

RediShred Capital Corp.

Consolidated Financial Statements

December 31, 2022 and 2021

(expressed in thousands of Canadian dollars)

April 21, 2023

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*"

Chief Financial Officer

Mississauga, Ontario



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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of RediShred Capital Corp.

Opinion

We have audited the consolidated financial statements of RediShred Capital Corp. (the Entity), which comprise:

- the consolidated statements of financial position as at December 31, 2022 and December 31, 2021
- the consolidated statements of comprehensive income for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2022 and December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the “**Auditor’s Responsibilities for the Audit of the Financial Statements**” section of our auditor’s report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our auditor's report.

Evaluation of the impairment assessment for goodwill

Description of the matter

We draw attention to Notes 3, 4(i) and 11 to the financial statements. The goodwill balance is \$28,385 thousand. The Entity performs goodwill impairment testing annually or whenever an indicator of impairment exists. The carrying amount of a cash-generating unit is compared to its recoverable amount, which is the higher of its value in use and fair value less costs of disposal. In determining the recoverable amount of a cash-generating unit, the Entity's significant assumptions include projected sales growth rates and operating margins, discount rates and terminal growth rates.

Why the matter is a key audit matter

We identified the evaluation of the impairment assessment for goodwill as a key audit matter. This matter represented an area of significant risk of material misstatement given the magnitude of goodwill and the high degree of estimation uncertainty in determining the recoverable amount. In addition, significant auditor judgement and specialized skills and knowledge were required to evaluate the results of our audit procedures due to the sensitivity of the recoverable amount to changes in significant assumptions.

How the matter was addressed in the audit

The primary procedures we performed to address this key audit matter included the following:

For a selection of cash-generating units:

- We assessed the Entity's ability to accurately forecast by comparing the Entity's projected sales growth rates and operating margins used in the prior year impairment test to actual results



- We compared the Entity's projected sales growth rates and operating margins to historical results. We took into account changes in conditions and events affecting each cash-generating unit to assess the adjustments made, or lack of adjustments made, in arriving at the projected assumptions.

For a selection of cash-generating units, we involved valuation professionals with specialized skills and knowledge, who assisted in:

- Evaluating the discount rates by comparing them against a discount rate range independently developed using publicly available market data of comparable entities
- Evaluating the terminal growth rates by comparing them against long term estimates of inflation.

Evaluation of acquisition-date fair value of customer relationships

Description of the matter

We draw attention to Notes 3, 4(iii) and 7 to the financial statements. The Entity acquired the assets of the Proshred Philadelphia business from its franchisee on November 1, 2022. As a result of the acquisition, the Entity recorded customer relationships at the acquisition-date fair value of \$4,549 thousand. In determining the acquisition-date fair value of the customer relationships, the Entity's significant assumptions include projected sales from acquired customers, operating margins, forecasted attrition rate and discount rate.

Why the matter is a key audit matter

We identified the evaluation of acquisition-date fair value of customer relationships as a key audit matter. This matter represented an area of significant risk of material misstatement given the magnitude of the balance and the high degree of estimation uncertainty in determining the acquisition-date fair value of customer relationships. In addition, significant auditor judgment and specialized skills and knowledge were required to evaluate the results of our audit procedures due to the sensitivity of the acquisition-date fair value to changes in significant assumptions.

How the matter was addressed in the audit

The primary procedures we performed to address this key audit matter included the following:

- We assessed the Entity's ability to accurately forecast by comparing the Entity's projected sales from acquired customers and operating margins used for prior year acquisition-date fair values of customer relationships to actual results



- We compared the Entity's projected sales from acquired customers and operating margins to historical results of Proshred Philadelphia and the Entity's other corporate locations. We took into account changes in conditions and events to assess the adjustments made, or lack of adjustments made, in arriving at projected sales from acquired customers and operating margins
- We compared the Entity's forecasted attrition rate to the forecasted attrition rates for customer relationships of past acquisitions.

We involved valuation professionals with specialized skills and knowledge, who assisted in evaluating the discount rate by comparing it against the acquisition's internal rate of return and the weighted average return on assets.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditor's report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.



In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty



exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

The engagement partner on the audit resulting in this auditor's report is Andrew Brown.

Vaughan, Canada

April 21, 2023

RediShred Capital Corp.

Consolidated Statements of Financial Position

As at December 31, 2022 and December 31, 2021

(expressed in Canadian dollars)

	2022	2021
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	6,696	9,660
Cash attributable to the Growth Fund (note 5)	223	188
Trade and other receivables (note 6)	8,778	4,894
Prepaid expenses	574	471
Income taxes receivable	431	88
Total current assets	<u>16,702</u>	<u>15,301</u>
Non-current assets		
Tangible assets (note 8)	24,746	18,271
Intangible assets (note 9)	26,903	22,153
Goodwill (note 10)	28,385	22,655
Deferred tax asset (note 21)	1,075	954
Total non-current assets	<u>81,109</u>	<u>64,033</u>
Total assets	<u>97,811</u>	<u>79,334</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	4,452	3,147
Deferred revenue	130	98
Income taxes payable	64	67
Current portion of long-term debt (note 13)	6,839	4,690
Lease liabilities (note 14)	1,501	1,468
Contingent consideration (note 12)	3,708	1,854
Total current liabilities	<u>16,694</u>	<u>11,324</u>
Non-current liabilities		
Accounts payable and accrued liabilities	61	200
Long-term debt (note 13)	24,973	21,867
Deferred revenue	54	123
Lease liabilities (note 14)	4,760	2,301
Contingent consideration (note 12)	1,760	2,494
Deferred tax liability (note 21)	2,228	665
Total non-current liabilities	<u>33,836</u>	<u>27,650</u>
Total liabilities	<u>50,530</u>	<u>38,974</u>
Shareholders' equity		
Capital stock (note 16)	44,966	44,138
Contributed surplus	1,240	1,229
Accumulated foreign currency translation loss	(400)	(608)
Retained earnings (deficit)	1,475	(4,399)
Total liabilities and shareholders' equity	<u>97,811</u>	<u>79,334</u>

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, 2022 and 2021

(expressed in Canadian dollars)

	2022	2021
	\$	\$
Revenue (note 17)	57,226	36,199
Corporate locations expenses (note 18)	(34,763)	(21,839)
Depreciation – tangible assets (note 8)	(6,219)	(4,504)
General and administrative expenses (note 19)	(7,145)	(5,169)
Total expenses	(48,127)	(31,512)
Operating income	9,099	4,687
Interest expense	(1,904)	(1,236)
Interest income	47	13
Government assistance (note 20)	–	1,348
Amortization – intangible assets (note 9)	(3,373)	(2,708)
Remeasurement of contingent consideration (note 12)	122	(227)
Foreign exchange gain (loss)	3,382	(200)
Gain on disposal of tangible assets	158	394
Other income	95	56
Income before income taxes	7,626	2,127
Income tax (expense)	(1,752)	(769)
Net income for the year	5,874	1,358
Foreign currency translation income (loss)	208	(37)
Comprehensive income for the year	6,082	1,321
Net income per share (note 16)		
Basic	0.32	0.09
Diluted	0.32	0.08
Weighted average number of common shares outstanding – basic (note 16)	18,200,572	15,850,676
Weighted average number of common shares outstanding – diluted (note 16)	18,247,501	15,984,299

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, 2022 and 2021
(expressed in Canadian dollars)

	Capital Stock and warrants	Contributed Surplus	Accumulated foreign currency translation income (loss)	Retained earnings (deficit)	Total Shareholders' Equity
	\$	\$	\$	\$	\$
Balance – January 1, 2021	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 16)	7,768	–	–	–	7,768
Deferred income tax on share issuance costs	225	–	–	–	225
Stock-based compensation (note 16)	–	117	–	–	117
Exercise of options and warrants (note 16)	580	(59)	–	–	521
Balance – December 31, 2021	44,138	1,229	(608)	(4,399)	40,360
Balance – January 1, 2022	44,138	1,229	(608)	(4,399)	40,360
Net income for the year	–	–	–	5,874	5,874
Foreign currency translation income	–	–	208	–	208
Stock-based compensation (note 16)	–	302	–	–	302
Exercise of options and warrants (note 16)	828	(291)	–	–	537
Balance – December 31, 2022	44,966	1,240	(400)	1,475	47,281

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

RediShred Capital Corp.

Consolidated Statements of Cash Flows For the years ended December 31, 2022 and 2021 (expressed in Canadian dollars)

Cash provided by (used in)	2022	2021
	\$	\$
Operating activities		
Net income for the year	5,874	1,358
Items not affecting cash		
Depreciation of tangible assets and amortization of intangible assets (notes 8 and 9)	9,592	7,212
Stock-based compensation	302	117
Unrealized foreign currency (gain)	(3,353)	-
Interest expense, net of interest income	1,857	1,223
Remeasurement of contingent consideration (note 12)	(122)	227
Income tax expense	1,752	769
Gain on disposal of tangible assets	(158)	(394)
	<u>15,744</u>	<u>10,512</u>
Net change in non-cash working capital balances		
Increase in trade and other receivables	(2,993)	(1,736)
Increase in prepaid expenses	(134)	(128)
Increase in accounts payable and accrued liabilities	925	1,015
Decrease in deferred revenue	(29)	(105)
Income taxes paid	(679)	(207)
Interest paid	(1,294)	(961)
Interest received	47	13
Net cash provided by operations	<u>11,587</u>	<u>8,403</u>
Financing activities		
Borrowings from long-term debt	9,242	11,006
Repayments of long-term debt	(4,536)	(4,269)
Proceeds from Issuance of shares, net of issuance costs (note 16)	—	7,768
Proceeds from exercise of options and warrants	537	521
Payments received on notes receivable	—	303
Repayment of notes payable	—	(259)
Repayment of lease liabilities (note 14)	(1,686)	(1,154)
Contingent consideration paid (note 12)	(1,417)	(582)
Net cash provided by financing activities	<u>2,140</u>	<u>13,334</u>
Investing activities		
Amount paid for acquisitions, net of cash acquired (note 7)	(11,555)	(10,177)
Decrease in cash held by Growth Fund (note 5)	(35)	(48)
Purchase of tangible and intangible assets (notes 8 and 9)	(5,640)	(5,803)
Proceeds from disposal of tangible assets	369	1,014
Net cash used in investing activities	<u>(16,861)</u>	<u>(15,014)</u>
Effect of foreign exchange rate changes on cash	<u>170</u>	<u>93</u>
Net change in cash for the year	<u>(2,964)</u>	<u>6,816</u>
Cash – Beginning of the year	<u>9,660</u>	<u>2,844</u>
Cash – End of the year	<u>6,696</u>	<u>9,660</u>

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

RediShred Capital Corp.

Notes to the Consolidated Financial Statements
For the years ended December 31, 2022 and 2021
(expressed in Canadian dollars)

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 2233 Argentia Road, Suite 202, Mississauga, Ontario, L5N 2X7.

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 fifteen corporate shredding locations, as of December 31, 2022.

2 Basis of presentation

These annual consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

These consolidated financial statements comprise the financial statements of Redishred and its subsidiaries as of December 31, 2022. Together, Redishred and its subsidiaries are referred to as the “Company.”

The Company has consistently applied the accounting policies used in the preparation of its consolidated financial statements for all years presented.

The consolidated financial statements of the Company for the year ended December 31, 2022 were authorized for issuance in accordance with a resolution of the board of directors of the Company on April 21, 2023.

3 Significant accounting policies

The significant accounting policies used in the preparation of these consolidated financial statements are as follows:

Basis of measurement

These consolidated financial statements were prepared on a going concern basis, under the historical cost convention. The consolidated financial statements are presented in Canadian dollars, which is Redishred’s presentation and functional currency.

RediShred Capital Corp.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2022 and 2021

(expressed in Canadian dollars)

Basis of consolidation

These consolidated financial statements include the accounts of Redishred and its subsidiaries, which are entities controlled by Redishred. Control exists when the Company is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the investee. The financial results of subsidiaries are included in the consolidated financial statements from the date that control commences until the date control ceases. All intercompany balances and transactions have been eliminated on consolidation.

The Company's subsidiaries are all wholly owned and are as follows:

Subsidiary name:	Incorporated in:	Functional currency:
Proshred Franchising Corp.	Delaware, United States	USD Dollar
Redishred Holdings US Inc.	Delaware, United States	USD Dollar
Redishred Acquisition Inc.	Delaware, United States	USD Dollar
Proshred Charlotte Inc.	Delaware, United States	USD Dollar
Redishred Kansas Inc.	Delaware, United States	USD Dollar
Redishred Chicago Inc.	Delaware, United States	USD Dollar
Pleasant Point Partners Corp.	Connecticut, United States	USD Dollar
Redishred New England Inc.	Delaware, United States	USD Dollar

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments and has been identified as the chief executive officer of Redishred.

Foreign currency translation

The Company's functional currency is the Canadian dollar and the Company has elected to use the Canadian dollar as its presentation currency. The functional currency of all of the Company's foreign subsidiaries is the US dollar, as it is the currency of the primary economic environment in which they operate. These consolidated financial statements have been translated to the Canadian dollar in accordance with *IAS 21, The Effects of Changes in Foreign Exchange Rates*.

The financial statements of subsidiaries that have a functional currency different from that of Redishred Capital Corp. ("foreign operations") are translated into Canadian dollars as follows: assets and liabilities - at the closing rate at the date of the statements of financial position, and income and expenses - at the average rate of the period (as this is considered a reasonable approximation of actual rates prevailing at the transaction dates). All resulting changes are recognized in other comprehensive income (loss) as foreign currency translation adjustments.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in currencies other than an entity's functional currency are recognized within net income in the statement of comprehensive income.

RediShred Capital Corp.

Notes to the Consolidated Financial Statements
For the years ended December 31, 2022 and 2021
(expressed in Canadian dollars)

Cash and cash equivalents

The Company's cash balances are held in bank accounts in Canada and the United States, which the Company has full access to. Refer to note 24 for cash and cash equivalent balances by operating segment.

Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial instruments are classified in one of the following categories: (1) amortized cost, (2) fair value through other comprehensive income (loss) or (3) fair value through profit and loss ("FVTPL"). Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires. The classification of financial instruments depends on the purpose for which the financial instruments were acquired and their characteristics. Except in very limited circumstances, the classification is not changed subsequent to initial recognition.

i) Financial assets at amortized cost

The Company's financial instruments categorized as financial assets at amortized cost are comprised of cash and cash equivalents, cash attributable to the Growth Fund, and trade receivables. Receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the receivables to fair value. Subsequently, these instruments are accounted for at amortized cost using the effective interest rate method less a provision for impairment.

ii) Financial liabilities at amortized cost

Financial liabilities at amortized cost include accounts payable and accrued liabilities, lease liabilities, and long-term debt. Accounts payable and accrued liabilities are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, accounts payable and accrued liabilities are measured at amortized cost using the effective interest method. Long-term debt is recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest method. They are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

iii) Fair Value Through Profit and Loss ("FVTPL")

Financial liabilities at FVTPL include contingent consideration. These financial instruments are measured at fair value with changes in fair values recognized within net income in the consolidated statement of comprehensive income.

RediShred Capital Corp.

Notes to the Consolidated Financial Statements
For the years ended December 31, 2022 and 2021
(expressed in Canadian dollars)

Impairment of financial assets

At each statement of financial position date, on a forward-looking basis, the Company assesses the expected credit losses associated with its financial assets carried at amortized cost. The impairment assessment applied depends on whether there has been significant increase in credit risk.

The criteria used to determine if objective evidence of an expected credit loss exists include:

- (i) significant financial difficulty of the customer or borrower;
- (ii) a breach of contract, such as delinquencies in interest or principal repayments; and
- (iii) if it becomes probable that the borrower will enter bankruptcy or other financial reorganization.

If such evidence exists, the Company measures the expected credit losses through a loss allowance at an amount equal to the twelve-month or full lifetime expected credit losses. The twelve-month credit losses refer to the expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date. The full lifetime expected credit losses refer to those that result from all possible default events over the life of the financial instrument. A loss allowance for full lifetime expected credit losses is required for a financial instrument if the credit risk of that financial instrument has increased significantly since initial recognition.

Tangible assets and depreciation

Tangible assets are stated at cost less accumulated depreciation and accumulated impairment losses. The cost consists of expenditures directly attributable to the acquisition of the asset including costs directly attributable to bringing the asset to the location and condition necessary for its intended use. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably. Maintenance and repair costs are expensed as incurred.

Depreciation is provided for on a straight-line basis over the estimated useful lives of the assets as follows:

Computer equipment	2-5 years
Furniture and fixtures	3 years
Bins and shredding containers	5 years
Shredding vehicles – chassis	3-10 years
Shredding vehicles – box	3-10 years
Bailing equipment	5 years
Right-of-use (“ROU”) assets	Shorter of lease term or useful life
Vehicles	3-5 years

The Company allocates the amount initially recognized in respect of a tangible asset to its significant parts and depreciates separately each such part. The estimated useful lives and depreciation method are reviewed annually, with the effect of any changes in estimate accounted for on a prospective basis.

RediShred Capital Corp.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2022 and 2021

(expressed in Canadian dollars)

Intangible assets and amortization and goodwill

The Company's identifiable intangible assets are stated at cost less accumulated amortization and impairment losses, if any. These assets are capitalized and amortized on a straight-line basis in the statement of comprehensive income over their estimated useful lives. The re-acquired franchise rights are amortized over the remaining term of the acquired franchise agreement.

The estimated useful lives of these assets are as follows:

Trademarks and intellectual property	10 years
Re-acquired franchise rights	1-4 years
Customer relationships	6-10 years
Computer software	2-7 years

The assessment of the useful lives of the identifiable intangible assets is reviewed annually. Changes in useful lives are made on a prospective basis.

Goodwill represents the excess of the cost of a business acquisition over the fair value of the Company's share of the identifiable net assets of the acquired business at the date of acquisition. Goodwill is carried at cost less accumulated impairment losses, if any. Goodwill is allocated on the date of acquisition to each cash-generating unit ("CGU") or group of CGUs that are expected to benefit from the related business combination.

Impairment of non-financial assets

Tangible and identifiable definite life intangible assets (other than goodwill) are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped in CGU's, which represent the lowest levels for which there are separately identifiable cash flows. An impairment loss is recognized when the carrying value of an asset or CGU exceeds the recoverable amount. The recoverable amount of an asset or CGU is the greater of its value-in-use and its fair value less costs of disposal. In assessing value-in-use and fair value less costs of disposal, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Goodwill is reviewed for impairment annually or at any time if an indicator of impairment exists. Impairment of goodwill is tested at a level where goodwill is monitored for internal management purposes. Therefore, goodwill may be assessed for impairment at the level of either an individual CGU or a group of CGUs which are expected to benefit from the synergies of the combination. The carrying amount of a CGU is compared to its recoverable amount, which is the higher of its value-in-use or fair value less costs of disposal, to determine if impairment exists.

Impairment losses are recognized within net income in the statement of comprehensive income. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit or group of units on a pro rata basis. Impairment losses for assets other than goodwill are reversed in future periods if the circumstances that led to the impairment no longer exist. The reversal is limited to restoring the carrying amount such that it does not exceed the carrying amount that would have been determined, net of amortization, had no impairment loss been recognized in prior periods.

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Income tax

Income tax comprises current and deferred income tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in other comprehensive income (loss) or directly in equity, in which case the income tax is also recognized directly in other comprehensive income (loss) or equity, respectively.

(i) Current income tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted, at the end of the reporting period and any adjustments to tax payable in respect of previous years.

(ii) Deferred income taxes

Deferred income taxes are provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements, except where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss.

Deferred income taxes are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the date of the statement of financial position. Deferred income tax assets and liabilities are presented as non-current and determined on a non-discounted basis. Deferred income tax assets are recognized only to the extent that it is considered probable that taxable profit will be available against which deductible temporary differences, carried forward tax credits or tax losses can be utilized. The carrying value of deferred income tax assets are reviewed at the end of each reporting period and increased or reduced to the extent it is determined probable that sufficient taxable profits will, or will not, be available to allow all or part of the income tax asset to be recovered.

Revenue recognition

(i) Franchising and licensing business

The Company earns revenue from initial franchise and license fees paid to secure territories for a specific period, and from royalties, license and service fees paid as a percentage of the franchisees' monthly sales volumes. The initial franchise or license fee is recognized as revenue on a straight-line basis over the term of the related franchise or license agreement. Royalties, license and service revenue is accrued monthly based on sales reported by franchisees or licensees if collection is reasonably assured. Growth fund contributions are recognized as revenue when received on a monthly basis.

(ii) Corporate operations – shredding, destruction and recycling services

The Company earns revenue from providing shredding and destruction services to clients and by way of the sale of paper to recycling facilities. Shredding and destruction service revenue is recognized at a point in time when the service has been performed, the Company has provided a

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certificate of destruction and collection is reasonably assured. Recycling revenue is recognized at a point in time when the collected paper has been delivered to the recycling facility and collection is reasonably assured.

(iii) Corporate operations – electronic waste services

The Company earns revenue from providing disposal services for clients' electronic waste and/or products, and by way of resale of certain electronics collected from clients. Electronic waste service revenue is recorded at a point in time when the electronic products are collected from the client, the Company has provided an invoice to the client and collection is reasonably assured. Electronic product revenue is recognized when the product has been picked up by a customer and collection is reasonably assured.

(iv) Corporate operations – scanning services

The Company earns revenue from providing clients services for digital scanning of physical documents. Scanning service revenue is recognized over time as scanning services are performed, provided collection is reasonably assured.

Government assistance and government grants

Government grants are recognized when there is a reasonable assurance that the grant will be received and that the Company will comply with all conditions related to the grant. A grant without specified future performance conditions is recognized in income when the grant proceeds are receivable. A grant that imposes specified future performance conditions is recognized in income when those conditions are met. Government grants related to current expenses are recognized as income over the period necessary to match them with the related expenses for which they are intended to compensate, on a systematic basis. Government grants in the form of forgivable loans are treated as a government grant when there is reasonable assurance that the Company will meet the terms for forgiveness of a loan. Government grants received before the income recognition criteria are satisfied are presented as a liability in the statement of financial position.

Share-based payments

The Company issues share-based awards to certain employees and non-employee directors whereby they render services as consideration for equity instruments (equity-settled transactions). The cost of equity-settled transactions is recognized, together with a corresponding increase in contributed surplus in equity, over the period in which the performance and/or service conditions are fulfilled. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. The fair value of each tranche is measured at the date of grant using the Black-Scholes option-pricing model. Compensation expense is recognized over the tranche's vesting period by increasing contributed surplus based on the number of awards expected to vest. This number is reviewed at least annually, with any changes in estimate recognized immediately in compensation expense with a corresponding adjustment to contributed surplus.

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Business combinations

Acquisitions of businesses (other than entities which were under the control of the parent) are accounted for using the acquisition method. The cost of the business combination is measured as the aggregate of the fair value (at the date of exchange) of assets given, liabilities incurred or assumed and equity instruments issued by the Company in exchange for control of the acquiree. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3, *Business Combinations* are recognized at their fair value at the acquisition date.

Earnings per share

Basic earnings per share is computed by dividing net income for the year attributable to equity owners of the Company by the weighted average number of common shares outstanding during the reporting period. Diluted earnings per share is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments such as options and warrants. In periods with reported net losses, all stock options and share purchase warrants are deemed anti-dilutive such that basic net loss per share and diluted net loss per share are equal. As a result, stock options and share purchase warrants that are "in the money" are not included in the computation of net loss per share because doing so would be anti-dilutive. The number of shares included with respect to options, warrants and similar instruments is computed using the treasury stock method.

Leases

At the inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

The Company recognizes a right-of-use asset and a lease liability at lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the lease commencement date, plus any initial direct costs incurred, less any lease incentives received. The right-of-use asset is depreciated over the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method, as this most closely reflects the expected pattern of consumption of the future economic benefits.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate. The lease liability is measured at amortized cost using the effective interest method. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or, as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

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Accounting standards and amendments issued but not yet effective

At the date of authorization of these financial statements, certain new standards, amendments, and interpretations to existing standards have been published by the IASB but are not yet effective and have not been adopted early by the Company. Management anticipates that all the relevant pronouncements will be adopted in the Company's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Company's financial statements are provided below.

Amendments to IAS 1 and IFRS Practice Statement 2

In February 2021, the IASB issued amendments to IAS 1 'Presentation of Financial Statements' and IFRS Practice Statement 2 'Making Materiality Judgements.' These amendments require reporting entities to disclose their material accounting policies rather than significant accounting policies. Guidance is provided to help reporting entities apply the concept of materiality to accounting policy disclosures. The amendments are effective for annual periods beginning on or after January 1, 2023. The Company is currently assessing the impact of these amendments, but it does not expect that the Company's financial disclosure will be materially affected by their adoption.

Amendment to IAS 8

In February 2021, the IASB issued amendments to IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors.' The amendments include a definition of accounting estimates to help entities differentiate between changes in accounting policies from changes in accounting estimates. This will help reporting entities correctly identify an accounting estimate or accounting policy change and ensure the changes are properly accounted for. The amendments are effective for annual periods beginning on or after January 1, 2023. The Company is currently assessing the impact of these amendments, but it does not expect that the Company's financial statements will be materially affected by their adoption.

Amendment to IAS 12

In May 2021, the IASB issued an amendment to IAS 12, 'Income taxes.' The amendment clarifies that companies are required to recognize deferred taxes on transactions where both assets and liabilities are recognized, such as with leases and asset retirement obligations. The amendment is effective for annual periods beginning on or after January 1, 2023. The Company is currently assessing the impact of this amendment, but it does not expect that the Company's financial statements will be materially affected by its adoption.

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4 Critical accounting estimates and judgements

The preparation of financial statements requires management to use judgment in applying its accounting policies and in developing estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Actual results could differ materially from those estimates and assumptions. These estimates and underlying assumptions are reviewed on an ongoing basis and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. The following discusses the most significant accounting judgements and estimates that the Company has made in the preparation of the financial statements.

i) Impairment

The Company reviews goodwill for impairment at least annually and for other non-financial assets when there is any indication that the asset might be impaired. The determination of the value-in-use and fair value less cost of disposal of a CGU involves the use of estimates by management. These estimates, including the methodology used, can have a material impact on the respective values and ultimately the amount of any impairment or reversal of impairment. Refer to note 11 for estimates and assumptions made.

ii) Deferred income taxes

The Company, including its subsidiaries, operate and earn income in multiple countries and is subject to changing tax laws in multiple jurisdictions within these countries. Significant judgements are necessary in determining income tax assets and liabilities. Although management believes that it has made reasonable estimates about the final outcome of tax uncertainties, no assurance can be given that the final outcome of these tax matters will be consistent with what is reflected in the historical income tax provisions. Such differences could have an effect on the deferred tax assets and liabilities in the period in which such determinations are made. At each date of the statement of financial position, the Company assesses whether the realization of future tax benefits is sufficiently probable to recognize deferred tax assets.

This assessment requires the exercise of judgement on the part of management with respect to, among other things, benefits that could be realized from available tax strategies and future taxable income, as well as other positive and negative factors. The recorded amount of total deferred tax assets and liabilities could be materially affected if changes in current tax regulations are enacted. Refer to note 21 for estimates and assumptions used.

iii) Business combinations

When the Company conducts an acquisition, judgements are necessary in determining whether the acquisition meets the definition of a business under *IFRS 3 – Business Combinations*. At the date of acquisition, all identifiable assets, liabilities and contingent liabilities acquired are recorded at their respective fair values. Any intangible assets identified are valued using appropriate valuation techniques based on a forecast of the total expected future net cash flows. These valuations are based on significant assumptions made by management regarding the projected sales from acquired customers, operating margins, forecasted attrition rate and discount rate.

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In addition, the Company uses judgement in determining the contingent consideration liabilities recorded as part of acquisitions conducted. The contingent consideration liabilities are based on the projected financial results of the acquired businesses that are likely to be met over the relevant time period.

5 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 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 for the years ended December 31, 2022 and 2021, as well as cash balances as at December 31, 2022 and December 31, 2021 are as follows:

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
	\$	\$
Growth Fund revenue	231	217
Growth Fund expenses	(540)	(383)
Growth Fund net loss	<u>(309)</u>	<u>(166)</u>

As at,	<u>December 31, 2022</u>	<u>December 31, 2021</u>
	\$	\$
Cash attributable to the Growth Fund	223	188

6 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 at December 31, 2022 and December 31, 2021 are as follows:

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
	\$	\$
Trade receivables – corporate locations	8,516	4,227
Trade receivables – franchising and licensing	188	147
Total trade receivables	<u>8,704</u>	<u>4,374</u>
Other receivables	401	565
Less: Allowance for doubtful accounts	(327)	(45)
Trade and other receivables, net	<u>8,778</u>	<u>4,894</u>

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7 Acquisitions

The Company completed the following acquisitions during the year ended December 31, 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;
3. On August 1, 2022, the Company acquired the assets of Tech Shredders LLC (“Tech Shredders”), a New Jersey-based electronic waste recycling and hard drive shredding business; and
4. On November 1, 2022, the Company acquired the assets of the Proshred Philadelphia (“Philly”) business from its franchisee.

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 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 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 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 are 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. For all of the acquisitions that the Company completed during the years ended December 31, 2022 and 2021, the goodwill recognized is fully deductible for tax purposes.

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

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During the year ended December 31, 2022	MDD	SDD*	Tech Shredders	Philly	Total
	\$	\$	\$	\$	\$
Exchange rate used	1.27	1.26	1.28	1.36	
Assets Acquired					
Net Working capital	19	—	—	257	276
Tangible assets, excluding right-of-use assets	19	579	24	1,788	2,410
Right-of-use assets	—	—	—	591	591
Customer relationships	307	1,037	121	4,549	6,014
Re-acquired franchise rights	—	—	—	471	471
Goodwill	117	357	119	3,561	4,154
	462	1,973	264	11,217	13,916
Consideration Given					
Cash	349	1,328	187	9,691	11,555
Net working capital settlement	—	—	—	(146)	(146)
Contingent consideration	113	645	77	1,081	1,916
Lease liabilities assumed	—	—	—	591	591
	462	1,973	264	11,217	13,916
Acquisition costs (expensed in statement of comprehensive income)	21	71	13	96	201

*The Company updated its initial provisional purchase price allocation for SDD for adjustments to the initial fair value estimate of assets acquired and contingent consideration.

During the year ended December 31, 2021	Proshred Richmond	Proshred Atlanta	American Shredding	Total
	\$	\$	\$	\$
Exchange rate used	1.23	1.25	1.28	
Assets Acquired				
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
	2,251	3,354	8,186	13,791
Consideration Given				
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
	2,251	3,354	8,186	13,791
Acquisition costs (expensed in the statement of comprehensive income)	31	131	66	228

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At the date of acquisition, the expected contingent payout, discounted, is included in the consideration paid for these acquisitions. The details of the contingent consideration payable for these acquisitions is as follows:

- MDD acquisition: There is contingent consideration payable, based upon the achievement of certain revenue targets during the twelve month period following the date of acquisition.
- SDD acquisition: There is contingent consideration payable based upon 1) client revenue targets for the twelve month period following the date of acquisition, and 2) client retention targets for the sixty month period following the date of acquisition.
- Tech Shredders acquisition: There is contingent consideration payable, based upon the achievement of certain revenue targets during the twenty-four month period following the date of acquisition.
- Proshred Philadelphia acquisition: There is contingent consideration payable, based upon the achievement of certain revenue targets during the twelve month period following the date of acquisition.

Included in the consolidated financial results of the Company for the year ended December 31, 2022, was revenue and net income from acquisitions of \$2,748 and \$271, respectively.

The pro forma consolidated results of the Company for the year ended December 31, 2022, if the acquisitions had been closed on January 1, 2022, would result in estimated revenue of \$62,263 (compared to reported revenue of \$57,226) and estimated net income of \$6,121 (compared to reported net income of \$5,874). In preparing the pro forma results, revenue and costs have been included as if the business was acquired on January 1, 2022 and intercompany transactions had been eliminated. This information is not necessarily indicative of the results of the Company that would have occurred had the acquisitions actually been made at the beginning of the period presented or indicative of the future results of the Company.

8 Tangible assets

	December 31, 2022			December 31, 2021		
	Cost	Accumulated depreciation	Net carrying value	Cost	Accumulated depreciation	Net carrying value
	\$	\$	\$	\$	\$	\$
Computer equipment	661	(443)	218	473	(307)	166
Furniture & fixtures	248	(218)	30	214	(192)	22
Bins & shredding containers	4,410	(2,388)	2,022	3,245	(1,536)	1,709
Shredding vehicles - chassis	9,400	(3,837)	5,563	6,521	(2,507)	4,014
Shredding vehicles - box	17,628	(7,492)	10,136	13,359	(5,219)	8,140
Vehicles	245	(198)	47	196	(176)	20
Baling equipment	685	(226)	459	533	(145)	388
ROU Office and Warehouse	9,314	(3,773)	5,541	5,159	(2,109)	3,050
ROU Truck leases	1,910	(1,180)	730	1,989	(1,227)	762
Total tangible assets	44,501	(19,755)	24,746	31,689	(13,418)	18,271

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	December 31, 2021						December 31, 2022
	Net carrying value	Additions	Acquisitions	Depreciation	Disposition of Assets	Foreign exchange	Net carrying value
	\$	\$	\$	\$	\$	\$	\$
Computer equipment	166	162	-	(123)	-	13	218
Furniture & fixtures	22	25	-	(18)	-	1	30
Bins & shredding containers	1,709	579	337	(719)	-	116	2,022
Shredding vehicles - chassis	4,014	1,692	648	(1,380)	(68)	657	5,563
Shredding vehicles - box	8,140	2,913	1,343	(2,343)	(143)	226	10,136
Vehicles	20	35	-	(8)	-	-	47
Baling equipment	388	30	82	(68)	-	27	459
ROU Office and Warehouse	3,050	3,159	591	(1,476)	(57)	274	5,541
ROU Truck leases	762	-	-	(84)	-	52	730
Total tangible assets	18,271	8,595	3,001	(6,219)	(268)	1,366	24,746

	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
Total tangible assets	15,215	5,048	3,092	(4,504)	(620)	40	18,271

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

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9 Intangible assets

	December 31, 2022			December 31, 2021		
	Cost	Accumulated amortization	Net carrying value	Cost	Accumulated amortization	Net carrying value
	\$	\$	\$	\$	\$	\$
Computer software	1,273	(571)	702	1,027	(297)	730
Re-acquired franchise rights	1,673	(1,079)	594	1,129	(827)	302
Trademarks & intellectual property	46	(10)	36	46	(6)	40
Customer relationships	36,012	(10,441)	25,571	27,989	(6,908)	21,081
Total intangible assets	39,004	(12,101)	26,903	30,191	(8,038)	22,153

	December 31, 2021					December 31, 2022
	Net carrying value	Additions	Acquisitions	Amortization	Foreign exchange	Net carrying value
	\$	\$	\$	\$	\$	\$
Computer software	730	191	-	(253)	34	702
Re-acquired franchise rights	302	-	471	(187)	8	594
Trademarks & intellectual property	40	-	-	(5)	1	36
Customer relationships	21,081	13	6,014	(2,928)	1,391	25,571
Total intangible assets	22,153	204	6,485	(3,373)	1,434	26,903

	December 31, 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 December 31, 2022 and December 31, 2021, and is included in other comprehensive income.

10 Goodwill

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

	December 31, 2022	December 31, 2021
	\$	\$
Opening balance	22,655	19,748
Acquisitions	4,154	2,992
Foreign Currency Translation	1,576	(85)
Closing balance	28,385	22,655

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

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11 Impairment of goodwill and long-lived assets

The Company performs an impairment test of long-lived assets when there is an indication of impairment, which includes indicators such as when actual sales are significantly less than budgeted, profits are significantly less than prior years' profits and when significant events and circumstances indicate that the carrying amount may not be recoverable. There were no indicators of impairment of the Company's long-lived assets during the year ended December 31, 2022 or December 31, 2021 to warrant an analysis to be performed. Goodwill is tested for impairment at least annually.

The Company performed its annual test for goodwill impairment in accordance with its policy described in note 3. The Company compared the recoverable amount of the assets included in the CGUs of the corporate locations that have goodwill to their respective carrying amounts. The recoverable amount of all of the corporate location CGUs were more than the carrying amounts.

The carrying value of goodwill of each CGU as at December 31, 2022 and 2021 is as follows:

Cash Generating Unit	2022	2021
		\$
Upper New York	299	279
Milwaukee	872	812
New York City & North New Jersey	4,877	4,083
Kansas City	2,894	2,709
Chicago	7,126	6,560
Connecticut	3,879	3,634
Springfield	3,060	2,852
Richmond	280	262
Atlanta	1,564	1,464
Philadelphia	3,534	—
Total Goodwill	28,385	22,655

The recoverable amount of each CGU has been determined based on fair value less costs of disposal. The fair value less costs of disposal calculation uses cash flow projections based on financial budgets approved by management. For the year ended December 31, 2022, the recoverable amount of all of the Company's CGU's exceeded their carrying amount.

Based on a sensitivity analysis, reasonable possible changes in assumptions would not result in an impairment loss.

The key assumptions used in determining the fair value less costs of disposal of each CGU included the following:

- i. The use of an after-tax discount rate of 16%.
- ii. A five-year and terminal period cash flow was used with projected sales growth rates ranging from 4% to 10% and a terminal growth rate of 2%. Projected sales growth rates were determined based on the Company's internal budget and considered past experience.
- iii. Budgeted-operating margins, which were similarly determined based on the Company's internal budget and considering operating margins achieved in the prior year period. Management believes the operating margins are reasonably achievable.

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These assumptions are considered to be Level 3 in the fair value hierarchy.

12 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 year ended December 31, 2022, the Company recorded a remeasurement gain on contingent consideration of \$122. The fair value of contingent consideration is calculated based on the expected payout, discounted.

As of December 31, 2022, the Company has the following related to contingent consideration:

Range of origination	Range of payouts	Current portion	Long-term portion	Range of maturity
December 31, 2020 to November 1, 2022	USD\$0 to USD\$7,205	CAD\$3,708 USD\$2,738	CAD\$1,760 USD\$1,300	March 1, 2023 to June 1, 2027

As of December 31, 2021, the Company had the following related to contingent consideration:

Range of origination	Range of payouts	Current portion	Long-term portion	Range of maturity
March 1, 2020 to December 1, 2021	USD\$0 to USD\$6,212	CAD\$1,854 USD\$1,462	CAD\$2,494 USD\$1,967	January 1, 2022 to December 1, 2024

Contingent consideration would be paid at the maximum range if financial results for client retention, sales or contribution margins, as applicable, exceed the agreed upon targets.

13 Long-term debt

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

	December 31, 2022	December 31, 2021
	\$	\$
Bank facilities (i)	23,527	20,720
Less: transaction costs	(322)	(298)
Net bank facilities	23,205	20,422
Truck loans (ii)	8,607	6,135
Total long-term debt	31,812	26,557
Less: current portion	(6,839)	(4,690)
	24,973	21,867

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Long-term debt principal repayments as at December 31, 2022, stated in Canadian dollars, are as follows:

	2023	2024	2025	2026	2027	2028 & Thereafter	Total
	\$	\$	\$	\$	\$	\$	\$
Principal repayments	6,839	6,416	6,353	6,178	3,235	2,791	31,812

The long-term debt principal repayments have been translated at the closing rate at December 31, 2022 using an exchange rate of USD\$1.00 = CAD\$1.35.

(i) Bank facilities

As at December 31, 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\$26 million (advances can be taken in either USD or CAD equivalent, at the Company's discretion).

As at December 31, 2022, the Company has borrowed the following amounts on the non-revolving term loan facility:

Month of Advance	Initial Amount	Interest per annum	Amortization period	December 31, 2022 balance	December 31, 2021 balance
	\$				\$
May, 2019	6,003	3.50%	60 months	3,477	4,248
November, 2019	6,664	3.50%	84 months	4,319	5,157
March, 2020	2,688	2.99%	84 months	1,891	2,226
December, 2020	2,290	3.33%	84 months	1,700	1,990
August, 2021	854	3.69%	84 months	708	809
December, 2021	6,290	6.52%	84 months	6,083	6,290
November, 2022*	5,400	7.47%	84 months	5,349	—
Total				23,527	20,720

*Loan bears interest at the fixed rate of interest of 7.47% for a term of twenty-four (24) months from the date of origination of November 1, 2022.

As at December 31, 2022, the Company has \$1.0 million available on its operating line of credit and \$2.5 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;

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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;

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

As of December 31, 2022, the Company was in compliance with its banking covenants.

(ii) Truck loans

In July 2022, 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 this lender. The interest rate on this facility is based on prevailing market rates at the time the line is used. As of December 31, 2022, the Company had USD\$2.3 million available on this line of credit.

As of December 31, 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	8,607	10,591	3.92% to 8.37%	May 3, 2018 to December 19, 2022	July 3, 2023 to January 1, 2028

(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 on July 16, 2022 and was not renewed.

14 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 an 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 December 31, 2022
				\$
Office and warehouse building	18	January 2023 to September 2030	4.75% to 8.00%	6,039
Shredding vehicles	4	September 2023 to June 2026	5.95% to 6.00%	222
Total				6,261

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The total lease payments for the year ended December 31, 2022 were \$1,686 (December 31, 2021 - \$1,154) of which the total office and warehouse lease payments were \$1,347 (December 31, 2021 - \$869) and the total truck lease payments were \$339 (December 31, 2021 - \$285).

The movement in the lease liabilities for the years ended December 31, 2022 and 2021 was as follows:

	<u>2022</u>	<u>2021</u>
	\$	\$
Opening Balance, January 1	3,769	3,852
Acquisitions	591	1,088
Additions	3,307	35
Disposals	(57)	—
Interest expense	260	219
Interest paid	(260)	(219)
Lease payments	(1,686)	(1,154)
Foreign exchange	337	(52)
Closing balance, December 31	<u>6,261</u>	<u>3,769</u>
Less: current portion	1,501	1,468
Long-term portion	<u>4,760</u>	<u>2,301</u>

The following table outlines the total contractual undiscounted minimum lease payments due as at December 31, 2022:

	<u>Within 1 year</u>	<u>2-5 years</u>	<u>Over 5 years</u>	<u>Total</u>
	\$	\$	\$	\$
Lease payments	1,865	5,092	345	7,302
Finance charges	(364)	(636)	(41)	(1,041)
Lease liabilities	<u>1,501</u>	<u>4,456</u>	<u>304</u>	<u>6,261</u>

Lease payments not recognized as a liability

The Company has elected not to recognize lease liabilities for short term leases (leases of expected term of 12 months or less) or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis and included in General and Administrative expense and Corporate Locations expenses. In addition, certain variable lease payments are not permitted to be recognized as lease liabilities and are expensed as incurred.

The expense relating to payments not included in the measurement of the lease liabilities are as follows:

For the years ended December 31,	<u>2022</u>	<u>2021</u>
	\$	\$
Short-term leases	157	135
Variable lease payments	226	124
Total	<u>383</u>	<u>259</u>

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15 Changes in liabilities arising from financing activities

The changes in the Company's liabilities arising from financing activities can be classified as follows:

	Contingent Consideration	Long-term debt	Total
	\$	\$	\$
Balance as of December 31, 2021	4,348	26,557	30,905
Cash flows:			
Borrowings	–	9,242	9,242
Payments	(1,417)	(4,536)	(5,953)
Non cash:			
Additions through acquisitions	1,916	–	1,916
Interest Accretion	424	–	424
Remeasurement	(122)	–	(122)
Foreign exchange	319	549	868
Balance as of December 31, 2022	5,468	31,812	37,280

16 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 December 31, 2022	18,243,872	44,966	—	—	18,243,872	44,966
Balance December 31, 2021	17,999,371	43,942	118,980	196	18,118,351	44,138

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. All figures presented in these consolidated financial statements, including comparative figures, for common shares, warrants, and options, and for basic and diluted net income per share amounts have been adjusted to reflect this share consolidation.

c) Weighted average number of common shares

The basic weighted average number of common shares outstanding for the year ended December 31, 2022 was 18,200,572 (December 31, 2021 – 15,850,676). The diluted weighted average

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number of common shares outstanding for the year ended December 31, 2022 was 18,247,501 (December 31, 2021 – 15,984,299).

d) Warrants

The Company issued 400,430 warrants on January 23, 2017 as part of a private placement. Each warrant was exercisable into one common share of the Company at a price of \$1.80 per common share for a period of five years and expired on January 23, 2022. The warrants were classified as equity instruments. The fair values of the warrants was determined using the Black-Scholes option pricing model. There were 116,980 warrants exercised and 2,000 warrants expired during the year ended December 31, 2022 (245,700 exercised and nil expired – year ended December 31, 2021).

e) Stock options

Terms of the Company's stock option plan are as follows:

- i) From time to time, the Company designates eligible participants to whom options will be granted and the number of shares to be optioned to each;
- ii) Eligible participants are persons who are directors, officers, employees and advisors of the Company;
- iii) Options to purchase shares are non-transferable and are exercisable for a period of up to five years from the date of grant;
- iv) Shares to be optioned shall not exceed ten percent of the issued and outstanding common shares of the Company;
- v) The option price for the shares is determined at the time of granting of the option but cannot be less than the fair market value of the shares at the time the option is granted less any applicable discount permitted by the Toronto Venture Exchange; and
- vi) The term during which any option granted may be exercised is determined by the Company at the time the option is granted but may not exceed the maximum period permitted by the Toronto Venture Exchange.

The following table summarizes the movements in the Company's stock options during the years ended December 31, 2022 and 2021:

	<u>2022</u>		<u>2021</u>	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Outstanding – opening	445,182	3.12	390,863	3.00
Granted	272,161	4.18	91,752	3.70
Exercised	(127,515)	2.56	(24,233)	3.20
Expired and forfeited	<u>(15,640)</u>	3.53	<u>(13,200)</u>	3.30
Outstanding – closing	<u>574,188</u>	3.74	<u>445,182</u>	3.12

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During the year ended December 31, 2022, 127,515 stock options were exercised and common shares were issued for total gross proceeds of \$327 (for the year ended December 31, 2021, 24,233 stock options exercised for total gross proceeds of \$78).

The fair value of the 272,161 stock options issued during the year ended December 31, 2022 totaled \$557. The fair value of the options was calculated using the Black-Scholes model using a risk-free interest rate of 1.39% to 3.45%, volatility of 53% to 57%, expected life of 5 years and a 0% dividend yield.

For the year ended December 31, 2022 stock compensation expense was \$302 (for the year ended December 31, 2021 – \$117).

The following table summarizes the stock options outstanding as at December 31, 2022 and 2021:

Exercise price \$	2022			2021		
	Number of options outstanding	Weighted average remaining contractual life	Options exercisable	Number of options outstanding	Weighted average remaining contractual life	Options exercisable
\$2.50 to \$3.00	71,000	0.49	71,000	202,100	0.74	202,100
\$3.01 to \$3.50	122,493	1.52	97,413	122,493	2.52	88,053
\$3.51 to \$4.00	68,168	2.76	49,753	72,293	3.80	31,606
\$4.01 to \$4.50	312,527	3.96	76,565	48,295	3.05	43,725
	<u>574,188</u>		<u>294,731</u>	<u>445,181</u>		<u>365,484</u>

17 Revenue

The break-down of revenue earned by the Company for the years ended December 31, 2022 and 2021 is as follows:

	For the year ended December 31	
	2022	2021 ⁽¹⁾
	\$	\$
Paper shredding services	38,640	26,083
Sale of paper products	11,650	4,417
Electronic waste and product shredding services	2,371	1,709
Scanning services	2,360	1,992
Royalties and license fees	1,895	1,654
Growth Fund contributions	231	217
Franchise fees	79	127
Total revenue	<u>57,226</u>	<u>36,199</u>

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

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18 Corporate location expenses

The break-down of corporate location expenses of the Company for the years ended December 31, 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
	\$	\$
Shredding vehicle and related expenses	9,295	4,850
Acquisition costs	853	460
Employee wages expense	16,635	11,115
Employee benefits expense	3,228	2,255
Office and administration expense	4,752	3,159
Total corporate operating expenses	<u>34,763</u>	<u>21,839</u>

19 General and administrative expenses

The general and administrative expenses of the Company for the years ended December 31, 2022 and 2021 are broken down as follows:

	<u>2022</u>	<u>2021</u>
	\$	\$
Employee wages and benefits expense	2,867	2,318
Share-based compensation	302	117
Professional fees	920	697
Acquisition costs	247	182
Technology	670	495
Growth Fund expenses (note 5)	540	383
Other	1,599	977
Total general and administrative expenses	<u>7,145</u>	<u>5,169</u>

Compensation of key management

Included in employee wages and benefits and share-based compensation expense for the years ended December 31, 2022 and 2021 is key management personnel compensation, which is as follows:

	<u>2022</u>	<u>2021</u>
Wages and benefits	1,035	1,103
Share-based compensation	224	92
Total compensation of key management	<u>1,259</u>	<u>1,195</u>

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

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20 Government assistance

In February and March 2021, the Company qualified for and received \$1,299 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 met by the Company and as a result, the funding received was recorded as government assistance in the statement of comprehensive income for the year ended December 31, 2021.

The Company also qualified for and received \$49 under the Federal Government of Canada’s Canadian Emergency Wage Subsidy program (“CEWS Program”) for the year ended December 31, 2021. The amounts received under the CEWS Program were recorded as government assistance in the statement of comprehensive income for the year ended December 31, 2021.

21 Income taxes

Reconciliation of total tax recovery

The effective rate on the Company’s income before income tax differs from the expected amount that would arise using the statutory income tax rates. A reconciliation of the difference is as follows:

	<u>2022</u>	<u>2021</u>
	\$	\$
Net income before income taxes	7,626	2,127
Statutory income tax rate	<u>26.50%</u>	<u>26.50%</u>
Expected income tax recovery expense on above rates	2,022	564
Withholding tax	149	127
Non-taxable and non-deductible expenses	(205)	(250)
Change in benefit of future tax assets not recognized	(448)	23
Prior year taxes	74	192
Effect of foreign tax rates	34	18
Other items	126	95
Income tax expense	<u>1,752</u>	<u>769</u>

The enacted tax rate in Canada is 26.50% (2021 - 26.50%) and in the United States is 27.17% (2021 – 27.17%). These rates have been applied in the tax provision calculation.

	<u>2022</u>	<u>2021</u>
	\$	\$
Provision for income taxes is comprised of:		
Current income taxes	310	175
Deferred income taxes	1,442	594
	<u>1,752</u>	<u>769</u>

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Deferred tax

The net deferred income tax (liability) asset is as follows as at December 31, 2022 and 2021:

	2022	2021
	\$	\$
Deferred income tax asset	1,075	954
Deferred income tax liability	2,228	665
Net deferred income tax (liability) asset	<u>(1,153)</u>	<u>289</u>

The components of the net deferred income tax (liability) asset as at December 31, 2022 and 2021 are as follows:

	2022	2021
	\$	\$
Taxable temporary differences on property and equipment and intangibles	(7,847)	(6,212)
Non-capital losses	4,642	4,535
Other	2,088	2,450
Benefit not recognized	(36)	(484)
	<u>(1,153)</u>	<u>289</u>

The movement in the net deferred income tax (liability) asset is as follows:

	2022	2021
	\$	\$
Balance, beginning of the year	289	658
Recognized in income	(1,442)	(594)
Recognized directly in shareholders' equity	-	225
Balance, end of the year	<u>(1,153)</u>	<u>289</u>

The Company has incurred Canadian non-capital losses of \$2,625 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 \$14,524 that can be carried forward to reduce taxes payable in the U.S. The losses expire at various times commencing December 31, 2023.

22 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.

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Fair values

The carrying value 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 fair value of the Company's long-term debt is \$30,510, compared to a carrying value of \$31,812, based on the current interest rates that would be charged on this financial instrument as at December 31, 2022.

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 years ended December 31, 2022 and December 31, 2021.

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The 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, 2022				
	\$	\$	\$	\$
Cash and cash equivalents	6,696	–	6,696	6,696
Cash attributable to the Growth Fund	223	–	223	223
Trade and other receivables	8,778	–	8,778	8,778
Total financial assets	15,697	–	15,697	15,697
Accounts payable and accrued liabilities	–	4,513	4,513	4,513
Long-term debt	–	31,812	31,812	30,510
Contingent consideration	–	5,468	5,468	5,468
Total financial liabilities	–	41,793	41,793	40,491
December 31, 2021				
	\$	\$	\$	\$
Cash and cash equivalents	9,660	–	9,660	9,660
Cash attributable to Growth Fund	188	–	188	188
Accounts receivable	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

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 are fixed ranging from 2.99% to 7.47% per annum.
- 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 8.37% 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, 2022.

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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>2022</u>	<u>2021</u>
	\$	\$
Past due but not impaired		
60 to 90 days	700	207
91 days to 180 days	784	129

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, 2022, 6 franchisees accounted for 57% of the accounts receivable balance related to franchising and licensing (December 31, 2021 - 6 franchisees accounted for 53%). For the year ended December 31, 2022, 3 franchisees accounted for 26% of the Company's revenues related to franchising and licensing (December 31, 2021 - 3 franchisees accounted for 26%). As of December 31, 2022, there was no accounts receivable over 90 days old (December 31, 2021 – nil).

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, 2022, no customer accounted for more than 10% of the accounts receivable balance. For the year ended December 31, 2022 and 2021, no customer accounted for more than 10% of the Company's revenues in this category. As of December 31, 2022, 10% of accounts receivable, net of allowance of doubtful accounts, in this category were over 90 days old (December 31, 2021 – 3%). The increase in accounts receivable over 90 days old is driven, in part, by government and hospital customers acquired as part of acquisitions completed, that have longer lead times for payment. As at December 31, 2022, the Company recorded an allowance for credit losses from receivables of \$327 related to corporate operations (December 31, 2020 - \$45).

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.

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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 year ended December 31, 2022, the Company recorded a foreign exchange gain of \$3,382 (December 31, 2021 – loss of \$200). 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 \$252 (December 31, 2021 - \$114).

Exchange rates utilized (USD to CAD):

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
	\$	\$
Close rate	1.35	1.27
Average rate	1.30	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 \$16,694 at December 31, 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 \$16,702 as at December 31, 2022 (December 31, 2021 - \$15,301), including cash and cash equivalents of \$6,696 (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	4,347	105	61	-
Long-term debt	1,944	4,895	22,126	2,847
Contingent consideration	1,017	2,691	1,760	-
Lease liabilities	376	1,125	4,455	305

Interest	Less than 3	3 months to 1	1 - 5 years	Over 5 years
	months	year		
	\$	\$	\$	\$
Long-term debt	400	1,079	2,864	161
Lease liabilities	99	264	637	41

Total principal and interest	Less than 3	3 months to 1	1 - 5 years	Over 5 years
	months	year		
	\$	\$	\$	\$
Accounts payable and accrued liabilities	4,347	105	61	-
Long-term debt	2,344	5,974	24,990	3,008
Contingent consideration	1,017	2,691	1,760	-
Lease liabilities	475	1,389	5,092	346

23 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 13 for details of the financial covenants.

RediShred Capital Corp.

Notes to the Consolidated Financial Statements

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24 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, 2022	Franchising and licensing	Corporate locations	Corporate	Total
	\$	\$	\$	\$
ASSETS				
Current assets				
Cash and cash equivalents	244	3,962	2,490	6,696
Cash attributable to the Growth Fund	223	—	—	223
Trade and other receivables	188	8,230	360	8,778
Prepaid expenses	174	260	140	574
Income taxes receivable	—	428	3	431
Total current assets	829	12,880	2,993	16,702
Non-current assets				
Tangible assets	35	24,170	541	24,746
Intangible assets	766	25,960	177	26,903
Goodwill	—	28,385	—	28,385
Deferred tax asset	—	—	1,075	1,075
Total assets	1,630	91,395	4,786	97,811
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	842	2,643	967	4,452
Deferred revenue	63	67	—	130
Income taxes payable	64	—	—	64
Current portion of long-term debt	—	2,452	4,387	6,839
Lease liabilities	—	1,484	17	1,501
Contingent consideration	—	3,708	—	3,708
Total current liabilities	969	10,354	5,371	16,694
Non-current liabilities				
Accounts payable and accrued liabilities	—	61	—	61
Long-term debt	—	6,156	18,817	24,973
Deferred revenue	—	54	—	54
Lease liabilities	—	4,077	683	4,760
Contingent consideration	—	1,760	—	1,760
Deferred tax liability	102	2,126	—	2,228
Total liabilities	1,071	24,588	24,871	50,530

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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	351	6,202	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	541	68,743	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	283	6,917	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	–	2,278	23	2,301
Contingent consideration	–	2,494	–	2,494
Deferred tax liability	32	633	–	665
Total liabilities	438	16,963	21,573	38,974

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Notes to the Consolidated Financial Statements

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Geographic information

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Canada	\$	\$
Tangible assets	541	131
Intangible assets	177	217
United States		
Tangible assets	24,205	18,140
Intangible assets	26,726	21,936
Goodwill	28,385	22,655
Total		
Tangible assets	24,746	18,271
Intangible assets	26,903	22,153
Goodwill	28,385	22,655

Revenue

All revenues were attributed to the United States.

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Net income (loss) by operating segment

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

	For the year ended December 31, 2022			
	Franchising and licensing	Corporate locations	Corporate	Total
	\$	\$	\$	\$
Revenue	2,206	55,020	–	57,226
Corporate location expenses	–	(34,763)	–	(34,763)
Depreciation – tangible assets	(8)	(6,118)	(93)	(6,219)
General and administrative expense	(1,457)	(1,534)	(4,154)	(7,145)
Total expenses	(1,465)	(42,415)	(4,247)	(48,127)
Operating income (loss)	741	12,605	(4,247)	9,099
Interest expense	–	(1,018)	(886)	(1,904)
Interest income	–	–	47	47
Amortization – intangible assets	(75)	(3,258)	(40)	(3,373)
Remeasurement of contingent consideration	–	122	–	122
Foreign exchange gain	–	–	3,382	3,382
Gain on disposal of tangible assets	–	158	–	158
Other Income	95	–	–	95
Income (loss) before income taxes	761	8,609	(1,744)	7,626
Income tax expense	(144)	(1,560)	(48)	(1,752)
Net income (loss)	617	7,049	(1,792)	5,874

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	For the year ended December 31, 2021			
	Franchising and licensing	Corporate locations	Corporate	Total
	\$	\$	\$	\$
Revenue	1,998	34,201	–	36,199
Corporate location expenses	–	(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 loss	–	(61)	(139)	(200)
Gain on disposal of tangible assets	–	394	–	394
Other Income	56	–	–	56
Income (loss) before income taxes	1,308	4,870	(4,051)	2,127
Income tax recovery (expense)	83	(879)	27	(769)
Net income (loss)	1,391	3,991	(4,024)	1,358

25 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 \$5 due from this franchise as at December 31, 2022 (December 31, 2021 - \$4). During the year ended December 31, 2022, the Company earned royalties, franchise and service fees of \$183 (December 31, 2021 - \$165) from this franchise.