

ZEDCOR INC.
CONSOLIDATED FINANCIAL STATEMENTS



FOR THE THREE & SIX MONTHS ENDED
JUNE 30, 2023 AND 2022

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 and six months ended June 30, 2023.

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

(Stated in thousands of Canadian dollars)	June 30, 2023	December 31, 2022
Assets		
Current assets:		
Cash	\$ 1,245	\$ 571
Accounts receivable	7,547	4,699
Current portion of finance lease receivable	540	527
Inventory	768	1,315
Prepaid expenses and deposits	215	430
	10,315	7,542
Non-current assets:		
Finance lease receivable	2,096	2,362
Deposits	177	167
Property and equipment (note 3)	23,767	17,563
Right-of-use assets	2,908	2,939
Deferred tax	2,005	2,005
	30,953	25,036
Total assets	\$ 41,268	\$ 32,578
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 4,446	\$ 3,409
Current portion of finance lease liabilities	1,982	1,772
Current portion of long term debt (note 4)	3,147	2,198
	9,575	7,379
Non-current liabilities:		
Note payable (note 5)	3,216	3,182
Finance lease liabilities	4,546	5,179
Long term debt (note 4)	11,680	8,349
	19,442	16,710
Total liabilities	29,017	24,089
Shareholders' equity:		
Share capital (note 6)	113,943	113,183
Warrants	1,122	1,368
Contributed surplus	1,833	1,809
Deficit	(104,647)	(107,871)
	12,251	8,489
Total liabilities and shareholders' equity	\$ 41,268	\$ 32,578

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		Six months ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
<i>(Stated in thousands of Canadian dollars, except per share amounts)</i>				
Revenues (note 8)	\$ 6,216	\$ 5,256	\$ 12,659	\$ 9,887
Direct expenses				
Direct operating costs	2,549	2,326	5,122	4,489
Depreciation of equipment (note 3)	749	489	1,407	956
	<u>3,298</u>	<u>2,815</u>	<u>6,529</u>	<u>5,445</u>
Gross margin	<u>2,918</u>	<u>2,441</u>	<u>6,130</u>	<u>4,442</u>
Operating expenses				
General and administrative	1,933	1,293	3,722	2,404
Depreciation of other property and equipment	79	60	159	113
Depreciation of right-of-use assets	298	243	552	439
(Gain) on sale of equipment (note 3)	(69)	(48)	(69)	(74)
Loss on disposal of right-of-use assets	—	7	—	7
	<u>2,241</u>	<u>1,555</u>	<u>4,364</u>	<u>2,889</u>
Other (income) expenses				
Finance costs (note 9)	376	231	712	454
(Gain) loss on foreign exchange	(12)	10	(11)	26
Other income (note 10)	(2,159)	(883)	(2,159)	(883)
	<u>(1,795)</u>	<u>(642)</u>	<u>(1,458)</u>	<u>(403)</u>
Income before income taxes	<u>2,472</u>	<u>1,528</u>	<u>3,224</u>	<u>1,956</u>
Income taxes				
Current income taxes	—	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net income and comprehensive income	<u>\$ 2,472</u>	<u>\$ 1,528</u>	<u>\$ 3,224</u>	<u>\$ 1,956</u>
Net income per share				
Basic	\$ 0.03	\$ 0.02	\$ 0.04	\$ 0.03
Diluted	\$ 0.03	\$ 0.02	\$ 0.04	\$ 0.03
Weighted average number of shares outstanding (note 6)				
Basic	73,018,815	70,247,933	72,306,439	64,368,038
Diluted	79,944,977	75,471,858	78,242,661	69,765,557

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

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, 2021	\$ 107,807	\$ 2,864	\$ 587	\$ 1,681	\$ (112,541)	398
Stock based compensation	—	—	—	73	—	73
Exercise of stock options	20	—	—	(1)	—	19
Shares issued, net of share issue costs (note 6)	1,203	—	—	—	—	1,203
Warrants issued (note 7)	—	—	781	—	—	781
Conversion of preferred shares, net of share issue costs (note 6)	2,825	(2,864)	—	—	—	(39)
Shares issued for dividend on conversion of preferred shares (note 6)	1,328	—	—	—	—	1,328
Dividend on conversion of preferred shares (note 7)	—	—	—	—	(1,328)	(1,328)
Net income and comprehensive income	—	—	—	—	1,956	1,956
Balance – June 30, 2022	113,183	—	1,368	1,753	(111,913)	4,391
Stock based compensation	—	—	—	56	—	56
Net income and comprehensive income	—	—	—	—	4,042	4,042
Balance – December 31, 2022	113,183	—	1,368	1,809	(107,871)	8,489
Stock based compensation	—	—	—	144	—	144
Exercise of stock options	274	—	—	(120)	—	154
Exercise of warrants	486	—	(246)	—	—	240
Net income and comprehensive income	—	—	—	—	3,224	3,224
Balance – June 30, 2023	\$ 113,943	\$ —	\$ 1,122	\$ 1,833	\$ (104,647)	\$ 12,251

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

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

	Three months ended		Six months ended	
	June 30,	June 30,	June 30,	June 30,
	2023	2022	2023	2022
<i>(Stated in thousands of Canadian dollars)</i>				
Cash provided by (used in):				
Operating				
Net income	\$ 2,472	\$ 1,528	\$ 3,224	\$ 1,956
Depreciation of property and equipment (note 3)	828	549	1,566	1,069
Depreciation of right-of-use assets	298	243	552	439
(Gain) on disposal of property and equipment	(69)	(48)	(69)	(74)
Loss on disposal of right-of-use asset	—	7	—	7
Stock based compensation	90	57	144	73
Non-cash interest expense and other financing costs	(5)	42	19	78
Receipt of finance lease receivable	127	111	253	219
Income taxes recovered	—	—	—	88
	<u>3,741</u>	<u>2,489</u>	<u>5,689</u>	<u>3,855</u>
Changes in non-cash working capital	(556)	(1,828)	(1,400)	(1,808)
Cash flow from operating activities	3,185	661	4,289	2,047
Investing				
Change in non-cash working capital related to investing activities	115	338	342	422
Purchase of property and equipment (note 3)	(5,943)	(2,860)	(7,792)	(4,570)
Proceeds from sale of property and equipment (note 3)	91	52	91	128
Cash flow (used in) investing activities	(5,737)	(2,470)	(7,359)	(4,020)
Financing				
Proceeds from debt	4,403	2,582	5,340	4,300
Repayment of debt	(525)	(403)	(1,060)	(1,693)
Payment of finance lease liability	(478)	(353)	(930)	(790)
Proceeds from Unit issuance, net of costs	—	291	—	1,984
Conversion of preferred shares	—	(39)	—	(39)
Proceeds from exercise of stock options	149	11	154	11
Proceeds from exercise of warrants	—	—	240	—
Cash flow from financing activities	3,549	2,089	3,744	3,773
Net change in cash in the period	997	280	674	1,800
Cash, beginning of period	248	1,628	571	108
Cash, end of period	\$ 1,245	\$ 1,908	\$ 1,245	\$ 1,908

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

ZEDCOR INC.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED JUNE 30, 2023 AND 2022
(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 is a technology enabled business that is changing how physical security services are provided to businesses. Zedcor operates throughout Canada with service centers in British Columbia, Alberta, Manitoba and Ontario. The Company has three main service offerings to customers across all market segments: 1) surveillance and live monitoring through its proprietary MobileyeZ security towers; 2) surveillance and 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, 2022. 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, 2022.

These condensed consolidated interim financial statements were approved by the Board of Directors on August 15, 2023.

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, 2022.

ZEDCOR INC.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED JUNE 30, 2023 AND 2022
(Unaudited)
IN THOUSANDS OF CANADIAN DOLLARS

3. PROPERTY AND EQUIPMENT:

Cost	Rental equipment	Automotive & other equipment	Office furniture & equipment	Leasehold improvements	Total
At December 31, 2021	15,234	116	1,120	151	16,621
Additions	8,235	125	519	109	8,988
Disposals	(86)	(4)	(7)	(12)	(109)
At December 31, 2022	23,383	237	1,632	248	25,500
Additions	7,492	—	195	105	7,792
Disposals	(97)	(131)	—	—	(228)
At June 30, 2023	30,778	106	1,827	353	33,064

Accumulated depreciation	Rental equipment	Automotive & other equipment	Office furniture & equipment	Leasehold improvements	Total
At December 31, 2021	4,809	116	575	48	5,548
Depreciation	2,116	19	231	46	2,412
Elimination on disposal	(14)	—	—	(9)	(23)
At December 31, 2022	6,911	135	806	85	7,937
Depreciation	1,371	18	159	18	1,566
Elimination on disposal	(80)	(126)	—	—	(206)
At June 30, 2023	8,202	27	965	103	9,297

Net Book Value	Rental equipment	Automotive & other equipment	Office furniture & equipment	Leasehold improvements	Total
At December 31, 2022	16,472	102	826	163	17,563
At June 30, 2023	22,576	79	862	250	23,767

During the six months ended June 30, 2023, the Company sold assets with a net book value of \$22 for proceeds of \$91, resulting in a gain of \$69 (six months ended June 2022 – gain of \$74). During the six months ended June 30, 2023, the Company also disposed of right-of-use assets with a net book value of \$119. This resulted in neither a gain, nor a loss (six months ended June 2022 – loss of \$7).

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, 2023, 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, 2023 AND 2022
(Unaudited)
IN THOUSANDS OF CANADIAN DOLLARS

4. CREDIT FACILITIES:

	Interest rate	Final maturity	Facility maximum	Outstanding as at June 30, 2023	Outstanding as at December 31, 2022
Term Loan	5.15%	Oct 2026	6,100	4,169	4,748
Revolving Equipment Financing	Prime + 2.00%	Revolving	15,000	10,658	5,799
Authorized Overdraft	Prime + 1.50%	Revolving	3,000	—	—
				14,827	10,547
Current portion				(3,147)	(2,198)
Long term debt				11,680	8,349

On June 6, 2023, the Company entered into a second amending agreement (“Second Amended Financing Agreement”) which increased the Company’s equipment financing from \$6.0 million to \$15.0 million. As at June 30, 2023, the Second Amended Financing Agreement provides the Company with the following:

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 \$15.0 million revolving equipment financing facility (“Revolving Equipment Financing”). The Company is able to draw on this facility at any time for up to 100% 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 June 30, 2023 the Prime Interest Rate was 6.95% and the interest rate on the Revolving Equipment Financing was 8.95%. As the Company pays down the Revolving Equipment Financing, it can borrow back up to the facility maximum of \$15.0 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 June 30, 2023 the Prime Interest Rate was 6.95% and the interest rate on the Revolving Equipment Financing was 8.45%.

The Second Amended 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 quarterly financial covenant requirements, calculated on a trailing twelve month basis:

- a debt servicing covenant of no less than 1.25 to 1.00; and
- a funded debt to EBITDA covenant of no more than 3.00 to 1.00.

As at June 30, 2023, the Company is in compliance with its financial covenant requirements. The debt servicing ratio as calculated based on the Second Amended Financing Agreement was 2.89 to 1.00 and the funded debt to EBITDA was 1.55 to 1.00.

ZEDCOR INC.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED JUNE 30, 2023 AND 2022
(Unaudited)
IN THOUSANDS OF CANADIAN DOLLARS

5. NOTE PAYABLE

Balance, December 31, 2021	\$ 3,115
Accretion of note payable discount	67
Balance, December 31, 2022	\$ 3,182
Accretion of note payable discount	34
Balance, June 30, 2023	\$ 3,216

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 Second Amended Financing Agreement and subject to certain restrictions in the Second Amended Financing Agreement.

6. SHARE CAPITAL

(a) Common share capital

Common shares issued and fully paid:	Number of shares	\$
Balance, December 31, 2021	58,299,943	107,807
Unit issuance, net of issuance costs	5,233,930	1,203
Issued on conversion of preferred shares, net of issuance costs	4,400,000	2,825
Issued for stock dividend on conversion of preferred shares	2,883,386	1,328
Issued on exercise of stock options	75,000	20
Balance, December 31, 2022	70,892,259	113,183
Issued on exercise of stock options	1,016,666	274
Issued on exercise of warrants	2,000,000	486
Balance, June 30, 2023	73,908,925	113,943

One million warrants were exercised for common shares on February 21, 2023. A further one million warrants were exercised for common shares on March 8, 2023 (note 7). Each exercised warrant had an exercise price of \$0.12 per share. Total proceeds from the warrant exercise were \$240.

On March 30, 2022, the Company issued 4,533,930 units ("Units") for \$0.50 per Unit and total gross proceeds of \$2,267. 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.

ZEDCOR INC.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED JUNE 30, 2023 AND 2022
(Unaudited)
IN THOUSANDS OF CANADIAN DOLLARS

On April 6, 2022, the Company completed a private placement of 700,000 additional Units for \$0.50 per Unit, and total gross proceeds of \$350. As part of the private placement, the Company issued an additional 350,000 warrants which entitle the holders thereof to acquire one common share at a price of \$0.70 for a period of two years from the date of issue.

(b) 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:

	For the three months ended		For the six months ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Net income for the period	2,472	1,528	3,224	1,956
Less: dividend on preferred shares for the period	—	(6)	—	(82)
Net income for the period attributable to common shareholders	2,472	1,522	3,224	1,874
Weighted average number of shares outstanding – basic	73,018,815	70,247,933	72,306,439	64,368,038
Earnings per share – basic	0.03	0.02	0.04	0.03
Weighted average number of shares outstanding – basic	73,018,815	70,247,933	72,306,439	64,368,038
Stock based compensation dilution	4,729,513	1,839,334	3,723,270	1,921,079
Warrant dilution	2,196,649	3,384,591	2,212,952	3,476,440
Weighted average number of shares outstanding – diluted	79,944,977	75,471,858	78,242,661	69,765,557
Earnings per share – diluted	0.03	0.02	0.04	0.03

ZEDCOR INC.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED JUNE 30, 2023 AND 2022
(Unaudited)
IN THOUSANDS OF CANADIAN DOLLARS

7. WARRANTS

Changes in the outstanding number and movements in warrants are as follows:

Warrants issued	Number of warrants	\$
Balance, December 31, 2021	4,744,905	587
Warrant issuance – March 30, 2022	2,266,965	667
Warrant issuance – April 6, 2022	350,000	114
Balance, December 31, 2022	7,361,870	1,368
Warrant exercises	(2,000,000)	(246)
Balance, June 30, 2023	5,361,870	1,122

One million warrants were exercised for common shares on February 21, 2023. A further one million warrants were exercised for common shares on March 8, 2023. Total proceeds from the warrant exercises for the six months ended June 30, 2023 was \$240 (six months ended June 30, 2022 - \$nil).

8. REVENUE

Revenue is generated from the following sales and services:

	For the three months ended		For the six months ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Security tower rental and service	5,645	4,777	11,642	9,046
Fixed site monitoring and service	408	196	693	451
Security personnel	163	283	324	390
	6,216	5,256	12,659	9,887

9. FINANCE COSTS:

Finance costs are comprised of the following:

	For the three months ended		For the six months ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Bank charges and interest	33	6	55	17
Interest on debt	207	110	390	217
Interest on note payable	61	61	121	121
Interest on finance leases	75	54	146	99
	376	231	712	454

ZEDCOR INC.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED JUNE 30, 2023 AND 2022
(Unaudited)
IN THOUSANDS OF CANADIAN DOLLARS

10. OTHER INCOME:

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. In addition to the gross proceeds, the Company will receive a monthly management fee for up to 36 months after the closing date. The Company received \$200 in management fees which were netted against general and administrative costs for the six months ended June 30, 2023 (six months ended June 30, 2022 - \$300). The Company may also receive an annual bonus payment of 35% of EBITDA in excess of certain annual targets (the "Annual Bonus"). The annual targets are calculated on the first, second, and third anniversary dates of closing. The Company recorded \$2,159 in other income for the three and six month ended June 30, 2023 for the Annual Bonus (three and six months ended June 30, 2022 - \$883).

11. DEPENDENCE ON MAJOR CUSTOMERS:

The Company generates approximately 48% and 56% of its revenues for the three and six months ended June 30, 2023 from its top three customers (three and six months ended June 30, 2022 - 69% and 71% respectively). No other customer accounts for more than 10% of revenues. There can be no assurance that the current customers will continue their relationships with the Company. The loss of the Company's major customers, or any significant decrease in services provided to a customer, prices paid or any other changes to the terms of service with customers, could have a material adverse effect on the financial results, cash flows, and the overall financial condition of the Company.