Zedcor Energy Inc. Announces 2019 Third Quarter Results

CALGARY, ALBERTA – November 12, 2019: Zedcor Energy Inc. (the "Company") (TSX VENTURE: ZDC) today announced its financial and operating results for the three and nine months ended September 30, 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 Sept. 30		Nine months ended Sept. 30	
(in $000s)	**2019**	**2018**	**2019**	**2018**
Revenue	3,865	3,992	13,578	12,628
Adjusted EBITDA[1,2]	1,509	1,112	5,531	3,249
Adjusted EBIT[1,2]	(636)	(656)	(1,051)	(2,223)
Net loss from operations	(1,617)	(1,608)	(4,105)	(4,984)
Net loss per share from operations				
Basic	(0.03)	(0.03)	(0.08)	(0.10)
Diluted	(0.03)	(0.03)	(0.08)	(0.10)

[1] *Adjusted for severances*
[2] *See Financial Measures Reconciliations below*

SELECT FINANCIAL RESULTS

- Revenue for the quarter ended September 30, 2019 decreased by $127 or 3% from $4.0 million to $3.9 million compared to the same quarter in 2018. This decrease was due to the substantial decline in drilling activity in the third quarter of 2019 compared to the third quarter of 2018, as security and surveillance revenue increased $536 for the quarter ending September 30, 2019 compared to the quarter ending September 30, 2018.
- Adjusted EBITDA for the quarter ended September 30, 2019 was $1,509, an increase of $397 from the quarter ended September 30, 2018. This increase is a result of the increase in security and surveillance revenue, along with a decrease in general and administrative costs. General and administrative costs decreased by $606, or 42%, in the third quarter of 2019 when compared to the third quarter of 2018. This decrease is largely due to the impact of IFRS 16, which resulted in a decrease in rent expense of $475 in the third quarter of 2019, along with a focus on cost reduction and efficiencies.
- During the quarter ended September 30, 2019, the Company sold underutilized assets with a net book value of $1,095 for proceeds of $761. The proceeds were used to pay down debt in the fourth quarter of 2019.
- Net loss from operations increased by $9 for the quarter ended September 30, 2019 when compared to the quarter ended September 30, 2018. The marginal increase in net loss from operations is a result of the decrease in oilfield services revenue, which off-set the increase in revenue from security and surveillance. Included in net loss from operations is a negative $25 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.
- On September 26, 2019 the Company signed an amending agreement to the $13.5 million credit facility by extending the non-revolving term loan facility, reducing the equipment finance term loan facility and amending covenants. See Liquidity and Capital Resources section.

SELECT OPERATING RESULTS

Energy Services Segment

- The third quarter of 2019 saw commodity prices in the oil and gas sector in Western Canada drop slightly when compared to the third quarter of 2018, however drilling activity declined significantly over the same period. The number of active rigs in Western Canada dropped by over 50% in the third quarter of 2019 when compared to the third quarter of 2018, as a result the Company's utilization decreased.
- For the quarter ending September 30, 2019 revenue was $2.6 million, a decrease of $663 when compared to the same quarter in 2018. Gross margin decreased by $349 compared to the quarter ended September 30, 2018. The decrease in both revenue and gross margin is a direct result of the decrease in drilling activity. However, the impact to gross margin was reduced by a continued focus on streamlining costs and improving operational efficiencies, along with the transition to IFRS, which had a positive impact of $32 on gross margin in the third quarter of 2019.

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 first quarter of 2020.
- The Security and Surveillance segment continues to expand as it moves into alternative industry segments including industrial facilities and commercial construction. As a result of this growth, during 2019 an additional fourteen 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 September 30, 2019 increased by $536, or 71%, due to increased activity on the pipeline replacement project and expansion of the segments customer base. As a result gross margin increased from $164 for the quarter ended September 30, 2018 to $473 for the quarter ended September 30, 2019.

SELECTED QUARTERLY FINANCIAL INFORMATION

(Unaudited – in $000s)	Sept 30 2019	June 30 2019	March 31 2019	Dec 31 2018	Sept 30 2018	Jun 30 2018	Mar 31 2018	Dec 31 2017
Revenue	3,865	3,750	5,963	4,824	3,992	3,408	5,228	4,306
Net loss from operations	(1,617)	(1,805)	(683)	(15,176)	(1,608)	(2,760)	(616)	(2,618)
Adjusted EBITDA[1]	1,509	1,264	2,758	1,402	1,112	365	1,772	1,417
Adjusted EBITDA per share - basic[1]	0.03	0.02	0.05	0.03	0.02	0.01	0.03	0.03
Net loss per share from continuing operations								
Basic	(0.03)	(0.03)	(0.01)	(0.29)	(0.03)	(0.05)	(0.01)	(0.05)
Diluted	(0.03)	(0.03)	(0.01)	(0.29)	(0.03)	(0.05)	(0.01)	(0.05)
Adjusted free cash flow[1]	(264)	2,450	695	(280)	120	1,099	(327)	351

[1] *See Financial Measures Reconciliations below*

LIQUIDITY AND CAPITAL RESOURCES

<u>Loan and security facility:</u>

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.

On September 26, 2019, the Company signed an amending agreement to the $13.5 million credit facility. The amending agreement extended the $2.5 million non-revolving term loan facility to March 15, 2021. The $8 million equipment finance term loan facility was reduced to $4.8 million. The debt service coverage ratio was amended to 1.05:1:00 for the quarter ending March 31, 2020 and 1.10:1.00 for the quarter ending June 30, 2020. The shares pledged under the shareholder guarantee was revised from the 1.25 times the values of the outstanding term facility to a minimum trade value.

As at September 30, 2019, the Company's current ratio, as defined to exclude the current portion of debt, was 3.21:1.00, the debt service coverage ratio, calculated in accordance with IAS 17 per agreement with lender, was 1.31:1.00 and the value of the shares pledged under the shareholder guarantee was greater than minimum trade value requirement.

For the quarter ending September 30, 2019, the Company remains in compliance with all financial covenants pertaining to its bank debt. However, in light of the current volatility in the oil and gas sector and uncertainty regarding take away capacity constraints, the Company is expected to be near the minimum debt service coverage ratio required under its credit facility in future quarters. The Company is currently working with its lenders on a credit amendment and management feels this amendment would allow the Company to comply with all financial covenants in future quarters. If this amendment is not obtained and the Company does not comply with all financial covenants, this will represent an event of default under the credit facility and the lender has the right to demand repayment of all amounts under the facility.

OUTLOOK

The mandated crude oil production cuts in Alberta, coupled with the uncertainty surrounding pipeline construction and related take away capacity has resulted in 2019 capital budgets for Western Canadian customers to decrease significantly year over year. As a result, drilling and completions activity in the Western Canadian Sedimentary Basin ("WCSB") decreased in the first nine months of 2019 when compared to 2018. Uncertainty remains in the outlook for commodity prices and drilling activity for the balance of 2019, and therefore the industry, along with Zedor, continues to take a measured approach to spending.

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 strong relationships with existing customers. 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.

Despite the current market conditions, Zedcor continues to diversify and increase its market reach and customer base with the Company's security and surveillance offering. Utilization of the Company's fleet of solar hybrid light towers with high resolution cameras increased significantly in the third quarter of 2019, when compared to the third quarter of 2018. As market interest and demand for the security and surveillance service offering continues to grow, the Company remains focused on successful expansion of this segment through a growing fleet and additional service offerings, while maintaining strong operational performance.

The Company is committed to generating strong free cash flow from operations in order to further reduce debt and strengthen the balance sheet. In conjunction, Zedcor continues to strive to improve 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:

	Three months ended Sept 30		**Nine months ended Sept 30**	
(in $,000s)	**2019**	**2018**	**2019**	**2018**
Net (loss) income	(1,617)	(1,608)	(4,105)	(4,984)
Add:				
Finance costs	989	944	3,096	2,706
Depreciation	1,684	1,484	5,211	4,346
Amortization of intangibles	110	165	440	495
Income taxes	(18)	(28)	(56)	(43)
EBITDA	1,148	957	4,586	2,520
Add:				
Stock based compensation	17	18	64	37
Severance costs	10	36	14	98
Loss on sale of equipment	334	101	867	594
Adjusted EBITDA	1,509	1,112	5,531	3,249

Included in Adjusted EBITDA for the three and nine months ended September 30, 2019 is a positive $475 and $1,414 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:

	Three months ended Sept 30		**Nine months ended Sept 30**	
(in $,000s)	**2019**	**2018**	**2019**	**2018**
Net (loss) income	(1,617)	(1,608)	(4,105)	(4,984)
Add:				
Finance costs	989	944	3,096	2,706
Income taxes	(18)	(28)	(56)	(43)
Severance costs	10	36	14	98
Adjusted EBIT	(636)	(656)	(1,051)	(2,223)

Included in Adjusted EBIT for the three and nine months ended September 30, 2019 is a positive $136 and $395 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 and nine months ended September 30, 2019 and Management's Discussion and Analysis of the results are available on SEDAR at www.sedar.com and on the Company's website at www.zedcor.ca.

About Zedcor Energy Inc.

Zedcor Energy Inc. is a Canadian public corporation and parent company to Zedcor Energy Services Corp. ("Zedcor"). Zedcor is engaged in the 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.

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