



ZEDCOR ENERGY INC.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2019
AND 2018**

**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 and nine months ended September 30, 2019.

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

(Stated in thousands of Canadian dollars)

September 30, 2019 **December 31, 2018**

Assets

Current assets:

Cash	51	161
Accounts receivable	3,607	4,036
Current portion of finance lease receivable (note 2)	117	—
Income taxes recoverable	55	70
Prepaid expenses and deposits	486	350
	<u>4,316</u>	<u>4,617</u>

Non-current assets:

Finance lease receivable (note 2)	1,178	—
Property and equipment (note 3)	33,589	39,075
Right-of-use assets (note 4)	8,692	—
Intangibles (note 5)	—	440
	<u>43,459</u>	<u>39,515</u>

Total assets

47,775 44,132

Liabilities and Shareholders' Equity

Current liabilities:

Accounts payable and accrued liabilities	1,308	1,923
Current portion of onerous lease liability	—	258
Current portion of finance lease liability (note 2)	1,282	—
Current debt (note 6)	15,546	16,749
	<u>18,136</u>	<u>18,930</u>

Non-current liabilities:

Note payable (note 7)	2,912	2,716
Onerous lease liability	—	529
Finance lease liabilities (note 2)	9,771	—
Long term debt (note 6)	4,885	5,788
	<u>17,568</u>	<u>9,033</u>

Total liabilities

35,704 27,963

Shareholders' equity

Share capital (note 8)	107,289	107,195
Preferred equity (note 8)	2,864	2,864
Warrants (note 9)	468	412
Contributed surplus	1,482	1,418
Deficit	(100,032)	(95,720)
	<u>12,071</u>	<u>16,169</u>

Total liabilities and shareholders' equity

47,775 44,132

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

	Three months ended		Nine months ended	
	Sept. 30,	Sept. 30,	Sept. 30,	Sept. 30,
(Stated in thousands of Canadian dollars, except per share amounts)	2019	2018	2019	2018
Revenues	3,865	3,992	13,578	12,628
Direct expenses				
Direct operating costs	1,553	1,498	5,498	5,135
Depreciation of equipment (note 3)	1,308	1,452	4,096	4,261
	<u>2,861</u>	<u>2,950</u>	<u>9,594</u>	<u>9,396</u>
Gross margin	1,004	1,042	3,984	3,232
Operating expenses				
General and administrative	830	1,436	2,627	4,379
Depreciation of other property and equipment	37	32	96	85
Depreciation of right-of-use assets (note 4)	339	—	1,019	—
Loss on sale of equipment (note 3)	334	101	867	594
Amortization of intangible assets (note 5)	110	165	440	495
	<u>1,650</u>	<u>1,734</u>	<u>5,049</u>	<u>5,553</u>
Other expenses				
Finance costs (note 11)	989	944	3,096	2,706
	<u>2,639</u>	<u>2,678</u>	<u>8,145</u>	<u>8,259</u>
Loss before income taxes	(1,635)	(1,636)	(4,161)	(5,027)
Income taxes (recovery)				
Current (recovery) expense	(18)	(28)	(56)	(43)
Net loss and comprehensive loss for the period	(1,617)	(1,608)	(4,105)	(4,984)
Basic and diluted loss per share	\$(0.03)	\$(0.03)	\$(0.08)	\$(0.10)
Weighted average number of shares outstanding				
Basic	53,664,577	52,519,047	53,398,101	52,086,678
Diluted	53,664,577	52,519,047	53,398,101	52,086,678

ZEDCOR ENERGY 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, 2017	106,905	2,864	300	1,366	(75,560)	35,875
Stock based compensation	—	—	—	37	—	37
Amendment of exercise price	—	—	92	—	—	92
Shares issued as consideration for Loan guarantee	77	—	—	—	—	77
Shares issued as consideration of lease termination fee	182	—	—	—	—	182
Comprehensive loss	—	—	—	—	(4,984)	(4,984)
Balance – September 30, 2018	107,164	2,864	392	1,403	(80,544)	31,279
Stock based compensation	—	—	—	15	—	15
Issuance of warrants	—	—	20	—	—	20
Shares issued as consideration for Loan guarantee	31	—	—	—	—	31
Comprehensive loss	—	—	—	—	(15,176)	(15,176)
Balance – December 31, 2018	107,195	2,864	412	1,418	(95,720)	16,169
Adjustment on initial application of IFRS 16	—	—	—	—	(207)	(207)
Stock based compensation	—	—	—	64	—	64
Amendment of exercise price	—	—	56	—	—	56
Shares issued as consideration for loan guarantee	94	—	—	—	—	94
Comprehensive loss	—	—	—	—	(4,105)	(4,105)
Balance – September 30, 2019	107,289	2,864	468	1,482	(100,032)	12,071

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

(Stated in thousands of Canadian dollars)	Nine months ended September 30	
	2019	2018
Cash provided by (used in):		
Operating		
Net loss from continuing operations	(4,105)	(4,984)
Depreciation of property and equipment (note 3)	4,192	4,346
Depreciation of right-of-use assets (note 4)	1,019	—
Loss on disposal of property and equipment (note 3)	867	594
Amortization of intangible assets (note 5)	440	495
Stock based compensation (note 10)	64	37
Non-cash interest expense and other financing costs	341	372
Receipt of finance lease receivable	91	—
Income taxes (paid) recovered	70	(230)
	<u>2,979</u>	<u>630</u>
Changes in non-cash working capital	43	(41)
Cash flow from operating activities	<u>3,022</u>	<u>589</u>
Investing		
Change in non-cash working capital related to investing activities	(440)	455
Purchase of property and equipment (note 3)	(1,197)	(7,414)
Proceeds on sale of operating segments	—	600
Proceeds from sale of property and equipment (note 3)	1,624	1,971
Cash flow used by investing activities	<u>(13)</u>	<u>(4,388)</u>
Financing		
Proceeds from debt	841	7,057
Repayment of debt	(2,922)	(3,992)
Payment of finance lease liability	(1,038)	—
Cash flow (used by) from financing activities	<u>(3,119)</u>	<u>3,065</u>
Net change in cash in the period	(110)	(734)
Cash, beginning of year	<u>161</u>	<u>1,833</u>
Cash, end of period	<u>51</u>	<u>1,099</u>

ZEDCOR ENERGY INC.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018
(Unaudited)
IN THOUSANDS OF CANADIAN DOLLARS

1. CORPORATE INFORMATION:

Zedcor Energy Inc. (formerly Canadian Equipment Rentals Corp. and prior thereto CERF Incorporated) (the “Company”) was formed under the laws of Alberta as a corporation on August 10, 2011. Prior to October 1, 2011, operations were carried on as Canadian Equipment Rental Fund Limited Partnership (the “Partnership”), which had been formed under the laws of Alberta as a limited partnership on January 21, 2005. On June 27, 2017, the Company received shareholder approval for the name change from Canadian Equipment Rentals Corp. to Zedcor Energy Inc.

The Company is presently engaged in the rental of surface equipment and accommodations, and providing security and surveillance services. 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, 2018, except as noted in 2 (b) below. 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, 2018.

These consolidated financial statements were approved by the Board of Directors on November 12, 2019 and are presented in Canadian dollars, which is the Company’s functional currency.

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.

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.

b) Changes in significant accounting policies

- *Leases (IFRS 16)*

The Company adopted IFRS 16 in its financial statements beginning on January 1, 2019. IFRS 16 introduced a single, on-statement of financial position accounting model for lessees. As a result, the

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Company, as a lessee, has recognized right-of-use assets representing its right to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies.

The Company has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings at January 1, 2019. Accordingly, the comparative information presented for 2018 has not been restated, it is presented as previously reported under IAS 17 *Leases* and related interpretations. The details of the changes in accounting policies are disclosed below.

Definition of a lease

Previously, the Company determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 *Determining Whether an Arrangement contains a Lease*. The Company now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after January 1, 2019.

At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices.

As a lessee

The Company leases assets, including properties, vehicles and IT equipment.

As a lessee, the Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Company recognizes right-of-use assets and lease liabilities for most leases (leases are on-statement of financial position).

However, the Company has elected not to recognize right-of-use assets and lease liabilities for some leases of low value assets, such as IT equipment. The Company, recognizes the lease payments associated with these leases as an expense on a straight line basis over the lease term.

i. Significant accounting policies

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain re-measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is re-measured when there is a change in future lease payments arising from

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a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain to be exercised.

The Company has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Company is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognized.

The Company no longer recognizes provisions for operating leases that it assess to be onerous. Instead, the Company includes the payments due under the lease in its lease liability.

ii. Transition

Previously, the Company classified property leases and vehicle leases as operating leases under IAS 17. The leases run for periods of up to 10 years. Some leases include an option to renew the lease for an additional five years after the end of the non-cancellable period. Some leases provide for additional rent payments that are based on changes in local price indices.

At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at January 1, 2019. Right-of-use assets are measured at an amount equal to the lease liability.

The Company used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17.

- Applied the exemption not to recognize right of use assets and liabilities for leases with less than 12 months of lease term.
- Applied a single discount rate to a portfolio of leases with reasonably similar characteristics.
- Excluded initial direct cost from measuring the right of use asset at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.
- Relied on assessment of whether a lease is onerous by applying IAS 37 *Provision, Contingent Liabilities and Contingent Assets* immediately before January 1, 2019. Therefore, the right-of-use asset at the date of initial application is adjusted by the provision for onerous lease recognized on the statement of financial position immediately before January 1, 2019.

As a lessor

The accounting policies applicable to the Company as a lessor are not different from those under IAS 17. However, when the Company is an intermediate lessor the sub-leases are classified with reference to the right of use asset arising from the head lease, not with reference to the underlying asset.

The Company sub-leases some of its properties. Under IAS 17, the head lease and sub-lease contracts were classified as operating leases. On transition to IFRS 16, the right-of-use assets recognized from the head leases are measured at fair value on transition to IFRS 16. The sub-lease contracts are classified as either operating leases or finance leases based on whether all the risk and rewards of ownership transfer to the lessee. The Company has one sub-lease that has been classified as a finance lease, the amounts due from the lessee under the finance lease are recognized as a finance lease receivable.

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Impacts on financial statements

On transition to IFRS 16, the Company recognized additional right-of-use assets, finance lease receivable and finance lease liabilities, with the difference recognized in retained earnings. The impact on transition is summarized below:

	January 1, 2019
Finance lease receivable	1,386
Right-of-use assets	9,711
Finance lease liabilities	12,091
Onerous lease liability	(787)
Retained earnings	(207)

When measuring lease liabilities for leases that were classified as operating leases, the Company used discounted lease payments for vehicles leases using the interest rate implicit in the lease. For properties, the Company used its incremental borrowing rate at January 1, 2019. The weighted average rate applied is 6.8%.

	January 1, 2019
Operating lease commitment at December 31, 2018 as disclosed in the Company's consolidated financial statements	8,524
Discounted using the implicit interest rate or incremental borrowing rate at January 1, 2019	9,386
Add: extension options reasonably certain to be exercised	2,758
Less: exemption for leases with less than 12 months of lease term at transition	(53)
Lease liabilities recognized at January 1, 2019	12,091

Impacts for the period

As a result of initially applying IFRS 16, the Company has recognized depreciation and interest costs, instead of operating leases. See notes 4 and 11 for the value of these costs.

3. PROPERTY AND EQUIPMENT:

	Rental equipment	Automotive & other equipment	Office furniture & equipment	Leasehold improvements	Total
At December 31, 2017	59,463	454	808	109	60,834
Additions	8,993	—	192	21	9,206
Disposals	(7,023)	(87)	—	—	(7,110)
At December 31, 2018	61,433	367	1,000	130	62,930
Additions	1,084	4	95	14	1,197
Disposals	(4,054)	(117)	—	—	(4,171)
At September 30, 2019	58,463	254	1,095	144	59,956

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Accumulated depreciation	Rental equipment	Automotive & other equipment	Office furniture & equipment	Leasehold improvements	Total
At December 31, 2017	20,000	235	486	75	20,796
Depreciation	5,590	69	125	27	5,811
Elimination on disposal	(2,708)	(44)	—	—	(2,752)
At December 31, 2018	22,882	260	611	102	23,855
Depreciation	4,045	35	95	17	4,192
Elimination on disposal	(1,599)	(81)	—	—	(1,680)
At September 30, 2019	25,328	214	706	119	26,367

Net Book Value	Rental equipment	Automotive & other equipment	Office furniture & equipment	Leasehold improvements	Total
At December 31, 2018	38,551	107	389	28	39,075
At September 30, 2019	33,135	40	389	25	33,589

During the nine months ended September 30, 2019, the Company sold assets with a net book value of \$2,491 for proceeds of \$1,624, resulting in a loss of \$867 (2018 – loss of \$594).

4. RIGHT-OF-USE ASSETS:

Cost	Properties	Vehicles	Total
At December 31, 2018	—	—	—
Additions	9,243	468	9,711
Depreciation	(842)	(177)	(1,019)
At September 30, 2019	8,401	291	8,692

On January 1, 2019, the Company adopted IFRS 16, as a result right-of-use assets are recognized representing the Company's right to use the underlying asset. (see note 2)

5. INTANGIBLES:

Cost	Goodwill	Customer Relationships	Total
At December 31, 2017	5,746	1,100	6,846
Amortization	—	(660)	(660)
Impairment	(5,746)	—	(5,746)
At December 31, 2018	—	440	440
Amortization	—	(440)	(440)
At September 30, 2019	—	—	—

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6. CREDIT FACILITIES:

	Interest rate	Final maturity	Facility maximum	Outstanding as at Sept. 30, 2019	Outstanding as at December 31, 2018
Loan and security facility	12.75%	2020	14,300	12,935	14,162
Operating loan facility	7.25%	revolving	3,000	502	690
Term loan facility	7.25%	2021	2,500	2,500	2,500
Equipment term loan facility	6.10%	2021	4,788	4,494	5,185
				20,431	22,537
Current portion				(15,546)	(16,749)
Long term debt				4,885	5,788

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 prior 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. (see note 9)

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. (see note 9)

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

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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. (see note 9)

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. (see note 9)

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. (see note 9)

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. (see note 9)

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.

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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.

7. NOTE PAYABLE

On February 2, 2016, the Company issued a \$5.0 million Canadian dollar vendor take-back note as part of the Zedcor acquisition purchase price. The vendor take-back note matures five years from the issue date at its nominal value and bears interest at five per cent per annum, accruing daily from the issue date. Interest is payable annually. The vendor take-back note is unsecured and subordinated to the loan and security facility and interest payments are subject to certain restrictions in the loan and security facility.

On April 27, 2017, the Company repaid \$2.5 million of the principal amount of the vendor take-back note by issuing 10,000,000 Common Shares of the Company to the note holder, representing a price of \$0.25 per share. The fair value of the shares on the date of repayment was \$0.18 per share.

As at September 30, 2019, the note payable had a carrying value of \$2,912.

Balance, December 31, 2017	\$ 2,467
Interest payable	125
Accretion of note payable discount	124
Balance, December 31, 2018	\$ 2,716
Interest payable	94
Accretion of note payable discount	102
Balance, September 30, 2019	\$ 2,912

8. SHARE CAPITAL

Common shares issued and fully paid:	Number of shares	\$
Balance, December 31, 2017	51,448,708	106,905
Issued as consideration of lease termination fee	776,334	182
Issued as consideration for loan guarantee	656,427	108
Balance, December 31, 2018	52,881,469	107,195
Issued as consideration for loan guarantee	934,329	94
Balance, September 30, 2019	53,815,798	107,289
Preferred shares issued:	Number of shares	\$
Balance, December 31, 2018 and September 30, 2019	4,400,000	2,864

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On February 2, 2016, the Company issued 4,400,000 preferred shares at a stated value of \$0.70 per share as part of an acquisition. The fair value of the preferred shares at the acquisition date was estimated to be \$2,864. The preferred shares valuation was determined using a Monte Carlo simulation and Longstaff-Schwartz algorithm. The assumptions used in the valuation include the historical stock price of the Company, the historical volatility of the Company stock price and a Company credit rating of B-.

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, 2019, 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.

Zedcor Energy Inc. 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.

9. 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, 2017	3,651,501	300
Amendment of exercise price – March 28, 2018	—	11
Amendment of exercise price – September 28, 2018	—	81
Additional warrants issued per financing agreement – October 1, 2018	248,209	20
Balance, December 31, 2018	3,899,710	412
Amendment of exercise price – March 25, 2019	—	56
Additional warrants issued per financing agreement – March 25, 2019	2,068	—
Balance, September 30, 2019	3,901,778	468

On April 27, 2017, the Company issued 3,651,501 share purchase warrants (see note 6). Each warrant can be used to acquire one common share in the Company at an exercise price of \$0.25 per warrant. The warrants expire on July 21, 2019.

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On March 28, 2018, the Company entered into a Warrant Amendment Agreement which amended the exercise price of the warrants to \$0.27 per share and extended the expiry date to July 21, 2020.

On September 28, 2018, the Company entered into a Warrant Amendment Agreement which amended the exercise price of the warrants to \$0.20 per share and extended the expiry date to January 21, 2021.

On October 1, 2018, the Company issued the lender and 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 entered into a Warrant Amendment Agreement which amended the exercise price of the warrants to \$0.145 per share and extended the expiry date to January 21, 2022.

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.

10. STOCK OPTIONS:

Changes in the outstanding and exercisable options are as follows:

	Number of options	Vested	Exercise price	Remaining contractual life in years	Weighted average exercise price
Options as at December 31, 2017	2,906,500	356,497	—	3.97	0.35
Options forfeited	(2,050,000)	(499,998)	0.33	—	—
Options expired	(6,500)	(6,500)	3.00	—	—
Options vested	—	874,996	0.32	—	—
Options granted January 15, 2018	575,000	—	0.25	4.04	0.25
Options granted April 3, 2018	925,000	—	0.34	4.25	0.34
Options granted June 19, 2018	225,000	—	0.25	4.46	0.25
Options granted August 16, 2018	75,000	—	0.25	—	0.25
Options granted November 18, 2018	250,000	—	0.25	4.87	0.25
Options as at December 31, 2018	2,900,000	724,995	—	3.61	0.31
Options vested	—	883,332	0.32	—	—
Options forfeited	(100,000)	(25,000)	0.29	—	—
Options granted March 25, 2019	700,000	—	0.15	4.74	0.15
Options as at September 30, 2019	3,500,000	1,583,327	—	3.17	0.28

During the nine months ended September 30, 2019, \$64 of stock based compensation related to these stock options was recorded in general and administrative expenses (2018 - \$37).

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11. FINANCE COSTS:

Finance costs are comprised of the following:

	For the three months ended		For the nine months ended	
	Sept. 30, 2019	Sept. 30, 2018	Sept. 30, 2019	Sept. 30, 2018
Bank charges and interest	6	10	19	18
Interest on debt	745	919	2,413	2,722
Interest on note payable	67	—	196	—
Interest on finance leases	171	—	468	—
Other interest income	—	15	—	(34)
	989	944	3,096	2,706

12. OPERATING SEGMENTS:

The Company structures its operations in two operating and reportable segments: (i) Energy Services and (ii) Security & Surveillance, based on the way that management organizes the Company's businesses for making operating decisions and assessing performance.

Information regarding results of the segments are included below. Performance is measured based on segment earnings, which is earnings before income tax, depreciation, amortization and finance costs, as included in internal management reports.

The following is a summary of the Company's results by segment for the three and nine months ended September 30, 2019 and 2018:

Three months ended September 30, 2019				
	Energy Services	Security & Surveillance	Corporate	Total
Total segment revenue	2,577	1,288	—	3,865
Segment earnings	1,247	469	(234)	1,482
Depreciation of property and equipment	1,132	200	13	1,345
Depreciation of right-of-use assets	207	—	132	339
Loss on sale of equipment	334	—	—	334
Amortization of intangible assets	110	—	—	110
Additions to property and equipment	—	299	—	299
Three months ended September 30, 2018				
	Energy Services	Security & Surveillance	Corporate	Total
Total segment revenue	3,240	752	—	3,992
Segment earnings	1,409	155	(506)	1,058
Depreciation of property and equipment	1,298	173	13	1,484
Loss on sale of equipment	101	—	—	101
Amortization of intangible assets	165	—	—	165
Additions to property and equipment	1,540	991	74	2,605

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Nine months ended September 30, 2019				
	Energy Services	Security & Surveillance	Corporate	Total
Total segment revenue	9,309	4,269	—	13,578
Segment earnings	4,691	1,552	(790)	5,453
Depreciation of property and equipment	3,587	566	39	4,192
Depreciation of right-of-use assets	625	—	394	1,019
Loss on sale of equipment	855	12	—	867
Amortization of intangible assets	440	—	—	440
Additions to property and equipment	629	568	—	1,197

Nine months ended September 30, 2018				
	Energy Services	Security & Surveillance	Corporate	Total
Total segment revenue	10,555	2,073	—	12,628
Segment earnings	4,224	500	(1,610)	3,114
Depreciation of property and equipment	3,988	322	36	4,346
Loss on sale of equipment	605	—	(11)	594
Amortization of intangible assets	495	—	—	495
Additions to property and equipment	3,033	4,295	86	7,414

As at September 30, 2019				
	Energy Services	Security & Surveillance	Corporate	Total
Property and equipment	29,092	4,378	119	33,589
Right-of-use assets	5,087	—	3,605	8,692
Intangibles and goodwill	—	—	—	—

As at September 30, 2018				
	Energy Services	Security & Surveillance	Corporate	Total
Property and equipment	36,406	3,965	171	40,542
Intangibles and goodwill	6,351	—	—	6,351

A reconciliation of segment earnings to loss before taxes is as follows:

	Three months ended		Nine months ended	
	Sept. 30, 2019	Sept. 30, 2018	Sept. 30, 2019	Sept. 30, 2018
Segment earnings	1,482	1,058	5,453	3,114
Deduct:				
Finance costs	989	944	3,096	2,706
Amortization of intangibles	110	165	440	495
Depreciation of equipment	1,345	1,484	4,192	4,346

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Depreciation of right of use assets	339	—	1,019	—
Loss on sale of equipment	334	101	867	594
<hr/>				
Income (loss) before taxes	(1,635)	(1,636)	(4,161)	(5,027)
