



## Zedcor Energy Inc. Announces 2019 First Quarter Results

CALGARY, ALBERTA – May 14, 2019: Zedcor Energy Inc. (the "Company") (TSX VENTURE: ZDC) today announced its financial and operating results for the three months ended March 31, 2019.

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

### Highlights

(in \$000s)	Three months ended March 31	
	2019	2018
<b>Revenue</b>	5,963	5,228
<b>Adjusted EBITDA<sup>1,2</sup></b>	2,758	1,772
<b>Adjusted EBIT<sup>1,2</sup></b>	393	205
<b>Net loss from continuing operations</b>	(683)	(616)
<b>Net 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 severances

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

### SELECT FINANCIAL RESULTS

- Revenue for the quarter ended March 31, 2019 increased by \$735 or 12% from \$5.2 million to \$5.9 million compared to the same quarter in 2018. This increase was due to the revenue generated from the Security and Surveillance segment, as revenue from the Energy Services segment decreased by \$485 quarter over quarter.
- Adjusted EBITDA for the quarter ended March 31, 2019 was \$2,758, an increase of \$986 from the quarter ended March 31, 2018. This increase is a result of the increase in revenue, along with a decrease in general and administrative costs. General and administrative costs decreased by \$467, or 51%, in the first quarter of 2019 when compared to the first quarter of 2018. This decrease is due to the impact of IFRS 16, which resulted in a decrease in rent expense of \$469 in the first quarter of 2019.
- During the quarter ended March 31, 2019, the Company sold underutilized assets with a net book value of \$846 for proceeds of \$465. The proceeds were used to pay down debt.
- Net loss from operations increased by \$67 for the quarter ended March 31, 2019 when compared to the quarter ended March 31, 2018. The increase in net loss is largely due to the \$381 loss on sale of equipment. Included in net loss from operations is a positive \$8 impact from the adoption of the new IFRS 16 accounting standard.
- On March 25, 2019, the Company renewed the Loan and Security Agreement in the amount of \$14.3 million for an additional 12 months with the option to renew for an additional 12 months at the satisfaction of the lender. See Liquidity and Capital Resources section.

## SELECT OPERATING RESULTS

### Energy Services Segment

- Commodity prices in the oil and gas sector in Western Canada increased in the first quarter of 2019 when compared to the first quarter of 2018, however drilling activity declined significantly over the same period. As a result rental rates remained similar in the first quarter of 2019 as the first quarter of 2018 and utilization declined slightly.
- During the first quarter of 2019, the Company sold under-utilized assets with a net book value of \$846 for proceeds of \$465. The Company also purchased additional stadium towers for \$534 in order to meet customer demand for this offering.
- For the quarter ended March 31, 2019 revenue was \$4.2 million, a decrease of \$485 when compared to the same period in 2018. Gross margin decreased by \$150 compared to the quarter ended March 31, 2018. The decrease in both revenue and gross margin is a direct result of the decrease in drilling activity. However, gross margin as a percent of revenue increased from 34% to 35% for the three months ended March 31, 2019 as a result of a continued focus on streamlining costs and improving operational efficiencies.

### Security and Surveillance Segment

- In the third 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 began in the fall of 2018 and will continue into the summer of 2019.
- The Security and Surveillance segment continues to expand as it moves into alternative industry segments including industrial facilities and commercial construction. As result of this growth, in the first quarter of 2019 an additional eight solar hybrid light towers were equipped with high resolution security cameras in order to increase the size of the security and surveillance fleet and meet demand.
- Revenue for the quarter ended March 31, 2019 increased by \$1.2 million, or 68%, due to increased activity on the pipeline replacement project and expansion of the segments customer base. As a result gross margin increased 77% from \$179 for the quarter ended March 31, 2018 to \$774 for the quarter ended March 31, 2019.

## SELECTED QUARTERLY FINANCIAL INFORMATION

	March 31 2019	Dec 31 2018	Sept 30 2018	Jun 30 2018	Mar 31 2018	Dec 31 2017	Sept 30 2017	Jun 30 2017
<b>(Unaudited - in \$000s)</b>								
<b>Revenue</b>	5,963	4,824	3,992	3,408	5,228	4,306	3,539	2,348
<b>Net loss from continuing operations</b>	(683)	(15,176)	(1,608)	(2,760)	(616)	(2,618)	(1,254)	(3,529)
<b>Net income (loss) from discontinued operation</b>	—	—	—	—	—	—	211	—
<b>Adjusted EBITDA<sup>1</sup></b>	2,758	1,402	1,112	365	1,772	1,417	1,287	36
<b>Adjusted EBITDA per share - basic<sup>1</sup></b>	0.05	0.03	0.02	0.01	0.03	0.03	0.03	0.00
<b>Net loss per share from continuing operations</b>								
<b>Basic</b>	(0.01)	(0.29)	(0.03)	(0.05)	(0.01)	(0.05)	(0.02)	(0.07)
<b>Diluted</b>	(0.01)	(0.29)	(0.03)	(0.05)	(0.01)	(0.05)	(0.02)	(0.07)
<b>Net income (loss) per share from discontinued operation</b>								
<b>Basic</b>	—	—	—	—	—	—	0.00	—
<b>Diluted</b>	—	—	—	—	—	—	0.00	—
<b>Adjusted free cash flow<sup>1</sup></b>	676	(280)	120	1,114	(342)	351	(348)	222

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

## **LIQUIDITY AND CAPITAL RESOURCES**

### Loan and security facility:

On April 21, 2017, the Company entered into a Loan and Security Agreement with a new lender. The Loan and Security Agreement in the amount of \$20.4 million was used to repay the Syndicated Credit Facility, bore interest at a rate of 12.75% and had a term of 12 months with an option to extend for an additional 12 months at the satisfaction of the lender. The Loan and Security Agreement was to be serviced by six months of interest only payments, followed by six months of blended principal and interest payments. The Loan and Security Agreement did not require quantitative financial covenants, but imposes restrictions on the Loan's collateral, being the property and equipment of the Company.

On April 21, 2017, the Company issued the lender 3,651,501 share purchase warrants. Each warrant entitles the lender to acquire one common share in the Company at an exercise price of \$0.25 per warrant. The warrants expire on July 21, 2019. The warrants fair value of \$300 was recorded as a transaction cost of the loan and is being expensed over the term of the loan.

On March 28, 2018, the Company renewed the Loan and Security agreement in the amount of \$17.5 million for an additional six months with an option to renew for an additional six months at the satisfaction of the lender. The renewed Loan and Security agreement bore interest at 12.75% and was serviced by six months of interest only payments, followed by six months of principal and interest payments in the event that it was renewed. The Company also entered into a Warrant Amendment Agreement which amended the exercise price of the previously issued warrants to \$0.27 per share from \$0.25 per share and extended the expiry date to July 21, 2020. The facility no longer has any shareholder guarantees pledged as security, and all covenants and collateral remain the same.

On September 28, 2018, the Company renewed the Loan and Security agreement in the amount of \$15.9 million for an additional six months with an option to renew for an additional six months at the satisfaction of the lender. The renewed Loan and Security agreement bears interest at 12.75% and is serviced by six months of interest only payments, followed by six months of interest only payments in the event that it is renewed. The Company also entered into a Warrant Amendment Agreement which amended the exercise price of the previously issued warrants to \$0.20 per share from \$0.27 per share and extended the expiry date to January 21, 2021. All covenants and collateral remain the same.

On October 1, 2018, the Company issued the lender an additional 248,209 share purchase warrants. Each warrant entitles the lender to acquire one common share in the Company at an exercise price of \$0.20 per warrant. The warrants expire on January 21, 2021.

On March 25, 2019, the Company renewed the Loan and Security agreement in the amount of \$14.3 million for an additional 12 months with an option to renewal for an additional 12 months at the satisfaction of the lender. The renewed loan and security agreement bears interest at 12.75% and is serviced by 12 months of interest only payments. The Company also entered into a Warrant Amendment Agreement which amended the exercise price of the previously issued warrants to \$0.145 per share from \$0.20 per share and extended the expiry date to January 21, 2022. All covenants and collateral remain the same.

On March 25, 2019, the Company issued the lender an additional 2,068 share purchase warrants. Each warrant entitles the lender to acquire one common share in the Company at an exercise price of \$0.145 per warrant. The warrants expire on January 21, 2022.

### Operating loan, term loan and equipment term loan facility:

On May 10, 2017, the Company signed a \$1 million operating loan agreement bearing interest at a rate of prime plus 3.3% and secured by the Company's accounts receivables and restricted cash. The operating loan facility required that the Company's current ratio does not fall below 1.50:1.00 and effective September 30, 2017, the debt service coverage ratio not be less than 1.50:1.00, calculated in accordance with the formula set forth in the agreement.

On March 28, 2018, the Company signed a \$13.5 million credit facility, comprised of a \$3 million operating loan facility, which replaces the \$1 million operating loan facility, a \$2.5 million non-revolving term loan facility, which was used to pay out the guarantee from the Loan and Security agreement, and an \$8 million equipment finance term loan facility. The operating loan facility is payable on demand by the lender, bears interest at a rate of prime plus 3.3% and is secured by the Company's accounts receivable. The term facility matures in two years, bears interest at a rate of prime plus 3.3% and is secured by a shareholder guarantee. The shareholder guarantee bears interest at a rate of 5.0% per annum and is paid monthly through the issuance of shares. The equipment finance loan is amortized over 36 to 60 months,

bears interest at a rate of 6.1% to 6.2% and is repayable in equal monthly installments of principal and interest over the term. The equipment finance loan will be used to finance 75% of the cost of new equipment purchased. The credit facility requires that the Company's current ratio does not fall below 1.50:1.00, the debt service coverage ratio does not fall below 1.25:1.00 and the share value of the shares pledged under the shareholder guarantee not be less than 1.25 times the value of the outstanding term facility.

As at March 31, 2019, the Company's current ratio, as defined to exclude the current portion of debt, was 4.40:1.00, the debt service coverage ratio, calculated in accordance with IAS 17 per agreement with lender, was 1.46:1.00 and the share value of the shares pledged under the shareholder guarantee was greater than 1.25 times the value of the outstanding term facility.

## **OUTLOOK**

Commodity prices in Canada improved significantly in the first quarter of 2019 from a difficult three months ending December 31, 2018. The differential between West Texas Intermediate and Western Canadian Select narrowed in the first three months of 2019 primarily due to the Alberta government's mandated curtailment of crude oil production in the province. However, drilling and completions activity in the Western Canadian Sedimentary Basin ("WCSB") decreased in the first quarter of 2019 when compared to 2018, this coupled with the lack of market access continues to leave uncertainty in the outlook for commodity prices and drilling activity levels for the remainder of 2019.

The Company anticipates that demand for rental equipment which supports drilling and completions activity in the WCSB, along with its associated rental rates, will remain flat throughout the remainder of 2019. As a result, the Company continues to focus on increasing market share and strengthening its fleet of rental assets. The Company will continue to sell older under-utilized assets which will decrease repairs and maintenance costs, improve the bottom line and further reduce debt.

Zedcor continues to successfully expand its market reach and customer base from beyond its traditional upstream energy services customers with its security and surveillance service offering. These services are targeted to alternative industry segments including industrial facilities, pipeline and commercial construction. During the first quarter of 2019, the Company added high resolution cameras to existing solar hybrid light towers, in order to expand its security and surveillance fleet to meet market demand. The Company expects to continue to increase its fleet of solar hybrid light towers with high resolution cameras as the customer base strengthens in this segment.

The Company remains focused on strengthening the balance sheet by selling underutilized assets, managing working capital and reducing debt. The Company is further committed to improving its operational and financial performance through efficiencies and cost reductions in its operations while creating shareholder value for the long term.

## **NON-IFRS MEASURES RECONCILIATION**

The Company uses certain measures in this press release which do not have any standardized meaning as prescribed by International Financial Reporting Standards ("IFRS"). These measures which are derived from information reported in the consolidated statements of 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 press release in order to provide shareholders and potential investors with additional information regarding the Company.

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

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

EBITDA refers to net income before finance costs, income taxes, depreciation and amortization. Adjusted EBITDA is calculated as EBITDA before costs associated with severance, 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.

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

<b>(in \$,000s)</b>	<b>Three months ended March 31</b>	
	<b>2019</b>	<b>2018</b>
<b>Net income from continuing operations</b>	(683)	(616)
Add:		
Finance costs	1,091	836
Depreciation	1,793	1,405
Amortization of intangibles	165	165
Income taxes	(19)	(15)
<b>EBITDA</b>	<b>2,347</b>	<b>1,775</b>
Add:		
Stock based compensation	26	8
Loss (gain) on sale of equipment	381	(11)
Severance costs	4	—
<b>Adjusted EBITDA</b>	<b>2,758</b>	<b>1,772</b>

Included in Adjusted EBITDA for the three months ended March 31, 2019 is a positive \$469 impact from the adoption of IFRS 16 accounting standard.

### ***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:

<b>(in \$,000s)</b>	<b>Three months ended March 31</b>	
	<b>2019</b>	<b>2018</b>
<b>Net income from continuing operations</b>	(683)	(616)
Add:		
Finance costs	1,091	836
Income taxes	(19)	(15)
Severance costs	4	—
<b>Adjusted EBIT</b>	<b>393</b>	<b>205</b>

Included in Adjusted EBIT for the three months ended March 31, 2019 is a positive \$129 impact from the adoption of IFRS 16 accounting standard.

### **No Conference Call**

No conference call will be held in conjunction with this release. Full details of the Company's financial results, in the form of the condensed consolidated interim financial statements and notes for the three months ended March 31, 2019 and Management's Discussion and Analysis of the results are available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.zedcor.ca](http://www.zedcor.ca).

### **About Zedcor Energy Inc.**

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

## **FORWARD-LOOKING STATEMENTS**

Certain statements included or incorporated by reference in this press release constitute forward-looking statements or forward-looking information, including management's belief that 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.

### **For further information contact:**

**Kim Cotter**

Chief Financial Officer

P: (403) 930-5435

E: [kcotter@zedcor.ca](mailto:kcotter@zedcor.ca)

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