

ZEDCOR INC.

**CONDENSED CONSOLIDATED INTERIM
FINANCIAL STATEMENTS**



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

**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 consolidated interim financial statements for the three months ended March 31, 2022.

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

(Stated in thousands of Canadian dollars)	March 31, 2022	December 31, 2021
Assets		
Current assets:		
Cash	\$ 1,628	\$ 108
Accounts receivable	2,992	3,143
Current portion of finance lease receivable	465	448
Income taxes recoverable	—	88
Inventory	973	383
Prepaid expenses and deposits	241	272
	6,299	4,442
Non-current assets:		
Finance lease receivable	2,757	2,882
Deposits	121	109
Property and equipment (note 3)	12,213	11,073
Right-of-use assets	1,949	1,290
	17,040	15,354
Total assets	\$ 23,339	\$ 19,796
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 2,904	\$ 2,380
Current portion of lease liability	1,410	1,351
Current debt (note 4)	1,654	2,231
	5,968	5,962
Non-current liabilities:		
Note payable (note 5)	3,132	3,115
Lease liability	4,982	4,604
Long term debt (note 4)	6,722	5,717
	14,836	13,436
Total liabilities	20,804	19,398
Shareholders' equity		
Share capital (note 6)	108,833	107,807
Preferred equity (note 6)	2,864	2,864
Warrants (note 7)	1,254	587
Contributed surplus	1,697	1,681
Deficit	(112,113)	(112,541)
	2,535	398
Total liabilities and shareholders' equity	\$ 23,339	\$ 19,796

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

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

	Three months ended March 31,	
	2022	2021
(Stated in thousands of Canadian dollars, except per share amounts)		
Revenues (note 8)	\$ 4,631	\$ 2,683
Direct expenses		
Direct operating costs	2,163	1,035
Depreciation of equipment (note 3)	467	328
	<u>2,630</u>	<u>1,363</u>
Gross margin	<u>2,001</u>	<u>1,320</u>
Operating expenses		
General and administrative	1,111	683
Depreciation of other property and equipment (note 3)	53	25
Depreciation of right-of-use assets	196	113
(Gain) on sale of equipment (note 3)	(26)	—
(Gain) on disposal of right-of-use assets	—	(72)
	<u>1,334</u>	<u>749</u>
Other expenses		
Finance costs (note 9)	223	944
Foreign exchange loss	16	—
	<u>239</u>	<u>944</u>
Income (loss) before income taxes	428	(373)
Income tax recovery		
Current recovery	—	—
Net income (loss) from continuing operations	428	(373)
Net income from discontinued operations (note 10)	—	597
Net income and comprehensive income	<u>\$ 428</u>	<u>\$ 224</u>
Net income (loss) per share from continuing operations		
Basic	\$ 0.01	\$ (0.01)
Diluted	\$ 0.01	\$ (0.01)
Net income per share from discontinued operations		
Basic	\$ —	\$ 0.01
Diluted	\$ —	\$ 0.01
Net income per share		
Basic	\$ 0.01	\$ 0.00
Diluted	\$ 0.01	\$ 0.00
Weighted average number of shares outstanding (note 6)		
Basic	58,349,766	57,668,533
Diluted	63,937,119	59,981,331

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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, 2020	\$ 107,625	\$ 2,864	\$ 587	\$ 1,582	\$ (108,640)	4,018
Stock based compensation	—	—	—	31	—	31
Shares issued as consideration for loan guarantee	31	—	—	—	—	31
Net income	—	—	—	—	224	224
Balance – March 31, 2021	107,656	2,864	587	1,613	(108,416)	4,304
Stock based compensation	—	—	—	104	—	104
Exercise of stock options	107	—	—	(36)	—	71
Shares issued (note 6)	44	—	—	—	—	44
Net loss	—	—	—	—	(4,125)	(4,125)
Balance – December 31, 2021	107,807	2,864	587	1,681	(112,541)	398
Stock based compensation	—	—	—	16	—	16
Shares issued, net of share issue costs (note 6)	1,026	—	—	—	—	1,026
Warrants issued (note 7)	—	—	667	—	—	667
Comprehensive income	—	—	—	—	428	428
Balance – March 31, 2022	\$ 108,833	\$ 2,864	\$ 1,254	\$ 1,697	\$ (112,113)	2,535

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ZEDCOR INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOW
(Unaudited)

	Three months ended March 31,	
(Stated in thousands of Canadian dollars)	2022	2021
Cash flow from (used in):		
Operating		
Net income (loss) from continuing operations	\$ 428	\$ (373)
Depreciation of property and equipment (note 3)	520	353
Depreciation of right-of-use assets	196	113
(Gain) on disposal of property and equipment (note 3)	(26)	—
(Gain) on disposal of right-of-use assets	—	(72)
Stock based compensation	16	31
Non-cash interest expense and other financing costs	36	318
Receipt of finance lease receivable	108	110
Income taxes recovered	88	—
Cash flow from operating activities before changes in non-cash working capital	1,366	480
Changes in non-cash working capital	20	(730)
Cash flow from (used in) continuing operating activities	1,386	(250)
Cash flow from discontinued operating activities	—	1,163
Cash flow from operating activities	1,386	913
Investing		
Change in non-cash working capital related to investing activities	84	157
Purchase of property and equipment (note 3)	(1,710)	(956)
Proceeds from sale of property and equipment (note 3)	76	—
Cash flow (used in) continuing investing activities	(1,550)	(799)
Cash flow from discontinued investing activities	—	710
Cash flow (used in) investing activities	(1,550)	(89)
Financing		
Proceeds from debt	1,718	323
Repayment of debt	(1,290)	(1,344)
Payment of finance lease liability	(437)	(384)
Proceeds from Unit issuance, net of costs (note 6)	1,693	—
Cash flow from (used in) financing activities	1,684	(1,405)
Net change in cash in the period	1,520	(581)
Cash, beginning of period	108	761
Cash, end of period	\$ 1,628	\$ 180

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ZEDCOR INC.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2022 AND 2021
(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. 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.

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, 2021. 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, 2021.

These condensed consolidated interim financial statements were approved by the Board of Directors on May 25, 2022.

b) Functional and presentation currency and basis of presentation

These condensed consolidated interim financial statements are presented in Canadian dollars, which is the Company’s functional currency and presentation currency. All currency amounts have been rounded to the nearest thousand dollars, unless otherwise indicated.

The Company’s condensed consolidated interim financial statements are prepared under the historical cost convention, with the exception of items that IFRS requires to be measured at fair value.

c) Significant accounting policies

The significant accounting policies adopted in the preparation of these condensed consolidated interim financial statements are the same as those set out in the annual audited consolidated financial statements for the year ended December 31, 2021.

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3. PROPERTY AND EQUIPMENT

Cost	Rental equipment	Automotive & other equipment	Office furniture & software	Leasehold improvements	Total
At December 31, 2020	52,943	241	1,175	177	54,536
Additions	5,233	—	440	87	5,760
Disposals and discontinued operations	(42,942)	(125)	(495)	(113)	(43,675)
At December 31, 2021	15,234	116	1,120	151	16,621
Additions	1,627	—	66	17	1,710
Disposals	(59)	—	(12)	—	(71)
At March 31, 2022	16,802	116	1,174	168	18,260

Accumulated depreciation	Rental equipment	Automotive & other equipment	Office furniture & software	Leasehold improvements	Total
At December 31, 2020	30,768	221	857	141	31,987
Depreciation	2,191	8	145	18	2,362
Elimination on disposal and discontinued operations	(28,150)	(113)	(427)	(111)	(28,801)
At December 31, 2021	4,809	116	575	48	5,548
Depreciation	461	—	53	6	520
Elimination on disposal	(6)	—	(6)	(9)	(21)
At March 31, 2022	5,264	116	622	45	6,047

Net Book Value	Rental equipment	Automotive & other equipment	Office furniture & software	Leasehold improvements	Total
At December 31, 2021	10,425	—	545	103	11,073
At March 31, 2022	11,538	—	552	123	12,213

During the three months ended March 31, 2022, the Company sold assets with a net book value of \$50 for proceeds of \$76, resulting in a gain of \$26 (three months ended March 31, 2021 – \$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. Triggers of impairment were not identified.

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4. CREDIT FACILITIES

	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				(1,654)	(2,231)
Long term debt				6,722	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.
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.

5. NOTE PAYABLE

Balance, December 31, 2020	2,696
Interest payable	175
Accretion of note payable discount	290
Extinguishment of note payable	(3,161)
Recognition of note payable at fair value	3,115
Balance, December 31, 2021	3,115
Accretion of note payable discount	17
Balance, March 31, 2022	3,132

The unsecured, subordinated Note Payable, which is due to a corporation controlled by a director of the company, matures on December 31, 2026 at its nominal value of \$2.5 million and bears interest at 7% per annum, accruing daily from the issue date. In agreement with the lender, the Company started making monthly interest payments in January 2022. The Note Payable is unsecured and subordinated to the Financing Agreement and subject to certain restrictions in the Financing Agreement.

6. SHARE CAPITAL

(a) Common share capital

Common shares issued and fully paid:	Number of shares	\$
Balance, December 31, 2020	57,611,244	107,625
Issued as consideration for loan guarantee	295,369	75
Issued for stock option exercise	393,330	107
Balance, December 31, 2021	58,299,943	107,807
Unit issuance, net of issuance costs	4,533,930	1,026
Balance, March 31, 2022	62,833,873	108,833

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On March 30, 2022, the Company issued 4,533,930 units (“Units”). Each Unit consisted of one common share of the Company and one-half of one common share purchase warrant of the Company. Each whole common share purchase warrant entitles the holder thereof to acquire one common share at a price of \$0.70 for a period of two years from the date of issue (note 7).

Subsequent to March 31, 2022, the Company completed a private placement of 700,000 additional Units.

(b) Preferred equity

Preferred shares issued:	Number of shares	\$
Balance, March 31, 2022 and December 31, 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, 2021, 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.

Subsequent to March 31, 2022, the Company redeemed the preferred shares through the issuance of 4.4 million common shares at the stated conversion price of \$0.70 per share. In respect of the cumulative dividend payable on the Preferred Shares in the amount of \$1.4 million, the Company issued 2.9 million common shares at a deemed price per common share of \$0.50.

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(c) Per share amounts

Basic and diluted earnings per share have been calculated on the basis of weighted average number of common shares outstanding as outlined below:

	Three months ended March 31,	
	2022	2021
Net income for the period attributable to shareholders	428	224
Weighted average number of shares outstanding – basic	58,349,766	57,668,533
Earnings per share – basic	\$0.01	\$0.00
Weighted average number of shares outstanding – basic	58,349,766	57,668,533
Share option dilution	2,029,472	624,351
Warrant dilution	3,557,881	1,688,447
Weighted average number of shares outstanding – diluted	63,937,119	59,981,331
Earnings per share - diluted	\$0.01	\$0.00

7. WARRANTS

Changes in the outstanding number, weighted average exercise price and movements in warrants are as follows:

Warrants issued	Number of warrants	\$
Balance, December 31, 2020 & December 31, 2021	4,744,905	587
Warrant issuance	2,266,965	667
Balance, March 31, 2022	7,011,870	1,254

As part of the Unit issuance completed on March 30, 2022 (note 6), the Company issued 2,266,965 warrants. Each warrant issued allows the holder to purchase to acquire one common share at a price of \$0.70 for a period of two years from the date of issue.

The Black-Scholes estimate of fair value used to value the warrants used the following assumptions:

Issue date	March 30, 2022
Expected annual dividend	\$0.00
Expected volatility	166%
Risk-free interest rate	2.31%
Expected life of warrants	2 years

As at March 31, 2022, the Company had 4,744,905 warrants issued and outstanding with an exercise price of \$0.12 and an expiry date of November 25, 2024 and 2,266,965 warrants issued and outstanding with an exercise price of \$0.70 and an expiry date of March 30, 2024.

Subsequent to March 31, 2022, the Company issued an additional 350,000 warrants which allow the holder to acquire on common share at a price of \$0.70 for a period of two years from the date of the issue.

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8. REVENUE

Revenue is generated from the following sales and services:

	Three months ended March 31,	
	2022	2021
Security tower rental and service	4,268	2,562
Fixed site monitoring and service	256	84
Security personnel	107	37
	4,631	2,683

9. FINANCE COSTS

Finance costs are comprised of the following:

	Three months ended March 31,	
	2022	2021
Bank charges and interest	11	5
Interest on debt	107	775
Interest on note payable	60	116
Interest on finance leases	45	48
	223	944

10. 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 consolidated statement of loss have been restated to show the discontinued operations separate from continuing operations.

In addition to the gross proceeds of \$11.3 million, the Company will receive a monthly management fee for up to 36 months after the closing date. The Company may also receive an annual bonus payment of 35% of EBITDA in excess of certain annual targets. The annual targets are calculated on the first, second, and third anniversary dates of closing. No provision for these fees or bonus payments has been made in the condensed consolidated interim financial statements as they are contingent receivables. The Company received \$150 in management fees for the three months ended March 31, 2022 (three months ended March 31, 2021 - \$nil).

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The following tables summarize the Company's discontinued operations the for three months ended March 31, 2022 and 2021:

	Three months ended March 31,	
	2022	2021
Revenues	—	2,077
Direct expenses		
Direct operating costs	—	740
Depreciation of equipment	—	493
	—	1,233
Gross margin	—	844
Operating expenses		
General and administrative	—	174
Depreciation of right-of-use assets	—	122
Gain on sale of equipment	—	(49)
	—	247
Operating income (loss)	—	597
Net income before income taxes	—	597

Cash flows from discontinued operations:

	Three months ended March 31,	
	2022	2021
Net cash flow from operating activities	—	1,163
Net cash flow from investing activities	—	710
Net cash flow from financing activities	—	—
Net cash flows	—	1,873

11. SUBSEQUENT EVENTS

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.

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On April 6, 2022, the Company completed a private placement of 700,000 additional Units for \$0.50 per Unit. In addition, subsequent to March 31, 2022, the Company redeemed the 4.4 million Preferred Shares outstanding through the issuance of 4.4 million common shares at the stated conversion price of \$0.70 per share. In respect of the cumulative dividend payable on the Preferred Shares in the amount of \$1.4 million, the Company issued 2.9 million common shares at a deemed price per common share of \$0.50.