

# **RediShred Capital Corp.**

Condensed Interim Consolidated Financial Statements  
**June 30, 2021 and 2020**  
(Unaudited – Prepared by Management)

(expressed in Canadian dollars)

**August 25, 2021**

**In accordance with National Instrument 51-102, released by the Canadian Securities Administrators, the Corporation discloses that its auditors have not reviewed the unaudited condensed interim consolidated financial statements for the period ended June 30, 2021.**

# RediShred Capital Corp.

## Condensed Interim Consolidated Statements of Financial Position

As at June 30, 2021 and December 31, 2020

(expressed in Canadian dollars)

	2021 \$	2020 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	2,269,231	2,844,451
Cash attributable to the Growth Fund (note 3)	177,175	139,370
Trade and other receivables (note 4)	3,182,287	2,126,378
Prepaid expenses	582,851	336,041
Notes receivable from franchisees (note 5)	48,201	63,669
<b>Total current assets</b>	<b>6,259,745</b>	<b>5,509,157</b>
<b>Non-current assets</b>		
Notes receivable from franchisees (note 5)	215,123	242,903
Tangible assets (note 6)	15,879,362	15,215,019
Intangible assets (note 7)	16,666,951	17,324,197
Goodwill (note 9)	19,515,104	19,747,975
Deferred tax asset (note 19)	286,851	657,543
<b>Total non-current assets</b>	<b>52,563,391</b>	<b>53,187,637</b>
<b>Total assets</b>	<b>58,823,136</b>	<b>58,687,794</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	1,929,002	2,177,770
Deferred revenue	178,950	163,571
Income taxes payable	77,318	-
Current portion of long-term debt (note 12)	3,807,723	3,475,613
Notes payable (note 10)	96,882	261,950
Lease liability (note 13)	1,090,171	1,080,653
Contingent consideration (note 11)	803,888	888,696
<b>Total current liabilities</b>	<b>7,983,934</b>	<b>8,048,253</b>
<b>Non-current liabilities</b>		
Long-term debt (note 12)	15,938,327	16,289,454
Deferred revenue	95,855	143,774
Lease liability (note 13)	2,548,743	2,770,883
Contingent consideration (note 11)	1,201,540	1,027,794
<b>Total non-current liabilities</b>	<b>19,784,465</b>	<b>20,231,905</b>
<b>Total liabilities</b>	<b>27,768,399</b>	<b>28,280,158</b>
<b>Shareholders' equity</b>		
Capital stock (note 14)	35,579,533	35,564,756
Contributed surplus	1,204,882	1,170,931
Accumulated foreign currency translation loss	(518,536)	(570,759)
Deficit	(5,211,142)	(5,757,292)
<b>Total liabilities and shareholders' equity</b>	<b>58,823,136</b>	<b>58,687,794</b>

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

## RediShred Capital Corp.

### Condensed Interim Consolidated Statements of Comprehensive Income (Loss)

For the three and six months ended June 30, 2021 and 2020

(expressed in Canadian dollars)

	<i>For the 3 months ended June 30</i>		<i>For the 6 months ended June 30</i>	
	<b>2021</b>	<b>2020</b> <b>(Restated- see note 2)</b>	<b>2021</b>	<b>2020</b> <b>(Restated- see note 2)</b>
	\$	\$	\$	\$
Revenue (note 15)	8,677,333	6,034,343	15,990,821	12,627,922
Corporate locations expenses (note 16)	(4,928,884)	(3,787,944)	(9,330,856)	(8,008,289)
Depreciation – tangible assets	(1,077,489)	(992,576)	(2,110,757)	(1,837,256)
General and administrative expenses (note 17)	(1,126,530)	(681,796)	(1,984,021)	(1,695,706)
Total expenses	(7,132,903)	(5,462,316)	(13,425,634)	(11,541,251)
<b>Operating income</b>	<b>1,544,430</b>	<b>572,027</b>	<b>2,565,187</b>	<b>1,086,671</b>
Interest expense	(231,104)	(168,629)	(483,647)	(363,744)
Interest income	4,670	7,313	8,305	41,428
Government assistance (note 18)	–	1,262,322	1,317,814	1,262,322
Amortization – intangible assets	(623,281)	(631,074)	(1,265,073)	(1,144,411)
Revaluation of contingent consideration (note 11)	–	7,096	–	194,433
Foreign exchange (loss) gain	(632,850)	(1,656,970)	(1,139,300)	1,972,573
<b>Income (loss) before income taxes</b>	<b>61,865</b>	<b>(607,915)</b>	<b>1,003,286</b>	<b>3,049,272</b>
Income tax (expense) recovery (note 19)	(471,798)	281,568	(457,136)	238,774
<b>Net (loss) income for the period</b>	<b>(409,933)</b>	<b>(326,347)</b>	<b>546,150</b>	<b>3,288,046</b>
Foreign currency translation income loss	33,421	(1,952)	52,223	(75,248)
<b>Comprehensive (loss) income for the period</b>	<b>(376,512)</b>	<b>(328,299)</b>	<b>598,373</b>	<b>3,212,798</b>
<b>Net (loss) income per share</b>				
Basic	(0.005)	(0.004)	0.007	0.041
Diluted	(0.005)	(0.004)	0.007	0.042
<b>Weighted average number of common shares outstanding – basic</b>	<b>78,939,438</b>	<b>78,611,594</b>	<b>78,910,955</b>	<b>78,556,406</b>
<b>Weighted average number of common shares outstanding – diluted</b>	<b>79,683,971</b>	<b>78,625,609</b>	<b>79,726,704</b>	<b>79,281,185</b>

## RediShred Capital Corp.

### Consolidated Statements of Changes in Equity

For the six months ended June 30, 2021 and 2020

(expressed in Canadian dollars)

	Capital stock and warrants \$ (note 14)	Contributed surplus \$	Accumulated foreign currency translation loss \$	Deficit \$	Total shareholders' equity \$
<b>Balance – January 1, 2020</b>	35,543,272	1,056,504	(666,286)	(6,033,193)	29,900,297
Net income for the period	–	–	–	3,288,046	3,288,046
Foreign currency translation loss	–	–	(75,248)	–	<u>(75,248)</u>
Comprehensive income for the period					3,212,798
Issue of shares (note 14)	40,184	(21,840)	–	–	18,344
Stock-based compensation (note 14)	–	103,380	–	–	103,380
<b>Balance – June 30, 2020 (restated – see note 2)</b>	<b>35,583,456</b>	<b>1,138,044</b>	<b>(741,534)</b>	<b>(2,745,147)</b>	<b>33,234,819</b>
<b>Balance – January 1, 2021</b>	35,564,756	1,170,931	(570,759)	(5,757,292)	30,407,636
Net income for the period	–	–	–	546,150	546,150
Foreign currency translation gain	–	–	52,223	–	<u>52,223</u>
Comprehensive income for the period					598,373
Issue of shares (note 14)	14,777	(23,455)	–	–	(8,678)
Stock-based compensation (note 14)	–	57,406	–	–	57,406
<b>Balance – June 30, 2021</b>	<b>35,579,533</b>	<b>1,204,882</b>	<b>(518,536)</b>	<b>(5,211,142)</b>	<b>31,054,737</b>

# RediShred Capital Corp.

## Consolidated Statements of Cash Flow

For the three and six months ended June 30, 2021 and 2020

(expressed in Canadian dollars)

	<i>For the 3 months ended June 30</i>		<i>For the 6 months ended June 30</i>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>(Restated – see note 2)</b>	<b>\$</b>	<b>(Restated – see note 2)</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Cash provided by (used in)</b>				
<b>Operating activities</b>				
Net income (loss) for the period	(409,933)	(326,347)	546,150	3,288,046
Items not affecting cash				
Amortization of tangible and intangible assets	1,700,772	1,623,650	3,375,831	2,981,666
Stock-based compensation	(2,615)	40,745	13,488	103,380
Unrealized foreign currency loss (gain)	609,356	1,740,857	1,111,328	(1,695,021)
Revaluation of contingent consideration	–	(7,096)	–	(194,433)
Future income tax expense (recovery)	364,080	(310,671)	318,870	(261,790)
	<u>2,261,660</u>	<u>2,761,138</u>	<u>5,365,667</u>	<u>4,221,848</u>
Net change in non-cash working capital balances				
(Increase) decrease in trade receivables	(574,740)	483,397	(800,854)	368,226
(Increase) in prepaid expenses	(95,541)	(6,904)	(255,203)	(113,044)
Increase (decrease) in accounts payable and accrued liabilities	169,533	(1,100,845)	(440,849)	(616,167)
Increase in income taxes payable	76,491	29,342	76,491	29,342
Decrease in deferred revenue	(34,860)	(46,117)	(64,948)	(91,426)
	<u>1,802,543</u>	<u>2,120,011</u>	<u>3,880,304</u>	<u>3,798,779</u>
<b>Net cash provided by operations</b>				
<b>Financing activities</b>				
Borrowings from long-term debt	1,821,464	515,165	1,821,464	4,184,387
Repayment of long-term debt	(886,647)	(2,732)	(1,734,385)	(855,569)
Issuance of capital stock (net of fees)	55,954	66,841	74,313	66,841
Issuance of notes receivable	–	(7,480)	–	(7,480)
Repayment of notes receivable	21,397	564	35,995	61,180
Repayment of notes payable	(70,739)	(4,377)	(159,696)	(98,399)
Repayment of lease liability	(277,372)	(212,090)	(533,287)	(440,684)
Payment of contingent considerations	(343,060)	(56,880)	(350,577)	(971,048)
	<u>320,997</u>	<u>299,011</u>	<u>(846,173)</u>	<u>1,939,228</u>
<b>Net cash from (used in) financing activities</b>				
<b>Investing activities</b>				
Amount paid on acquisitions; net of cash acquired	(1,320,101)	–	(1,320,101)	(5,474,280)
Decrease (increase) in cash held by Growth Fund	5,311	14,851	(41,473)	63,317
Purchase of tangible and intangible assets	(2,001,764)	(116,140)	(2,197,591)	(1,409,454)
	<u>(3,316,554)</u>	<u>(101,289)</u>	<u>(3,559,165)</u>	<u>(6,820,417)</u>
<b>Net cash used in investing activities</b>				
<b>Effect of foreign exchange rate changes on cash</b>	(22,886)	(470,919)	(50,186)	(164,694)
<b>Net change in cash for the period</b>	(1,215,900)	1,846,814	(575,220)	(1,247,104)
<b>Cash – Beginning of period</b>	3,485,131	6,969,593	2,844,451	10,063,511
<b>Cash – End of period</b>	<u>2,269,231</u>	<u>8,816,407</u>	<u>2,269,231</u>	<u>8,816,407</u>

# RediShred Capital Corp.

## Notes to the Condensed Interim Consolidated Financial Statements

June 30, 2021

(expressed in Canadian dollars)

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### 1 Corporate information and nature of operations

Redishred Capital Corp. (“Redishred” or the “Company”) was incorporated under the Canada Business Corporations Act on October 18, 2006 and is domiciled in Canada. Redishred’s common shares are listed for trading on the TSX Venture Exchange under the symbol “KUT”. The registered address of the Company is 6505 Mississauga Road, Suite A, Mississauga, Ontario, L5N 1A6.

Redishred manages and operates the Proshred brand and business platform (“system”) in the United States and internationally. Redishred operates the Proshred system under two business models in the United States, (1) via franchising, and (2) via direct operation of thirteen corporate locations, as of June 30, 2021.

### 2 Significant accounting policies

#### ***Basis of Presentation***

These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) applicable to the preparation of interim financial statements, including IAS 34, *Interim Financial Reporting*. The condensed interim consolidated financial statements should be read in conjunction with the most recently issued Annual Report of Redishred for the year ended December 31, 2020, which includes information necessary or useful to understanding the Company’s business and financial statement presentation. These condensed interim consolidated financial statements comprise the financial statements of Redishred and its subsidiaries as of June 30, 2021. Together, Redishred and its subsidiaries are referred to as “the Company.”

The Company’s significant accounting policies were presented as Note 3 to the Audited Consolidated Financial Statements for the year ended December 31, 2020 and have been consistently applied in the preparation of these condensed interim consolidated financial statements.

The results reported in these condensed interim consolidated financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year. Certain prior period amounts have been reclassified to conform to the current period’s presentation. These condensed interim consolidated financial statements were prepared on a going concern basis, under the historical cost convention. The condensed interim consolidated financial statements are presented in Canadian dollars, which is the Company’s presentation currency.

The Company has restated the income tax in the Condensed Interim Consolidated Statement of Comprehensive Income (Loss) for the three and six months ended June 30, 2020. The Company recorded an update to the income tax provision, primarily related to deferred taxes with respect to the ProShred Connecticut acquisition (note 8), in the appropriate quarter. The overall impact for the six months ended June 30, 2020 was an increase in deferred income tax recovery of \$479,518, a decrease in capital stock of \$26,678, an increase in goodwill of \$803,686 and a decrease in deferred tax asset of \$568,553.

# RediShred Capital Corp.

## Notes to the Condensed Interim Consolidated Financial Statements

June 30, 2021

(expressed in Canadian dollars)

### 2 Significant accounting policies (continued)

#### *Basis of Presentation* (continued)

During 2020 and 2021, the global spread of the COVID-19 virus has led to significant disruptions to businesses worldwide, resulting in an economic downturn. In many countries, including Canada and the United States, measures such as travel bans, quarantines, social distancing and closures of non-essential services have been taken to contain the spread of the virus. Governments have responded with monetary and fiscal interventions in an attempt to stabilize economic conditions. The Company has considered the potential negative impacts and cash flow difficulties of the virus on its franchisees, customers, suppliers and lenders. The impacts and length of time of the COVID-19 pandemic and its impacts are currently unknown. The Company has used the best information available as of June 30, 2021, in determining its estimates and the assumptions that affect the carrying amounts of assets and liabilities, and earnings for the period. Actual results could differ from those estimates.

The condensed interim consolidated financial statements of the Company for the three and six months ended June 30, 2021 were authorized for issue in accordance with a resolution of the Directors on August 25, 2021.

### 3 Growth fund

The Company manages a Growth Fund (formerly referred to as the "Ad Fund") established to collect and administer funds contributed for use in regional and national advertising programs, and amongst other things, initiatives designed to increase sales and enhance general public recognition, acceptance and use of the Proshred System. The fund contributions are segregated, designated for a specific purpose and the Company acts, in substance, as an agent with regard to these contributions. Growth Fund contributions are required to be made from both franchised and Company owned and operated locations and are based on the annual level of revenue from each location. The Growth Fund contributions and expenses from the Company owned locations have been eliminated on consolidation. The Growth Fund related contributions and expenses as well as cash balance as of June 30, 2021 and December 31, 2020 are as follows:

	<i>For the 3 months ended June 30</i>		<i>For the 6 months ended June 30</i>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
	\$	\$	\$	\$
Growth Fund contributions	54,857	18,913	113,726	66,505
Growth Fund expenses	(71,705)	5,740	(144,475)	(71,307)
<b>Growth Fund net (loss) income</b>	<b>(16,848)</b>	<b>24,653</b>	<b>(30,749)</b>	<b>(4,802)</b>

<b>As at,</b>	<b>June 30, 2021</b>	<b>December 31, 2020</b>
	\$	\$
Cash attributable to the Growth Fund	177,175	139,370



# RediShred Capital Corp.

## Notes to the Condensed Interim Consolidated Financial Statements

June 30, 2021

(expressed in Canadian dollars)

### 4 Trade and other receivables

Trade receivables include receivables from franchisees and shredding, recycling, electronic waste and scanning customers. Other receivables include amounts related to the receivables from the sale of trucks and Harmonized Sales Tax (“HST”) refunds. The net trade and other receivables as of June 30, 2021 and December 31, 2020 are as follows:

	<b>June 30, 2021</b>	<b>December 31, 2020</b>
	<b>\$</b>	<b>\$</b>
Trade receivables – corporate locations	2,877,181	1,697,537
Trade receivables – franchising & licensing	198,003	323,030
Total trade receivables	3,075,184	2,020,567
Other receivables	144,921	145,177
Less: Allowance for doubtful accounts	(37,818)	(49,118)
<b>Trade and other receivables – net</b>	<b>3,182,287</b>	<b>2,116,626</b>

### 5 Notes receivable from franchisees

Notes receivable arise from the financing of the initial franchise fee and from the sale of customer assets when the customer assets are located in the franchisee’s territory. All notes receivable are guaranteed by the respective owners of the franchises. The notes receivable bear interest at rates ranging from 5.25% to 6.00% per annum with monthly blended payments of principal and interest ranging from USD\$1,007 to USD\$3,735. The payments on the notes mature between dates ranging from October, 2021 to April, 2025.

The notes receivable as of June 30, 2021 and December 31, 2020 are as follows:

	<b>June 30, 2021</b>	<b>December 31, 2020</b>
	<b>\$</b>	<b>\$</b>
Opening balance	306,572	400,618
Add: issuance of notes	-	6,985
Less: repayments	(43,248)	(101,031)
Closing balance	263,324	306,572
Less: current portion	(48,201)	(63,669)
<b>Long-term portion</b>	<b>215,123</b>	<b>242,903</b>

# RediShred Capital Corp.

## Notes to the Condensed Interim Consolidated Financial Statements

June 30, 2021

(expressed in Canadian dollars)

### 6 Tangible assets

	June 30, 2021			December 31, 2020		
	Cost	Accumulated depreciation	Net carrying value	Cost	Accumulated depreciation	Net carrying value
	\$	\$	\$	\$	\$	\$
Computer equipment	395,084	(305,330)	89,754	394,976	(307,389)	87,587
Furniture & fixtures	255,036	(224,218)	30,818	258,432	(206,729)	51,703
Bins & shredding containers	2,520,100	(1,248,804)	1,271,296	2,289,375	(1,093,192)	1,196,183
Shredding vehicles - chassis	5,622,151	(2,207,463)	3,414,688	5,014,872	(1,928,103)	3,086,769
Shredding vehicles - box	11,887,572	(4,825,258)	7,062,314	10,915,798	(4,330,229)	6,585,569
Vehicles	199,491	(178,958)	20,533	192,038	(174,489)	17,549
Baling equipment	504,898	(113,460)	391,238	475,741	(91,184)	384,557
ROU Office and Warehouse	4,668,909	(1,576,126)	3,092,783	4,360,993	(1,178,372)	3,182,621
ROU Truck leases	1,626,763	(1,120,825)	505,938	1,667,463	(1,044,982)	622,481
<b>Total tangible assets</b>	<b>27,679,804</b>	<b>(11,800,442)</b>	<b>15,879,362</b>	<b>25,569,688</b>	<b>(10,354,669)</b>	<b>15,215,019</b>

	December 31, 2020					June 30, 2021
	Net carrying value	Additions	Acquisitions	Depreciation	Disposition of Assets	Foreign exchange
	\$	\$	\$	\$	\$	\$
Computer equipment	87,587	28,227	-	(25,189)	-	(871)
Furniture & fixtures	51,703	-	-	(20,290)	-	(595)
Bins & shredding containers	1,196,183	191,642	114,351	(201,915)	-	(28,965)
Shredding vehicles - chassis	3,086,769	756,928	139,624	(430,480)	(31,357)	(106,796)
Shredding vehicles - box	6,585,569	1,233,466	325,788	(871,267)	(60,194)	(151,048)
Vehicles	17,549	-	-	(9,473)	-	12,457
Baling equipment	384,557	3,991	36,840	(24,660)	-	(9,490)
ROU Office and Warehouse	3,182,621	12,697	390,522	(425,390)	-	(67,667)
ROU Truck leases	622,481	-	-	(102,093)	-	(14,450)
<b>Total tangible assets</b>	<b>15,215,019</b>	<b>2,226,950</b>	<b>1,007,125</b>	<b>(2,110,757)</b>	<b>(91,551)</b>	<b>(367,425)</b>

	December 31, 2019					December 31, 2020
	Net carrying value	Additions	Acquisitions	Depreciation	Foreign exchange	Net carrying value
	\$	\$	\$	\$	\$	\$
Computer equipment	41,593	49,160	35,085	(38,717)	466	87,587
Furniture & fixtures	101,654	5,645	-	(56,456)	860	51,703
Bins & shredding containers	1,035,531	172,533	351,246	(358,914)	(4,213)	1,196,183
Shredding vehicles - chassis	2,602,070	568,363	643,345	(706,207)	(20,802)	3,086,769
Shredding vehicles - box	5,325,672	1,326,635	1,471,505	(1,498,457)	(39,786)	6,585,569
Vehicles	37,105	-	13,300	(33,234)	378	17,549
Baling equipment	452,322	-	-	(60,917)	(6,848)	384,557
ROU Office and Warehouse	1,877,749	-	1,460,569	(710,845)	555,148	3,182,621
ROU Truck leases	861,894	4,651	-	(237,350)	(6,714)	622,481
<b>Total tangible assets</b>	<b>12,335,590</b>	<b>2,126,987</b>	<b>3,975,050</b>	<b>(3,701,097)</b>	<b>478,489</b>	<b>15,215,019</b>

The foreign exchange adjustment is a result of the translation of foreign operation tangible assets in US dollars to Canadian dollars at June 30, 2021 and December 31, 2020.

# RediShred Capital Corp.

## Notes to the Condensed Interim Consolidated Financial Statements

June 30, 2021

(expressed in Canadian dollars)

### 7 Intangible assets

	June 30, 2021			December 31, 2020		
	Cost	Accumulated amortization	Net carrying value	Cost	Accumulated amortization	Net carrying value
	\$	\$	\$	\$	\$	\$
Computer software	507,790	(181,559)	326,231	427,686	(133,435)	294,251
Re-acquired franchise rights	1,062,051	(649,928)	412,123	998,853	(485,667)	513,186
Trademarks & intellectual property	45,911	(2,296)	43,615	45,911	(825)	45,086
Customer relationships	21,489,669	(5,604,687)	15,884,982	21,161,626	(4,689,952)	16,471,674
<b>Total intangible assets</b>	<b>23,105,421</b>	<b>(6,438,470)</b>	<b>16,666,951</b>	<b>22,634,076</b>	<b>(5,309,879)</b>	<b>17,324,197</b>

	December 31, 2020		June 30, 2021			
	Net carrying value	Additions	Acquisitions	Amortization	Foreign exchange	Net carrying value
	\$	\$	\$	\$	\$	\$
Computer software	294,251	84,429	-	(50,309)	(2,140)	326,231
Re-acquired franchise rights	513,186	-	86,800	(177,251)	(10,612)	412,123
Trademarks & intellectual property	45,086	825	-	(2,296)	-	43,615
Customer relationships	16,471,674	-	837,088	(1,035,217)	(388,563)	15,884,982
<b>Total intangible assets</b>	<b>17,324,197</b>	<b>85,254</b>	<b>923,888</b>	<b>(1,265,073)</b>	<b>(401,315)</b>	<b>16,666,951</b>

	January 1, 2020		December 31, 2020			
	Net carrying value	Additions	Acquisitions	Amortization	Foreign exchange	Net carrying value
	\$	\$	\$	\$	\$	\$
Computer software	197,806	195,074	-	(95,042)	(3,587)	294,251
Re-acquired franchise rights	449,490	-	464,101	(405,003)	4,598	513,186
Trademarks & intellectual property	-	45,911	-	(825)	-	45,086
Customer relationships	12,343,620	-	6,227,799	(1,802,664)	(297,081)	16,471,674
<b>Total intangible assets</b>	<b>12,990,916</b>	<b>240,985</b>	<b>6,691,900</b>	<b>(2,303,534)</b>	<b>(296,069)</b>	<b>17,324,197</b>

The foreign exchange adjustment is a result of the translation of foreign operation intangible assets in US dollars to Canadian dollars at June 30, 2021 and December 31, 2020. Amortization of intangible assets for the period is included in the statement of comprehensive income. The Company's re-acquired franchise rights, and customer relationships are attributed to the Company's franchises and corporately owned locations in the US.

### 8 Acquisitions

The Company completed the following acquisitions during the six months ended June 30, 2021 and the year ended December 31, 2020:

1. On May 1, 2021, the Company acquired the assets of the Proshred Richmond, Virginia business from its franchisee.
2. On December 31, 2020, the Company acquired the assets of the Proshred and Proscan Massachusetts business from its franchisee.
3. On March 1, 2020, the Company acquired the common shares of the Proshred Connecticut business from its franchisee.

The Company conducted the acquisitions to increase its long-term cash flows and to increase its market share in the United States.

# RediShred Capital Corp.

## Notes to the Condensed Interim Consolidated Financial Statements

June 30, 2021

(expressed in Canadian dollars)

### 8 Acquisitions (continued)

The purchase price of each acquisition was allocated to the assets acquired (including all identifiable intangible assets arising from the purchase) and liabilities assumed based on their estimated fair value at the date of each acquisition. The Company translated the fair values of all assets acquired, liabilities assumed and consideration given using the exchange rate on the date of the acquisitions.

The following table outlines the provisional total amounts of the assets purchased and the consideration given on the closing date of the acquisitions in aggregate.

<b>During the six months ended June 30, 2021</b>	<b>Proshred Richmond</b>
Exchange rate used	1.23
<b>Assets acquired</b>	<b>\$</b>
Net Working capital	49,126
Tangible assets	616,601
Right-of-use asset	390,524
Customer relationships	837,088
Re-acquired franchise rights	86,800
Goodwill	210,237
	<u>2,190,376</u>
<b>Consideration given</b>	
Cash	1,320,101
Contingent consideration (note 11)	479,751
Lease liabilities assumed	390,524
	<u>2,190,376</u>
Acquisition costs (expensed in statement of comprehensive income)	<u>36,610</u>

<b>During the year ended December 31, 2020</b>	<b>Proshred Connecticut</b>	<b>Proshred &amp; Proscan Massachusetts</b>	<b>Total</b>
Exchange rate used	1.33	1.27	
<b>Assets acquired</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Net Working capital	166,250	-	166,250
Tangible assets	1,014,245	1,500,236	2,514,481
Right-of-use assets	119,322	1,341,247	1,460,569
Customer relationships	2,635,274	3,569,250	6,204,524
Re-acquired franchise rights	173,571	291,767	465,338
Goodwill	3,749,323	2,864,223	6,613,546
Future tax consequences of acquired assets	(1,517,677)	-	(1,517,677)
	<u>6,340,308</u>	<u>9,566,723</u>	<u>15,907,031</u>
<b>Consideration given</b>			
Cash	5,453,000	7,016,751	12,469,751
Contingent consideration (note 11)	767,986	1,208,725	1,976,711
Lease liabilities assumed	119,322	1,341,247	1,460,569
	<u>6,340,308</u>	<u>9,566,723</u>	<u>15,907,031</u>
Acquisition costs (expensed in statement of comprehensive income)	<u>38,997</u>	<u>65,916</u>	<u>104,913</u>

# RediShred Capital Corp.

## Notes to the Condensed Interim Consolidated Financial Statements

June 30, 2021

(expressed in Canadian dollars)

### 9 Goodwill

The goodwill as of June 30, 2021 and December 31, 2020 is as follows:

	June 30, 2021	December 31, 2020
	\$	\$
Opening balance	19,747,975	14,102,815
Acquisitions	210,237	6,613,546
Impairment loss	-	(586,235)
Foreign currency translation	(443,108)	(382,151)
Closing balance	19,515,104	19,747,975

### 10 Notes payable

As of June 30, 2021, the Company has the following related to notes payable:

<u>Origination date</u>	<u>Initial amount</u>	<u>Payment</u> <sup>(1)</sup>	<u>Interest per annum</u>	<u>Current portion</u>	<u>Long-term portion</u>	<u>Maturity date</u>
October 1, 2018	USD\$550,000	USD\$19,753	5.00%	CAD\$96,882 USD\$78,194	--	October 1, 2021

(1) Blended monthly payments of principal and interest.

### 11 Contingent consideration

The Company has recorded contingent consideration liabilities as part of the businesses acquired (note 8). The contingent consideration liabilities are paid to the vendors if key financial metrics such as revenue, gross profit and cost containment are achieved. The contingent consideration liabilities are payable between an 18-month and 36-month period post acquisition. The fair value of contingent consideration was reassessed and there was no change in value as of June 30, 2021.

As of June 30, 2021, the Company has the following related to contingent consideration:

<u>Range of origination</u>	<u>Range of initial amounts</u>	<u>Range of maturity</u>	<u>Total current portion</u>	<u>Total long-term portion</u>
October 1, 2018 to May 1, 2021	USD\$98,000 to USD\$1,223,362	September 30, 2021 to May 1, 2024	CAD\$803,888 USD\$648,820	CAD\$1,201,540 USD\$969,765

# RediShred Capital Corp.

## Notes to the Condensed Interim Consolidated Financial Statements

June 30, 2021

(expressed in Canadian dollars)

### 12 Long-term debt

As of June 30, 2021 and December 31, 2020 long-term debt is comprised of:

	June 30, 2021	December 31, 2020
	\$	\$
Bank facilities (i)	14,809,012	15,976,478
Less: transaction costs	(213,470)	(233,435)
Net bank facilities	14,595,542	15,743,043
Truck loans (ii)	5,150,508	4,022,024
Total long-term debt	19,746,050	19,765,067
Less: current portion	(3,807,723)	(3,475,613)
<b>Total long-term debt</b>	<b>15,938,327</b>	<b>16,289,454</b>

#### (i) Bank facilities

As of June 30, 2021, the Company has the following secured senior credit facilities:

1. An operating line of credit of CAD\$1 million; and
2. A non-revolving term loan in the amount of CAD\$16.5 million (advances can be taken in either USD or CAD equivalent, at the Company's discretion).

In May 2021, the non-revolving term loan facility of USD\$12.5 million was converted to a CAD\$16.5 million facility.

As of June 30, 2021, the Company has borrowed the following amounts on the non-revolving term loans:

Month of Advance	Initial amount	Interest per annum	Amortization period	June 30, 2021 Balance	December 31, 2020 Balance
	\$			\$	\$
May, 2019	6,003,210	3.50%	84 months	4,658,104	5,061,933
November, 2019	6,664,242	3.50%	84 months	5,603,880	6,043,111
March, 2020	2,688,000	2.99%	84 months	2,405,173	2,581,834
December, 2020	2,289,600	3.33%	84 months	2,141,855	2,289,600
Total bank facilities				14,809,012	15,976,478

As of June 30, 2021, the Company has \$1.0 million available on its operating line of credit and \$1.4 million available on its non-revolving term loan.

During the year ended December 31, 2020, in response to the impacts of COVID-19, the Company obtained a deferral of its principal payments, from its financial institution. The Company accounted for this as a debt modification and amended the non-revolving term loans such that the new amounts represent the fair value of the modified debt arrangements. This resulted in a debt discount of \$113,734 and was recorded as a gain on debt modification in the consolidated statement of comprehensive income (loss) for the year ended December 31, 2020.

# RediShred Capital Corp.

## Notes to the Condensed Interim Consolidated Financial Statements

June 30, 2021

(expressed in Canadian dollars)

### 12 Long-term debt (continued)

#### (i) Bank facilities (continued)

The credit facilities are secured by general security agreements over all present and future assets of the Company and shares of each subsidiary held by the Company.

The bank credit facilities contain financial covenants that require the Company to maintain certain financial ratios and meet certain financial thresholds, as outlined in the Audited Consolidated Financial Statements for the year ended December 31, 2020. In May 2021, the fixed charge coverage ratio bank covenant was reduced from 1.25:1.00 to 1.20:1.00 and the Company's financial institution approved the inclusion of government subsidies in the calculation of the financial covenants. As of June 30, 2021, the Company was in compliance with its banking covenants.

#### (ii) Truck loans

In June 2021, the Company established a new USD\$1.8 million line of credit for the purchase of shredding vehicles with lender in the United States. The line of credit is available for a six-month period, at which time a renewal process occurs. The interest rate is based on prevailing market rates at the time the line is used. As of June 30, 2021, the Company has not utilized the line of credit.

As of June 30, 2021, the Company has the following related to truck loans:

	Loan value	Carrying value of assets pledged	Range of interest rates	Range of origination dates	Range of maturity dates
	\$	\$			
Truck loans	5,150,508	4,850,876	3.99% to 5.99%	July 29, 2016 to June 01, 2021	August 5, 2021 to June 01, 2026

#### (iii) Related party line of credit

The Company has a related party line of credit facility for a maximum amount of \$2.0 million. The line of credit facility matures on July 16, 2022 and bears interest at a fixed rate of 10% per annum. The line of credit is secured by a second in priority general security agreement over the Company's assets. As of June 30, 2021, the facility has not been drawn upon (December 31, 2020 - \$nil).

# RediShred Capital Corp.

## Notes to the Condensed Interim Consolidated Financial Statements

June 30, 2021

(expressed in Canadian dollars)

### 13 Lease liabilities

The Company enters into leases in order to secure office and warehouse space. The Company has also entered into leases for the financing of shredding vehicles. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the balance sheet as a right-of-use ("ROU") asset and a lease liability. Variable lease payments which do not depend on an index or a rate are excluded from the initial measurement of the lease liability and asset.

<u>Lease liability</u>	<u>Number of ROU assets leased</u>	<u>Range of remaining term</u>	<u>Range of interest rates</u>
Office and warehouse building	13	October 2020 to April 2026	6%
Shredding vehicles	7	August 2021 to October 2022	5.95% to 6.50%

As of June 30, 2021 and December 31, 2020 lease liabilities is comprised of:

	<u>June 30, 2021</u>	<u>December 31, 2020</u>
	<u>\$</u>	<u>\$</u>
Office and warehouse building	3,234,391	3,309,585
Shredding vehicles	404,523	541,951
Total lease liability	<u>3,638,914</u>	<u>3,851,536</u>
Less: current portion	<u>(1,090,171)</u>	<u>(1,080,653)</u>
<b>Total long-term lease liability</b>	<u>2,548,743</u>	<u>2,770,883</u>

The total lease payments for the three and six months ended June 30, 2021 were \$277,372 and \$533,287 respectively (June 30, 2020 - \$212,090 and \$440,684).



# RediShred Capital Corp.

## Notes to the Condensed Interim Consolidated Financial Statements

June 30, 2021

(expressed in Canadian dollars)

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### 14 Capital stock

#### a) Authorized

Unlimited number of common shares, without nominal or par value.

Unlimited number of preferred shares, without nominal or par value.

#### b) Issued and fully paid

The following are the balances of issued common shares of the Company:

	Common stock		Warrants		Total	
	Number	\$	Number	\$	Number	\$
Balance June 30, 2021	78,939,438	34,954,879	1,772,400	579,513	80,711,838	35,534,392
Balance December 31, 2020	78,843,438	34,964,748	1,823,400	600,008	80,666,838	35,564,756

#### c) Weighted average number of common shares

The basic weighted average number of common shares outstanding for the three months ended June 30, 2021, was 78,939,438 (December 31, 2020 – 78,690,701). The diluted weighted average number of common shares outstanding for the three months ended June 30, 2021, was 79,683,971 (December 31, 2020 – 79,304,547).

#### d) Warrants

The Company issued 2,002,150 warrants on January 23, 2017 as part of the private placement. Each warrant is exercisable into one Common Share at a price of \$0.36 per Common Share for a period of five years and expire on January 23, 2022. The warrants have been classified as equity instruments. The fair values of the warrants were determined using the Black-Scholes option pricing model. There were 51,000 warrants exercised during the six months ended June 30, 2021 (nil – six months ended June 30, 2020). There are 1,772,400 warrants outstanding as of June 30, 2021.

# RediShred Capital Corp.

## Notes to the Condensed Interim Consolidated Financial Statements

June 30, 2021

(expressed in Canadian dollars)

### 14 Capital stock (continued)

#### e) Stock options

The following table summarizes the movements in the Company's stock options during the six months ended June 30, 2021 and the year ended December 31, 2020:

	2021		2020	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Outstanding – opening	1,954,317	0.60	2,050,150	0.52
Granted	337,382	0.70	252,000	0.68
Exercised	(45,000)	0.56	(342,833)	0.22
Expired	-	-	(5,000)	0.10
Outstanding – closing	<u>2,246,699</u>	0.62	<u>1,954,317</u>	0.60

For the six months ended June 30, 2021, the net stock compensation charge, after adjusting for stock option forfeitures, amounted to \$57,406 (for the six months ended June 30, 2020 – \$103,380).

### 15 Revenue

The revenue earned by the Company is broken down as follows:

	<i>For the 3 months ended June 30</i>		<i>For the 6 months ended June 30</i>	
	2021	2020	2021	2020
	\$	\$	\$	\$
Shredding services	6,518,061	4,356,574	12,183,492	9,505,455
Sale of paper products	934,576	816,452	1,556,735	1,347,940
Royalties and license fees	411,931	436,392	829,565	933,783
Scanning services	472,400	8,751	759,189	44,301
Electronic waste services	251,256	351,143	481,764	638,511
Growth Fund contributions	54,857	18,913	113,726	66,505
Franchise fees	34,252	46,118	66,350	91,427
<b>Total revenue</b>	<u>8,677,333</u>	<u>6,034,343</u>	<u>15,990,821</u>	<u>12,627,922</u>

# RediShred Capital Corp.

## Notes to the Condensed Interim Consolidated Financial Statements

June 30, 2021

(expressed in Canadian dollars)

### 16 Corporate location expenses

The corporate operating locations expenses of the Company are broken down as follows:

	<i>For the 3 months ended June 30</i>		<i>For the 6 months ended June 30</i>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Shredding vehicle and related expenses	1,145,388	912,729	2,153,084	1,806,621
Acquisition costs	66,986	38,003	118,382	97,007
Employee wages expense	2,540,654	1,899,080	4,820,582	4,088,034
Employee benefit expense	493,672	456,846	931,042	882,420
Office and administration expense	682,184	481,286	1,307,766	1,134,207
<b>Total corporate location expenses</b>	<b>4,928,884</b>	<b>3,787,944</b>	<b>9,330,856</b>	<b>8,008,289</b>

### 17 General and administrative expenses

The general and administrative expenses of the Company are broken down as follows:

	<i>For the 3 months ended June 30</i>		<i>For the 6 months ended June 30</i>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Employee wages and benefits	549,311	352,480	991,999	816,454
Share-based compensation	41,303	40,745	57,406	103,380
Acquisition costs	47,580	4,528	59,490	90,558
Professional fees	122,554	79,582	198,229	142,487
Technology	113,501	113,204	221,033	205,590
Growth Fund expenses (note 3)	71,705	(5,740)	144,475	71,307
Other	180,576	96,997	311,389	265,930
<b>Total general and administrative expenses</b>	<b>1,126,530</b>	<b>681,796</b>	<b>1,984,021</b>	<b>1,695,706</b>

### Compensation of key management

Included in employee wages and benefits and share-based compensation expense above is key management personnel compensation as follows:

	<i>For the 3 months ended June 30</i>		<i>For the 6 months ended June 30</i>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Wages and benefits	287,007	160,747	584,200	377,731
Share-based compensation	22,237	18,225	35,227	73,266
<b>Total compensation of key management</b>	<b>309,244</b>	<b>178,972</b>	<b>619,427</b>	<b>450,997</b>

Compensation of key management personnel includes the Chief Executive Officer, Chief Financial Officer, Senior Vice President of Operations and the Board of Directors.

# RediShred Capital Corp.

## Notes to the Condensed Interim Consolidated Financial Statements

June 30, 2021

(expressed in Canadian dollars)

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### 18 Government Assistance

In February and March 2021, the Company qualified for the second draw on the Paycheck Protection Program loan (“PPP”) in the United States. The PPP loan has been made available by the US Small Business Administration to eligible US businesses that have been affected by the COVID-19 pandemic. The program helps businesses keep their workforce employed during the COVID-19 crisis by providing relief in the form of a forgivable loan used for payroll costs. During the six months ended June 30, 2021, the Company received USD\$1.0 million under the program of which up to the full amount of the loan may be forgiven if the proceeds are used to cover payroll, rent and other operating costs. Any portion of the loan that is not forgiven will be repayable over a two-year term at an interest rate of 1.00% per annum with payments deferred for the first 16 months. The Company expects the full amount to be forgiven and has recorded the amount as other income in the Statement of Comprehensive Income during the six months ended June 30, 2021.

In response to the negative economic impact of COVID-19, the Government of Canada announced the Canada Emergency Wage Subsidy (“CEWS”) program in April 2020, retroactive to March 15, 2020. CEWS provides a wage subsidy to eligible employers based on certain criteria, including demonstration of revenue declines as a result of COVID-19. The Company qualified for and accordingly applied for, the CEWS for the period from January 1, 2021 to March 31, 2021. The Company received \$28,453 from the CEWS program that has been recorded as other income within the Statement of Comprehensive Income during the six months ended June 30, 2021.

### 19 Income taxes

The Company has incurred Canadian non-capital losses that can be carried forward to reduce taxes payable in Canada. The losses expire at various times through December 31, 2035, commencing December 31, 2031. The Company has incurred US non-capital losses that can be carried forward to reduce taxes payable in the US. The losses expire at various times through to December 31, 2039, commencing December 31, 2022. The Company recognized all temporary differences and non-capital losses and is expected to utilize those losses going forward.

### 20 Financial instruments and fair values

The Company has financial assets that consist of: cash and cash equivalents, cash attributable to the Growth Fund, trade receivables and notes receivable from franchisees. The Company’s financial liabilities include accounts payable and accrued liabilities, notes payable, long-term debt, lease liabilities and contingent consideration.

The Company, through its financial assets and liabilities, has exposure to the following risks from its use of financial instruments: interest rate risk, credit risk, foreign exchange risk and liquidity risk. Senior management is responsible for setting acceptable levels of risk and reviewing risk management activities as necessary.

# RediShred Capital Corp.

## Notes to the Condensed Interim Consolidated Financial Statements

June 30, 2021

(expressed in Canadian dollars)

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### 20 Financial instruments and fair values (continued)

#### Interest rate risk

The Company's cash is subject to interest rate risk, as it earns and pays interest at prevailing and fluctuating market rates. Company has fixed rates on notes receivable from franchisees ranging from 5.25% to 6.00% per annum. The Company's line of credit has a variable interest rate of prime plus 1.00% per annum. The Company has fixed interest rates ranging from 2.99% to 3.50% per annum on its term loans. The Company's line of credit facility with a related party has a fixed interest rate of 10% per annum. The truck loans and leases have fixed interest rates ranging from 4.54% to 6.50% per annum. The Company's notes payable has a fixed interest rate of 5.00%. These financial instruments are subject to interest rate risk, as their fair values will fluctuate as a result of changes in market rates.

The global impact of COVID-19 has resulted in substantial market volatility however the Bank of Canada, the US Federal Reserve and other lenders have taken steps to stabilize interest rates.

#### Credit risk

In accordance with its investment policy, the Company maintains cash deposits with banks. The credit risk on cash is limited because the counterparties are banks with high-credit ratings assigned by international credit-rating agencies.

#### *Receivables related to franchising and licensing*

The accounts and notes receivable from franchisees are exposed to credit risk from the possibility that franchisees may experience financial difficulty. The Company mitigates the risk of credit loss by limiting its exposure to any one franchisee. Credit assessments are conducted with respect to all new franchisees. In addition, the receivable balances are monitored on an ongoing basis. As of June 30, 2021, six (6) franchisees accounted for 77% of the accounts receivable and notes receivable balance related to franchising and licensing (December 31, 2020 - 6 franchises accounted for 69%). For the three months ended June 30, 2021, three (3) franchisees accounted for 24% of the Company's revenues related to franchising and licensing (December 31, 2020 - 3 franchisees accounted for 23%). As of June 30, 2021, there was \$52,826 in accounts and notes receivable over 90 days old (December 31, 2020 - \$145,417). Also refer to note 5 for details of notes receivable from franchisees.

#### *Receivables related to corporate operations*

The accounts receivable are exposed to credit risk from the possibility that customers may experience financial difficulty. As of June 30, 2021 and December 31, 2020, no customer accounted for more than 10% of the accounts receivable balance. For the three months ended June 30, 2021 and 2020, no customer accounted for more than 10% of the Company's revenues in this category. As of June 30, 2021, 2% of accounts receivable, net of allowance of doubtful accounts, in this category was over 90 days old (December 31, 2020 - 10%). As at June 30, 2021, the Company recorded an allowance for credit losses from receivables of \$37,818 related to corporate operations (December 31, 2020 - \$49,118).

The Company has considered the probability of default by its franchisees and customers due to the impact of COVID-19 on businesses and cash flows. The maximum exposure to credit risk is the carrying amount of each class of financial assets. Collection of receivables remain a priority for the Company under the current situation and collectability remains highly probable.

# RediShred Capital Corp.

## Notes to the Condensed Interim Consolidated Financial Statements

June 30, 2021

(expressed in Canadian dollars)

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### 20 Financial instruments and fair values (continued)

#### Foreign exchange risk

The Company has revenues and costs that are denominated in USD dollars; this dependency on the USD dollar causes foreign exchange gains when the Canadian dollar depreciates versus the USD dollar. The Company has significant assets denominated in USD dollars which are revalued at the exchange rate at the date of the statement of financial position, which results in unrealized foreign exchange gains or losses. During the six months ended June 30, 2021, the Company recorded a foreign exchange loss of \$1,139,300 (June 30, 2020 – gain of \$1,972,573).

Exchange rates utilized (USD to CAD):

<b>As at,</b>	<b>June 30, 2021</b>	<b>December 31, 2020</b>
	\$	\$
Close rate	1.24	1.27

  

<b>For the three months ended,</b>	<b>June 30, 2021</b>	<b>June 30, 2020</b>
	\$	\$
Average rate	1.25	1.32

# RediShred Capital Corp.

## Notes to the Condensed Interim Consolidated Financial Statements

June 30, 2021

(expressed in Canadian dollars)

### 20 Financial instruments and fair values (continued)

#### Liquidity risk

The Company's objective is to have sufficient liquidity to meet liabilities when due. Cash flow forecasting is performed by management, which monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs. Although management considers its assumptions used in its cash flow forecasts to be reasonable, there is no assurance that the cash flow forecasts will be achieved.

Based on overall cash generation capacity and overall financial position, while there can be no assurance, management believes the Company will be able to meet financial obligations as they come due. The current liabilities of \$7,905,662 at June 30, 2021 (December 31, 2020 - \$8,048,253), are due to be settled within one year from the date of the statement of financial position. The Company has current assets of \$6,259,745 at June 30, 2021 (December 31, 2020 - \$5,500,157) including cash and cash equivalents of \$2,269,231 (December 31, 2020 - \$2,844,451).

Principal	Less than 3 months \$	3 months to 1 year \$	1 – 5 years \$	Over 5 years \$
Accounts payable and accrued liabilities	1,714,752	214,250	–	–
Long-term debt	948,174	2,859,549	14,230,636	1,707,691
Notes payable	72,511	24,372	–	–
Lease liabilities	274,074	816,097	2,179,254	369,489
Contingent consideration	139,388	664,500	1,201,540	–
Interest	Less than 3 months \$	3 months to 1 year \$	1 – 5 years \$	Over 5 years \$
Long-term debt	178,901	470,834	1,171,995	9,083
Notes payable	910	102	–	–
Lease liabilities	53,428	134,315	287,551	20,667
Total principal and interest	Less than 3 months \$	3 months to 1 year \$	1 – 5 years \$	Over 5 years \$
Accounts payable and accrued liabilities	1,714,752	214,250	–	–
Long-term debt	1,127,075	3,330,383	15,402,631	1,716,775
Notes payable	73,421	24,473	–	–
Lease liabilities	327,502	950,412	2,466,805	390,157
Contingent consideration	139,388	664,500	1,201,541	–

# RediShred Capital Corp.

## Notes to the Condensed Interim Consolidated Financial Statements

June 30, 2021

(expressed in Canadian dollars)

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### 20 Financial instruments and fair values (continued)

#### Fair value of financial instruments

The carrying value amounts of many of the Company's financial instruments, including cash, trade receivables, accounts payables and accrued liabilities, which are all carried at amortized cost, approximate their fair value due primarily to the short-term maturity of the related instruments. The fair value estimates of the Company's notes receivable from franchisees are made as at a specific point in time based on estimates using present value or other valuation techniques. The carrying value of the Company's notes receivable from franchisees approximates fair value. The carrying value of the Company's notes payable, long-term debt and contingent consideration approximates fair value as the rates are similar to rates currently available to the Company.

These valuation techniques involve uncertainties and are affected by the assumptions used and the judgments made regarding risk characteristics of various financial instruments, discount rates, estimate of future cash flows, future expected loss experience and other factors.

### 21 Capital management

The Company defines capital as shareholders' equity. The primary objective of the Company's capital management is to ensure that it maintains the appropriate capital levels to support its business and maximize shareholder value. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may issue new shares or issue debt securities.

To effectively manage its capital, the Company has in place a planning and budgeting process to help determine the funds required to ensure the Company has sufficient liquidity to meet its operating and growth objectives. The Company expects its current resources and projected cash flows from continuing operations to support its growth objectives.

The Company has credit facilities with a banking institution which provides an operating line of credit and a non-revolving term loan. The Company's bank credit facilities contain financial covenants that require the Company to maintain certain financial ratios and meet certain financial thresholds.

### 22 Segment reporting

The business segments presented reflect the management structure of the Company and the way in which the Company's management reviews business performance. The Company operates three reportable operating segments, (1) the granting and managing of shredding business franchises under the "Proshred" trademark (Franchising and licensing), (2) the operation of corporately owned shredding businesses (Corporate locations) and (3) supporting the franchises and corporately owned shredding businesses (Corporate).



# RediShred Capital Corp.

## Notes to the Condensed Interim Consolidated Financial Statements

June 30, 2021

(expressed in Canadian dollars)

### 22 Segment reporting (continued)

Total assets and liabilities by reportable operating segment are as follows:

	<b>Franchising and licensing</b>	<b>Corporate locations</b>	<b>Corporate</b>	<b>Total</b>
	<b>June 30, 2021</b>	<b>June 30, 2021</b>	<b>June 30, 2021</b>	<b>June 30, 2021</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents	1,104,939	1,099,075	65,217	2,269,231
Cash attributable to the Growth Fund	177,175	-	-	177,175
Trade and other receivables	198,002	2,957,572	26,713	3,182,287
Prepaid expenses	75,683	401,900	105,268	582,851
Notes receivable from franchisees	48,201	-	-	48,201
<b>Total current assets</b>	<b>1,604,000</b>	<b>4,458,547</b>	<b>197,198</b>	<b>6,259,745</b>
<b>Non-current assets</b>				
Notes receivable from franchisees	215,123	-	-	215,123
Tangible assets	-	15,724,260	155,102	15,879,362
Intangible assets	129,222	16,295,842	241,887	16,666,951
Goodwill	-	19,515,104	-	19,515,104
Deferred tax asset	-	-	286,851	286,851
<b>Total assets</b>	<b>1,948,345</b>	<b>55,993,753</b>	<b>881,038</b>	<b>58,823,136</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Accounts payable and accrued liabilities	88,954	1,347,801	492,246	1,929,002
Deferred revenue	158,186	19,811	-	178,950
Income taxes payable	-	-	77,318	77,318
Current portion of long-term debt	-	3,807,723	-	3,807,723
Notes payable	-	96,882	-	96,882
Lease liability	-	1,019,886	70,285	1,090,171
Contingent consideration	-	803,888	-	803,888
<b>Total current liabilities</b>	<b>247,140</b>	<b>7,095,991</b>	<b>639,849</b>	<b>7,983,934</b>
<b>Non-current liabilities</b>				
Long-term debt	-	15,938,327	-	15,938,327
Deferred revenue	95,855	-	-	95,855
Lease liability	-	2,453,778	94,965	2,548,743
Contingent consideration	-	1,201,540	-	1,201,540
<b>Total liabilities</b>	<b>342,995</b>	<b>26,689,638</b>	<b>734,815</b>	<b>27,768,401</b>

# RediShred Capital Corp.

## Notes to the Condensed Interim Consolidated Financial Statements

June 30, 2021

(expressed in Canadian dollars)

### 22 Segment reporting (continued)

	Franchising and licensing	Corporate locations	Corporate	Total
	December 31, 2020	December 31, 2020	December 31, 2020	December 31, 2020
	\$	\$	\$	\$
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents	49,887	640,935	2,153,629	2,844,451
Cash attributable to the Growth Fund	139,370	-	-	139,370
Trade and other receivables	1,802,333	192,301	121,992	2,116,626
Prepaid expenses	273,792	17,437	44,812	336,041
Notes receivable from franchisees	63,669	-	-	63,669
<b>Total current assets</b>	<b>2,329,051</b>	<b>850,673</b>	<b>2,320,433</b>	<b>5,500,157</b>
<b>Non-current assets</b>				
Notes receivable from franchisees	242,903	-	-	242,903
Tangible assets	-	15,015,740	199,279	15,215,019
Intangible assets	74,697	16,982,930	266,570	17,324,197
Goodwill	-	19,747,975	-	19,747,975
Deferred tax asset	-	-	657,543	657,543
<b>Total assets</b>	<b>2,646,651</b>	<b>52,597,318</b>	<b>3,443,825</b>	<b>58,687,794</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Accounts payable and accrued liabilities	164,338	1,458,129	555,303	2,177,770
Deferred revenue	163,571	-	-	163,571
Current portion of long-term debt	-	3,475,613	-	3,475,613
Notes payable	-	261,950	-	261,950
Lease liability	-	1,013,830	66,823	1,080,653
Contingent consideration	-	888,696	-	888,696
<b>Total current liabilities</b>	<b>327,909</b>	<b>7,098,218</b>	<b>622,126</b>	<b>8,048,253</b>
<b>Non-current liabilities</b>				
Long-term debt	-	16,289,454	-	16,289,454
Deferred revenue	143,774	-	-	143,774
Lease liability	-	2,639,941	130,942	2,770,883
Contingent consideration	-	1,027,794	-	1,027,794
<b>Total liabilities</b>	<b>471,683</b>	<b>27,055,407</b>	<b>753,068</b>	<b>28,280,158</b>

# RediShred Capital Corp.

## Notes to the Condensed Interim Consolidated Financial Statements

June 30, 2021

(expressed in Canadian dollars)

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### 22 Segment reporting (continued)

#### Geographic information

Canada	June 30, 2021	December 31, 2020
	\$	\$
Tangible assets	155,102	199,279
Intangible assets	241,886	266,570
<b>United States</b>		
Notes receivable from franchisees	263,324	306,572
Tangible assets	15,724,260	15,015,740
Intangible assets	16,425,064	17,057,626
Goodwill	19,515,104	19,747,975
<b>Total</b>		
Notes receivable from franchisees	263,324	306,572
Tangible assets	15,879,362	15,215,019
Intangible assets	16,666,951	17,324,196
Goodwill	19,515,104	19,747,975

#### Revenue

All revenues were attributed to the United States.

# RediShred Capital Corp.

## Notes to the Condensed Interim Consolidated Financial Statements

June 30, 2021

(expressed in Canadian dollars)

### 22 Segment reporting (continued)

#### Net income (loss) by operating segment

Total net income (loss) by reportable operating segment is as follows:

#### For the three months ended June 30, 2021

	<b>Franchising and licensing</b>	<b>Corporate locations</b>	<b>Corporate</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Revenue	501,040	8,176,293	–	8,677,333
Direct costs	–	(4,928,884)	–	(4,928,884)
General and administrative	(371,441)	(464,333)	(290,756)	(1,126,530)
Depreciation – tangible assets	–	(1,054,818)	(22,671)	(1,077,489)
Operating income (loss)	129,599	1,728,258	(313,427)	1,544,430
Amortization – intangible assets	(13,003)	(597,833)	(12,445)	(623,281)
Foreign exchange loss	–	–	(632,850)	(632,850)
Interest expense	–	(231,104)	–	(231,104)
Interest income	4,592	–	78	4,670
Income tax expense	(27,553)	(2,848)	(441,397)	(471,798)
Net income (loss)	93,635	896,473	(1,400,041)	(409,933)

#### For the three months ended June 30, 2020 (Restated – see Note 2)

	<b>Franchising and licensing</b>	<b>Corporate locations</b>	<b>Corporate overhead</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Revenue	501,423	5,532,920	–	6,034,343
Direct costs	–	(3,787,944)	–	(3,787,944)
General and administrative	(341,485)	(300,006)	(40,305)	(681,796)
Depreciation – tangible assets	–	(968,338)	(24,238)	(992,576)
Operating income (loss)	159,938	476,632	(64,543)	572,027
Government assistance	–	1,070,782	191,540	1,262,322
Amortization – intangible assets	(14,521)	(606,181)	(10,372)	(631,074)
Foreign exchange loss	–	–	(1,656,970)	(1,656,970)
Revaluation of contingent consideration	–	7,096	–	7,096
Interest expense	–	(168,629)	–	(168,629)
Interest income	–	–	7,313	7,313
Income tax recovery	–	–	281,568	281,568
Net income (loss)	145,417	779,700	(1,251,464)	(326,347)

# RediShred Capital Corp.

## Notes to the Condensed Interim Consolidated Financial Statements

June 30, 2021

(expressed in Canadian dollars)

### 22 Segment reporting (continued)

#### Net income (loss) by operating segment

Total net income (loss) by reportable operating segment is as follows:

	For the six months ended June 30, 2021			
	Franchising and licensing \$	Corporate locations \$	Corporate \$	Total \$
Revenue	1,009,642	14,981,179	–	15,990,821
Direct costs	–	(9,330,856)	–	(9,330,856)
General and administrative	(646,302)	(920,558)	(417,161)	(1,984,021)
Depreciation – tangible assets	–	(2,063,063)	(47,694)	(2,110,757)
Operating income (loss)	363,340	2,666,702	(464,855)	2,565,187
Government assistance	–	1,280,506	37,308	1,317,814
Amortization – intangible assets	(27,716)	(1,212,488)	(24,869)	(1,265,073)
Foreign exchange loss	–	–	(1,139,300)	(1,139,300)
Interest expense	–	(483,647)	–	(483,647)
Interest income	7,336	–	969	8,305
Income tax expense	(54,830)	(6,120)	(396,186)	(457,136)
Net income (loss)	288,130	2,244,953	(1,986,933)	546,150

	For the six months ended June 30, 2020 (Restated – see Note 2)			
	Franchising and licensing \$	Corporate locations \$	Corporate overhead \$	Total \$
Revenue	1,091,715	11,536,207	–	12,627,922
Direct costs	–	(8,008,289)	–	(8,008,289)
General and administrative	(738,012)	(600,011)	(357,683)	(1,695,706)
Depreciation – tangible assets	–	(1,788,341)	(48,915)	(1,837,256)
Operating income (loss)	353,703	1,139,566	(406,598)	1,086,671
Government assistance	–	1,262,322	–	1,262,322
Amortization – intangible assets	(15,841)	(1,108,322)	(20,248)	(1,144,411)
Foreign exchange gain	–	–	1,972,573	1,972,573
Revaluation of contingent consideration	–	194,433	–	194,433
Interest expense	–	(363,744)	–	(363,744)
Interest income	5,276	–	36,152	41,428
Income tax recovery	–	–	238,774	238,774
Net income	343,138	1,124,255	1,820,653	3,288,046

# RediShred Capital Corp.

## Notes to the Condensed Interim Consolidated Financial Statements

June 30, 2021

(expressed in Canadian dollars)

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### 23 Related party balances and transactions

A Director of the Company is the owner of the Tampa Bay, Florida Proshred franchise. There is an accounts receivable balance of \$10,079 due from this franchise as at June 30, 2021 (December 31, 2020 - \$22,775). During the six months ended June 30, 2021, the Company earned royalties, franchise and service fees of \$80,129 (June 30, 2020 - \$46,724) from this franchise.

### 24 Subsequent Events

On July 1, 2021, the Company purchased a client list in the Albany, New York market. The Company paid a total of USD\$170,000 of which USD\$110,000 was paid on closing using the Company's cash reserves. The remaining USD\$60,000 is payable in the form of contingent consideration over a one-year period if certain financial results are achieved. The client list generated USD\$100,000 in revenue in 2020.

On July 30, 2021, the Company completed the acquisition of the Proshred Atlanta business from its franchisee. The acquired location earned a total of USD\$1.3 million in revenue for the year 2020 and currently operates a total of 5 shredding trucks and 1 hard-drive destruction truck. The Company paid a total of USD\$2.8 million of which USD\$1.9 million was paid on closing using the Company's cash reserves. The remaining USD\$900,000 is payable in the form of contingent consideration over a two and three-year period if certain financial results are achieved. The Company also drew \$854,000 CAD from its non-revolving term loan facility for this acquisition. The loan bears interest at 3.69% and has an amortization period of 84 months.