



Zedcor Energy Inc. Announces 2018 Second Quarter Results

CALGARY, Aug. 14, 2018 /CNW/ - Zedcor Energy Inc. (the "Company") (TSX VENTURE: ZDC) today announced its financial and operating results for the three and six months ended June 30, 2018.

Highlights

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

(in \$000s)	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Revenue	3,408	2,348	8,636	6,791
Adjusted EBITDA ^{1,2}	365	36	2,137	1,517
Adjusted EBIT ^{1,2}	(1,607)	(1,493)	(1,237)	(1,859)
Net (loss) income from continuing operations	(2,760)	(3,529)	(3,376)	(4,497)
Net (loss) income per share from continuing operations				
Basic	(0.05)	(0.07)	(0.07)	(0.10)
Diluted	(0.05)	(0.07)	(0.07)	(0.10)

¹ Adjusted for severances and refinancing costs

² See Financial Measures Reconciliations below

SELECT FINANCIAL RESULTS

- Revenues for the quarter ended June 30, 2018 increased by \$1.1 million or 31% from \$2.3 million to \$3.4 million compared to the same quarter in 2017. This increase was due in part to higher rental rates in the second quarter of 2018 when compared to the same quarter of 2017 and improved equipment utilization. The higher rental rates are due to an increase in drilling and completions activity in the region stemming from higher year over year commodity prices.
- During the first two quarters of 2018, the Company purchased new hybrid solar light towers, many of which were equipped with high resolution security cameras to provide customers with surveillance services. These new solar light towers and related surveillance services resulted in 62% of the increase in revenue quarter over quarter. Net loss for the quarter ended March 31, 2018 was \$0.6 million, an improvement of \$0.4 million or 36% from a loss of \$1.0 million for the quarter end March 31, 2017. The improvement is a result of increased revenue and a decrease in general and administrative expenses.
- Adjusted EBITDA for the quarter ended June 30, 2018 was \$365 thousand, an increase of \$329 thousand from the quarter ended June 30, 2017. This increase is a direct result of the increase in revenue and a decrease in general and administrative costs, as \$796 thousand of refinancing costs were incurred in the second quarter of 2017.
- Net loss for the quarter ended June 30, 2018 was \$2.8 million, an improvement of \$0.7 million or 22% from a loss of \$3.5 million for the quarter ended June 30, 2017. The improvement is a result of increased revenue and a decrease in general and administrative expenses.
- On March 28, 2018, the Company renewed the Loan and Security Agreement in the amount of \$17.5 million for an additional 6 months. On the same day the Company also signed a \$13.5 million credit facility, comprised of a \$3 million operating loan, a \$2.5 million non-revolving term loan and an \$8 million equipment finance term loan. See Liquidity and Capital Resources section.

SELECT OPERATING RESULTS

- The second quarter of 2018 saw an increase in drilling activity in the oil and gas sector in Western Canada compared to the second quarter of 2017 due in part to improved commodity prices. This resulted in an increase in utilization of the Company's rental equipment as well as an increase in daily rental rates for the equipment compared to the prior year quarter. Despite the increase in drilling activity, there is still strong competition from other service providers with idle assets which is preventing a full recovery in rental pricing.
- During the second quarter of 2018, the Company sold under-utilized assets with a net book value of \$1.0 million. The Company also purchased \$3.0 million of light towers, with most of these light towers being hybrid solar light towers equipped with high resolution security cameras to provide customers with surveillance services. This new equipment and related services has allowed the Company to expand its customer base to new industry segments including pipeline construction and as a result increase its revenue base.
- For the quarter ended June 30, 2018 revenue was \$3.4 million, an increase of \$1.1 million compared to the same period in 2017. This increase results from an increase in drilling and completion activity in Western Canada in the quarter when compared to the prior year as well as revenue earned from the newly created surveillance and security service offering. Gross margin, excluding loss on sale of assets, increased by \$0.5 million compared to the three months ended June 30, 2017 as a result of the increased revenue.

SELECTED QUARTERLY FINANCIAL INFORMATION

	Jun 30 2018	Mar 31 2018	Dec 31 2017	Sept 30 2017	Jun 30 2017	Mar 31 2017	Dec 31 2016	Sept 30 2016
(Unaudited – in \$000s)								
Revenue	3,408	5,228	4,306	3,539	2,348	4,442	3,444	2,375
Net income (loss) from continuing operations	(2,706)	(616)	(2,618)	(1,254)	(3,529)	(969)	(3,106)	(8,679)
Net income (loss) from discontinued operation	—	—	—	211	—	(427)	(3,062)	(904)
Adjusted EBITDA ¹	365	1,772	1,417	1,497	36	1,191	505	463
Adjusted EBITDA per share								
- basic ¹	0.01	0.03	0.03	0.03	0.00	0.03	0.01	0.01
Net income (loss) per share from continuing operations								
Basic	(0.05)	(0.01)	(0.05)	(0.02)	(0.07)	(0.02)	(0.08)	(0.21)
Diluted	(0.05)	(0.01)	(0.05)	(0.02)	(0.07)	(0.02)	(0.08)	(0.21)
Net income (loss) per share from discontinued operation								
Basic	—	—	—	0.00	—	(0.01)	(0.08)	(0.02)
Diluted	—	—	—	0.00	—	(0.01)	(0.08)	(0.02)
Adjusted free cash flow ¹	994	(490)	168	(707)	222	(315)	386	(1,089)

¹ See Financial Measures Reconciliations below

LIQUIDITY AND CAPITAL RESOURCES

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 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 does 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 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 is 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 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.

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 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.

As at June 30, 2018, the Company's current ratio, as defined to exclude the loan and security facility, was 1.50:1.00 and the debt service coverage ratio was 1.34:1.00.

OUTLOOK

Despite the strong global oil and gas industry, drilling and completion activity levels in Canada have 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 resulted in limited investment in the oil and gas sector in Canada when compared to other global investment opportunities. While the Company was able to achieve some pricing increases in the first half of 2018, the flat demand for rental equipment since then has prevented the Company from achieving any further pricing improvements.

The Company anticipates that demand for rental equipment through the remainder of 2018 to support drilling activity in the Western Canadian Sedimentary Basin ("WCSB") will be flat when compared to the prior year demand. Equipment rentals in support of completions activities continue to be stronger in 2018 when compared to 2017. As such, the Company continues to focus on expanding customer relationships in order to capture a greater portion of the completions related rental equipment demand.

The Company continues to review the utilization of each of its assets to determine what underutilized

equipment can be sold 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 these asset 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 with the launch of its surveillance and security service offering. These services are targeted to alternative industry segments including industrial facilities, pipeline and commercial construction, and high value operations. Under this strategy the Company will continue to purchase new hybrid solar light towers that are equipped with high resolution security cameras to meet anticipated demand for services.

Following the April 24, 2018 announcement that the Company had signed an Amendment to the Exclusive Distributorship and Supply Agreement which provided Zedcor exclusivity in selling hybrid solar powered lighting systems in Western Canada; on July 17, 2018 the Company announced it had signed a Security Services Contract with a Canadian based pipeline company to provide exclusive surveillance and security services for a pipeline replacement project. This project is scheduled to commence in mid-August and continue well into 2019, utilizing almost half of the fleet of new hybrid solar light towers in support of the surveillance and security services provided.

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 severance, refinancing costs 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 June 30		Six months ended June 30	
	2018	2017	2018	2017
Net income	(2,760)	(3,529)	(3,376)	(4,497)
Add:				
Finance costs	926	1,052	1,762	1,766
Depreciation	1,961	1,527	3,355	3,086
Amortization of intangibles	165	165	330	330
Income taxes	—	22	(15)	(593)
EBITDA	292	(763)	2,056	92
Add:				
Stock based compensation	11	2	19	1
Severance costs	62	1	62	96

Refinancing costs	—	796	—	1,039
Adjusted EBITDA	365	36	2,137	1,228

Adjusted EBIT

Adjusted EBIT refers to earnings before interest and finance charges, taxes, amortization, refinancing costs and severance costs.

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

(in \$,000s)	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Net income	(2,760)	(3,529)	(3,376)	(4,497)
Add:				
Finance costs	926	1,052	1,762	1,766
Amortization of intangibles	165	165	330	330
Income taxes	—	22	(15)	(593)
Severance costs	62	1	62	96
Refinancing costs	—	796	—	1,039
Adjusted EBIT	(1,607)	(1,493)	(1,237)	(1,859)

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 and six months ended June 30, 2018 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, and providing security and surveillance services in Western Canada. 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 increased demand for rental equipment to support drilling activity will protect future margins and 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 be proved to be correct, and actual results may 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.

Neither TSX Venture Exchange nor its Regulation Services Provider (as that term is defined in the policies of the TSX Venture Exchange) accepts responsibility for the adequacy or accuracy of this release.

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