

ZEDCOR INC.
CONSOLIDATED FINANCIAL STATEMENTS



FOR THE THREE & SIX MONTHS ENDED

JUNE 30, 2021 AND 2020

**SECURITY
SOLUTIONS**

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its external auditors have not reviewed the unaudited condensed interim consolidated financial statements for the three months ended March 31, 2021.

ZEDCOR INC.
CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
(Unaudited)

(Stated in thousands of Canadian dollars)	June 30, 2021	December 31, 2020
Assets		
Current assets:		
Cash	\$ 1	\$ 761
Accounts receivable	3,240	3,191
Current portion of finance lease receivable	442	447
Income taxes recoverable	88	88
Inventory	104	—
Prepaid expenses and deposits	301	338
	<u>4,176</u>	<u>4,825</u>
Non-current assets:		
Finance lease receivable	3,095	1,180
Property and equipment (note 3)	8,361	22,549
Right-of-use assets	1,575	1,837
	<u>13,031</u>	<u>27,666</u>
Total assets	<u>\$ 17,207</u>	<u>\$ 42,225</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,829	\$ 1,596
Current portion of finance lease liability	1,601	1,525
Current portion of long term debt (note 4)	2,407	2,940
	<u>5,837</u>	<u>6,061</u>
Non-current liabilities:		
Finance lease liabilities	5,082	5,339
Long term debt (note 4)	2,581	14,377
Note payable (note 5)	2,928	2,696
	<u>10,591</u>	<u>29,141</u>
Total liabilities	<u>\$ 16,428</u>	<u>\$ 28,473</u>
Shareholders' equity		
Share capital (note 6)	\$ 107,738	\$ 107,625
Preferred equity (note 6)	2,864	2,864
Warrants	587	587
Contributed surplus	1,623	1,582
Deficit	(112,033)	(108,640)
	<u>779</u>	<u>4,018</u>
Total liabilities and shareholders' equity	<u>\$ 17,207</u>	<u>\$ 42,225</u>

The accompanying notes are an integral part of these condensed consolidated financial statements

ZEDCOR INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE
LOSS
(Unaudited)

	Three months ended		Six months ended	
	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
(Stated in thousands of Canadian dollars, except per share amounts)				
Revenues	\$ 3,103	\$ 1,441	\$ 5,790	\$ 2,870
Direct expenses				
Direct operating costs	1,277	307	2,308	910
Depreciation of equipment (note 3)	346	335	712	582
	<u>1,623</u>	<u>642</u>	<u>3,020</u>	<u>1,492</u>
Gross margin	1,480	799	2,770	1,378
Operating expenses				
General and administrative	807	486	1,495	1,068
Depreciation of other property and equipment	33	29	58	61
Depreciation of right-of-use assets	104	191	217	322
Loss on disposal of right-of-use assets	645	—	573	—
	<u>1,589</u>	<u>706</u>	<u>2,343</u>	<u>1,451</u>
Other expenses				
Finance costs (note 7)	826	782	1,768	1,601
Loss on foreign exchange	—	6	—	6
	<u>826</u>	<u>788</u>	<u>1,768</u>	<u>1,607</u>
Loss before income taxes from continuing operations	(935)	(695)	(1,341)	(1,680)
Income taxes recovery				
Current recovery	—	(24)	—	(43)
Net loss from continuing operations	(935)	(671)	(1,341)	(1,637)
Net (loss) income from discontinued operations (note 8)	(2,684)	(464)	(2,052)	215
Net loss and comprehensive loss for the period	\$ (3,619)	\$ (1,135)	\$ (3,393)	\$ (1,422)
Basic and diluted loss per share from continuing operations	\$ (0.02)	\$ (0.01)	\$ (0.02)	\$ (0.03)
Basic and diluted loss per share from discontinued operations	\$ (0.05)	\$ (0.01)	\$ (0.04)	\$ 0.00
Weighted average number of shares outstanding				
Basic	57,838,508	55,008,389	57,754,307	54,736,530
Diluted	57,838,508	55,008,389	57,754,307	54,736,530

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ZEDCOR INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN
SHAREHOLDERS' EQUITY
(Unaudited)

(Stated in thousands of Canadian dollars)	Share capital	Preferred shares	Warrants	Contributed surplus	Deficit	Total
Balance – December 31, 2019	\$ 107,320	2,864	468	1,505	(103,962)	8,195
Stock based compensation	—	—	—	17	—	17
Issuance of warrants	—	—	6	—	—	6
Amendment of exercise price)	—	—	26	—	—	26
Shares issued as consideration for loan guarantee	63	—	—	—	—	63
Net loss and comprehensive loss	—	—	—	—	(1,422)	(1,422)
Balance – June 30, 2020	107,383	2,864	500	1,522	(105,384)	6,885
Stock based compensation	—	—	—	60	—	60
Extension and amendment of warrant exercise price	—	—	31	—	—	31
Issuance of warrants	—	—	56	—	—	56
Shares issued as consideration for loan guarantee	242	—	—	—	—	242
Comprehensive loss	—	—	—	—	(3,256)	(3,256)
Balance – December 31, 2020	107,625	2,864	587	1,582	(108,640)	4,018
Stock based compensation	—	—	—	59	—	31
Shares issued as consideration for loan guarantee	64	—	—	—	—	64
Exercise of stock options	49	—	—	(18)	—	31
Comprehensive loss	—	—	—	—	(3,393)	(3,393)
Balance – June 30, 2021	\$ 107,738	\$ 2,864	\$ 587	\$ 1,623	\$ (112,033)	\$ 779

The accompanying notes are an integral part of these condensed consolidated financial statements

ZEDCOR INC.
CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
(Unaudited)

	Three months ended		Six months ended	
	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
(Stated in thousands of Canadian dollars)				
Cash provided by (used in):				
Operating				
Net loss from continuing operations	\$ (935)	\$ (671)	\$ (1,341)	\$ (1,637)
Depreciation of property and equipment (note 3)	379	364	770	643
Depreciation of right-of-use assets	104	191	217	322
Loss on disposal of right-of-use asset	645	—	573	—
Stock based compensation (note 8)	28	8	62	17
Non-cash interest expense and other financing costs	196	151	514	281
Receipt of finance lease receivable	48	37	158	74
Income taxes recovered	—	74	—	74
	465	(154)	953	(226)
Changes in non-cash working capital	382	1,841	(348)	1,405
Cash flow from continuing operating activities	847	1,995	605	1,179
Cash flow from discontinued operating activities (note 8)	407	227	1,561	1,998
Cash flow from operating activities	1,254	2,222	2,166	3,177
Investing				
Change in non-cash working capital related to investing activities	320	(612)	477	(272)
Purchase of property and equipment (note 3)	(818)	(210)	(1,774)	(897)
Cash flow from (used by) continuing investing activities	(498)	(822)	(1,297)	(1,169)
Cash flow from from discontinued investing activities (note 8)	11,115	916	11,825	1,051
Cash flow from (used by) investing activities	10,617	94	10,528	(118)
Financing				
Proceeds from debt	598	—	921	115
Repayment of debt	(12,172)	(1,652)	(13,516)	(2,211)
Proceeds from exercise of stock options	35	—	38	—
Payment of finance lease liability	(513)	(133)	(897)	(393)
Cash flow used by financing activities	(12,052)	(1,785)	(13,454)	(2,489)
Net change in cash in the period	(181)	531	(760)	570
Cash, beginning of period	180	209	761	170
Cash, end of period	\$ 1	\$ 740	\$ 1	\$ 740

The accompanying notes are an integral part of these condensed consolidated financial statements

ZEDCOR INC.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED JUNE 30, 2021 AND 2020
(Unaudited)
IN THOUSANDS OF CANADIAN DOLLARS

1. CORPORATE INFORMATION:

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

The Company operates in Western and Central Canada and provides technology based Security & 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 monitoring of fixed site locations; and 3) security personnel.

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

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

2. BASIS OF PREPARATION:

a) Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 - Interim Financial Reporting. These condensed consolidated interim financial statements do not include all of the information required for full financial disclosure. The disclosures provided below are incremental to those included in the annual financial statements and certain disclosures, which are normally required to be included in the notes to annual financial statements, have been condensed or omitted. The same accounting policies and methods of computation were followed in the preparation of these interim financial statements as were followed in the preparation of the Company's annual financial statements for the year ended December 31, 2020. Accordingly, these condensed consolidated interim financial statements should be read in conjunction with the Company's consolidated financial statements and notes thereto for the year ended December 31, 2020.

These consolidated financial statements were approved by the Board of Directors on August 18, 2021 and are presented in Canadian dollars, which is the Company's functional currency.

b) Basis of presentation and going concern

These consolidated financial statements have been prepared based on accounting policies applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. In the presentation of financial statements, Management is required to identify where events or conditions indicate that significant doubt may exist about the Company's ability to continue as a going concern.

ZEDCOR INC.
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c) Significant accounting policies

The significant accounting policies adopted in the preparation of these condensed consolidated financial statements are the same as those set out in the annual audited consolidated financial statements for the year ended December 31, 2020.

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3. PROPERTY AND EQUIPMENT:

	Rental equipment	Automotive & other equipment	Office furniture & equipment	Leasehold improvements	Total
At December 31, 2019	56,762	238	1,101	170	58,271
Additions	1,696	8	74	7	1,785
Disposals	(5,515)	(5)	—	—	(5,520)
At December 31, 2020	52,943	241	1,175	177	54,536
Additions	1,615	—	159	—	1,774
Disposals	(42,182)	(36)	(229)	(113)	(42,560)
At June 30, 2021	12,376	205	1,105	64	13,750

	Rental equipment	Automotive & other equipment	Office furniture & equipment	Leasehold improvements	Total
At December 31, 2019	27,895	208	739	124	28,966
Depreciation	4,146	17	118	17	4,298
Elimination on disposal	(3,391)	(4)	—	—	(3,395)
Impairment	2,118	—	—	—	2,118
At December 31, 2020	30,768	221	857	141	31,987
Depreciation	1,432	5	60	10	1,507
Elimination on disposal	(27,788)	(32)	(174)	(111)	(28,105)
At June 30, 2021	4,412	194	743	40	5,389

	Rental equipment	Automotive & other equipment	Office furniture & equipment	Leasehold improvements	Total
At December 31, 2020	22,175	20	318	36	22,549
At June 30, 2021	7,964	11	362	24	8,361

During the six months ended June 30, 2021, the Company sold assets with a net book value of \$14,455 for proceeds of \$11,825, resulting in a loss of \$2,630 (six months ended June 2020 – gain of \$320). During the six months ended June 30, 2021, the Company also disposed of right-of-use assets with a net book value of \$531. This resulted in a loss of \$573 (six months ended June 2020 – \$nil).

The Company reviews the carrying value of its long-lived assets and cash generating units at each reporting date to determine whether there is any indication of impairment. For the three months ended June 30, 2021, no triggers for impairment were identified for the Security & Surveillance CGU.

ZEDCOR INC.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED JUNE 30, 2021 AND 2020
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4. CREDIT FACILITIES:

	Interest rate	Final maturity	Facility maximum	Outstanding as at June 30, 2021	Outstanding as at December 31, 2020
		January			
Loan and Security Facility	12.75%	1, 2023	19,309	4,067	17,317
Operating Loan Facility	Prime + 5.0%	Revolving	3,000	921	—
				4,988	\$17,317
Current portion				(2,407)	(2,940)
Long term debt				2,581	14,377

The Company's credit facilities consist of a Loan and Security Facility and an Operating Loan Facility.

Loan and Security Facility:

The Loan and Security Facility was renewed in December 2020. It consists of a one time \$17.3 million draw and a \$2.0 million accordion feature which the Company can draw on subject to approval from the lender. In December 2020, the Company drew \$0.8 million of the accordion feature.

The key terms of the Loan and Security facility are as follows:

- Bears interest at a rate of 12.75% and is secured with a first charge over the Company's assets;
- Extension fee of 2% per annum, a portion of which was capitalized to the loan and a portion of which was paid with the issuance of 2,000,000 common shares of the Company in December 2020;
- Does not require quantitative financial covenants, but imposed restrictions on the Loan's collateral, being the property and equipment of the Company, and has a \$2.5 million personal guarantee from a Board Member of the Company; and
- Term of the Loan and Security Facility was extended to January 1, 2023 with an option to renew for an additional 12 months at the satisfaction of the lender.

As a result of the disposal of the Company's Rental Segment assets at June 30, 2021, the Company has:

- \$3.5 million outstanding on the one time draw of \$17.3 million. This loan has monthly principal payments of \$63 plus interest of 12.75% per annum until October 2021 and monthly principal payments of \$108 plus interest of 12.75% per annum thereafter;
- \$0.6 million outstanding on the \$0.8 million draw on the accordion feature. This loan has monthly blended principal and interest payments of \$39 from July 2021 to December 2021 and then \$29 thereafter;
- \$ 1.2 million available to draw on the accordion feature, subject to approval from the lender; and
- The lender has released the personal guarantee from the Company's Board Member.

ZEDCOR INC.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
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Operating Loan Facility:

The Operating Loan Facility is comprised of a \$3.0 million line of credit which is payable on demand by the lender and bears interest at a rate of Prime plus 5.0%. The Operating Loan Facility is margined by the Company's accounts receivable, and the available amount is determined monthly based on 75% of the Company's accounts receivable aged less than 90 days and 85% of the Company's accounts receivable aged less than 120 days from investment grade customers.

The Operating Loan Facility requires that the Company's current ratio does not fall below 1.50:1.00, the debt service coverage ratio does not fall below 1.00:1.00 until December 31, 2021 and 1.25:1.00 thereafter, and imposes a maximum debt level for the Company. As at June 30, 2021, the Company's current ratio, as defined to exclude the current portion of long term debt, was 1.52:1.00; the debt service coverage ratio, calculated in accordance with IAS 17 per agreement with lender, was 1.20:1.00 and the Company's total debt of \$16,428 was below the maximum of \$31,500.

5. NOTE PAYABLE

Balance, December 31, 2019	\$ 2,979
Interest payable	115
Accretion of note payable discount	140
Extinguishment of note payable	(3,234)
Recognition of note payable at fair value	2,658
Interest payable	14
Accretion of note payable discount	24
Balance, December 31, 2020	\$ 2,696
Interest payable	88
Accretion of note payable discount	144
Balance, June 30, 2021	\$ 2,928

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

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6. SHARE CAPITAL

Common shares issued and fully paid:	Number of shares	\$
Balance, December 31, 2019	54,244,775	107,320
Issued as consideration for loan guarantee	1,366,469	125
Issued as consideration for loan fees	2,000,000	180
Balance, December 31, 2020	57,611,244	107,625
Issued as consideration for loan guarantee	271,416	64
Issued on exercise of stock options	198,330	49
Balance, June 30, 2021	58,080,990	107,738
<hr/>		
Preferred shares issued:	Number of shares	\$
Balance, December 31, 2020 and June 30, 2021	4,400,000	2,864

The Preferred Shares are non-voting and non-transferrable, have a stated value of \$0.70 per share and a term of five years. The Preferred Shares have a cumulative dividend of 5% of the stated value commencing on January 31, 2017 until January 31, 2018 and a 10% cumulative dividend from January 31, 2018 thereafter, with dividend payments being subject to certain restrictions in the Company's existing secured credit facilities, and at the discretion of the Board of Directors. The dividend can be settled at the discretion of the Company in either cash or through the issuance of Common Shares based on the conversion price of \$0.70.

After January 31, 2020, the Preferred Shares may be converted by the holder thereof into the Company's Common Shares at a conversion price of \$0.70 per share, subject to the right of Company to redeem the Preferred Shares prior to such conversion for a cash amount per share equal to the lesser of: (i) \$2.00; and (ii) the current market price of the Common Shares.

The Company shall have the right to redeem the Preferred Shares at any time if the current market price of the Common Shares exceeds \$2.00 by either, at Company's sole option, (i) payment of cash of \$2.00 per Preferred Share; or (ii) through the issuance of 4,400,000 Common Shares, subject to certain adjustments.

The Preferred Shares may be redeemed at the end of the term, at the Company's sole option, for either (i) a cash amount per share equal to the lesser of \$2.00 and the current market price; or (ii) 4,400,000 Common Shares, subject to certain adjustments.

ZEDCOR INC.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED JUNE 30, 2021 AND 2020
(Unaudited)
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7. FINANCE COSTS:

Finance costs are comprised of the following:

	For the three months ended		For the six months ended	
	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
Bank charges and interest	7	4	10	8
Interest on debt	659	547	1,434	1,130
Interest on note payable	116	70	232	137
Interest on finance leases	44	161	92	326
	826	782	1,768	1,601

8. DISCONTINUED OPERATIONS:

On June 30, 2021, the Company sold the assets of its Rentals Segment to a company controlled by a Director of the Company for gross proceeds of \$11.3 million. The sale allows the Company to focus on its Security & Surveillance business while reducing the debt on its balance sheet. The comparative condensed consolidated financial statements of loss have been restated to show the discontinued operation separate from continuing operations.

The following tables summarize the Company's discontinued operations the three and six months ended June 30, 2021 and 2020:

	For the three months ended		For the six months ended	
	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
Revenues	979	971	3,052	4,257
Direct expenses				
Direct operating costs	341	577	1,085	1,777
Depreciation of equipment	282	821	737	1,758
	623	1,427	1,822	3,535
Gross Margin	356	(427)	1,230	722
Operating expenses				
General and administrative	237	167	406	482
Depreciation of right-of-use assets	124	139	246	345
(Gain) on sale of equipment	(21)	(269)	(70)	(320)
	340	37	582	507
Operating income (loss)	(16)	(464)	392	215
Loss on sale of discontinued operations	(2,700)	—	(2,700)	—
Net loss (income) from discontinued operations	(2,684)	(464)	(2,052)	215

ZEDCOR INC.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED JUNE 30, 2021 AND 2020
(Unaudited)
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Cash flows from discontinued operations

	For the three months ended		For the six months ended	
	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
Net cash flow from operating activities	407	227	1,561	1,998
Net cash flow from investing activities	11,115	916	11,825	1,051
Net cash flow from financing activities	—	—	—	—
Net cash flows	11,522	1,143	13,386	3,049