

**ZEDCOR INC.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**



**SECURITY  
SOLUTIONS**

**FOR THE THREE MONTHS ENDED  
MARCH 31, 2022 AND 2021**

*Dated May 25, 2022*

[zedcor.ca](http://zedcor.ca)

**ZEDCOR INC.**  
**Management's Discussion and Analysis**  
**For the three months ended March 31, 2022**

IN THOUSANDS OF CANADIAN DOLLARS

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The following management's discussion and analysis ("MD&A") provides an overview of the events and transactions that have affected the performance of Zedcor Inc. (the "Company" or "our" or "we") for the three ended March 31, 2022 when compared to the three months ended March 31, 2021. The MD&A should be read in conjunction with the audited consolidated financial statements and accompanying notes thereto of Zedcor Inc. for the years ended December 31, 2021 and 2020 and the condensed consolidated interim financial statements for the three months ended March 31, 2022 and 2021. These consolidated financial statements are available on the Company's website at [www.zedcor.ca](http://www.zedcor.ca) as well as on SEDAR at [www.sedar.com](http://www.sedar.com).

This MD&A is management's assessment of the Company's operations and financial results, as well as management's view of future prospects. These assessments and views are based on certain assumptions related to future events which are uncertain. Statements related to assessments and views which are not statements of historical fact are considered to be forward-looking statements. For a discussion on the risks and uncertainties related to such information please refer to "Forward-Looking Statements" at the end of this MD&A.

This MD&A has been prepared by management and reviewed and approved by the Board of Directors of Zedcor Inc. as of May 25, 2022.

**OVERVIEW AND CORPORATE PROFILE**

Zedcor Inc. is a Canadian public corporation and is currently the parent company to Zedcor Security Solutions Corp. ("Zedcor"). Zedcor is engaged in providing security & surveillance services in Western and Central Canada and Ontario. The Company trades on the TSX Venture Exchange under the symbol "ZDC". The Company operates with one business segment: Security & Surveillance ("S&S").

With a fleet of light towers equipped with high resolution, technology-based security cameras and equipment monitored by a central command center, the S&S segment operates in Western and Central Canada and Ontario and provides technology-based security and surveillance services. Specifically, the Company has three main service offerings to customers across all market segments: 1) rental, service and remote monitoring of its proprietary MobileyeZ security towers; 2) live, verified remote monitoring of fixed site locations; and 3) security personnel. The Company operates as Zedcor Security Solutions Corp. with its head office in Calgary, Alberta.

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**EXECUTIVE SUMMARY:**

**Selected Financial Highlights**

<b>(in \$000s, except per share amounts)</b>	<b>Three months ended March 31</b>	
	<b>2022</b>	<b>2021</b>
<b>Revenue from continuing operations</b>	4,631	2,683
<b>Revenue from discontinued operations</b>	—	2,077
<b>Adjusted EBITDA<sup>1,2</sup></b>	1,373	2,163
<b>Adjusted EBITDA from continuing operations<sup>1,2</sup></b>	1,373	1,000
<b>Adjusted EBIT from continuing operations<sup>1,2</sup></b>	651	575
<b>Net income (loss) from continuing operations</b>	428	(373)
<b>Net income from operations</b>	428	224
<b>Net income (loss) per share from continuing operations</b>		
<b>Basic</b>	0.01	(0.01)
<b>Diluted</b>	0.01	(0.01)

<sup>1</sup> Adjusted for severance costs and discontinued operations

<sup>2</sup> See Financial Measures Reconciliations below

Zedcor recorded \$1,373 of adjusted EBITDA from continuing operations for the three months ended March 31, 2022. This compares to \$1,000 of adjusted EBITDA from continuing operations for the three months ended March 31, 2021. Both revenue and adjusted EBITDA from continuing operations for the three months ended March 31, 2022 are record quarterly highs for the Company.

The Company's security and surveillance services segment saw increased revenues and EBITDA for the year ended March 31, 2022 compared to 2021 due to increased customer demand of its larger fleet of MobileyeZ security towers. Zedcor exited the period with 291 MobileyeZ security towers which was an increase of 27 when compared to December 31, 2021 and 120 units when compared to March 31, 2021. While the Company placed orders for equipment with plenty of lead time and anticipated exiting the quarter with more than 350 units, it was not immune to supply chain disruptions. However, revenue was higher than anticipated due to higher utilization rates throughout the quarter. In addition, equipment deliveries are back to anticipated levels subsequent to March 31, 2022.

Zedcor is actively managing the increased customer demand for security solutions by adding to its fleet of towers and expanding its geographic footprint. Subsequent to the end of the quarter, the Company secured its first contract with a large auction house in Montreal, Quebec for fixed site monitoring and its first customer for MobileyeZ security towers in Ontario. We intend to open an equipment branch in Ottawa, Ontario in late Q2 2022 and another equipment branch in the Greater Toronto Area in Q3 2022, depending on customer demand and availability of equipment.

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Financial and operational highlights for the three months ended March 31, 2022 include:

- Revenue for the quarter ended March 31, 2022 increased by \$1,948 from \$2,683 to \$4,631. This increase was driven by a larger fleet of MobileyeZ security towers and nearly full utilization of the Company's fleet of security towers. The Company's flagship Solar Hybrid MobileyeZ saw utilization rates over 90% for the three months ended March 31, 2022.
- Net income from continuing operations was \$428 for the three months ended March 31, 2022. This compares to a net loss of (\$373) for the three months ended March 31, 2021. The reversal of the net loss is directly attributable to higher revenues and reduced financing costs as a result of reduced debt load and interest rates. In Q4 2021, the Company obtained a new financing agreement which provided additional capital, and reduced interest rates significantly.
- Continued growth in its fixed monitoring service line. Zedcor exited the quarter with almost twice as many sites under contract when compared to March 31, 2021. In addition, the Company has additional contracts signed with customers for fixed monitoring services with camera installations expected to be completed throughout Q2 2022.
- On February 17, 2022, the Company announced that it has entered into an agreement to provide integrated security solutions to a Canadian based energy infrastructure company. This contract accounts for approximately 10% of the Company's revenue in March 2022 and has been expanded beyond the initial introductory term.
- The issuance of 5.2 million Units for gross proceeds of \$2.6 million. This financing will be used to grow the Company's fleet of MobileyeZ security towers and expand its geographical footprint.
- Continued management of supply chain and logistics. Orders have been placed for light towers, cameras and communication equipment for the Company's 2022 capital program. In addition, the Company will continue to actively manage demand and will proactively place orders for equipment; additional security towers may be constructed based on customer demand, expansion plans into other strategic markets in Canada and availability of capital.

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**SELECTED QUARTERLY FINANCIAL INFORMATION**

	Mar 31 2022	Dec 31 2021	Sept 30 2021	June 30 2021	Mar 31 2021	Dec 31 2020	Sept 30 2020	Jun 30 2020
<b>(Unaudited - in \$000s)</b>								
Revenue from continuing operations	4,631	4,076	3,684	3,103	2,683	2,458	1,673	1,441
Net income (loss) from continuing operations	428	(535)	296	(935)	(373)	26	(443)	(1,341)
Adjusted EBITDA <sup>1</sup>	1,373	961	1,353	1,492	2,163	1,789	1,157	874
Adjusted EBITDA per share - basic <sup>1</sup>	0.02	0.02	0.02	0.03	0.04	0.03	0.02	0.02
Net income (loss) per share from continuing operations								
Basic	0.01	(0.01)	0.01	(0.02)	(0.01)	(0.00)	(0.01)	(0.01)
Diluted	0.01	(0.01)	0.01	(0.02)	(0.01)	(0.00)	(0.01)	(0.01)
Net income (loss) per share from discontinued operations								
Basic	—	—	—	(0.05)	0.01	(0.04)	(0.01)	(0.01)
Diluted	—	—	—	(0.05)	0.01	(0.04)	(0.01)	(0.01)
Adjusted free cash flow <sup>1</sup>	1,216	345	2,068	198	(284)	(279)	518	1,860

<sup>1</sup> See Financial Measures Reconciliations below

**OPERATING SEGMENT REVIEW**

The Company structured its operations in one operating and reportable segment, Security & Surveillance, based on the way that management organizes the Company's business for making operating decisions and assessing performance.

**Security & Surveillance Segment**

The S&S segment provides technology-based security solutions and operates a fleet of security towers equipped with high resolution security cameras and disturbance sensors. A central command center provides 24/7 live, verified monitoring to support the fleet of towers and remote monitoring for fixed camera installations. In addition, the segment offers on-site security personnel to customers across all market segments.

**SECURITY & SURVEILLANCE SEGMENT RESULTS**

<b>(in \$000s)</b>	<b>Three months ended March 31</b>		
	<b>2022</b>	<b>2021</b>	<b>% change</b>
Revenue	4,631	2,683	73%
Direct costs	2,163	1,035	109%
Depreciation of operating assets	467	328	42%
<b>Gross Margin</b>	<b>2,001</b>	<b>1,320</b>	<b>52%</b>
<b>Margin %</b>	<b>43%</b>	<b>49%</b>	

# ZEDCOR INC.

## Management's Discussion and Analysis

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#### Operational Review

*Q1 2022 vs Q1 2021*

S&S segment revenue is driven by utilization and service of its security tower fleet, service revenue related to security personnel and camera installations and remote monitoring of fixed site locations. For the three months ended March 31, 2022, revenue increased by 73% compared to the three months ended March 31, 2021. This was due to a larger fleet of MobileyeZ security towers as well as higher utilization and servicing revenue driven by the larger fleet.

The Company also generated \$363 in on-site security personnel and remote monitoring revenue for the three months ended March 31, 2022 compared to \$121 for the three months ended March 31, 2021. Zedcor exited the quarter with 68 fixed sites being monitored. The remote monitoring service remains a focus and the Company sees an opportunity to grow this revenue stream, resulting in an increase as a percentage of total revenues.

The S&S segment continues to expand geographically and into alternative industry segments including industrial facilities, commercial construction and diversified business security solutions. As a result of this growth, the Company intends to continue investing in its fleet of MobileyeZ.

Gross margin for the S&S segment decreased for the 3 months ended March 31, 2022 when compared to the 3 months ended March 31, 2021. Direct costs increased more than revenue due to:

- Increased service technician headcount as a result of a larger fleet of security towers;
- Increased repair costs as a result of a retrofit program initiated in Q1 2021 in order to increase future efficiency of the Company's security tower fleet;
- Increased number of monitoring room staff as a result of increased number of cameras being monitored;
- Increased hourly wage rates due to skilled labour shortages;
- Increased direct labour costs as a result of the security tower rental and service contract awarded to the Company in Q1 2022; and
- Increased amount of camera sales and fixed installations which are lower margin.

#### OTHER EXPENSES

(in \$000s)	2022	Three months ended March 31	
		2021	% change
General and administrative	1,111	683	63%
Depreciation of administrative assets	53	25	112%
Depreciation of right-of-use assets	196	113	73%
Finance costs	223	944	(76%)

For the three months ended March 31, 2022:

- Total general and administrative expenses from continuing operations increased 63% compared to the same quarter in 2021. This increase to general and administrative costs of \$428 was due to headcount increases in sales, operations management staff, and the hiring of a general manager for our British Columbia branch. In addition, the Company did not receive wage and rent subsidies in Q1 2022.
- Finance costs decreased by 76% as a result of lower total debt and reduced interest rates.

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**OUTLOOK**

Zedcor continues to execute on its long-term strategy of growing its S&S segment. While there were supply chain delays in Q1 2022 which slowed down the Company's ability to build security towers, this was offset by higher utilization of the Company's fleet which allowed internal revenue targets to be exceeded. In addition, there was inflationary pressures that the Company is actively monitoring. We continued to effectively use cash flow to purchase additional MobileyeZ security towers in order to use it to provide surveillance services.

On March 30, 2022, the Company completed an equity financing for gross proceeds of \$2.6 million, despite challenging market conditions and intends to use the entire net proceeds to purchase additional capital assets. Subsequent to the end of the quarter, the Company expanded its equipment financing facility to \$6.0 million which provides additional liquidity to expand our security tower fleet.

Utilization of the Company's surveillance towers fitted with high resolution cameras and supported by live verified, 24/7 remote monitoring, continues to be high and we expect the utilization rates to remain steady going forward. As Canada starts to emerge from the COVID-19 pandemic, Zedcor is seeing increased activity and demand for its services. The Company has also grown its salesforce to focus on growing on-site security personnel and remote monitoring revenues, in addition to expanding its geographical footprint in British Columbia. With the recently announced financing, additional access to capital available to the Company via the \$6.0 million equipment financing facility and lower debt costs, Zedcor is in a strong position to grow all service lines.

Priorities that the Company intends to focus on in 2022 include:

- 1) Expand its fleet of security towers. The Company plans to aggressively grow its fleet of security towers throughout 2022. In addition, the Company plans to continue to invest in research & development. Zedcor launched the Battery Electric MobileyeZ in late Q1 2022. The Battery Electric MobileyeZ is an improvement to the Company's Electric MobileyeZ as it has battery backup for up to 24 hours in case of interruptions to power supply.
- 2) Expand its geographical footprint in Western Canada and expand to Eastern Canada. The Company has expanded to Ontario in Q2 2022 with an equipment branch and an Eastern Canada monitoring center. The Company has secured its first customer in Ontario and Quebec and intends to allocate a sizable portion of its 2022 capital spending to expand its Eastern Canada operations and fleet size.
- 3) Increase revenue from fixed monitoring sites allowing for a base of contracted monthly revenues.

**SUBSEQUENT EVENTS**

On March 30, 2022, the Company completed an equity offering through a short form prospectus and issued 4,533,930 of units for gross proceeds of \$2,266,965. As part of the equity offering the Company also completed a non-brokered private placement, which closed on April 6, 2022, of 700,000 units for gross proceeds of \$350,000. Each unit consists of one share of the Company and one-half of a warrant, with each Warrant entitling the holder thereof to acquire one common share of the Company at a price of \$0.70 for a period of two years from the date of issue.

On April 7, 2022 the Company converted all of the preferred shares currently issued and outstanding. The 4,400,000 preferred shares will be converted into 4,400,000 common shares of the Company at the stated conversion price of \$0.70 per common share. In respect of the cumulative dividend payable on the preferred shares in the amount of \$1.4 million, the Company will issue 2.9 million common shares of the Company at a deemed price of \$0.50 per share.

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On April 27, 2022, the Company entered into an amended financing agreement with its lender (the "Amended Financing Agreement"). The Amended Financing Agreement increased the Revolving Equipment Financing maximum to \$6.0 million. The Amended Financing Agreement did not alter any material terms of the Company's prior loan agreement other than an additional underwriting fee of \$15,000, equivalent to 0.5% of the increase in the equipment financing facility. The Company's financing agreement remains secured by the existing general security agreement, which provides for a first charge security interest over the Company's present and future personal property. The Amended Financing Agreement also retains the same financial covenants and standard non-financial provisions under the previous financing agreement.

**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, 2022 and 2021:

<b>(in \$000s)</b>	<b>Three months ended March 31</b>			
	<b>2022</b>	<b>2021</b>	<b>\$ Change</b>	<b>% Change</b>
<b>Cash flow from (used in) continuing operating activities</b>	1,386	(250)	1,636	654%
<b>Cash flow used in continuing investing activities</b>	(1,550)	(799)	(751)	94%
<b>Cash flow from (used in) financing activities</b>	1,684	(1,405)	3,089	220%

The following table presents a summary of working capital information:

<b>(in \$000s)</b>	<b>As at March 31</b>			
	<b>2022</b>	<b>2021</b>	<b>\$ Change</b>	<b>% Change</b>
<b>Current assets</b>	6,299	5,023	1,276	25%
<b>Current liabilities *</b>	5,968	6,798	(830)	(12%)
<b>Working capital</b>	331	(1,775)	w	118%

*\*Includes \$1.7 million of debt and \$1.4 million of lease liabilities in 2022 and \$3.5 million of debt and \$1.5 million of lease liabilities in 2021*

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. 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.



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**Principal Credit Facility**

	Interest rate	Final maturity	Facility maximum	Outstanding as at March 31, 2022	Outstanding as at December 31, 2021
Term Loan	5.15%	Oct 2026	6,100	5,563	5,861
Revolving Equipment Financing	Prime + 2.00%	Revolving	3,000	2,813	1,182
Authorized Overdraft	Prime + 1.50%	Revolving	3,000	—	905
				8,376	7,948
Current portion				(1,232)	(2,231)
Long term debt				7,144	5,717

On October 18, 2021, the Company entered into a new financing agreement ("Financing Agreement") which consists of:

1. A \$6.1 million term loan that is fully committed for five years ("Term Loan"). The Term Loan bears interest at 5.15% and will have monthly blended principal and interest payments of \$116. \$4.4 million of the proceeds of the term loan was used to repay the Company's outstanding Loan and Security Facility.
2. A \$3.0 million revolving equipment financing facility ("Revolving Equipment Financing"). The Company is able to draw on this facility at any time for up to 75% of new equipment purchases. The draws bear interest at Prime + 2.0% and each draw will be amortized over 5 years with blended principal and interest payments. As at March 31, 2022 the Prime Interest Rate was 2.70% and the interest rate on the Revolving Equipment Financing was 4.70%. As the Company pays down the debt, it can borrow back up to the facility maximum of \$3.0 million.
3. An authorized overdraft facility ("Authorized Overdraft") up to \$3.0 million, secured by the Company's accounts receivable, up to 75%, less priority payables which are GST payable, income taxes payable, employee remittances payable and WCB payables. The Authorized Overdraft is due on demand and any outstanding overdraft bears interest at Prime + 1.5%. As at March 31, 2022 the Prime Interest Rate was 2.70% and the interest rate on the Revolving Equipment Financing was 4.20%.

The Financing Agreement is secured with a first charge over the Company's current and after acquired equipment, a general security agreement, a subordination and postponement agreement with a director of the Company with respect to a note payable, and other standard non-financial security.

The agreement has the following annual financial covenant requirements:

- For the fiscal year ends December 31, 2022 and onwards, a debt servicing covenant of 1.25 to 1.00 and a funded debt to EBITDA covenant of 3.00 to 1.00.

As at March 31, 2022, the Company did not have quarterly financial covenant requirements that it had to comply with.

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Subsequent to March 31, 2022, the Company entered into an amended financing agreement with its lender (the "Amended Financing Agreement"). The Amended Financing Agreement increased the Revolving Equipment Financing maximum to \$6.0 million. The Amended Financing Agreement did not alter any material terms of the Company's prior loan agreement other than an additional underwriting fee of \$15,000, equivalent to 0.5% of the increase in the equipment financing facility. The Company's financing agreement remains secured by the existing general security agreement, which provides for a first charge security interest over the Company's present and future personal property. The Amended Financing Agreement also retains the same financial covenants and standard non-financial provisions under the previous financing agreement.

**CREDIT RISK**

The Company extends credit to customers, primarily comprised of pipeline construction companies and construction companies, in the normal course of its operations. Historically, bad debt expenses have been limited to specific customer circumstances. However, the volatility in economic activity may result in higher collection risk on trade receivables. The Company has reviewed its outstanding accounts receivable as at March 31, 2022 and believes the expected loss provision is sufficient.

**COMMITMENTS AND OBLIGATIONS**

The following table shows the undiscounted contractual maturities of the Company's financial liabilities and finance and operating lease obligations as at March 31, 2022:

(in \$000s)	1 Year	2-3 years	4-5 years	Thereafter	Total	Carrying value
<b>Accounts payable and accrued liabilities</b>	2,904	—	—	—	2,904	2,904
<b>Current debt</b>	2,037	—	—	—	2,037	1,654
<b>Long-term debt</b>	—	4,074	3,164	—	7,238	6,722
<b>Note payable</b>	175	350	3,756	—	4,281	3,132
<b>Finance lease liabilities</b>	1,794	3,233	2,095	237	7,359	6,392
<b>Total</b>	6,910	7,657	9,015	237	23,819	20,804

**OUTSTANDING SECURITIES**

At May 25, 2022, the Company had the following securities outstanding:

- 70,892,259 common shares issued and outstanding.
- 4,744,905 warrants are outstanding with an exercise price of \$0.12 and 2,616,965 warrants are outstanding with an exercise price of \$0.70; and
- 3,300,000 options are outstanding with exercise prices ranging from \$0.15 per share to \$0.50 per share; 1,083,331 options are exercisable at prices ranging from \$0.15 per share to \$0.25 per share.

**RELATED PARTY TRANSACTIONS**

As at March 31, 2022, the Company owed \$3,132 for a Note Payable to a corporation controlled by a director of the Company (December 31, 2021 - \$3,115).

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The Company had the following related party transactions for continued and discontinued operations for the three months ended March 31, 2022:

- \$44 in interest paid on the Note Payable to a corporation controlled by a director of the Company (three months ended March 31, 2021 - \$nil).
- \$29 in wages paid to a close family member of an executive officer (three months ended March 31, 2021 - \$40).
- \$15 in promotional products and uniforms purchased from a company owned by a close family member of an executive officer (three months ended March 31, 2021 - \$5).
- \$152 in management fees and rent received from a company controlled by a director as per the purchase and sale agreement for the sale of the Company's Rentals assets (three months ended March 31, 2021 - \$nil).

These related party transactions are in the normal course of business and have been recorded at the exchange amount. At March 31, 2022 the amounts receivable from related parties was \$66 and amounts payable to related parties was \$10 (as at March 31, 2021 - \$nil receivable and payable).

#### **OFF BALANCE SHEET ARRANGEMENTS**

The Company has not entered into any off-balance sheet arrangements.

#### **ACCOUNTING POLICIES**

The Company's accounting policies are set out in Note 3 of the Annual Financial Statements.

#### **BUSINESS RISKS AND UNCERTAINTIES**

Business risks and uncertainties remain substantially unchanged from those disclosed in the annual Management Discussion and analysis dated April 6, 2022. For a discussion of the business risks and uncertainties related to Zedcor Inc., please refer to the annual Management Discussion and Analysis and Zedcor Inc.'s Annual Information Form date April 6, 2022, both of which can be found on the Company's website or at [www.SEDAR.com](http://www.SEDAR.com).

#### **FINANCIAL MEASURES RECONCILIATIONS**

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

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

#### ***EBITDA and Adjusted EBITDA***

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

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

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

(in \$000s)	Three months ended March 31	
	2022	2021
<b>Net income (loss) from continuing operations</b>	428	(373)
Add (less):		
Finance costs	223	944
Depreciation of property & equipment	520	353
Depreciation of right-of-use assets	196	113
(Gain) on sale of equipment	(26)	—
(Gain) loss on disposal of right-of-use asset	—	(72)
<b>EBITDA from continuing operations</b>	<b>1,341</b>	<b>965</b>
Add:		
Stock based compensation	16	31
Severance costs	—	4
Foreign exchange loss	16	—
	<b>32</b>	<b>35</b>
<b>Adjusted EBITDA from continuing operations</b>	<b>1,373</b>	<b>1,000</b>
Discontinued operations	—	1,163
<b>Adjusted EBITDA</b>	<b>1,373</b>	<b>2,163</b>

***Adjusted EBIT***

Adjusted EBIT refers to earnings before interest and finance charges, taxes, and severance costs.

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

(in \$000s)	Three months ended March 31	
	2022	2021
<b>Net income (loss)</b>	428	224
Add (less):		
Finance costs	223	944
Severance costs	—	4
Discontinued operations	—	(597)
<b>Adjusted EBIT from continuing operations</b>	<b>651</b>	<b>575</b>

***Adjusted free cash flow***

Adjusted free cash flow is defined by management as net income plus non-cash expenses, plus or minus the net change in non-cash working capital, plus severance costs, less maintenance capital. Maintenance capital is also a non-IFRS term. Management defines maintenance capital as the amount of capital expenditure required to keep its operating assets functioning at the same level of efficiency. Management believes that adjusted free cash flow reflects the cash generated from the ongoing operation of the business. Adjusted free cash flow is a non-IFRS measure generally used as an indicator of funds available for re-investment and debt payment. There is no standardized method of determining free cash flow, adjusted free cash flow or maintenance capital prescribed under IFRS and therefore the Company's method of calculating these amounts is unlikely to be comparable to similar terms presented by other issuers.

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Adjusted free cash flow from continuing operations is calculated as follows:

(in \$000s)	Three months ended March 31	
	2022	2021
<b>Net income (loss) from continuing operations</b>	428	(373)
<b>Add non-cash expenses:</b>		
Depreciation of property & equipment	520	353
Depreciation of right-of-use assets	196	113
Stock based compensation	16	31
Finance costs (non-cash portion)	36	318
	1,196	442
<b>Add non-recurring expenses:</b>		
Severance	—	4
	1,196	446
Change in non-cash working capital	20	(730)
<b>Adjusted free cash flow from continuing operations</b>	1,216	(284)

**FORWARD-LOOKING STATEMENTS**

Certain statements included or incorporated by reference in this MD&A 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 MD&A 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 MD&A are expressly qualified by this cautionary statement.

This MD&A also makes reference to certain non-IFRS measures, which management believes assists in assessing the Company's financial performance. Readers are directed to the section above entitled "Financial Measures Reconciliations" for an explanation of the non-IFRS measures used.

**ADDITIONAL INFORMATION**

Information about Zedcor Inc. may be found on the SEDAR website at [www.sedar.com](http://www.sedar.com) on the Company's website at [www.zedcor.ca](http://www.zedcor.ca). The Company trades on the TSX Venture Exchange under the symbol ZDC.