

RediShred Capital Corp.

Consolidated Financial Statements

December 31, 2021 and 2020

(expressed in thousands of Canadian dollars)

April 20, 2022

Management's Responsibility for the Financial Statements

The accompanying consolidated financial statements of **RediShred Capital Corp.** (the "Company") have been prepared by the Company's management. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and contain estimates based on management's judgment. Internal control systems are maintained by management to provide reasonable assurances that assets are safeguarded and financial information is reliable.

The Board of Directors of the Company are responsible for ensuring that management fulfils its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements and the accompanying management discussion and analysis. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board of Directors. It meets with the Company's management and auditors and reviews internal control and financial reporting matters to ensure that management is properly discharging its responsibilities before submitting the financial statements to the Board of Directors for approval.

KPMG LLP, the Company's auditors, have audited these consolidated financial statements and their report follows.

(signed) "*Jeffrey Hasham*"

Chief Executive Officer

Mississauga, Ontario

(signed) "*Harjit Brar*"

Senior Vice President and Chief
Financial Officer

Mississauga, Ontario

RediShred Capital Corp.

Consolidated Statements of Financial Position

As at December 31, 2021 and December 31, 2020

(In thousands of Canadian dollars)

	2021	2020
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	9,660	2,844
Cash attributable to the Growth Fund (note 5)	188	139
Trade and other receivables (note 6)	4,894	2,117
Prepaid expenses	471	336
Notes receivable from franchisees (note 7)	-	64
Income taxes receivable	88	-
Total current assets	<u>15,301</u>	<u>5,500</u>
Non-current assets		
Notes receivable from franchisees (note 7)	-	243
Tangible assets (note 9)	18,271	15,215
Intangible assets (note 10)	22,153	17,324
Goodwill (note 11)	22,655	19,748
Deferred tax asset (note 23)	954	658
Total non-current assets	<u>64,033</u>	<u>53,188</u>
Total assets	<u>79,334</u>	<u>58,688</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	3,147	2,176
Deferred revenue	98	164
Income taxes payable	67	-
Current portion of long-term debt (note 15)	4,690	3,476
Notes payable (note 13)	-	262
Lease liabilities (note 16)	1,468	1,081
Contingent consideration (note 14)	1,854	889
Total current liabilities	<u>11,324</u>	<u>8,048</u>
Non-current liabilities		
Accounts payable and accrued liabilities	200	-
Long-term debt (note 15)	21,867	16,289
Deferred revenue	123	144
Lease liabilities (note 16)	2,301	2,771
Contingent consideration (note 14)	2,494	1,028
Deferred tax liability (note 23)	665	-
Total non-current liabilities	<u>27,650</u>	<u>20,232</u>
Total liabilities	<u>38,974</u>	<u>28,280</u>
Shareholders' equity		
Capital stock (note 18)	44,138	35,565
Contributed surplus	1,229	1,171
Accumulated foreign currency translation loss	(608)	(571)
Deficit	(4,399)	(5,757)
Total liabilities and shareholders' equity	<u>79,334</u>	<u>58,688</u>

Subsequent events (note 28)

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

Approved on behalf of the Board of Directors

(signed) "Phillip H. Gaunce" Director

(signed) "Brad Foster" Director

RediShred Capital Corp.

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2021 and 2020

(In thousands of Canadian dollars)

	2021	2020
	\$	\$
Revenue (note 19)	36,199	25,437
Corporate locations expenses (note 20)	(21,839)	(16,043)
Depreciation – tangible assets (note 9)	(4,504)	(3,701)
General and administrative expenses (note 21)	(5,169)	(3,456)
Total expenses	(31,512)	(23,200)
Operating income	4,687	2,237
Interest expense	(1,236)	(1,003)
Interest income	13	89
Gain on debt modification	–	114
Government assistance (note 22)	1,348	1,909
Amortization – intangible assets (note 10)	(2,708)	(2,304)
Remeasurement of contingent consideration (note 14)	(227)	398
Foreign exchange loss	(200)	(1,111)
Gain on disposal of tangible assets	394	–
Other income	56	–
Impairment of goodwill (note 12)	-	(586)
Income (loss) before income taxes	2,127	(258)
Income tax (expense) recovery (note 23)	(769)	533
Net income for the year	1,358	276
Foreign currency translation (loss) income	(37)	96
Comprehensive income for the year	1,321	372
Net income per share		
Basic	0.017	0.004
Diluted	0.017	0.004
Weighted average number of common shares outstanding – basic	79,253,381	78,690,701
Weighted average number of common shares outstanding – diluted	79,921,497	79,304,547

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

RediShred Capital Corp.

Consolidated Statements of Changes in Equity

For the years ended December 31, 2021 and 2020

(In thousands of Canadian dollars)

	Capital Stock and warrants \$ (note 18)	Contributed Surplus \$	Accumulated foreign currency translation income (loss) \$	Deficit \$	Total Shareholders' Equity \$
Balance – January 1, 2020	35,543	1,057	(667)	(6,033)	29,900
Net income for the year	–	–	–	276	276
Foreign currency translation gain	–	–	96	–	96
Issuance of shares (note 18)	22	(6)	–	–	16
Stock-based compensation (note 18)	–	120	–	–	120
Balance – December 31, 2020	35,565	1,171	(571)	(5,757)	30,408
Net income for the year	–	–	–	1,358	1,358
Foreign currency translation loss	–	–	(37)	–	(37)
Issuance of shares (note 18)	7,768	–	–	–	7,768
Deferred income tax on share issuance costs (note 23)	225	–	–	–	225
Stock-based compensation (note 18)	–	117	–	–	117
Exercise of options and warrants (note 18)	580	(59)	–	–	521
Balance – December 31, 2021	44,138	1,229	(608)	(4,399)	40,360

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

RediShred Capital Corp.

Notes to Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

(In thousands of Canadian dollars)

Movement in the net deferred income tax asset is as follows:

	<u>2021</u>	<u>2020</u>
	\$	\$
Balance, beginning of the year	658	1,480
Recognized in income	(594)	765
Recognized directly in shareholders' equity	225	(69)
Goodwill on acquisition	-	(1,518)
Balance, end of the year	<u>289</u>	<u>658</u>

The Company has incurred Canadian non-capital losses of \$1,934 that can be carried forward to reduce taxes payable in Canada. The losses expire at various times commencing December 31, 2035. The Company has incurred U.S. non-capital losses of \$14,959 that can be carried forward to reduce taxes payable in the U.S. The losses expire at various times commencing December 31, 2022.

24 Financial instruments and fair values

The Company has financial assets that consist of cash and cash equivalents, cash attributable to the Growth Fund, and trade and other receivables. The Company's financial liabilities include accounts payable and accrued liabilities, 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.

Fair values

The carrying value amounts of many of the Company's financial instruments, including cash and cash equivalents, trade receivables, and accounts payables and accrued liabilities, which are all carried at amortized cost, approximate their fair value due primarily to their short-term maturity. The carrying value of the Company's long-term debt approximates its fair value as the interest rates charged on this financial instrument is similar to interest rates currently available to the Company.

The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 inputs are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data or other means; and
- Level 3 inputs are unobservable (supported by little or no market activity).

The Company's contingent consideration is valued at fair value using Level 3 inputs. These valuation techniques involve uncertainties and are affected by the assumptions used and the judgments made regarding risk characteristics of these financial instruments, discount rates, estimate of future cash flows, future expected loss experience and other factors. The Company does not have any Level 2 inputs.

RediShred Capital Corp.

Notes to Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

(In thousands of Canadian dollars)

There were no transfers between levels of the fair value hierarchy during the years ended December 31, 2021 or December 31, 2020.

Following is a table which provides the fair value of the Company's financial instruments:

	Financial Assets	Other Financial Liabilities	Total Carrying Amount	Fair Value
December 31, 2021				
	\$	\$	\$	\$
Cash and cash equivalents	9,660	–	9,660	9,660
Cash attributable to the Growth Fund	188	–	188	188
Trade and other receivables	4,894	–	4,894	4,894
Total financial assets	14,742	–	14,742	14,742
Accounts payable and accrued liabilities	–	3,347	3,347	3,347
Long-term debt	–	26,557	26,557	26,855
Contingent consideration	–	4,348	4,348	4,348
Total financial liabilities	–	34,252	34,252	34,550
December 31, 2020				
	\$	\$	\$	\$
Cash and cash equivalents	2,844	–	2,844	2,844
Cash attributable to Growth Fund	139	–	139	139
Accounts receivable	2,117	–	2,117	2,117
Notes receivable	307	–	307	307
Total financial assets	5,407	-	5,407	5,407
Payables and accruals	–	2,176	2,176	2,176
Notes payable	–	262	262	262
Long-term debt	–	19,765	19,765	19,765
Contingent consideration	–	1,917	1,917	1,917
Total financial liabilities	-	24,120	24,120	24,120

Interest rate risk

The Company's financial instruments subject to interest rate risk are as follows:

- Operating line of credit: This financial instrument is subject to interest rate cash flow risk as interest is charged on this facility at a variable rate of prime plus 1.00% per annum.
- Term loans: These financial instruments are subject to interest rate fair value risk as their fair values will fluctuate as a result of changes in market interest rates, as interest on these financial instruments, with the exception of the term loan advanced in December 2021, are fixed ranging from 2.99% to 3.69% per annum. The term loan advanced to the Company in December 2021 is subject to interest rate cash flow risk as interest is charged on this financial instrument at a variable rate of prime plus 1.25% per annum.

RediShred Capital Corp.

Notes to Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

(In thousands of Canadian dollars)

- Truck loans and leases: These financial instruments are subject to interest rate fair value risk as their fair values will fluctuate as a result of changes in market interest rates, as interest on these financial instruments is generally fixed ranging from 3.92% to 5.99% per annum.

An interest rate sensitivity that assumes a reasonable increase or decrease in interest rates with all other variables held constant, would not have a significant impact on the interest expense the Company recognized during the year ended December 31, 2021.

Credit risk

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

The aging analysis for accounts receivable past due related to corporate operations is as follows:

	<u>2021</u>	<u>2020</u>
	\$	\$
Past due but not impaired		
60 to 90 days	207	105
91 days to 180 days	129	146

Receivables related to franchising and licensing

The accounts 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 December 31, 2021, six (6) franchisees accounted for 53% of the accounts receivable and notes receivable balance related to franchising and licensing (December 31, 2020 - 6 franchisees accounted for 69%). For the twelve months ended December 31, 2021, three (3) franchisees accounted for 26% of the Company's revenues related to franchising and licensing (December 31, 2020 - 3 franchisees accounted for 23%). As of December 31, 2021, there was no accounts and notes receivable over 90 days old (December 31, 2020 - \$145). Also refer to note 7 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 December 31, 2021, no customer accounted for more than 10% of the accounts receivable balance. For the year ended December 31, 2021 and 2020, no customer accounted for more than 10% of the Company's revenues in this category. As of December 31, 2021, 3% of accounts receivable, net of allowance of doubtful accounts, in this category were over 90 days old (December 31, 2020 - 9%). As at December 31, 2021, the Company recorded an allowance for credit losses from receivables of \$45 related to corporate operations (December 31, 2020 - \$49).

RediShred Capital Corp.

Notes to Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

(In thousands of Canadian dollars)

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 management's assessment is collectability remains highly probable.

Foreign exchange risk

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. 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. This revaluation results in unrealized foreign exchange gains or losses. During the year ended December 31, 2021, the Company recorded a foreign exchange loss of \$200 (December 31, 2020 – loss of \$1,111). Based on revenues and expensed denominated in USD and translated to CAD, a 5% increase or decrease in exchange rates would impact the Company's net earnings by approximately \$114 (December 31, 2020 - \$62).

Exchange rates utilized (USD to CAD):

	December 31, 2021	December 31, 2020
	\$	\$
Close rate	1.27	1.27
Average rate	1.25	1.34

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, management believes the Company will be able to meet financial obligations as they come due. The current liabilities of \$11,324 at December 31, 2021 (December 31, 2020 - \$8,048), are due to be settled within one year from the date of the statement of financial position. The Company has current assets of \$15,301 as at December 31, 2021 (December 31, 2020 - \$5,500), including cash and cash equivalents of \$9,660 (December 31, 2020 - \$2,844)

RediShred Capital Corp.

Notes to Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

(In thousands of Canadian dollars)

Principal	Less than 3	3 months to 1	1 - 5 years	Over 5 years
	months	year		
	\$	\$	\$	\$
Accounts payable and accrued liabilities	2,784	363	200	-
Long-term debt	1,045	3,645	19,109	2,758
Contingent consideration	697	1,157	2,494	-
Lease liabilities	362	1,106	2,032	269

Interest	Less than 3	3 months to 1	1 - 5 years	Over 5 years
	months	year		
	\$	\$	\$	\$
Long-term debt	239	657	1,733	89
Lease liabilities	56	128	246	11

Total principal and interest	Less than 3	3 months to 1	1 - 5 years	Over 5 years
	months	year		
	\$	\$	\$	\$
Accounts payable and accrued liabilities	2,784	363	200	-
Long-term debt	1,284	4,302	20,842	2,847
Contingent consideration	697	1,157	2,494	-
Lease liabilities	418	1,234	2,278	280

25 Capital management

The Company defines capital as its 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. Refer to note 15 for the financial covenants.

RediShred Capital Corp.

Notes to Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

(In thousands of Canadian dollars)

26 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).

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

December 31, 2021	Franchising and licensing	Corporate locations	Corporate	Total
	\$	\$	\$	\$
ASSETS				
Current assets				
Cash and cash equivalents	(59)	1,120	8,599	9,660
Cash attributable to the Growth Fund	188	–	–	188
Trade and other receivables	147	4,645	102	4,894
Prepaid expenses	75	349	47	471
Income taxes receivable	88	–	–	88
Total current assets	439	6,114	8,748	15,301
Non-current assets				
Tangible assets	3	18,137	131	18,271
Intangible assets	187	21,749	217	22,153
Goodwill	–	22,655	–	22,655
Deferred tax asset	–	–	954	954
Total assets	629	68,655	10,050	79,334
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	185	1,925	1,037	3,147
Deferred revenue	–	98	–	98
Income taxes payable	–	35	32	67
Current portion of long-term debt	–	1,693	2,997	4,690
Lease liabilities	–	1,410	58	1,468
Contingent consideration	–	1,854	–	1,854
Total current liabilities	185	7,015	4,124	11,324
Non-current liabilities				
Accounts payable and accrued liabilities	–	200	–	200
Long-term debt	–	4,441	17,426	21,867
Deferred revenue	–	123	–	123
Lease liabilities	–	2,228	73	2,301
Contingent consideration	–	2,494	–	2,494
Deferred tax liability	32	633	–	665
Total liabilities	217	17,134	21,623	38,974

RediShred Capital Corp.

Notes to Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

(In thousands of Canadian dollars)

December 31, 2020	Franchising and licensing	Corporate locations	Corporate	Total
	\$	\$	\$	\$
ASSETS				
Current assets				
Cash and cash equivalents	50	641	2,153	2,844
Cash attributable to the Growth Fund	139	–	–	139
Trade and other receivables	1,802	192	123	2,117
Prepaid expenses	274	17	45	336
Notes receivable from franchisees	64	–	–	64
Total current assets	2,329	850	2,321	5,500
Non-current assets				
Notes receivable from franchisees	243	–	–	243
Tangible assets	–	15,016	199	15,215
Intangible assets	75	16,983	266	17,324
Goodwill	–	19,748	–	19,748
Deferred tax asset	–	–	658	658
Total assets	2,647	52,597	3,444	58,688
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	164	1,458	554	2,176
Deferred revenue	164	–	–	164
Current portion of long-term debt	–	3,476	–	3,476
Notes payable	–	262	–	262
Lease liabilities	–	1,014	67	1,081
Contingent consideration	–	889	–	889
Total current liabilities	328	7,099	621	8,048
Non-current liabilities				
Long-term debt	–	16,289	–	16,289
Deferred revenue	144	–	–	144
Lease liabilities	–	2,640	131	2,771
Contingent consideration	–	1,028	–	1,028
Total liabilities	472	27,056	752	28,280

RediShred Capital Corp.

Notes to Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

(In thousands of Canadian dollars)

Geographic information

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Canada	\$	\$
Tangible assets	131	199
Intangible assets	217	267
United States		
Notes receivable from franchisees	–	307
Tangible assets	18,140	15,016
Intangible assets	21,936	17,057
Goodwill	22,655	19,748
Total		
Notes receivable from franchisees	–	307
Tangible assets	18,271	15,215
Intangible assets	22,153	17,324
Goodwill	22,655	19,748

Revenue

All revenues were attributed to the United States.

RediShred Capital Corp.

Notes to Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

(In thousands of Canadian dollars)

Net income (loss) by operating segment

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

	For the year ended December 31, 2021			
	Franchising and licensing	Corporate locations	Corporate	Total
	\$	\$	\$	\$
Revenue	1,998	34,201	–	36,199
Direct costs	–	(21,839)	–	(21,839)
Depreciation – tangible assets	–	(4,412)	(92)	(4,504)
General and administrative expense	(680)	(1,230)	(3,259)	(5,169)
Total expenses	(680)	(27,481)	(3,351)	(31,512)
Operating income (loss)	1,318	6,720	(3,351)	4,687
Interest expense	–	(670)	(566)	(1,236)
Interest income	–	14	(1)	13
Government assistance	–	1,292	56	1,348
Amortization – intangible assets	(66)	(2,592)	(50)	(2,708)
Remeasurement of contingent consideration	–	(227)	–	(227)
Foreign exchange gain (loss)	–	(61)	(139)	(200)
Gain on disposal of tangible assets	–	394	–	394
Other Income	56	–	–	56
Income before income taxes	1,308	4,870	(4,051)	2,127
Income tax expense	83	(879)	27	(769)
Net income (loss)	1,391	3,991	(4,024)	1,358

RediShred Capital Corp.

Notes to Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

(In thousands of Canadian dollars)

	For the year ended December 31, 2020			
	Franchising and licensing	Corporate locations	Corporate	Total
	\$	\$	\$	\$
Revenue	2,235	23,202	–	25,437
Direct costs	–	(16,043)	–	(16,043)
Depreciation – tangible assets	–	(3,587)	(114)	(3,701)
General and administrative expense	(1,222)	(1,512)	(722)	(3,456)
Total expenses	(1,222)	(21,142)	(836)	(23,200)
Operating income (loss)	1,013	2,060	(836)	2,237
Interest expense	–	(1,003)	–	(1,003)
Interest income	17	–	72	89
Gain on debt modification	–	114	–	114
Government assistance	–	1,569	340	1,909
Amortization – intangible assets	(51)	(2,210)	(43)	(2,304)
Remeasurement of contingent consideration	–	397	–	397
Foreign exchange gain (loss)	–	–	(1,111)	(1,111)
Impairment of goodwill	–	(586)	–	(586)
Income before income taxes	979	341	(1,578)	(258)
Income tax recovery (expense)	(284)	1,247	(430)	533
Net income (loss)	695	1,588	(2,008)	275

RediShred Capital Corp.

Notes to Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

(In thousands of Canadian dollars)

27 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 \$4 due from this franchise as at December 31, 2021 (December 31, 2020 - \$23). During the twelve months ended December 31, 2021, the Company earned royalties, franchise and service fees of \$165 (December 31, 2020 - \$173) from this franchise.

28 Subsequent events

On March 1, 2022, the Company acquired the assets of Mobile Document Destruction ("MDD"), an Illinois-based shredding business. The purchase consideration for this acquisition was comprised of a payment of USD\$275 paid on closing and contingent consideration payable of USD\$60 if certain financial results are achieved during the 12-month period following the acquisition date.