Zedcor Inc. Reports Third Quarter Results

CALGARY, ALBERTA – November 17, 2020: Zedcor Inc. (the "Company") (TSX VENTURE: ZDC) today announced its financial and operating results for the three and nine months ended September 30, 2020 and 2019.

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

Highlights

	Three months ended September 30		Nine months ended September 30	
(in $000s)	**2020**	**2019**	**2020**	**2019**
Revenue	2,668	3,865	9,795	13,578
Adjusted EBITDA[1,2]	1,151	1,509	4,124	5,531
Adjusted EBIT[1,2]	(124)	(636)	78	(1,051)
Net loss from operations	(1,006)	(1,617)	(2,428)	(4,105)
Net loss per share from operations				
Basic	(0.02)	(0.03)	(0.04)	(0.08)
Diluted	(0.02)	(0.03)	(0.04)	(0.08)

[1] *Adjusted for severance costs*

[2] *See Financial Measures Reconciliations below*

Zedcor recorded $1,151 of adjusted EBITDA for the three months ended September 30, 2020 and $4,124 of adjusted EBITDA for the nine months ended September 30, 2020. This compares to adjusted EBITDA of $1,509 and $5,531 for the three and nine months ended September 30, 2019. The S&S segment saw increased revenues and margins compared to 2019. This was offset by decreased revenues and margin from the Rentals Segment which derives a significant portion of its revenue revenues from customers involved in the oil & gas industry. Oil prices and demand for services were lower due to global oversupply and reduced energy consumption as a result of public health measures taken to limit the spread of the novel coronavirus ("COVID-19") resulting in minimal drilling and completions activity across Western Canada since March 2020 resulting in decreased demand for rental equipment. The Company qualified for the Canada Emergency Wage Subsidy ("CEWS") program as enacted on April 11, 2020, by the federal Government of Canada which helped the Company's results for the three and nine months ended September 30, 2020. The Company recognized $697 of CEWS in the EBITDA amounts for 2020.

Zedcor is actively managing risks related to the volatility in the oil and gas sector by continuing to diversify its revenues and customers, and market its fleet of rental assets to other industries. This is in addition to the Company's focus on expanding its S&S segment. Financial and operational highlights for the three and nine months ended September 30, 2020 include:

- Continued successful execution on a strategy to diversify away from its traditional oilfield rentals business towards a technology based, security & surveillance company. For the three months ended September 30, 2020, the S&S segment generated $1,673 or 63% of total revenues. For the nine months ended September 30, 2020, the S&S segment generated $4,543 or 46% of total revenues.

- Due to increased customer demand, the Company continues to invest in its fleet of security towers. As at September 30, 2020, the Company had 130 solar hybrid light towers in its fleet ("Hybrid MobileyeZ"). The Company also purchased and deployed four additional electric security towers in Q3 bringing its total fleet to twelve electric security towers ("Electric MobileyeZ").
- Continued focus on operational efficiency and cost savings. Direct operating costs for the three and nine months ended September 30, 2020 were lower as a percentage of revenues:

	Three months ended September 30			Nine months ended September 30		
	2020	2019	% change	2020	2019	% change
Direct operating costs	850	1,553	(45%)	3,537	5,498	(36%)
Direct operating costs as a percentage of revenues	32%	40%	(20%)	36%	40%	(10%)

  Direct operating costs were lower as a result of continued focus on cost reductions, revenue mix driven towards less labour intensive work, and the CEWS which reduced direct operating costs by $248 for the 3 months ended September 30, 2020 and $469 for the nine months ended September 30, 2020.
- Selling under-utilized Rental Segment assets for proceeds of $1,956, for the nine months ended September 30, 2020, which resulted in a gain of $101. The proceeds were used to pay down debt and invest in S&S segment assets. The Company also disposed of a lease on a right-of-use property which resulted in a gain of $105 for the three months ended September 30, 2020.
- Loss before income taxes was $1,006 and $2,428 for the three and nine months ended September 30, 2020 compared to $1,617 and $4,105 for the three and nine months ended September 30, 2019. The decrease was a result of controlling direct operating expenses, general and administrative expenses, lower financing costs as a result of lower total debt, selling assets for a gain compared to a loss in the same period last year and the CEWS which reduced the loss.
- Reducing debt and finance lease liabilities by $3,459 for the nine months ended September 30, 2020. The Company exited Q3 2020 with $16,679 outstanding on its credit facilities compared to $19,445 as at December 31, 2019 and $20,431 as at September 30, 2019.
- Subsequent to the end of the period, the Company extended its Operating Loan, Term Loan and Equipment Term Loan Facilities for an additional year. This extension provides additional covenant relief until December 31, 2021. As part of the extension, the Company must maintain a current ratio of 1.50:1.00 and a debt service coverage ratio of 1.00:1.00 until December 31, 2021.

SELECT OPERATING RESULTS

Security & Surveillance Segment

S&S segment revenue is driven by utilization of its security tower fleet, service revenue related to on site security personnel and fixed camera installation and monitoring. The following table summarizes utilization of the security tower fleet for the three and nine months ended September 30, 2020.

	Three months ended September 30, 2020		Three months ended September 30, 2019	
	Average available fleet size	Utilization %	Average available fleet size	Utilization %
Hybrid MobileyeZ security towers	130	70%	75	80%
Electric MobileyeZ security towers	10	97%	—	—

The company generated $211 in on-site security personnel and remote monitoring revenue for the three months ended September 30, 2020 compared to $564 for the three months ended September 30, 2019. In the first quarter of 2018, the Company signed a security services contract with a Canadian based pipeline company to provide exclusive security and surveillance services for a pipeline replacement project. The project wrapped up in the first part of Q1 2020 which resulted in decreased on-site personnel revenues for Q3 2020.

The decrease in personnel revenue was offset by a larger fleet of security towers. Utilization of the Hybrid MobileyeZ security tower fleet was 70% for the three months ended September 30, 2020 compared to 80% in the same period last year, however, the size of the fleet was significantly larger in 2020 resulting in higher revenues. In addition, the Company saw higher utilization in the latter half of the quarter as projects that were delayed due to the COVID-19 pandemic restarted.

The S&S segment continues to expand as it moves into alternative industry segments including industrial facilities and commercial construction. As a result of this growth, the remaining fleet of solar hybrid light towers was equipped with high resolution security cameras in Q2 2020 in order to increase the size of the fleet and meet customer demand.

Overall, revenue for the three months ended September 30, 2020 increased by $385, or 30%, and margin increased $508, or 107%, as a result of revenues being derived from security tower utilization instead of on-site security personnel. 87% of the S&S segment revenue was derived from security tower utilization for the three months ended September 30, 2020 compared to 56% in the same period last year.

Rentals Segment

Utilization of rentals assets decreased sharply for the three months ended September 30, 2020:

	Three months ended September 30, 2020		Three months ended September 30, 2019	
	Average available fleet size	Utilization %	Average available fleet size	Utilization %
Accommodation rentals	202	23%	222	51%
Fluid storage tank rentals	201	25%	218	63%
Mat rentals	412	16%	440	69%
Generator rentals	40	26%	41	56%
Light tower rentals	98	9%	167	83%

Revenues for the Rentals Segment dropped from $2,577 to $995 for the three months ended September 30, 2020. The Company saw increased utilization in August and September as the rig count increased in Western Canada and the Company's customers were more active. However, Canadian drilling activity remains depressed due to decreased commodity prices and reduced economic activity as a result of the COVID-19 pandemic. According to the Baker Hughes North American Rig Count report, there was an average of 19 drilling operating during Q3 2020 in the WCSB with an uptick towards the end of the quarter. This compares to 46 rigs operating during Q3 2019, a drop of 27 drilling rigs or 59%. Completions activity was also slower in Q3 2020 compared to Q3 2019.

While a significant portion of this segments costs such as rent, insurance, and satellite costs are fixed, the Company continued to focus on controlling costs within its control during Q3 in order to generate positive cash flow from this segment. Direct costs as a percentage of revenues dropped 10% from 41% in the three months ended September 30, 2019, to 37% for the three months ended September 30, 2020. In addition, the Company qualified for the CEWS which allowed employees to be retained and maintain positive cash flow.

SELECTED QUARTERLY FINANCIAL INFORMATION

(Unaudited – in $000s)	Sep 30 2020	Jun 30 2020	Mar 31 2020	Dec 31 2019	Sep 30 2019	Jun 30 2019	Mar 31 2019	Dec 31 2018
Revenue	2,668	2,412	4,716	3,384	3,865	3,750	5,963	4,824
Net loss from continuing operations	(1,006)	(1,135)	(287)	(3,930)	(1,617)	(1,805)	(683)	(15,176)
Adjusted EBITDA[1]	1,151	901	2,066	1,303	1,509	1,264	2,758	1,402
Adjusted EBITDA per share - basic[1]	0.02	0.02	0.04	0.02	0.03	0.02	0.05	0.03
Net loss per share from continuing operations								
Basic	(0.02)	(0.02)	(0.005)	(0.07)	(0.03)	(0.03)	(0.01)	(0.29)
Diluted	(0.02)	(0.02)	(0.005)	(0.07)	(0.03)	(0.03)	(0.01)	(0.29)
Adjusted free cash flow[1]	(320)	2,098	903	1,240	(264)	2,431	676	(219)

[1] *See Financial Measures Reconciliations in MD&A for the three and nine months ended September 30, 2020 and 2019*

LIQUIDITY AND CAPITAL RESOURCES

Sources and Uses of Cash

The following table shows a summary of the Company's cash flows by source or (use) for the nine months ended September 30, 2020 and 2019:

	Nine months ended September 30			
(in $000s)	**2020**	**2019**	**$ Change**	**% Change**
Cash flow from operating activities	2,892	3,022	(130)	(4%)
Cash flow from (used by) investing activities	589	(13)	602	98%
Cash flow used by financing activities	3,459	3,119	340	11%

The following table presents a summary of working capital information:

	Nine months ended September 30			
(in $000s)	**2020**	**2019**	**$ Change**	**% Change**
Current assets	3,733	4,316	(583)	(14%)
Current liabilities *	21,934	18,136	4,186	23%
Working capital	(18,201)	(13,820)	(4,769)	35%
Bank working capital ratio **	2.24	3.21	(0.97)	(30%)

**Includes $18.9 million of debt in 2020 and $15.5 million of debt in 2019*

*** Bank working capital ratio is defined as current assets divided by current liabilities, excluding the current portion of debt and finance lease receivable/liabilities.*

The primary uses of funds are operating expenses, growth capital spending and 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.

OUTLOOK

The public health containment measures in place to limit the spread of COVID-19 have significantly reduced economic activity and reduced global oil demand, pressuring oil prices to historical lows. While containment measures were being eased across the world, there was increased infections in the latter half of the quarter and certain countries reimposed containment measures subsequent to the end of the quarter. This is causing uncertainty on the pace and timing of the economic recovery. The pandemic is an unprecedented situation whose ultimate duration and magnitude are currently unknown.

Despite the challenging operating environment and reduced economic activity, the Company continues to execute on its long term strategy of growing its S&S segment. We continued to effectively use cash flow to retrofit existing equipment in order to use it in providing surveillance services. In addition, the Company has used technological solutions in order to reduce the capital costs of expanding this service line. The Company's surveillance towers fitted with high resolution cameras and supported by live, 24/7 remote monitoring, continues to see high utilization and we have continued to see this trend subsequent to the end of the quarter. In addition, the Company continues to expand its security service offerings with on-site security personnel services and remote monitoring solutions.

While oil prices have stabilized and activity has slightly increased in Western Canada, the Company anticipates that demand for rental equipment which supports drilling and completions activity in the WCSB will stay at historical lows during Q4 2020. We continue to see downward pricing pressure and are not forecasting significant growth for this segment. The outlook remains uncertain and customers are very reactionary as commodity prices change. Most customers are not providing external guidance on activity which makes it difficult to predict utilization of the rental equipment fleet. As a result, the Company continues to focus on maintaining strong relationships with existing customers and cost reductions for this segment.

By focusing on cost efficiencies and providing value added services to customers, Zedcor is committed to generating strong free cash flow from operations in order to further reduce debt and strengthen the financial position of the Company. The Company plans to pursue low capital intensive growth projects by utilizing existing infrastructure, where possible. This includes expanding the number of remote surveillance sites that can be serviced by our monitoring center in Leduc. Where the opportunity arises, the Company will strengthen the balance sheet by selling underutilized assets.

No Conference Call

No conference call will be held in conjunction with this release. Full details of the Company's financial results, in the form of the condensed consolidated interim financial statements and notes for the three months ended September 30, 2020 and 2019 and Management's Discussion and Analysis of the results are available on SEDAR at www.sedar.com and on the Company's website at www.zedcor.ca.

About Zedcor Inc.

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

FORWARD-LOOKING STATEMENTS

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

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