

# **RediShred Capital Corp.**

Condensed Consolidated Interim Financial Statements

**For the Three and Six months ended June 30, 2022 and 2021**

(Unaudited – Prepared by Management)

# RediShred Capital Corp.

## Condensed Consolidated Interim Statements of Financial Position

As at June 30, 2022 and December 31, 2021

(Unaudited, expressed in thousands of Canadian dollars)

	2022	2021
	\$	\$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	9,516	9,660
Cash attributable to the Growth Fund (note 3)	177	188
Trade and other receivables (note 4)	6,729	4,894
Prepaid expenses	906	471
Income taxes receivable	130	88
<b>Total current assets</b>	<u>17,458</u>	<u>15,301</u>
<b>Non-current assets</b>		
Tangible assets (note 6)	18,291	18,271
Intangible assets (note 7)	22,478	22,153
Goodwill (note 8)	23,181	22,655
Deferred tax asset (note 17)	1,037	954
<b>Total non-current assets</b>	<u>64,987</u>	<u>64,033</u>
<b>Total assets</b>	<u>82,445</u>	<u>79,334</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	2,810	3,147
Deferred revenue	129	98
Income taxes payable	172	67
Current portion of long-term debt (note 10)	4,755	4,690
Lease liabilities (note 11)	1,275	1,468
Contingent consideration (note 9)	2,520	1,854
<b>Total current liabilities</b>	<u>11,661</u>	<u>11,324</u>
<b>Non-current liabilities</b>		
Accounts payable and accrued liabilities	154	200
Long-term debt (note 10)	20,816	21,867
Deferred revenue	69	123
Lease liabilities (note 11)	2,043	2,301
Contingent consideration (note 9)	1,788	2,494
Deferred tax liability (note 17)	1,745	665
<b>Total non-current liabilities</b>	<u>26,615</u>	<u>27,650</u>
<b>Total liabilities</b>	<u>38,276</u>	<u>38,974</u>
<b>Shareholders' equity</b>		
Capital stock (note 12)	44,958	44,138
Contributed surplus	1,074	1,229
Accumulated foreign currency translation loss	(550)	(608)
Deficit	(1,313)	(4,399)
	<u>44,169</u>	<u>40,360</u>
<b>Total liabilities and shareholders' equity</b>	<u>82,445</u>	<u>79,334</u>
<b>Commitments (note 22), Subsequent events (note 23)</b>		

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

# RediShred Capital Corp.

## Condensed Consolidated Interim Statements of Comprehensive Income

For the three and six months ended June 30, 2022 and 2021

(Unaudited, expressed in thousands of Canadian dollars, except share and per share amounts)

	For the three months ended June 30,		For the six months ended June 30,	
	2022	2021	2022	2021
	\$	\$	\$	\$
Revenue (note 13)	14,597	8,677	27,114	15,991
Corporate locations expenses (note 14)	(8,321)	(4,929)	(15,388)	(9,331)
Depreciation – tangible assets (note 6)	(1,390)	(1,077)	(2,724)	(2,111)
General and administrative expenses (note 15)	(1,736)	(1,127)	(3,120)	(1,984)
Total expenses	(11,447)	(7,133)	(21,232)	(13,426)
<b>Operating income</b>	<b>3,150</b>	<b>1,544</b>	<b>5,882</b>	<b>2,565</b>
Interest expense	(403)	(231)	(786)	(484)
Interest income	–	5	–	8
Government assistance (note 16)	–	–	–	1,318
Amortization – intangible assets (note 7)	(798)	(623)	(1,577)	(1,265)
Remeasurement of contingent consideration (note 9)	2	–	(37)	–
Foreign exchange gain (loss)	1,533	(633)	783	(1,139)
Gain on disposal of tangible assets	13	–	20	–
<b>Income before income taxes</b>	<b>3,497</b>	<b>62</b>	<b>4,285</b>	<b>1,003</b>
Income tax expense	(684)	(472)	(1,199)	(457)
<b>Net income (loss) for the period</b>	<b>2,813</b>	<b>(410)</b>	<b>3,086</b>	<b>546</b>
<b>Foreign currency translation income</b>	<b>105</b>	<b>33</b>	<b>58</b>	<b>52</b>
<b>Comprehensive income (loss) for the period</b>	<b>2,918</b>	<b>(377)</b>	<b>3,144</b>	<b>598</b>
<b>Net income (loss) per share (note 23)</b>				
Basic	0.155	(0.026)	0.170	0.035
Diluted	0.154	(0.026)	0.170	0.034
<b>Weighted average number of common shares outstanding – basic (note 23)</b>	<b>18,191,339</b>	<b>15,787,888</b>	<b>18,146,347</b>	<b>15,782,191</b>
<b>Weighted average number of common shares outstanding – diluted (note 23)</b>	<b>18,234,832</b>	<b>15,787,888</b>	<b>18,199,119</b>	<b>15,945,341</b>

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

## RediShred Capital Corp.

### Condensed Consolidated Interim Statements of Changes in Equity

For the six months ended June 30, 2022 and 2021

(Unaudited, expressed in thousands of Canadian dollars)

	Capital Stock and warrants	Contributed Surplus	Accumulated foreign currency translation income (loss)	Deficit	Total Shareholders' Equity
	\$	\$	\$	\$	\$
<b>Balance – January 1, 2021</b>	35,565	1,171	(571)	(5,757)	30,408
Net income for the year	–	–	–	546	546
Foreign currency translation gain	–	–	52	–	52
Stock-based compensation (note 12)	–	57	–	–	57
Exercise of options and warrants (note 12)	67	(23)	–	–	44
<b>Balance – June 30, 2021</b>	<b>35,632</b>	<b>1,205</b>	<b>(519)</b>	<b>(5,211)</b>	<b>31,107</b>
<b>Balance – January 1, 2022</b>	44,138	1,229	(608)	(4,399)	40,360
Net income for the year	–	–	–	3,086	3,086
Foreign currency translation income	–	–	58	–	58
Stock-based compensation (note 12)	–	133	–	–	133
Exercise of options and warrants (note 12)	820	(288)	–	–	532
<b>Balance – June 30, 2022</b>	<b>44,958</b>	<b>1,074</b>	<b>(550)</b>	<b>(1,313)</b>	<b>44,169</b>

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

# RediShred Capital Corp.

## Condensed Consolidated Interim Statements of Cash Flows For the three and six months ended June 30, 2022 and 2021 (Unaudited, expressed in thousands of Canadian dollars)

Cash provided by (used in)	For the three months ended June 30,		For the six months ended June 30,	
	2022	2021 <sup>(1)</sup>	2022	2021 <sup>(1)</sup>
	\$	\$	\$	\$
<b>Operating activities</b>				
Net income for the period	2,813	(410)	3,086	546
Items not affecting cash				
Depreciation of tangible assets and amortization of intangible assets (notes 6 and 7)	2,188	1,700	4,301	3,376
Stock-based compensation	67	41	133	57
Unrealized foreign currency (gain) loss	(1,561)	609	(817)	1,111
Interest expense, net of interest income	403	226	786	476
Remeasurement of contingent consideration (note 9)	(2)	—	37	—
Income tax expense	684	472	1,199	457
Gain on disposal of tangible assets	(13)	—	(20)	—
	<u>4,579</u>	<u>2,638</u>	<u>8,705</u>	<u>6,023</u>
Net change in non-cash working capital balances				
Increase in trade and other receivables	(669)	(575)	(1,718)	(801)
Increase in prepaid expenses	(228)	(96)	(452)	(255)
Increase (decrease) in accounts payable and accrued liabilities	(9)	148	(454)	(477)
Increase (decrease) in deferred revenue	6	(35)	(5)	(65)
Income taxes paid	(99)	(32)	(141)	(61)
Interest paid	(296)	(216)	(578)	(455)
<b>Net cash provided by operations</b>	<u>3,284</u>	<u>1,832</u>	<u>5,357</u>	<u>3,909</u>
<b>Financing activities</b>				
Borrowings from long-term debt	856	1,821	1,042	1,821
Repayments of long-term debt	(1,102)	(887)	(2,166)	(1,734)
Proceeds from exercise of options and warrants	296	25	532	44
Payments received on notes receivable	—	21	—	36
Repayment of notes payable	—	(71)	—	(160)
Repayment of lease liabilities (note 11)	(370)	(277)	(731)	(533)
Contingent consideration paid (note 9)	(353)	(343)	(913)	(351)
<b>Net cash provided by (used in) financing activities</b>	<u>(673)</u>	<u>289</u>	<u>(2,236)</u>	<u>(877)</u>
<b>Investing activities</b>				
Amount paid for acquisitions, net of cash acquired (note 5)	(1,335)	(1,320)	(1,684)	(1,320)
Decrease (increase) in cash held by Growth Fund	6	5	16	(41)
Purchase of tangible and intangible assets (notes 6 and 7)	(1,199)	(2,002)	(1,770)	(2,198)
Proceeds from disposal of tangible assets	14	—	133	—
<b>Net cash used in investing activities</b>	<u>(2,514)</u>	<u>(3,317)</u>	<u>(3,305)</u>	<u>(3,559)</u>
<b>Effect of foreign exchange rate changes on cash</b>	<u>69</u>	<u>(20)</u>	<u>40</u>	<u>(48)</u>
<b>Net change in cash for the period</b>	<u>166</u>	<u>(1,216)</u>	<u>(144)</u>	<u>(575)</u>
<b>Cash – Beginning of the period</b>	<u>9,350</u>	<u>3,485</u>	<u>9,660</u>	<u>2,844</u>
<b>Cash – End of the period</b>	<u>9,516</u>	<u>2,269</u>	<u>9,516</u>	<u>2,269</u>

(1) Certain comparative figures have been restated to conform to current year presentation.

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

# RediShred Capital Corp.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2022 and 2021

(Unaudited, expressed in thousands of 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 fourteen corporate locations, as of June 30, 2022.

### 2 Significant accounting policies

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

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*. The condensed consolidated interim financial statements should be read in conjunction with the Company’s most recently audited consolidated financial statements for the year ended December 31, 2021, which includes information necessary or useful to understanding the Company’s business and financial statement presentation. These condensed consolidated interim financial statements comprise the financial statements of Redishred and its subsidiaries as of June 30, 2022. Together, Redishred and its subsidiaries are referred to as the “Company.”

The Company’s significant accounting policies are included in Note 3 to the Company’s audited consolidated financial statements for the year ended December 31, 2021 and have been consistently applied in the preparation of these condensed consolidated interim financial statements.

The results reported in these condensed consolidated interim 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 consolidated interim financial statements were prepared on a going concern basis, under the historical cost convention. The condensed consolidated interim financial statements are presented in Canadian dollars, which is the Company’s presentation currency. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation

The global spread of the COVID-19 virus has led to significant disruptions to businesses worldwide. 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 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, 2022, 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 consolidated interim financial statements of the Company for the three and six months ended June 30, 2022 were authorized for issuance in accordance with a resolution of the Board of Directors on August 25, 2022.

## RediShred Capital Corp.

### Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2022 and 2021

(Unaudited, expressed in thousands of Canadian dollars)

### 3 Growth fund

The Company manages a Growth 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 by 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 for the three and six months ended June 30, 2022 and 2021, as well as cash balances as at June 30, 2022 and December 31, 2021 are as follows:

	<i>For the three months ended June 30,</i>		<i>For the six months ended June 30,</i>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
	\$	\$	\$	\$
Growth Fund revenue	54	55	109	114
Growth Fund expenses	(133)	(72)	(284)	(144)
<b>Growth Fund net loss</b>	<b>(79)</b>	<b>(17)</b>	<b>(175)</b>	<b>(30)</b>

<b>As at,</b>	<b>June 30, 2022 December 31, 2021</b>	
	\$	\$
Cash attributable to the Growth	177	188

### 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, 2022 and December 31, 2021 are as follows:

	<b>June 30, 2022</b>	<b>December 31, 2021</b>
	\$	\$
Trade receivables – corporate locations	6,419	4,227
Trade receivables – franchising and licensing	163	147
Total trade receivables	6,582	4,374
Other receivables	193	565
Less: Allowance for doubtful accounts	(46)	(45)
<b>Trade and other receivables, net</b>	<b>6,729</b>	<b>4,894</b>

# RediShred Capital Corp.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2022 and 2021

(Unaudited, expressed in thousands of Canadian dollars)

### 5 Acquisitions

The Company completed the following acquisitions during the six months ended June 30, 2022:

1. On March 1, 2022, the Company acquired the assets of Mobile Document Destruction (“MDD”), an Illinois-based shredding business.
2. On June 1, 2022, the Company acquired the assets of Safeguard Document Destruction Inc (“SDD”), a shredding business with operations in New Jersey and Florida.

The Company determined that the acquisitions met the definition of a business and accounted for the transactions as a business combination in accordance with IFRS 3, *Business Combinations*. The purchase price for the acquisitions is preliminary and 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 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 acquisition.

The Company conducted the acquisitions to increase its long-term cash flows and to increase its market share in the United States. The Company has identified synergies which it expects to realize in the elimination of redundant expenditures. In determining the fair market value of the assets acquired, synergies were not factored into the assessment. As a result, goodwill was created which represents the synergistic benefits to be realized by the Company starting immediately post-closing of the acquisitions. This goodwill is fully deductible for tax purposes.

The following table outlines the preliminary assets purchased and the consideration given on the closing date of these acquisitions:

During the six months ended June 30, 2022	MDD	SDD	Total
	\$	\$	\$
Exchange rate used	1.27	1.26	
<b>Assets Acquired</b>			
Net Working capital	19	—	19
Tangible assets	19	629	648
Customer relationships	307	1,128	1,435
Goodwill	117	36	153
	<u>462</u>	<u>1,793</u>	<u>2,255</u>
<b>Consideration Given</b>			
Cash	349	1,335	1,684
Contingent consideration	113	458	571
	<u>462</u>	<u>1,793</u>	<u>2,255</u>

The Company completed the following acquisitions during the year ended December 31, 2021:

1. On May 1, 2021, the Company acquired the assets of the Proshred Richmond, Virginia business from its franchisee.
2. On July 30, 2021, the Company acquired the assets of the Proshred Atlanta, Georgia business from its franchisee.
3. On December 1, 2021, the Company acquired the assets of American Security Shredding Corp. (“American Shredding”). American Shredding offers paper and hard drive shredding, product destruction, and electronic waste recycling services primarily in the New York and New Jersey markets.



## RediShred Capital Corp.

### Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2022 and 2021

(Unaudited, expressed in thousands of Canadian dollars)

For all of the acquisitions that the Company completed during the year ended December 31, 2021, the goodwill recognized is fully deductible for tax purposes.

The following table outlines the assets purchased and the consideration given on the closing date for each of the acquisitions completed during the year ended December 31, 2021:

During the year ended December 31, 2021	Proshred Richmond	Proshred Atlanta	American Shredding	Total
	\$	\$	\$	\$
Exchange rate used	1.23	1.25	1.28	
<b>Assets Acquired</b>				
Net Working capital	52	60	773	885
Tangible assets	617	609	778	2,004
Right-of-use assets	391	78	619	1,088
Customer relationships	818	1,154	4,722	6,694
Re-acquired franchise rights	119	9	–	128
Goodwill	254	1,444	1,294	2,992
	<u>2,251</u>	<u>3,354</u>	<u>8,186</u>	<u>13,791</u>
<b>Consideration Given</b>				
Cash	1,322	2,375	6,480	10,177
Net working capital settlement	–	–	7	7
Contingent consideration	538	901	1,080	2,519
Lease liabilities assumed	391	78	619	1,088
	<u>2,251</u>	<u>3,354</u>	<u>8,186</u>	<u>13,791</u>
Acquisition costs*	<u>31</u>	<u>131</u>	<u>66</u>	<u>228</u>

\*Expensed in the statement of comprehensive income in the period in which the costs were incurred.

# RediShred Capital Corp.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2022 and 2021

(Unaudited, expressed in thousands of Canadian dollars)

### 6 Tangible assets

	June 30, 2022			December 31, 2021		
	Cost	Accumulated depreciation	Net carrying value	Cost	Accumulated depreciation	Net carrying value
	\$	\$	\$	\$	\$	\$
Computer equipment	572	(361)	211	473	(307)	166
Furniture & fixtures	216	(201)	15	214	(192)	22
Bins & shredding containers	3,714	(1,855)	1,859	3,245	(1,536)	1,709
Shredding vehicles - chassis	7,303	(3,048)	4,255	6,521	(2,507)	4,014
Shredding vehicles - box	14,391	(6,197)	8,194	13,359	(5,219)	8,140
Vehicles	198	(184)	14	196	(176)	20
Baling equipment	551	(179)	372	533	(145)	388
ROU Office and Warehouse	5,461	(2,778)	2,683	5,159	(2,109)	3,050
ROU Truck leases	1,822	(1,134)	688	1,989	(1,227)	762
<b>Total tangible assets</b>	<b>34,228</b>	<b>(15,937)</b>	<b>18,291</b>	<b>31,689</b>	<b>(13,418)</b>	<b>18,271</b>

	December 31, 2021						June 30, 2022
	Net carrying value	Additions	Acquisitions	Depreciation	Disposition of Assets	Foreign exchange	Net carrying value
	\$	\$	\$	\$	\$	\$	\$
Computer equipment	166	94	-	(52)	-	3	211
Furniture & fixtures	22	-	-	(7)	-	-	15
Bins & shredding containers	1,709	313	98	(290)	-	29	1,859
Shredding vehicles - chassis	4,014	489	282	(570)	(28)	68	4,255
Shredding vehicles - box	8,140	790	268	(1,052)	(85)	133	8,194
Vehicles	20	-	-	(6)	-	-	14
Baling equipment	388	8	-	(30)	-	6	372
ROU Office and Warehouse	3,050	222	-	(632)	-	43	2,683
ROU Truck leases	762	-	-	(85)	-	11	688
<b>Total tangible assets</b>	<b>18,271</b>	<b>1,916</b>	<b>648</b>	<b>(2,724)</b>	<b>(113)</b>	<b>293</b>	<b>18,291</b>

	December 31, 2020						December 31, 2021
	Net carrying value	Additions	Acquisitions	Depreciation	Disposition of Assets	Foreign exchange	Net carrying value
	\$	\$	\$	\$	\$	\$	\$
Computer equipment	88	129	-	(57)	-	6	166
Furniture & fixtures	51	7	-	(35)	-	(1)	22
Bins & shredding containers	1,196	479	479	(450)	-	5	1,709
Shredding vehicles - chassis	3,086	1,676	475	(942)	(259)	(22)	4,014
Shredding vehicles - box	6,586	2,702	1,007	(1,851)	(361)	57	8,140
Vehicles	18	-	7	(15)	-	10	20
Baling equipment	385	20	36	(53)	-	-	388
ROU Office and Warehouse	3,183	2	793	(922)	-	(6)	3,050
ROU Truck leases	622	33	295	(179)	-	(9)	762
<b>Total tangible assets</b>	<b>15,215</b>	<b>5,048</b>	<b>3,092</b>	<b>(4,504)</b>	<b>(620)</b>	<b>40</b>	<b>18,271</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, 2022 and December 31, 2021, and is included in other comprehensive income.

## RediShred Capital Corp.

### Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2022 and 2021

(Unaudited, expressed in thousands of Canadian dollars)

#### 7 Intangible assets

	June 30, 2022			December 31, 2021		
	Cost	Accumulated amortization	Net carrying value	Cost	Accumulated amortization	Net carrying value
	\$	\$	\$	\$	\$	\$
Computer software	1,117	(419)	698	1,027	(297)	730
Re-acquired franchise rights	1,147	(932)	215	1,129	(827)	302
Trademarks & intellectual property	46	(8)	38	46	(6)	40
Customer relationships	29,934	(8,407)	21,527	27,989	(6,908)	21,081
Total intangible assets	32,244	(9,766)	22,478	30,191	(8,038)	22,153

	December 31, 2021					June 30, 2022
	Net carrying value	Additions	Acquisitions	Amortization	Foreign exchange	Net carrying value
	\$	\$	\$	\$	\$	\$
Computer software	730	76	-	(120)	12	698
Re-acquired franchise rights	302	-	-	(91)	4	215
Trademarks & intellectual property	40	-	-	(2)	-	38
Customer relationships	21,081	-	1,435	(1,364)	375	21,527
Total intangible assets	22,153	76	1,435	(1,577)	391	22,478

	January 1, 2021					December 31, 2021
	Net carrying value	Additions	Acquisitions	Amortization	Foreign exchange	Net carrying value
	\$	\$	\$	\$	\$	\$
Computer software	294	593	-	(162)	5	730
Re-acquired franchise rights	513	-	128	(338)	(1)	302
Trademarks & intellectual property	45	-	-	(5)	-	40
Customer relationships	16,472	162	6,694	(2,203)	(44)	21,081
Total intangible assets	17,324	755	6,822	(2,708)	(40)	22,153

The foreign exchange adjustment is a result of the translation of foreign operation intangible assets in US dollars to Canadian dollars at June 30, 2022 and December 31, 2021, and is included in other comprehensive income.

#### 8 Goodwill

The goodwill as at June 30, 2022 and December 31, 2021 is as follows:

	June 30, 2022	December 31, 2021
	\$	\$
Opening balance	22,655	19,748
Acquisitions	153	2,992
Foreign Currency Translation	373	(85)
Closing balance	23,181	22,655

The foreign exchange adjustment is a result of the translation of goodwill in US dollars to Canadian dollars at June 30, 2022 and December 31, 2021, and is included in other comprehensive income.

# RediShred Capital Corp.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2022 and 2021

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### 9 Contingent Consideration

The Company has recorded contingent consideration liabilities as part of the businesses acquired. The contingent consideration liabilities are paid to the vendors if certain financial results are achieved. During the three months ended June 30, 2022, the Company recorded a remeasurement gain of \$2 and for the six months ended June 30, 2022, a remeasurement loss of \$37 on contingent consideration. The fair value of contingent consideration is calculated based on the expected payout, discounted.

As at June 30, 2022, the Company has the following related to contingent consideration:

<u>Range of origination</u>	<u>Range of payouts</u>	<u>Current portion</u>	<u>Long-term portion</u>	<u>Range of maturity</u>
March 1, 2020 to June 1, 2022	USD\$0 to USD\$6,449	CAD\$2,520 USD\$1,956	CAD\$1,788 USD\$1,388	July 1, 2022 to June 1, 2025

The change in contingent consideration was as follows:

	<u>June 30, 2022</u>
	\$
<b>Opening balance, January 1</b>	4,348
Payments	(913)
Additions through acquisitions	571
Interest accretion	180
Remeasurement	37
Foreign exchange	85
<b>Closing balance, June 30</b>	<u>4,308</u>

### 10 Long-term debt

As at June 30, 2022 and December 31, 2021 long-term debt is comprised of the following:

	<u>June 30, 2022</u>	<u>December 31, 2021</u>
	\$	\$
Bank facilities (i)	19,456	20,720
Less: transaction costs	(270)	(298)
Net bank facilities	<u>19,186</u>	<u>20,422</u>
Truck loans (ii)	6,385	6,135
Total long-term debt	<u>25,571</u>	<u>26,557</u>
Less: current portion	<u>(4,755)</u>	<u>(4,690)</u>
	<u>20,816</u>	<u>21,867</u>

#### (i) Bank facilities

As at June 30, 2022, the Company has the following secured senior credit facilities:

1. An operating line of credit of CAD\$1 million;
2. A non-revolving re-advanceable term loan facility in the amount of CAD\$23.5 million (advances can be taken in either USD or CAD equivalent, at the Company's discretion).

## RediShred Capital Corp.

### Notes to the Condensed Consolidated Interim Financial Statements

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As at June 30, 2022, the Company has borrowed the following amounts under the non-revolving re-advanceable term loan facility:

Month of Advance	Initial Amount	Interest per annum	Amortization period	June 30, 2022 balance	December 31, 2021 balance
	\$			\$	\$
May, 2019	6,003	3.50%	60 months	3,830	4,248
November, 2019	6,664	3.50%	84 months	4,703	5,157
March, 2020	2,688	2.99%	84 months	2,044	2,226
December, 2020	2,290	3.33%	84 months	1,833	1,990
August, 2021	854	3.69%	84 months	756	809
December, 2021 <sup>(a)</sup>	6,290	Prime + 1.25%	84 months	6,290	6,290
<b>Total</b>				<b>19,456</b>	<b>20,720</b>

(a) During the first nine-months of this term loan, monthly payments of interest only are due and payable. This loan is at the Prime Rate plus 1.25%, with the Prime Rate as at June 30, 2022 being 3.70%. In August 2022, subsequent to the date of these financial statements, this term loan was converted to a term loan with a fixed interest rate of 6.52% per annum.

As at June 30, 2022, the Company has \$1.0 million available on its operating line of credit and \$4.0 million available on its non-revolving re-advanceable term loan.

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 follows:

1. A minimum fixed charge coverage ratio of 1.20:1 which is defined as earnings before interest, taxes, depreciation and amortization ("EBITDA") less cash taxes and unfunded capital expenditures to total principal and interest repayments;
2. A maximum senior funded debt to EBITDA ratio of 3.00:1 which is defined as total senior debt divided by EBITDA;
3. A maximum total funded debt to EBITDA ratio of 3.50:1 which is defined as total debt to EBITDA;
4. Capital expenditures are not to exceed USD\$2.9 million in any fiscal year; and
5. Unfunded capital expenditures are not to exceed USD\$640,000 in any fiscal year.

The ratio covenants are measured at the end of each quarter on a trailing 12-month basis.

As of June 30, 2022, the Company was in compliance with its banking covenants.

#### (ii) Truck loans

In June 2021, the Company established a USD\$1.8 million line of credit for the purchase of shredding vehicles with a lender in the United States. The interest rate is based on prevailing market rates at the time the line is used. As of June 30, 2022, the Company has USD\$0.3 million available on the line of credit.

In July 2022, subsequent to the date of these financial statements, the Company established a new USD \$4.0 million line of credit for the purchase of shredding vehicles, which replaces the existing line of credit that the Company had with the aforementioned lender. The interest rate on this facility is based on prevailing market rates at the time the line is used.

## RediShred Capital Corp.

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As of June 30, 2022, 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	6,385	7,724	3.92% to 5.99%	May 01, 2017 to June 01, 2022	August 5, 2022 to June 01, 2027

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

The Company had a related party line of credit facility with a significant shareholder for a maximum amount of \$2.0 million. The line of credit facility matured subsequent to the date of these financial statements on July 16, 2022 and was not renewed. The line of credit bore interest at a fixed rate of 10% per annum and was secured by a second in priority general security agreement over the Company's assets. As of June 30, 2022, the facility had not been drawn upon (December 31, 2021 - \$nil).

## 11 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.

Lease Liability	Number of ROU assets leased	Range of remaining term	Range of interest rates	Lease balance as of June 30, 2022
				\$
Office and warehouse building	16	November 2022 to March 2028	4.75% to 6.00%	2,880
Shredding vehicles	7	October 2022 to June 2026	5.95% to 6.00%	438
<b>Total</b>				<b>3,318</b>

The total lease payments made during the three and six months ended June 30, 2022 was \$370 and \$731, respectively (three and six months ended June 30, 2021, \$277 and \$533, respectively).

# RediShred Capital Corp.

## Notes to the Condensed Consolidated Interim Financial Statements

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### 12 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 <sup>(1)</sup>		Warrants <sup>(1)</sup>		Total	
	Number	\$	Number	\$	Number	\$
Balance June 30, 2022	91,212,755	44,958	—	—	91,212,755	44,958
Balance December 31, 2021	89,996,855	43,942	594,900	196	90,591,755	44,138

- (1) Note that the issued and outstanding number of common shares and warrants does not reflect the consolidation of the Company's shares that occurred subsequent to the date of these financial statements on August 23, 2022. See note 23 'Subsequent Events' for further details. The number of common shares and warrants that would be outstanding as at June 30, 2022 and December 31, 2021, reflecting this consolidation of the Company's shares is as follows:

	Common stock	Warrants
	Number	Number
Balance June 30, 2022	18,242,557	—
Balance December 31, 2021	17,999,371	118,980

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

The basic weighted average number of common shares outstanding for the three and six months ended June 30, 2022 was 18,191,339 and 18,146,347, respectively (three and six months ended June 30, 2021—15,787,888 and 15,782,191, respectively). The diluted weighted average number of common shares outstanding for the three and six months ended June 30, 2022 was 18,234,832 and 18,199,119, respectively (three months and six months ended June 30, 2021 – 15,787,888 and 15,945,341, respectively).

In calculating the basic and diluted net income per share amounts presented in these financial statements, the Company's consolidation of shares that occurred subsequent to the date of these financial statements has been reflected as if the share consolidation had occurred at the beginning of the comparative period presented in these financial statements. See Note 23 'Subsequent events' for further details.

#### d) Warrants

The Company issued 2,002,150 warrants on January 23, 2017 as part of a private placement. Each warrant is exercisable into one common share of the Company at a price of \$0.36 per common share for a period of five years and expired on January 23, 2022. The warrants were classified as equity instruments. The fair value of the warrants was determined using the Black-Scholes option pricing model. There were 584,900 warrants exercised and 10,000 warrants expired during the six months ended June 30, 2022 (six months ended June 30, 2021- 51,000 warrants exercised and nil expired).

## RediShred Capital Corp.

### Notes to the Condensed Consolidated Interim Financial Statements

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#### e) Stock options

The following table summarizes the movements in the Company's stock options during the six months ended June 30, 2022 and 2021:

	2022		2021	
	Number of options <sup>(1)</sup>	Weighted average exercise price \$	Number of options <sup>(1)</sup>	Weighted average exercise price \$
<b>Outstanding – opening</b>	2,225,909	0.62	1,954,317	0.60
Granted	1,297,847	0.84	337,382	0.70
Exercised	(631,000)	0.51	(45,000)	0.56
Expired and forfeited	(34,500)	0.57	—	—
<b>Outstanding – closing</b>	<u>2,858,256</u>	0.75	<u>2,246,699</u>	0.62

Note that the number of options presented does not reflect the consolidation of the Company's shares that occurred subsequent to the date of these financial statements on August 23, 2022. See note 23 'Subsequent Events' for further details. The number of options that would be outstanding as at June 30, 2022 and December 31, 2021, reflecting this consolidation of the Company's shares, would be 571,651 and 449,340, respectively. On the date of the share consolidation, the number of stock options and their exercise price will be adjusted to reflect this share consolidation.

The fair value of the 1,297,847 stock options granted during the six months ended June 30, 2022 totaled \$533. The fair value of the options was calculated using the Black-Scholes model using a risk-free interest rate of 1.39% - 3.17%, volatility of 53% to 57%, expected life of 5 years and a 0% dividend yield.

For the three and six months ended June 30, 2022 stock compensation expense was \$67 and \$133, respectively (for the three and six months ended June 30, 2021 – \$41 and \$57, respectively).

## 13 Revenue

The break-down of revenue earned by the Company for the three and six months ended June 30, 2022 and 2021 is as follows:

	<i>For the three months ended June 30,</i>		<i>For the six months ended June 30,</i>	
	2022	2021	2022	2021
	\$	\$	\$	\$
Shredding services	9,773	6,518	18,528	12,183
Sale of paper products	3,070	935	5,367	1,557
Royalties and license fees	484	412	928	830
Scanning services	816	472	1,464	759
Electronic waste services	378	251	675	482
Growth Fund contributions	54	55	109	114
Franchise fees	22	34	43	66
<b>Total revenue</b>	<u>14,597</u>	<u>8,677</u>	<u>27,114</u>	<u>15,991</u>



# RediShred Capital Corp.

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### 14 Corporate location expenses

The break-down of corporate location expenses of the Company for the three and six months ended June 30, 2022 and 2021 is as follows

	<i>For the three months ended</i>		<i>For the six months ended</i>	
	<i>June 30,</i>	<i>June 30,</i>	<i>June 30,</i>	<i>June 30,</i>
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Shredding vehicle and related expenses	2,437	1,145	3,973	2,153
Acquisition costs	132	67	260	118
Employee wages expense	3,917	2,541	7,572	4,821
Employee benefits expense	728	494	1,541	931
Office and administration expense	1,107	682	2,042	1,308
<b>Total corporate operating expenses</b>	<b>8,321</b>	<b>4,929</b>	<b>15,388</b>	<b>9,331</b>

### 15 General and administrative expenses

The break-down of general and administrative expenses of the Company for the three and six months ended June 30, 2022 and 2021 is as follows:

	<i>For the three months ended</i>		<i>For the six months ended</i>	
	<i>June 30,</i>	<i>June 30,</i>	<i>June 30,</i>	<i>June 30,</i>
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Employee wages and benefits expense	704	549	1,368	992
Share-based compensation	67	41	133	57
Professional fees	323	123	448	198
Acquisition costs	109	48	131	59
Technology	67	114	222	221
Growth Fund expenses	133	72	284	144
Other	333	180	534	313
<b>Total general and administrative expenses</b>	<b>1,736</b>	<b>1,127</b>	<b>3,120</b>	<b>1,984</b>

### Compensation of key management

Included in employee wages and benefits and share-based compensation expense is key management personnel compensation, which is as follows for the three and six months ended June 30, 2022 and 2021:

	<i>For the three months ended</i>		<i>For the six months ended</i>	
	<i>June 30,</i>	<i>June 30,</i>	<i>June 30,</i>	<i>June 30,</i>
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Wages and benefits	295	287	578	584
Share-based compensation	50	22	103	35
<b>Total compensation of key management</b>	<b>345</b>	<b>309</b>	<b>681</b>	<b>619</b>

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

# RediShred Capital Corp.

## Notes to the Condensed Consolidated Interim Financial Statements

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### 16 Government Assistance

In February and March 2021 of the prior year, the Company qualified for and received \$1,292 in forgivable loan funding under the U.S. Paycheck Protection Program (“PPP”). The PPP forgivable loan was made available by the U.S. Small Business Administration to eligible U.S. businesses that had been affected by the COVID-19 pandemic. The forgiveness criteria for the entire PPP loan was expected to be met by the Company as at March 31, 2021, and as a result, the funding received was recorded as government assistance in the comparative statement of comprehensive income. The PPP loan was subsequently forgiven during the year ended December 31, 2021.

The Company also qualified for and received \$26 under the Federal Government of Canada’s Canadian Emergency Wage Subsidy program (“CEWS Program”) for the comparative period from April 1, 2021 to June 30, 2021. The amounts received under the CEWS Program were recorded as government assistance in the comparative statement of comprehensive income.

### 17 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 commencing December 31, 2035. The Company has also incurred US non-capital losses that can be carried forward to reduce taxes payable in the US. The losses expire at various times commencing December 31, 2022.

Income before income taxes for the three and six months ended June 30, 2022 was \$3,497 and \$4,285, respectively (three and six months ended June 30, 2021- \$62 and \$1,003, respectively). Income tax expense for the three and six months ended June 30, 2022 was \$684 and \$1,199 respectively (three and six months ended June 30, 2021- \$472 and \$457, respectively). The effective tax rate for the three and six months ended June 30, 2022 and 2021 was as follows:

	<i>For the three months ended June 30,</i>		<i>For the six months ended June 30,</i>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
Effective Tax Rate Percentage	20%	761%	28%	46%

The lower effective tax rate, as compared to the statutory tax rates of Redishred and its subsidiaries, for the three months ended June 30, 2022 was primarily due to the impact of foreign exchange movements on intercompany balances between Redishred and its subsidiaries. The higher effective tax rate for the three and six months ended June 30, 2021 was also due to the impact of foreign exchange movements on intercompany balances between Redishred and its subsidiaries, partially offset, during the six months ended June 30, 2021, by \$1,292 in non-taxable, forgivable loan funding received by the Company under the U.S. Paycheck Protection Program (see Note 16).

# RediShred Capital Corp.

## Notes to the Condensed Consolidated Interim Financial Statements

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### 18 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 primarily due 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.

There were no transfers between levels of the fair value hierarchy during the three and six months ended June 30, 2022 and 2021.

#### 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.

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- **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 three and six months ended June 30, 2022 and 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.

#### *Receivables related to corporate operations*

The aging analysis for accounts receivable past due related to corporate operations as at June 30, 2022 and December 31, 2021 is as follows:

	<u>June 30, 2022</u>	<u>December 31, 2021</u>
	\$	\$
<b>Past due but not impaired</b>		
60 to 90 days	460	207
91 days to 180 days	464	129

The accounts receivables related to corporate operations are exposed to credit risk from the possibility that customers may experience financial difficulty. As at June 30, 2022 and December 31, 2021, no customer accounted for more than 10% of the accounts receivable balance. For the three and six months ended June 30, 2022 and 2021, no customer accounted for more than 10% of the Company's revenue in this category. As at June 30, 2022, 8% of accounts receivable, net of allowance of doubtful accounts, in this category were over 90 days old (December 31, 2021 – 3%). As at June 30 2022, the Company recorded an allowance for credit losses from receivables of \$46 related to corporate operations (December 31, 2021 - \$45).

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 and management's assessment is collectability remains highly probable.

#### *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 June 30, 2022, six (6) franchisees accounted for 50% of the accounts receivable balance related to franchising and licensing (December 31, 2021 - 6 franchisees accounted for 53%). For the three and six months ended June 30, 2022, three (3) franchisees accounted for 27% and 27% of the Company's revenues related to franchising and licensing, respectively (three and six months ended June 30, 2021 - 3 franchisees accounted for 24% and 24%, respectively). As at June 30, 2022 and December 31, 2021, there was no accounts receivable from franchisees over 90 days old.

# RediShred Capital Corp.

## Notes to the Condensed Consolidated Interim Financial Statements

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### 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 three months and six ended June 30, 2022, the Company recorded a foreign exchange gain of \$1,533 and \$783, respectively (three and six months ended June 30, 2021 – foreign exchange loss of \$633 and \$1,139 respectively).

Exchange rates utilized (USD to CAD):

<b>As at,</b>	<b>June 30, 2022</b>	<b>December 31, 2021</b>
	\$	\$
Close rate	1.29	1.27
<b>For the six months ended,</b>	<b>June 30, 2022</b>	<b>June 30, 2021</b>
	\$	\$
Average rate	1.27	1.25

### 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 \$11,661 at June 30, 2022 (December 31, 2021 - \$11,324), are due to be settled within one year from the date of the statement of financial position. The Company has current assets of \$17,458 as at June 30, 2022 (December 31, 2021 - \$15,301), including cash and cash equivalents of \$9,516 (December 31, 2021 - \$9,660).

## RediShred Capital Corp.

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Principal	Less than 3	3 months to 1	1 - 5 years	Over 5 years
	months	year		
	\$	\$	\$	\$
Accounts payable and accrued liabilities	2,678	132	154	-
Long-term debt	1,104	3,651	18,404	2,412
Contingent consideration	455	2,065	1,788	-
Lease liabilities	356	919	1,873	170

  

Interest	Less than 3	3 months to 1	1 - 5 years	Over 5 years
	months	year		
	\$	\$	\$	\$
Long-term debt	242	627	1,518	59
Lease liabilities	48	110	209	4

  

Total principal and interest	Less than 3	3 months to 1	1 - 5 years	Over 5 years
	months	year		
	\$	\$	\$	\$
Accounts payable and accrued liabilities	2,678	132	154	-
Long-term debt	1,346	4,278	19,922	2,471
Contingent consideration	455	2,065	1,788	-
Lease liabilities	404	1,029	2,082	174

## 19 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 10 for the financial covenants.

## 20 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.

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

June 30, 2022	Franchising and licensing	Corporate locations	Corporate	Total
	\$	\$	\$	\$
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents	45	3,312	6,159	9,516
Cash attributable to the Growth Fund	177	–	–	177
Trade and other receivables	162	6,390	177	6,729
Prepaid expenses	236	532	138	906
Income taxes receivable	130	–	–	130
<b>Total current assets</b>	<b>750</b>	<b>10,234</b>	<b>6,474</b>	<b>17,458</b>
<b>Non-current assets</b>				
Tangible assets	13	18,177	101	18,291
Intangible assets	646	21,636	196	22,478
Goodwill	–	23,181	–	23,181
Deferred tax asset	–	–	1,037	1,037
<b>Total assets</b>	<b>1,409</b>	<b>73,228</b>	<b>7,808</b>	<b>82,445</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Accounts payable and accrued liabilities	646	1,761	403	2,810
Deferred revenue	77	52	–	129
Income taxes payable	–	151	21	172
Current portion of long-term debt	–	1,858	2,897	4,755
Lease liabilities	–	1,200	75	1,275
Contingent consideration	–	2,520	–	2,520
<b>Total current liabilities</b>	<b>723</b>	<b>7,542</b>	<b>3,396</b>	<b>11,661</b>
<b>Non-current liabilities</b>				
Accounts payable and accrued liabilities	–	154	–	154
Long-term debt	–	4,528	16,288	20,816
Deferred revenue	69	–	–	69
Lease liabilities	–	2,023	20	2,043
Contingent consideration	–	1,788	–	1,788
Deferred tax liability	98	1,647	–	1,745
<b>Total liabilities</b>	<b>890</b>	<b>17,682</b>	<b>19,704</b>	<b>38,276</b>

## RediShred Capital Corp.

### Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2022 and 2021

(Unaudited, expressed in thousands of Canadian dollars)

December 31, 2021	Franchising and licensing	Corporate locations	Corporate	Total
	\$	\$	\$	\$
<b>ASSETS</b>				
<b>Current assets</b>				
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
Notes receivable from franchisees	88	–	–	88
<b>Total current assets</b>	439	6,114	8,748	15,301
<b>Non-current assets</b>				
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
<b>Total assets</b>	629	68,655	10,050	79,334
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Accounts payable and accrued liabilities	185	1,925	1,037	3,147
Deferred revenue	98	–	–	98
Current portion of long-term debt	–	35	32	67
Notes payable	–	1,693	2,997	4,690
Lease liabilities	–	1,410	58	1,468
Contingent consideration	–	1,854	–	1,854
<b>Total current liabilities</b>	283	6,917	4,124	11,324
<b>Non-current liabilities</b>				
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
<b>Total liabilities</b>	438	16,913	21,623	38,974



## RediShred Capital Corp.

### Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2022 and 2021

(Unaudited, expressed in thousands of Canadian dollars)

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#### Geographic information

	<u>June 30, 2022</u>	<u>December 31, 2021</u>
<b>Canada</b>	<b>\$</b>	<b>\$</b>
Tangible assets	101	131
Intangible assets	196	217
<b>United States</b>		
Tangible assets	18,190	18,140
Intangible assets	22,282	21,936
Goodwill	23,181	22,655
<b>Total</b>		
Tangible assets	18,291	18,271
Intangible assets	22,478	22,153
Goodwill	23,181	22,655

#### Revenue

All revenues were attributed to the United States.

# RediShred Capital Corp.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2022 and 2021

(Unaudited, expressed in thousands of Canadian dollars)

### Net income (loss) by operating segment

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

	<b>For the three months ended June 30, 2022</b>			
	<b>Franchising and licensing</b>	<b>Corporate locations</b>	<b>Corporate</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Revenue	560	14,037	–	14,597
Corporate location expenses	–	(8,321)	–	(8,321)
Depreciation – tangible assets	–	(1,367)	(23)	(1,390)
General and administrative expense	(414)	(251)	(1,071)	(1,736)
<b>Total expenses</b>	<b>(414)</b>	<b>(9,939)</b>	<b>(1,094)</b>	<b>(11,447)</b>
<b>Operating income (loss)</b>	<b>146</b>	<b>4,098</b>	<b>(1,094)</b>	<b>3,150</b>
Interest expense	–	(212)	(191)	(403)
Amortization – intangible assets	(15)	(772)	(11)	(798)
Remeasurement of contingent consideration	–	2	–	2
Foreign exchange gain	–	–	1,533	1,533
Gain on disposal of tangible assets	–	13	–	13
<b>Income before income taxes</b>	<b>131</b>	<b>3,129</b>	<b>237</b>	<b>3,497</b>
Income tax expense	(64)	(653)	33	(684)
<b>Net income</b>	<b>67</b>	<b>2,476</b>	<b>270</b>	<b>2,813</b>
	<b>For the three months ended June 30, 2021</b>			
	<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	8,176	–	8,677
Direct costs	–	(4,929)	–	(4,929)
Depreciation – tangible assets	–	(1,054)	(23)	(1,077)
General and administrative expense	(371)	(465)	(291)	(1,127)
<b>Total expenses</b>	<b>(371)</b>	<b>(6,448)</b>	<b>(314)</b>	<b>(7,133)</b>
<b>Operating income (loss)</b>	<b>130</b>	<b>1,728</b>	<b>(314)</b>	<b>1,544</b>
Interest expense	–	(231)	–	(231)
Interest income	5	–	–	5
Amortization – intangible assets	(13)	(598)	(12)	(623)
Foreign exchange loss	–	–	(633)	(633)
<b>Income (loss) before income taxes</b>	<b>122</b>	<b>899</b>	<b>(959)</b>	<b>62</b>
Income tax expense	(28)	(3)	(441)	(472)
<b>Net income (loss)</b>	<b>94</b>	<b>896</b>	<b>(1,400)</b>	<b>(410)</b>

# RediShred Capital Corp.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2022 and 2021

(Unaudited, expressed in thousands of Canadian dollars)

	<b>For the six months ended June 30, 2022</b>			
	<b>Franchising and licensing</b>	<b>Corporate locations</b>	<b>Corporate</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Revenue	1,081	26,033	–	27,114
Corporate location expenses	–	(15,388)	–	(15,388)
Depreciation – tangible assets	–	(2,678)	(46)	(2,724)
General and administrative expense	(843)	(502)	(1,775)	(3,120)
Total expenses	(843)	(18,568)	(1,821)	(21,232)
<b>Operating income (loss)</b>	<b>238</b>	<b>7,465</b>	<b>(1,821)</b>	<b>5,882</b>
Interest expense	–	(428)	(358)	(786)
Amortization – intangible assets	(38)	(1,518)	(21)	(1,577)
Remeasurement of contingent consideration	–	(37)	–	(37)
Foreign exchange gain	–	–	783	783
Gain on disposal of tangible assets	–	20	–	20
<b>Income (loss) before income taxes</b>	<b>200</b>	<b>5,502</b>	<b>(1,417)</b>	<b>4,285</b>
Income tax expense	(95)	(1,096)	(8)	(1,199)
<b>Net income (loss)</b>	<b>105</b>	<b>4,406</b>	<b>(1,425)</b>	<b>3,086</b>
	<b>For the six months ended June 30, 2021</b>			
	<b>Franchising and licensing</b>	<b>Corporate locations</b>	<b>Corporate</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Revenue	1,010	14,981	–	15,991
Corporate location expenses	–	(9,331)	–	(9,331)
Depreciation – tangible assets	–	(2,063)	(48)	(2,111)
General and administrative expense	(646)	(921)	(417)	(1,984)
Total expenses	(646)	(12,315)	(465)	(13,426)
<b>Operating income (loss)</b>	<b>364</b>	<b>2,666</b>	<b>(465)</b>	<b>2,565</b>
Interest expense	–	(484)	–	(484)
Interest income	7	–	1	8
Government assistance	–	1,281	37	1,318
Amortization – intangible assets	(28)	(1,212)	(25)	(1,265)
Remeasurement of contingent consideration	–	–	–	–
Foreign exchange loss	–	–	(1,139)	(1,139)
<b>Income (loss) before income taxes</b>	<b>343</b>	<b>2,251</b>	<b>(1,591)</b>	<b>1,003</b>
Income tax expense	(55)	(6)	(396)	(457)
<b>Net income (loss)</b>	<b>288</b>	<b>2,245</b>	<b>(1,987)</b>	<b>546</b>

# RediShred Capital Corp.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2022 and 2021

(Unaudited, expressed in thousands of Canadian dollars)

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### 21 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 \$6 due from this franchise as at June 30, 2022 (December 31, 2021 - \$4). During the three and six months ended June 30, 2022, the Company earned royalties, franchise and service fees of \$46 and \$91, respectively (three and six months ended June 30, 2021 - \$36 and \$80, respectively) from this franchise.

### 22 Commitments

In April, 2022, the Company entered into a eight-year lease agreement for a new office space with an expected commencement date of October 1, 2022. As the lease has not commenced, a right-of-use asset and lease liability for this lease has not been recognized on the consolidated statements of financial position. Annual rent for this new office space upon lease commencement is \$133 for the first two years, \$140 for years three to six, and \$148 for years seven to eight.

### 23 Subsequent Events

In July, 2022, the Company also established a new line of credit for the purchase of shredding vehicles. Please refer to note 10 (ii) for further details.

On August 23, 2022, the Company consolidated its issued and outstanding common shares on the basis of one (1) post-consolidation common share for every five (5) pre-consolidation common shares issued and outstanding. The basic and diluted net income per share amounts presented in these interim financial statements for the three and six months ended June 30, 2022 and 2021 have been adjusted to reflect this share consolidation as if it had occurred on January 1, 2021.