Zedcor Energy Inc. Announces Completed Retrofit of Security Tower Fleet and Reports Second Quarter Results, Including Adjusted EBITDA of $901,000

CALGARY, ALBERTA – August 13, 2020: Zedcor Energy Inc. (the "Company") (TSX VENTURE: ZDC) today announced that it has completed retrofitting its solar hybrid light tower fleet with high resolution security cameras as a result of increased customer demand. The retrofitted security towers can be marketed to a broader customer base outside the Company's traditional markets. Zedcor also reported operational and financial results for the three and six months ended June 30, 2020 and 2019, including adjusted EBITDA of $901,000.

Amounts in the following tables and associated discussions are presented in thousands of dollars, except for per share amounts and percentages.

Highlights

	Three months ended June 30		Six months ended June 30	
(in $000s)	**2020**	**2019**	**2020**	**2019**
Revenue	2,412	3,750	7,127	9,713
Adjusted EBITDA[1,2]	901	1,264	2,967	4,022
Adjusted EBIT[1,2]	(353)	(808)	202	(415)
Net loss from operations	(1,135)	(1,805)	(1,422)	(2,488)
Net loss per share from operations				
Basic	(0.02)	(0.03)	(0.03)	(0.05)
Diluted	(0.02)	(0.03)	(0.03)	(0.05)

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

Zedcor recorded $901 of adjusted EBITDA for the three months ended June 30, 2020 and $2,967 of adjusted EBITDA for the six months ended June 30, 2020. This compares to adjusted EBITDA of $1,264 and $4,022 for the three and six months ended June 30, 2019. The S&S segment saw increased revenues and margins compared to 2019 but activity was hampered by COVID-19 and wet weather during Q2 2020 which slowed construction activity. Oil prices and demand for services were lower due to global oversupply and reduced energy consumption as a result of public health measures taken to limit the spread of the novel coronavirus ("COVID-19") resulting in minimal drilling and completions activity across Western Canada. This had a negative impact on the Company's Rentals segment revenues and margins. The Company qualified for the Canada Emergency Wage Subsidy ("CEWS") program as enacted on April 11, 2020, by the federal Government of Canada which helped the Company's results for the three and six months ended June 30, 2020. The Company recognized $354 of CEWS in the EBITDA amounts for 2020.

Zedcor is actively managing risks related to the volatility in the oil and gas sector by continuing to diversify its revenues and market its fleet of assets to other industries. This is in addition to the Company's focus on expanding its S&S segment. Financial and operational highlights for the three and six months ended June 30, 2020 include:

- Continued successful execution on a strategy to diversify away from its traditional oilfield rentals business towards a technology based, security & surveillance company. For the three months ended June 30, 2020, the S&S segment generated $1,441 or 60% of total revenues.

- Fully retrofitted fleet of solar hybrid light towers to security towers. As at June 30, 2020, the Company had 130 solar hybrid light towers in its fleet. The Company also purchased and deployed four additional fully electric security towers to expand the fleet to eight.
- Focus on efficiency and cost savings. For the three months ended June 30, 2020, general and administrative costs were down 26% to $653 compared to the three months ended June 30, 2019. $113 of the $232 reduction in general and administrative costs was a result of the CEWS. For the six months ended June 30, 2020 general and administrative costs were down 14% to $1,550 from $1,797.
- Direct operating costs for the three and six months ended June 30, 2020 were lower as a percentage of revenues:

	Three months ended June 30			Six months ended June 30		
	2020	2019	% change	2020	2019	% change
Direct operating costs as a percentage of revenues	37%	43%	(14%)	38%	41%	(7%)

  Direct operating costs were lower as a result of continued focus on cost reductions, revenue mix driven towards less labour intensive work, and the CEWS which reduced direct operating costs by $241 during the period.
- Selling under-utilized Rental segment assets for proceeds of $1,051, for the six months ended June 30, 2020, which resulted in a gain of $309. The proceeds were used to pay down debt and invest in S&S segment assets.
- Loss before income taxes was $1,159 and $1,465 for the three and six months ended June 30, 2020 compared to $1,824 and $2,526 for the three and six months ended June 30, 2019. The decrease was a result of controlling direct operating expenses, general and administrative expenses, lower financing costs, selling assets for a gain compared to a loss in the same period last year and the CEWS which reduced the loss.
- Reducing debt and finance lease liabilities by $2,489 in the first half of the year. The Company exited Q2 2020 with $17,399 outstanding on its credit facilities compared to $19,445 as at December 31, 2019 and $20,694 as at June 30, 2019.

SELECT OPERATING RESULTS

Security & Surveillance Segment

Security and Surveillance ("S&S") segment revenue is driven by utilization of its security tower fleet, service revenue related to on site security personnel and fixed camera installation and monitoring. The following table summarizes utilization of the security tower fleet for the three and six months ended June 30, 2020.

	Three months ended June 30, 2020			Three months ended June 30, 2019		
	Average available fleet size	Average number of units utilized	Utilization %	Average available fleet size	Average number of units utilized	Utilization %
Solar hybrid security towers	105	71	68%	70	36	51%
Electric security towers	7	7	97%	—	—	—

The company generated $164 and $578 in on-site security personnel and remote monitoring revenue for the three and six months ended June 30, 2020 compared to $744 and $1,582 for the three and six months ended June 30, 2019. In the first quarter of 2018, the Company signed a security services contract with a Canadian based pipeline company to provide exclusive security and surveillance services for a pipeline replacement project. The project wrapped up in the first part of Q1 2020 which resulted in decreased on-site personnel revenues.

The decrease in personnel revenue was offset by a larger fleet of security towers which saw 68% utilization in Q2 2020. Utilization of the solar hybrid security tower fleet was 68% for the three months ended June 30, 2020 compared to 51% in the same period last year. This utilization was lower than the first quarter of the year as Q2 2020 saw projects being delayed due to COVID-19 and a wet spring.

The S&S segment continues to expand as it moves into alternative industry segments including industrial facilities and commercial construction. As a result of this growth, the remaining fleet of solar hybrid light towers was equipped with high resolution security cameras in order to increase the size of the security and surveillance fleet and meet demand.

Overall, revenue for the three months ended June 30, 2020 increased by $257, or 22%, and margin increased $495, or 163%, as a result of revenues being derived from security tower utilization instead of on-site security personnel. 89% of the S&S segment revenue was derived from security tower utilization for the three months ended June 30, 2020 compared to 51% in the same period last year.

Rentals Segment

Utilization of rentals assets decreased sharply for the three months ended June 30, 2020:

	Three months ended June 30, 2020		Three months ended June 30, 2019	
	Average available fleet size	Utilization %	Average available fleet size	Utilization %
Accommodation rentals	205	17%	244	44%
Fluid storage tank rentals	217	26%	219	45%
Mat rentals	440	18%	440	58%
Generator rentals	40	20%	47	41%
Light tower rentals	102	9%	234	29%

Revenues for the Rentals Segment dropped from $2,566 to $971 for the three months ended June 30, 2020. April 2020 saw higher utilization in comparison to May and June 2020. Clients completed drilling wells in the first few weeks of the quarter but Canadian drilling activity largely stopped after that due to decreased commodity prices and reduced economic activity as a result of the COVID-19 pandemic. While Q2 is historically slow due to the annual Spring Breakup, Q2 2020 was one of the slowest periods on record for drilling rig activity in the Western Canadian Sedimentary Basin (“WCSB”). According to the Baker Hughes North American Rig Count report, there was an average of 11 drilling operating during Q2 2020 in the WCSB. This compares to 33 rigs operating during Q2 2019, a drop of 22 drilling rigs or 67%. Completions activity was also slower in Q2 2020 compared to Q2 2019.

The Company focused on cost control during Q2 in order to generate positive cash flow from this segment. Direct costs as a percentage of revenues dropped 14% from 43% in the three months ended June 30, 2019, to 37% for the three months ended June 30, 2020. In addition, the Company qualified for the Canada Emergency Wage Subsidy which allowed employees to be retained and maintain positive cash flow.

SELECTED QUARTERLY FINANCIAL INFORMATION

(Unaudited – in $000s)	June 30 2020	March 31 2020	Dec 31 2019	Sept 30 2019	Jun 30 2019	Mar 31 2019	Dec 31 2018	Sept 30 2018
Revenue	2,412	4,716	3,384	3,865	3,750	5,963	4,824	3,992
Net loss from continuing operations	(1,135)	(287)	(3,930)	(1,617)	(1,805)	(683)	(15,176)	(1,608)
Adjusted EBITDA[1]	901	2,066	1,303	1,509	1,264	2,758	1,402	1,112
Adjusted EBITDA per share - basic[1]	0.02	0.04	0.02	0.03	0.02	0.05	0.03	0.02
Net loss per share from continuing operations								
Basic	(0.02)	(0.005)	(0.07)	(0.03)	(0.03)	(0.01)	(0.29)	(0.03)
Diluted	(0.02)	(0.005)	(0.07)	(0.03)	(0.03)	(0.01)	(0.29)	(0.03)
Adjusted free cash flow[1]	2,098	903	1,240	(264)	2,431	676	(219)	120

[1] *See Financial Measures Reconciliations in MD&A for the three months ended June 30, 2020 and 2019*

LIQUIDITY AND CAPITAL RESOURCES

Sources and Uses of Cash

The following table shows a summary of the Company's cash flows by source or (use) for the three months ended June 30, 2020 and 2019:

	Six months ended June 30			
(in $000s)	**2020**	**2019**	**$ Change**	**% Change**
Cash flow from operating activities	3,177	3,274	(97)	(3%)
Cash flow used by investing activities	(118)	(640)	522	82%
Cash flow used by financing activities	(2,489)	(2,484)	(5)	(0%)

The following table presents a summary of working capital information:

	Six months ended June 30			
(Unaudited – in $000s)	**2020**	**2019**	**$ Change**	**% Change**
Current assets	3,126	3,664	(538)	(15%)
Current liabilities *	19,248	20,272	(1,024)	(5%)
Working capital	(16,122)	(16,608)	486	3%
Bank working capital ratio **	2.35	3.01	(0.66)	(22%)

**Includes $16.6 million of debt in 2020 and $17.8 million of debt in 2019*
*** Bank working capital ratio is defined as current assets divided by current liabilities, excluding the current portion of debt and finance lease receivable/liabilities, plus the amount drawn on the Operating Loan Facility.*

The primary uses of funds are operating expenses, maintenance and growth capital spending, interest and principal payments on debt facilities. The Company has a variety of sources available to meet these liquidity needs, including cash generated from operations. In general, the Company funds its operations with cash flow generated from operations, while growth capital and acquisitions are typically funded by issuing new equity or debt.

As at June 30, 2020, the Company's current ratio, as defined to exclude the current portion of debt, was 2.35:1.00; the debt service coverage ratio, calculated in accordance with IAS 17 per agreement with lender, was 1.17:1.00. The value of the shares pledged under the shareholder guarantee were above the minimum trade value requirements and the Company was in compliance with all of its covenants with its lenders.

Due to the volatility in the markets as a result of the COVID-19 pandemic, the Company is reliant on the continued support of its lenders. In addition, given the given the unprecedented nature and the uncertainty of the duration of the COVID-19 pandemic there is uncertainty as to whether the Company will remain in compliance with its debt covenants during the next 12 months**.**

OUTLOOK

The public health containment measures in place to limit the spread of COVID-19 have significantly reduced economic activity and reduced global oil demand, pressuring oil prices to historical lows. While containment measures were being eased across the world, there was increased infections which is causing uncertainty on the pace of the economic recover. The pandemic is an unprecedented situation whose ultimate duration and magnitude are currently unknown.

Despite the challenging operating environment and reduced economic activity, the Company continues to execute on its long term strategy of growing its S&S segment. We continued to effectively use cash flow to retrofit existing equipment in order to use it in providing surveillance services. In addition, the Company has used technological solutions in order to reduce the capital costs of expanding this service line. Utilization of the Company's surveillance towers fitted with high resolution cameras and supported by live, 24/7 remote monitoring, continues to see high utilization and we expect the utilization rates to increase in the second half of 2020 with construction activity expected to increase as a result of government stimulus. In addition, the Company continues to expand its security service offerings with on-site security personnel services and remote monitoring solutions.

While oil prices have stabilized and activity has slightly increased in Western Canada, the Company anticipates that demand for rental equipment which supports drilling and completions activity in the WCSB will stay at historical lows during the second half of 2020. While we are seeing increased demand for rental equipment and rental rates have stabilized, we are not forecasting significant growth for this segment. The outlook remains uncertain and customers are very reactionary as commodity prices change. Most customers are not providing external guidance on activity which makes it difficult to predict utilization of the rental equipment fleet. As a result, the Company continues to focus on maintaining strong relationships with existing customers and cost reductions for this segment.

By focusing on cost efficiencies and providing value added services to customers Zedcor is committed to generating strong free cash flow from operations in order to further reduce debt and strengthen the financial position of the Company. The Company plans to pursue low capital intensive growth projects by utilizing existing infrastructure, where possible. This includes expanding the number of remote surveillance sites that can be serviced by our monitoring center in Leduc. Where the opportunity arises, the Company will strengthen the balance sheet by selling underutilized assets.

No Conference Call

No conference call will be held in conjunction with this release. Full details of the Company's financial results, in the form of the condensed consolidated interim financial statements and notes for the three months ended June 30, 2020 and 2019 and Management's Discussion and Analysis of the results are available on SEDAR at www.sedar.com and on the Company's website at www.zedcor.ca.

About Zedcor Energy Inc.

Zedcor Energy Inc. is a Canadian public corporation and parent company to Zedcor Energy Services Corp. ("Zedcor"). Zedcor is engaged in the providing security & surveillance services, and rental of surface equipment & accommodations in Western Canada. The Company trades on the TSX Venture Exchange under the symbol "ZDC". Zedcor operates with two business segments: Security & Surveillance and Rentals (formerly Energy Services).

FORWARD-LOOKING STATEMENTS

Certain statements included or incorporated by reference in this press release constitute forward-looking statements or forward-looking information, including management's belief that streamlining rental assets with newer equipment will drive improvements in equipment rental rates and utilization, and that the expanded market reach and customer base will lead to more diversity in the Company's revenue stream and increase utilization. Forward-looking statements or information may contain statements with the words "anticipate", "believe", "expect", "plan", "intend", "estimate", "propose", "budget", "should", "project", "would have realized', "may have been" or similar words suggesting future outcomes or expectations. Although the Company believes that the expectations implied in such forward-looking statements or information are reasonable, undue reliance should not be placed on these forward-looking statements because the Company can give no assurance that such statements will prove to be correct. Forward-looking statements or information are based on current expectations, estimates and projections that involve a number of assumptions about the future and uncertainties. These assumptions include that the Company's new solar hybrid light tower and related security and surveillance service offerings will lead to more diversity in revenue streams and protect against future down swings in the economic environment. Although management believes these assumptions are reasonable, there can be no assurance that they will prove to be correct, and actual results will differ materially from those anticipated. For this purpose, any statements herein that are not statements of historical fact may be deemed to be forward-looking statements. The forward-looking statements or information contained in this press release are made as of the date hereof and the Company assumes no obligation to update publicly or revise any forward-looking statements or information, whether as a result of new contrary information, future events or any other reason, unless it is required by any applicable securities laws. The forward-looking statements or information contained in this press release are expressly qualified by this cautionary statement.

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