place with the lender. The revolving Operating Loan Facility is payable on demand by the lender, bears interest at a rate of prime plus 5.0% and is secured by the Company's accounts receivable. The Operating Term Loan 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 1.00:1.00 until December 31, 2021 and 1.25:1.00 thereafter, and imposes a maximum debt level for the Company.

As at December 31, 2020, the Company's current ratio, as defined to exclude the current portion of debt, was 3.02:1.00, the debt service coverage ratio, calculated in accordance with the agreement with lender, was 1.41:1.00 and the Company's total debt of \$28,473 was below the maximum of \$33,000.

ZEDCOR INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
IN THOUSANDS OF CANADIAN DOLLARS

9. LEASE LIABILITIES:

The following table summarizes the Company's lease liabilities based on type:

	Properties	Automotive	Total
At January 1, 2019	11,649	467	12,116
Repayments	(1,178)	(218)	(1,396)
Disposals	—	(25)	(25)
At December 31, 2019	10,471	224	10,695
Repayments	(817)	(206)	(1,023)
Additions	—	372	372
Disposals	—	(47)	(47)
Elimination on renewal period reassessment (note 6)	(3,133)	—	(3,133)
At December 31, 2020	6,521	343	6,864

The following table summarizes the Company's lease maturities:

Maturity Analysis	Total
Less than one year	1,380
One to five years	4,826
More than five years	1,350
Total undiscounted lease payables as at December 31, 2020	7,556
Less: implicit interest	692
Total lease liabilities as at December 31, 2020	6,864

10. NOTE PAYABLE

As at December 31, 2020, the note payable had a carrying value of \$2,696.

Balance, December 31, 2018	\$ 2,716
Interest payable	125
Accretion of note payable discount	138
Balance, December 31, 2019	\$ 2,979
Interest payable	115
Accretion of note payable discount	140
Extinguishment of note payable	(3,234)
Recognition of note payable at fair value	2,658
Interest payable	14
Accretion of note payable discount	24
Balance, December 31, 2020	\$ 2,696

ZEDCOR INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
IN THOUSANDS OF CANADIAN DOLLARS

The Note Payable is due to a corporation controlled by a director of the Company, matures on January 1, 2023 at its nominal value of \$2.5 million and bears interest at 7% per annum, accruing daily from the issue date. Interest is payable annually, but the Company has not made any interest payments on the note, in agreement with the holder. The Note Payable is unsecured and subordinated to the Credit Facilities and interest payments are subject to certain restrictions in the Credit Facilities.

On December 4, 2020, the lender agreed to extend the maturity of the note from February 2, 2021 to January 1, 2023 and the stated interest rate was changed from 5% to 7% per annum. Due to the change in interest rates and the extension of the term, this resulted in a substantial debt modification. Accordingly, the Company de-recognized the previously outstanding amount and, recognized a new financial liability of \$2,657 using a discount rate of 15% and recorded a gain of \$576.

11. INCOME TAXES:

The major components of income tax expense are as follows:

	December 31, 2020	December 31, 2019
Current income tax	(88)	(74)
Deferred tax	—	—
Provision for income taxes	(88)	(74)

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

	Excess book value	Intangibles	Tax loss carry forwards	Share issue costs & warrants	Net deferred tax asset (liability)
As at December 31, 2018	—	(119)	133	(14)	—
Recognized in profit or loss	—	—	—	—	—
As at December 31, 2019	—	—	—	—	—
Recognized in profit or loss	—	—	—	—	—
As at December 31, 2020	—	—	—	—	—

Reconciliation of effective tax rate:

	December 31, 2020	December 31, 2019
Net loss before income tax	(4,766)	(8,109)
Statutory tax rate	24.3%	26.5%
Expected tax	(1,158)	(2,149)
Non-deductible expenses and non-taxable income	(78)	76
Change in valuation allowance	1,426	1,999
Change in enacted tax rate	(167)	—
Prior year adjustment	(99)	—
Tax recovery	(88)	(74)

ZEDCOR INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
IN THOUSANDS OF CANADIAN DOLLARS

As at December 31, 2020 the Company had non-capital loss carry forwards of approximately \$29,802 (as at December 31, 2019 - \$31,824) which are available to reduce future taxable income. These losses begin to expire in 2036. 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, 2020 tax pools are net capital losses of \$5,698 (as at December 31, 2019 - \$2,196), which are available to reduce future capital gains. However, these losses are unrecognized as a deferred income tax asset at December 31, 2020 and 2019, as management does not believe sufficient future net capital gains will be generated.

12. 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, 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
Issued as consideration for loan guarantee	1,366,469	125
Issued as consideration for loan fees (note 8)	2,000,000	180
Balance, December 31, 2020	57,611,244	107,625

Preferred shares issued:	Number of shares	\$
Balance, December 31, 2019 & December 31, 2020	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, 2019 and a 10% cumulative dividend from January 31, 2019 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, 2020, 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 INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
IN THOUSANDS OF CANADIAN DOLLARS

Zedcor 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.

13. 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, 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
Amendment of expiry date – January 10, 2020	—	26
Additional warrants issued per financing agreement – January 10, 2020	112,565	6
Amendment of expiry date and exercise price – December 4, 2020	—	31
Additional warrants issued per financing agreement – December 4, 2020	730,562	56
Balance, December 31, 2020	4,744,905	587

On January 10, 2020, 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 January 10, 2020, the Company issued the lender an additional 112,564 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 4, 2020, as part of the debt consolidation (note 8), the Company issued the lender an additional 730,562 share purchase warrants which expire on November 25, 2024. Each warrant entitles the lender to acquire one common share in the Company at an exercise price of \$0.12 per warrant. The Company also amended and extended all previously issued warrants to have the same exercise price and maturity date as those issued on December 4, 2020.

The Black-Scholes estimate of fair value used to value the warrants used the following assumptions:

Issue date	January 10, 2020	December 4, 2020	2019
Expected annual dividend	\$0.00	\$0.00	\$0.00
Expected volatility	127%	153%	90-113%
Risk-free interest rate	1.66%	0.41%	1.92-2.21%
Expected life of warrants	3.1 years	3.98 years	2-3 years

ZEDCOR INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
IN THOUSANDS OF CANADIAN DOLLARS

14. 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, 2018	2,900,000	724,995	—	3.61	0.31
Options forfeited	(100,000)	(25,000)	0.29	—	—
Options vested	—	966,665	0.31	—	—
Options granted March 25, 2020	700,000	—	0.15	4.24	0.15
Options as at December 31, 2019	3,500,000	1,666,660	—	2.91	0.28
Options vested	—	941,670	0.21	—	—
Options forfeited	(1,625,000)	(1,408,333)	0.24	—	—
Options cancelled – June 22, 2020	(1,525,000)	(841,667)	0.34	—	—
Options granted – May 28, 2020	2,890,000	—	0.15	4.40	0.15
Options granted – December 8, 2020	375,000	—	0.15	4.93	0.15
Options as at December 31, 2020	3,615,000	358,330		2.35	0.16

The Company estimated the fair value of the 3,265,000 employee stock options issued using the Black-Scholes method of valuation. The Black-Scholes estimate of fair value used the following assumptions:

Issue date	December 8, 2020	May 28, 2020	2019
Expected annual dividend	\$0.00	\$0.00	\$0.00
Expected volatility	171.3%	144.9%	87.5%
Risk-free interest rate	0.31%	0.29%	1.47%
Expected life of options	2.71 years	3.00 years	3.00 years

During the year ended December 31, 2020, \$77 of stock based compensation related to these stock options was recorded in general and administrative expenses (twelve months ended December 31, 2019 - \$87) which included \$3 of unamortized expense related to the options cancelled on June 22, 2020. As at December 31, 2020, the weighted average price of exercisable options was \$0.16 (as at December 31, 2019 - \$0.28).

15. 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, 2020 and 2019. The basic weighted average number of shares outstanding for the years then ended was 55,168,970 and 53,564,747 respectively.

The diluted weighted average number of shares was 55,168,970 and 53,564,747 for 2019. The diluted weighted average reflects the dilutive effect of “in-the-money” options outstanding. As at December 31, 2020 and 2019 no options or warrants were “in-the-money”.

ZEDCOR INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
IN THOUSANDS OF CANADIAN DOLLARS

16. GENERAL AND ADMINISTRATIVE EXPENSES:

General and administrative expenses are comprised of the following:

	December 31, 2020	December 31, 2019
Administrative salaries and office costs	2,023	2,537
Professional and consulting fees	288	413
Advertising, promotion, and investor relations	212	157
Computer and technology related expenses	198	223
Bad debt expenses	55	57
Stock based compensation	77	87
	2,853	3,474

17. FINANCE COSTS:

Finance costs are comprised of the following:

	December 31, 2020	December 31, 2019
Bank charges and interest	23	24
Interest on debt	2,377	3,131
Interest on note payable	302	264
Interest on finance leases	774	631
	3,476	4,050

18. CHANGES IN NON-CASH WORKING CAPITAL:

Changes in non-cash working capital related to operating activities

	December 31, 2020	December 31, 2019
Accounts receivable	(495)	1,340
Prepaid expenses and deposits	(22)	(53)
Accounts payable and accrued liabilities	88	(427)
Income taxes payable	(88)	(74)
	(517)	786
Change in accounts payable related to investing activities	585	(585)
Changes in lease liabilities related to financing activities	(22)	22
	46	223
Supplementary information:		
Interest paid	2,938	3,606
Taxes recovered	(74)	(70)

ZEDCOR INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
IN THOUSANDS OF CANADIAN DOLLARS

19. 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:

	2020	2019
Short term employment salary and benefits	379	487

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, 2020, the note payable had a carrying value of \$2,696 (as at December 31, 2019 - \$2,979) (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 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, 2020 the amount outstanding on the guarantee is \$2,500.

The Company had the following related party transactions for the twelve months ended December 31, 2020:

- \$426 in rent, property taxes and building operating costs paid for two buildings to corporations owned by a director of the Company (twelve months ended December 31, 2019 - \$372).
- \$125 paid through the issuance of shares to a director of the Company for a personal guarantee provided on the Long Term Debt (twelve months ended December 31, 2019 - \$125).
- \$139 in wages paid to close family members of an executive officer (December 31, 2019 - \$212).
- \$26 in promotional products purchased from a company owned by a close family member of an executive officer (twelve months ended December 31, 2019 - \$9).

These related party transactions are in the normal course of business and have been recorded at the exchange amount. At December 31, 2020 the amounts receivable and amounts payable from related parties that was unpaid was \$nil (as at December 31, 2019 - \$2 receivable).

ZEDCOR INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
IN THOUSANDS OF CANADIAN DOLLARS

20. OPERATING SEGMENTS:

The Company structures its operations in two operating and reportable segments: (i) Security & Surveillance and (ii) Rentals (formerly Energy Services), 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 year ended December 31, 2020 and 2019:

SECURITY & SURVEILLANCE SEGMENT		
	Year ended	
	December 31, 2020	December 31, 2019
Total segment revenue	7,001	5,350
Segment earnings	4,017	1,965
Depreciation of property and equipment	1,250	785
Depreciation of right-of-use assets	266	47
Additions to property and equipment	1,573	839

RENTALS SEGMENT		
	Year ended	
	December 31, 2020	December 31, 2019
Total segment revenue	6,761	11,612
Segment earnings	2,680	5,832
Depreciation of property and equipment	3,013	4,640
Depreciation of right-of-use assets	547	782
Loss on sale of equipment	84	1,255
Impairment on property and equipment	2,118	2,252
Amortization of intangibles	—	440
Additions to property and equipment	212	657

CORPORATE SEGMENT		
	Year ended	
	December 31, 2020	December 31, 2019
Segment earnings	(944)	(1,067)
Depreciation of property and equipment	35	53
Depreciation of right-of-use assets	404	525
Loss on sale of equipment	—	12
Additions to property and equipment	—	1

ZEDCOR INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
IN THOUSANDS OF CANADIAN DOLLARS

SEGMENT TOTAL		
	Year ended	
	December 31, 2020	December 31, 2019
Total segment revenue	13,762	16,962
Segment earnings	5,753	6,730
Depreciation of property and equipment	4,298	5,478
Depreciation of right-of-use assets	1,217	1,354
Impairment on property and equipment	2,118	2,252
Loss on sale of equipment	84	1,267
Amortization of intangibles	—	440
Additions to property and equipment	1,785	1,497

AS AT DECEMBER 31, 2020				
	Security & Surveillance	Rentals	Corporate	Total
Property and equipment	6,767	15,707	75	22,549
Right-of-use assets	515	736	586	1,837

AS AT DECEMBER 31, 2019				
	Security & Surveillance	Rentals	Corporate	Total
Property and equipment	4,609	24,591	105	29,305
Right-of-use assets	3,484	1,377	3,473	8,334

Reconciliation of segment earnings to loss before taxes is as follows:

	Year ended	
	December 31, 2020	December 31, 2019
Segment earnings	5,753	6,730
Deduct:		
Finance costs	3,476	4,050
(Gain) loss on foreign exchange	7	(2)
Amortization of intangibles	—	440
Depreciation of equipment	4,298	5,478
Depreciation of right of use assets	1,217	1,354
Loss on sale of equipment	84	1,267
Impairment of property and equipment	2,118	2,252
Gain on substantial debt modification	(576)	—
Gain on sale of right-of-use assets	(105)	—
Loss before taxes	(4,766)	(8,109)

ZEDCOR INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
IN THOUSANDS OF CANADIAN DOLLARS

21. 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, 2020.

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 8).

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.

22. 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, 2020 and 2019, 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. Credit risk arises principally from the Company's cash, accounts receivable and leases receivable.

The Company is exposed to credit risk with respect to cash and actively manages that risk with deposits at reputable financial institutions.

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 and pipeline construction 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 investment grade pipeline construction company with an accounts receivable balance of 26% 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.

ZEDCOR INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
IN THOUSANDS OF CANADIAN DOLLARS

Aging of accounts receivable is as follows:

	December 31, 2020	December 31, 2019
Trade receivables, gross:		
Outstanding 1 - 30 days	1,674	1,243
Outstanding 30 - 60 days	1,199	792
Outstanding over 60 days	392	410
	3,265	2,445
Allowance for doubtful accounts	(74)	(38)
Trade receivables, net	3,191	2,407
Sales tax and other receivables	—	289
Accounts receivable	3,191	2,696

The movement in the allowance for doubtful accounts in respect of trade receivables during the years ended December 31, 2020 and 2019 was as follows:

	2020	2019
Balance as at January 1	38	18
Increase (decrease) in allowance of trade receivables	36	20
Balance as at December 31	74	38

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

The Company is also exposed to credit risk with respect to lease receivables. A significant portion of the lease receivable balance is due from one sublessor. Management believes that the Company's credit risk with respect to leases receivable is limited as the sublessor is a large company with a diversified customer base and diversified operations.

The Company is monitoring the economic environment in response to the COVID-19 pandemic and is taking actions to limit its exposure to customers that are severely impacted.

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, 2020, the Company had negative working capital of (\$1,236) (as at December 31, 2019 - (\$1,483)). The Company believes that future cash flows from operations will be sufficient to meet its obligations as they arise.

ZEDCOR INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
IN THOUSANDS OF CANADIAN DOLLARS

The following table shows the undiscounted contractual maturities of the Company's financial liabilities and financial lease obligation as at December 31, 2020:

	1 Year	2-3 years	4-5 years	Thereafter	Total	Carrying value
Accounts payable and accrued liabilities	1,596	—	—	—	1,596	1,596
Current debt	2,940	—	—	—	2,940	2,940
Long-term debt	—	15,205	—	—	15,205	14,377
Note Payable	—	3,625	—	—	3,625	2,696
Finance lease liabilities	1,380	2,850	1,977	1,350	7,556	6,864
Total	5,703	21,122	1,680	1,279	29,784	28,461

The Company is actively managing its financing and cash flow from operations to ensure adequate liquidity is available through fiscal year 2021. As at December 31, 2020, the Company's debt service coverage ratio, calculated in accordance with the agreement with the lender, was 1.41:1.00 which is above the requirement of 1.00:1.00. In addition, the Company is not forecasting a breach of covenants for fiscal year 2021. This expectation could be adversely affected by a material negative change or a longer than anticipated downturn in the economy. 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. 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.

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. The Company does not have any floating rate debt outstanding as at December 31, 2020. At December 31, 2020, a 1% change in interest rates on the floating rate debt would not result in a material change to net income before income taxes (December 31, 2019 - \$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, 2020 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.

ZEDCOR INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
IN THOUSANDS OF CANADIAN DOLLARS

Dependence on major customers:

The Company generates approximately 58% of its revenue from its top ten customers with one customer accounting for approximately 22% of total revenue. There can be no assurance that the current customers will continue their relationships with the Company. The loss of one or more major customers, or any significant decrease in services provided to a customer, prices paid or any other changes to the terms of service with customers, could have a material adverse effect on the financial results, cash flows, and the overall financial condition of the Company.