



Zedcor Energy Inc. Announces 2017 Year End Results

CALGARY, March 29, 2018 /CNW/ - Zedcor Energy Inc. (the "Company") (TSX VENTURE: ZDC) today announced its financial and operating results for the year ended December 31, 2017.

Highlights

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

(in \$000s)	Three months ended December 31		Twelve months ended December 31	
	2017	2016	2017	2016
Revenue	4,306	3,444	14,636	10,598
Adjusted EBITDA ^{1,2}	1,417	258	3,931	(349)
Adjusted EBIT ^{1,2}	(555)	(3,346)	(2,579)	(18,114)
Net loss from continuing operations	(2,618)	(3,106)	(8,369)	(19,617)
Net loss per share from continuing operations				
Basic	(\$0.05)	(\$0.08)	(\$0.17)	(\$0.49)
Diluted	(\$0.05)	(\$0.08)	(\$0.17)	(\$0.49)

Amounts in table represents continuing operations, which are comprised of the Energy Services segment and Corporate

¹Adjusted for severances, business acquisition costs, provision for onerous lease and refinancing costs

²See Financial Measures Reconciliations below

SELECT FINANCIAL RESULTS

- Revenues for the quarter ended December 31, 2017 increased by \$0.9 million or 20% from \$3.4 million to \$4.3 million compared to the similar quarter in 2016. Commodity prices in the fourth quarter of 2017 were stronger than the fourth quarter of 2016, which in part resulted in increased demand for drilling services and ancillary support equipment.
- Net loss from continuing operations for the quarter ended December 31, 2017 decreased by \$0.5 million from a loss of \$3.1 million to a loss of \$2.6 million compared to the similar quarter in 2016. The decrease in the net loss from continuing operations quarter over quarter, excluding the provision for onerous lease, is \$1.5 million. This is directly related to the increase in revenues and a decrease in general administrative costs quarter over quarter resulting from the corporate restructuring that occurred in early 2017.
- Adjusted EBITDA for the quarter ended December 31, 2017 increased by \$1.1 million or 82% from \$0.3 million to \$1.4 million compared to the similar quarter in 2016. This increase is a result of increased revenue and a decrease in general and administrative costs of \$1.0 million resulting from the cost saving initiatives put in place over the past year.
- For the year ended December 31, 2017, revenues increased by \$4.0 million or 28% from \$10.6 million to \$14.6 million compared to the year ended December 31, 2016. In direct relation, Adjusted EBITDA increased by \$4.3 million from \$(0.3) million to \$3.9 million. This is due in part to increased commodity prices and in direct relation increased drilling activity in Western Canada when compared to 2016. As a result there has been an increase in demand for rental equipment and a modest improvement in rental rates.

- On April 27, 2017, the Company entered into a Loan and Security Agreement with a new lender for a term of 12 months. See Liquidity and Capital Resources section.
- On January 31, 2017, the Company announced that it had entered into an asset purchase and sale agreement with Cooper Rentals Canada Inc. to sell all the assets of 4-Way Equipment Rentals. The transaction closed on February 9, 2017. Net proceeds were used to pay down senior debt.

SELECTED QUARTERLY FINANCIAL INFORMATION

(Unaudited – in \$000s)	Dec 31 2017	Sept 30 2017	June 30 2017	Mar 31 2017	Dec 31 2016	Sept 30 2016	June 30 2016	Mar 31 2016
Revenue	4,306	3,539	2,348	4,442	3,444	2,374	1,469	3,311
Net loss from continuing operations	(2,618)	(1,254)	(3,529)	(969)	(3,106)	(8,680)	(4,683)	(3,148)
Net income (loss) from discontinued operation	—	211	—	(427)	(3,062)	(904)	(92)	(954)
Adjusted EBITDA¹	1,417	1,497	36	1,371	258	461	294	1,131
Adjusted EBITDA per share								
- basic¹	0.03	0.03	0.00	0.03	0.01	0.01	0.01	0.03
Net loss per share from continuing operations								
Basic	(0.05)	(0.02)	(0.07)	(0.02)	(0.08)	(0.21)	(0.12)	(0.08)
Diluted	(0.05)	(0.02)	(0.07)	(0.02)	(0.08)	(0.21)	(0.12)	(0.08)
Net income (loss) per share from discontinued operation								
Basic	—	0.00	—	(0.01)	(0.07)	(0.02)	0.00	(0.02)
Diluted	—	0.00	—	(0.01)	(0.07)	(0.02)	0.00	(0.02)
Adjusted free cash flow¹	168	(707)	222	(488)	386	(1,807)	1,011	3,112

¹See Financial Measures Reconciliations below

LIQUIDITY AND CAPITAL RESOURCES

Revolving operating facility:

On February 16, 2017, the Company's Syndicated Credit Facility was amended under the Sixth Amending Agreement in which the lenders agreed to forbear from demanding repayment or enforcing its security under the agreement until April 28, 2017. The sixth amending agreement included a reduction in the revolving facility amount from \$32.5 million to \$20.97 million.

On April 21, 2017, the Syndicated Credit Facility was repaid in full and forthwith cancelled.

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 Syndicated Credit Facility, bears interest at a rate of 12.75% and has 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 is serviced by six months of interest only payments, followed by six months of blended principal and interest payments. The Loan and Security Agreement does not require quantitative financial covenants, but imposes restrictions on the Loan's collateral, being the property and equipment of the Company.

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 90 days after the term of the loan, July 21, 2019. The warrants fair value of \$300 was recorded as a transaction cost of the loan and will be expensed over the term of the loan.

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 bears interest at 12.75% and will be serviced by six months of interest only payments, followed by six months of principal and interest payments in the event that it is renewed. The Company also entered into a Warrant Amendment Agreement which amended the exercise price of the 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.

Operating 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 requires 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. As at December 31, 2017 the Company's current ratio, as defined to exclude the loan facility, was 4.4:1.00 and the debt service coverage ratio was 1.5:1.00.

On March 28, 2018, the Company signed a \$13.5 million credit facility with a tier 1 bank, comprised of a \$3 million operating loan facility, which replaces the previous \$1 million operating loan facility, a \$2.5 million non-revolving term loan facility, which will be used to pay out the guarantee from the Loan and Security agreement, and a \$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 will mature 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 months, bears interest at a rate of 6.1% 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.

OUTLOOK

While global commodity prices increased throughout 2017, oilfield activity levels in Canada only increased marginally year over year due to take away capacity constraints and uncertainty surrounding a lack of governmental support for the industry. This has limited investment in the oil and gas sector in Canada when compared to other global opportunities as these other opportunities currently deliver far superior returns on invested capital. While the Company was able to achieve some pricing increases in the first half of 2017, the flat demand for rental equipment through the second half of the year meant the Company was unable to achieve any further pricing improvements.

The Company anticipates that demand for rental equipment in 2018 to support drilling activity in the Western Canadian Sedimentary Basin ("WCSB") will be flat when compared to the 2017 demand. Equipment rentals in support of completions activities however is likely to be stronger in 2018 when compared to 2017. The Company is thus focusing on expanding customer relationship in order to capture a greater portion of the completions related rental equipment demand.

As there is currently much stronger demand for oil and gas services in the United States, especially in the Permian Basin, compared to the WCSB, the Company is reviewing the utilization of all its assets to determine what underutilized equipment can be sold into the United States at reasonable prices. The sale

of such equipment will result in improved equipment utilization in Canada and a more streamlined fleet of rental assets which will reduce repairs and maintenance costs. Proceeds from any assets sales will be used to pay down debt or reinvested in new equipment for which there is strong demand in Canada.

The Company continues to expand its market reach and customer base from beyond its traditional upstream energy services customers to new industry segments including industrial facilities and pipeline construction. This strategy includes purchasing new hybrid solar light towers which reduce both the customers operating costs for lighting and their carbon footprint. A number of these light towers are also being equipped with high resolution security cameras to provide the customer with surveillance services. Although Zedcor has just begun to pursue this new service offering, initial interest from new and existing customers appears to be strong. Developing this market should lead to more diversity in the Company's revenue streams and help increase the utilization of existing rental equipment by penetrating market segments that are less affected by seasonal fluctuations.

In order to finance the growth of the lighting and surveillance business line and to also reduce the Company's cost of capital, the Company recently signed a \$13.5 million credit facility with a tier one bank that includes a \$8.0 million equipment financing facility which bears interest at prime plus 3.3%. The Company also renewed its Loan and Security facility in the amount of \$17.5 million for six months with interest only payments required and bearing interest at 12.75%, followed by an optional six month renewal with principle and interest. The willingness of a tier one lender to support the growth of the Company and the reduction in the more expensive loan facility are milestones in the Company's plan to strengthen the balance sheet through growth.

NON-IFRS MEASURES RECONCILIATION

The Company uses certain measures in this press release which do not have any standardized meaning as prescribed by International Financial Reporting Standards ("IFRS"). These measures which are derived from information reported in the consolidated statements of operations and comprehensive income may not be comparable to similar measures presented by other reporting issuers. These measures have been described and presented in this press release in order to provide shareholders and potential investors with additional information regarding the Company.

Investors are cautioned that EBITDA, adjusted EBITDA, adjusted EBITDA per share, Adjusted EBIT and adjusted free cash flow are not acceptable alternatives to net income or net income per share, a measurement of liquidity, or comparable measures as determined in accordance with IFRS.

EBITDA and Adjusted EBITDA

EBITDA refers to net income before finance costs, income taxes, depreciation and amortization. Adjusted EBITDA is calculated as EBITDA before costs associated with business acquisition costs, refinancing, severance, gains or losses on disposal or derecognition of property and equipment, provision for onerous lease and share based compensation. These measures do not have a standardized definition prescribed by IFRS and therefore may not be comparable to similar captioned terms presented by other issuers.

Management believes that EBITDA and Adjusted EBITDA are useful measures of performance as they eliminate non-recurring items and the impact of finance and tax structure variables that exist between entities. "Adjusted EBITDA per share – basic" refers to Adjusted EBITDA divided by the weighted average basic number of shares outstanding during the relevant periods.

A reconciliation of net income to Adjusted EBITDA is provided below:

(in \$000s)	Three months ended December 31		Twelve months ended December 31	
	2017	2016	2017	2016
Net loss from continuing operations	(2,618)	(3,106)	(8,369)	(19,617)
Add:				
Finance costs	903	327	3,581	1,046

Depreciation	1,400	2,932	5,887	7,887
Amortization of intangibles	165	165	660	661
Income taxes (recovery)	6	(1,246)	(606)	(7,126)
EBITDA	(144)	(928)	1,153	(17,149)
Add:				
Stock based compensation	5	15	11	136
Loss on disposal of property and equipment	285	672	336	9,878
Loss on derecognition	287	—	287	—
Provision for onerous lease	984	—	984	—
Impairment of property and equipment	—	21	—	7,822
Purchase gain	—	—	—	(2,664)
Severance costs	—	478	121	1,156
Business acquisition costs	—	—	—	472
Refinancing costs	—	—	1,039	—
Adjusted EBITDA	1,417	258	3,931	(349)

Adjusted EBIT

Adjusted EBIT refers to earnings before interest and finance charges, stock based compensation, taxes, amortization, impairment of property and equipment, purchase gain, refinancing costs, severance costs, provision for onerous lease and business acquisition costs.

A reconciliation of net income to Adjusted EBIT is provided below:

	Three months ended December 31		Twelve months ended December 31	
(in \$000s)	2017	2016	2017	2016
Net loss from continuing operations	(2,618)	(3,106)	(8,369)	(19,617)
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Purchase gain	—	—	—	(2,664)
Income taxes (recovery)	6	(1,246)	(606)	(7,126)
Severance costs	—	478	121	1,156
Business acquisition costs	—	—	—	472
Refinancing costs	—	—	1,039	—
Adjusted EBIT	(555)	(3,346)	(2,579)	(18,114)

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 consolidated financial statements and notes for the year ended December 31, 2017 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 rental of surface equipment and accommodations to the

Western Canadian Oil and Gas Industry. The Company trades on the TSX Venture Exchange under the symbol "ZDC".

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 improvement in demand should begin to drive improvements in equipment rental rates 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 cost cutting measures that have been implemented will protect future margins and that the Company's lean operations will protect against profound down swings in the economic environment. Although management believes these assumptions are reasonable, there can be no assurance that they will be proved 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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