RediShred Capital Corp.

Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2022 and 2021

(Unaudited- Prepared by Management)

(Expressed in thousands of Canadian dollars)

RediShred Capital Corp.

Condensed Consolidated Interim Statements of Financial Position

As at March 31, 2022 and December 31, 2021

(Unaudited, expressed in thousands of Canadian dollars)

	2022 $	2021 $
Assets		
Current assets		
Cash and cash equivalents	9,350	9,660
Cash attributable to the Growth Fund (note 3)	178	188
Trade and other receivables (note 4)	5,887	4,894
Prepaid expenses	689	471
Income taxes receivable	140	88
Total current assets	16,244	15,301
Non-current assets		
Tangible assets (note 6)	17,158	18,271
Intangible assets (note 7)	21,438	22,153
Goodwill (note 8)	22,445	22,655
Deferred tax asset (note 17)	967	954
Total non-current assets	62,008	64,033
Total assets	78,252	79,334
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	2,736	3,147
Deferred revenue	110	98
Income taxes payable	153	67
Current portion of long-term debt (note 10)	4,700	4,690
Lease liabilities (note 11)	1,340	1,468
Contingent consideration (note 9)	1,977	1,854
Total current liabilities	11,016	11,324
Non-current liabilities		
Accounts payable and accrued liabilities	166	200
Long-term debt (note 10)	20,910	21,867
Deferred revenue	77	123
Lease liabilities (note 11)	2,082	2,301
Contingent consideration (note 9)	1,990	2,494
Deferred tax liability (note 17)	1,123	665
Total non-current liabilities	26,348	27,650
Total liabilities	37,364	38,974
Shareholders’ equity		
Capital stock (note 12)	44,397	44,138
Contributed surplus	1,272	1,229
Accumulated foreign currency translation loss	(655)	(608)
Deficit	(4,126)	(4,399)
	40,888	40,360
Total liabilities and shareholders’ equity	78,252	79,334

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

RediShred Capital Corp.

Condensed Consolidated Interim Statements of Comprehensive Income

For the three months ended March 31, 2022 and 2021

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

	2022	2021
	$	$
Revenue (note 13)	12,517	7,313
Corporate locations expenses (note 14)	(7,067)	(4,402)
Depreciation – tangible assets (note 6)	(1,334)	(1,033)
General and administrative expenses (note 15)	(1,384)	(857)
Total expenses	(9,785)	(6,292)
Operating income	2,732	1,021
Interest expense	(383)	(252)
Interest income	–	4
Government assistance (note 16)	–	1,320
Amortization – intangible assets (note 7)	(779)	(642)
Remeasurement of contingent consideration (note 9)	(39)	–
Foreign exchange loss	(750)	(509)
Gain on disposal of tangible assets	7	–
Income before income taxes	788	942
Income tax (expense) recovery	(515)	15
Net income for the period	273	957
Foreign currency translation (loss) income	(47)	19
Comprehensive income for the period	226	976
Net income per share		
Basic	0.003	0.012
Diluted	0.003	0.012
Weighted average number of common shares outstanding – basic	90,504,277	78,881,831
Weighted average number of common shares outstanding – diluted	90,994,255	79,626,365

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

RediShred Capital Corp.

Condensed Consolidated Interim Statements of Changes in Equity

For the three months ended March 31, 2022 and 2021

(Unaudited, expressed in thousands of Canadian dollars)

	Capital Stock and warrants	Contributed Surplus	Accumulated foreign currency translation income (loss)	Deficit	Total Shareholders' Equity
	$	$	$	$	$
Balance – January 1, 2021	35,565	1,171	(571)	(5,757)	30,408
Net income for the year	–	–	–	957	957
Foreign currency translation gain	–	–	19	–	19
Exercise of options and warrants (note 12)	(77)	(2)	–	–	(79)
Stock-based compensation (note 12)	–	16	–	–	16
Balance – March 31, 2021	35,488	1,185	(552)	(4,800)	31,321
Balance – January 1, 2022	44,138	1,229	(608)	(4,399)	40,360
Net income for the year	–	–	–	273	273
Foreign currency translation loss	–	–	(47)	–	(47)
Stock-based compensation (note 12)	–	66	–	–	66
Exercise of options and warrants (note 12)	259	(23)	–	–	236
Balance – March 31, 2022	44,397	1,272	(655)	(4,126)	40,888

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

RediShred Capital Corp.

Condensed Consolidated Interim Statements of Cash Flows
For the three months ended March 31, 2022 and 2021
(Unaudited, expressed in thousands of Canadian dollars)

Cash provided by (used in)	**2022** **$**	**2021[1]** **$**
Operating activities		
Net income for the period	273	957
Items not affecting cash		
Depreciation of tangible assets and amortization of intangible assets (notes 6 and 7)	2,113	1,675
Stock-based compensation	66	16
Unrealized foreign currency loss	744	502
Interest expense, net of interest income	383	248
Remeasurement of contingent consideration (note 9)	39	—
Income tax expense (recovery)	515	(15)
Gain on disposal of tangible assets	(7)	—
	4,126	3,383
Net change in non-cash working capital balances		
Increase in trade and other receivables	(1,049)	(226)
Increase in prepaid expenses	(224)	(160)
Decrease in accounts payable and accrued liabilities	(445)	(611)
Decrease in deferred revenue	(11)	(30)
Income taxes paid	(42)	(29)
Interest paid	(282)	(252)
Interest received	—	4
Net cash provided by operations	2,073	2,079
Financing activities		
Borrowings from long-term debt	186	—
Repayments of long-term debt	(1,064)	(848)
Proceeds from exercise of options and warrants	236	18
Payments received on notes receivable	—	15
Repayment of notes payable	—	(89)
Repayment of lease liabilities (note 11)	(361)	(256)
Contingent consideration paid (note 9)	(560)	(8)
Net cash used in financing activities	(1,563)	(1,168)
Investing activities		
Amount paid for acquisitions, net of cash acquired (note 5)	(349)	—
Decrease (increase) in cash held by Growth Fund	10	(47)
Purchase of tangible and intangible assets (notes 6 and 7)	(571)	(196)
Proceeds from disposal of tangible assets	119	—
Net cash used in investing activities	(791)	(243)
Effect of foreign exchange rate changes on cash	(29)	(27)
Net change in cash for the period	(310)	641
Cash – Beginning of the period	9,660	2,844
Cash – End of the period	9,350	3,485

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

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

1 Corporate information and nature of operations

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

Redishred manages and operates the Proshred brand and business platform ("system") in the United States and internationally. Redishred operates the Proshred system under two business models in the United States, (1) via franchising and (2) via direct operation of fourteen corporate shredding locations, as of March 31, 2022.

2 Significant accounting policies

Basis of presentation

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

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

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

The global spread of the COVID-19 virus has led to significant disruptions to businesses worldwide. In many countries, including Canada and the United States, measures such as travel bans, quarantines, social distancing and closures of non-essential services have been taken to contain the spread of the virus. Governments have responded with monetary and fiscal interventions in an attempt to stabilize economic conditions. The Company has considered the potential negative impacts and cash flow difficulties of the virus on its franchisees, customers, suppliers and lenders. The length of time of the COVID-19 pandemic and its impacts are currently unknown. The Company has used the best information available as of March 31, 2022, in determining its estimates and the assumptions that affect the carrying amounts of assets and liabilities, and earnings for the period. Actual results could differ from those estimates.

(Unaudited, expressed in thousands of Canadian dollars)

The condensed consolidated interim financial statements of the Company for the three months ended March 31, 2022 were authorized for issuance in accordance with a resolution of the Board of Directors on May 26, 2022.

3 Growth fund

The Company manages a Growth Fund established to collect and administer funds contributed for use in regional and national advertising programs and amongst other things, initiatives designed to increase sales and enhance general public recognition, acceptance and use of the Proshred System. The fund contributions are segregated, designated for a specific purpose and the Company acts, in substance, as an agent with regard to these contributions. Growth Fund contributions are required to be made 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 three months ended March 31, 2022 and 2021, as well as cash balances as at March 31, 2022 and December 31, 2021 are as follows:

For the three months ended,	**March 31, 2022**	**March 31, 2021**
	$	**$**
Growth Fund revenue	55	59
Growth Fund expenses	(151)	(73)
Growth Fund net loss	(96)	(14)

As at,	**March 31, 2022**	**December 31, 2021**
	$	**$**
Cash attributable to the Growth Fund	178	188

4 Trade and other receivables

Trade receivables include receivables from franchisees and shredding, recycling, electronic waste and scanning customers. Other receivables include amounts related to the receivables from the sale of trucks and Harmonized Sales Tax (“HST”) refunds. The net trade and other receivables as of March 31, 2022 and December 31, 2021 are as follows:

(Unaudited, expressed in thousands of Canadian dollars)

	March 31, 2022	December 31, 2021
	$	$
Trade receivables – corporate locations	5,270	4,227
Trade receivables – franchising and licensing	157	147
Total trade receivables	5,427	4,374
Other receivables	504	565
Less: Allowance for doubtful accounts	(44)	(45)
Trade and other receivables, net	5,887	4,894

5 Acquisitions

On March 1, 2022, the Company acquired the assets of Mobile Document Destruction ("MDD"), an Illinois-based shredding business. The Company determined that the acquisition met the definition of a business and accounted for the transaction as a business combination in accordance with IFRS 3, *Business Combinations.* The purchase price for the 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 acquisition.

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

The following table outlines the assets purchased and the consideration given on the closing date for the MDD acquisition:

During the three months ended March 31, 2022	MDD
	$
Exchange rate used	1.27
Assets Acquired	
Net Working capital	19
Tangible assets	19
Customer relationships	307
Goodwill	117
	462
Consideration Given	
Cash	349
Contingent consideration	113
	462

(Unaudited, expressed in thousands of Canadian dollars)

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

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

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

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

During the year ended December 31, 2021	**Proshred Richmond**	**Proshred Atlanta**	**American Shredding**	**Total**
	$	**$**	**$**	**$**
Exchange rate used	1.23	1.25	1.28	
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

**Recognized as an expense in the statement of comprehensive income in the period in which the acquisition-related costs were incurred.*

(Unaudited, expressed in thousands of Canadian dollars)

6 Tangible assets

			March 31, 2022			**December 31, 2021**
	Cost	Accumulated depreciation	**Net carrying value**	Cost	Accumulated depreciation	**Net carrying value**
	$	$	**$**	$	$	**$**
Computer equipment	531	(328)	**203**	473	(307)	**166**
Furniture & fixtures	212	(194)	**18**	214	(192)	**22**
Bins & shredding containers	3,319	(1,652)	**1,667**	3,245	(1,536)	**1,709**
Shredding vehicles - chassis	6,484	(2,666)	**3,818**	6,521	(2,507)	**4,014**
Shredding vehicles - box	13,087	(5,482)	**7,605**	13,359	(5,219)	**8,140**
Vehicles	193	(176)	**17**	196	(176)	**20**
Baling equipment	527	(159)	**368**	533	(145)	**388**
ROU Office and Warehouse	5,146	(2,391)	**2,755**	5,159	(2,109)	**3,050**
ROU Truck leases	1,961	(1,254)	**707**	1,989	(1,227)	**762**
Total tangible assets	31,460	(14,302)	**17,158**	31,689	(13,418)	**18,271**

	December 31, 2021						**March 31, 2022**
	Net carrying value	Additions	Acquisitions	Depreciation	Disposition of Assets	Foreign exchange	**Net carrying value**
	$	$	$	$		$	**$**
Computer equipment	166	64	-	(23)	-	(4)	**203**
Furniture & fixtures	22	-	-	(4)	-	-	**18**
Bins & shredding containers	1,709	104	19	(141)	-	(24)	**1,667**
Shredding vehicles - chassis	4,014	161	-	(274)	(27)	(56)	**3,818**
Shredding vehicles - box	8,140	174	-	(513)	(85)	(111)	**7,605**
Vehicles	20	-	-	(3)	-	-	**17**
Baling equipment	388	-	-	(15)	-	(5)	**368**
ROU Office and Warehouse	3,050	58	-	(314)	-	(39)	**2,755**
ROU Truck leases	762	-	-	(47)	-	(8)	**707**
Total tangible assets	18,271	561	19	(1,334)	(112)	(247)	**17,158**

	December 31, 2020						**December 31, 2021**
	Net carrying value	Additions	Acquisitions	Depreciation	Dispostion 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 March 31, 2022 and December 31, 2021, and is included in other comprehensive income.

(Unaudited, expressed in thousands of Canadian dollars)

7 Intangible assets

			March 31, 2022			**December 31, 2021**
	Cost	Accumulated amortization	**Net carrying value**	Cost	Accumulated amortization	**Net carrying value**
	$	$	**$**	$	$	**$**
Computer software	1,083	(354)	**729**	1,027	(297)	**730**
Re-acquired franchise rights	1,113	(859)	**254**	1,129	(827)	**302**
Trademarks & intellectual property	46	(7)	**39**	46	(6)	**40**
Customer relationships	27,890	(7,474)	**20,416**	27,989	(6,908)	**21,081**
Total intangible assets	30,132	(8,694)	**21,438**	30,191	(8,038)	**22,153**

	December 31, 2021					**March 31, 2022**
	Net carrying value	Additions	Acquisitions	Amortization	Foreign exchange	**Net carrying value**
	$	$	$	$	$	**$**
Computer software	730	68	-	(61)	(8)	**729**
Re-acquired franchise rights	302	-	-	(45)	(3)	**254**
Trademarks & intellectual property	40	-	-	(1)	-	**39**
Customer relationships	21,081	-	307	(672)	(300)	**20,416**
Total intangible assets	22,153	68	307	(779)	(311)	**21,438**

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

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

8 Goodwill

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

	March 31, 2022	**December 31, 2021**
	$	**$**
Opening balance	22,655	19,748
Acquisitions	117	2,992
Foreign Currency Translation	(327)	(85)
Closing balance	22,445	22,655

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

(Unaudited, expressed in thousands of Canadian dollars)

9 Contingent consideration

The Company has recorded contingent consideration liabilities as part of the businesses acquired. The contingent consideration liabilities are paid to the vendors if certain financial results are achieved. During the three months ended March 31, 2022, the Company recorded a remeasurement loss on contingent consideration of $39. The fair value of contingent consideration is calculated based on the expected payout, discounted.

As at March 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
March 1, 2020 to March 1, 2022	USD$0 to USD$5,771	CAD$1,977 USD$1,582	CAD$1,990 USD$1,592	April 1, 2022 to December 1, 2024

The change in contingent consideration was as follows:

	March 31, 2022
	$
Opening balance, January 1	4,348
Payments	(560)
Additions through acquisitions	113
Interest Accretion	84
Remeasurement	39
Foreign exchange	(57)
Closing balance, March 31	3,967

10 Long-term debt

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

	March 31, 2022	December 31, 2021
	$	$
Bank facilities (i)	20,092	20,720
Less: transaction costs	(284)	(298)
Net bank facilities	19,808	20,422
Truck loans (ii)	5,802	6,135
Total long-term debt	25,610	26,557
Less: current portion	(4,700)	(4,690)
	20,910	21,867

(Unaudited, expressed in thousands of Canadian dollars)

(i) Bank facilities

As at March 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 term loan facility in the amount of CAD$23.5 million (advances can be taken in either USD or CAD equivalent, at the Company's discretion).

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

Month of Advance	Initial Amount	Interest per annum	Amortization period	March 31, 2022 balance	December 31, 2021 balance
	$			$	$
May, 2019	6,003	3.50%	60 months	4,040	4,248
November, 2019	6,664	3.50%	84 months	4,931	5,157
March, 2020	2,688	2.99%	84 months	2,135	2,226
December, 2020	2,290	3.33%	84 months	1,912	1,990
August, 2021	854	3.69%	84 months	784	809
December, 2021[(a)]	6,290	Prime + 1.25%	84 months	6,290	6,290
Total				**20,092**	**20,720**

(a) During the first nine-months of this term loan, monthly payments of interest only are due and payable. This loan is at the Prime Rate plus 1.25%, with the Prime Rate as at March 31, 2022 being 2.70%.

As at March 31, 2022, the Company has $1.0 million available on its operating line of credit and $3.4 million available on its non-revolving term loan.

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

The bank credit facilities contain financial covenants that require the Company to maintain certain financial ratios and meet certain financial thresholds as follows:

1. A minimum fixed charge coverage ratio of 1.20:1 which is defined as earnings before interest, taxes, depreciation and amortization ("EBITDA") less cash taxes and unfunded capital expenditures to total principal and interest repayments;

2. A maximum senior funded debt to EBITDA ratio of 3.00:1 which is defined as total senior debt divided by EBITDA;

3. A maximum total funded debt to EBITDA ratio of 3.50:1 which is defined as total debt to EBITDA;

4. Capital expenditures are not to exceed USD$2.9 million in any fiscal year; and

5. Unfunded capital expenditures are not to exceed USD$640,000 in any fiscal year.

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

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

(Unaudited, expressed in thousands of Canadian dollars)

(ii) Truck loans

In June 2021, the Company established a USD$1.8 million line of credit for the purchase of shredding vehicles with a lender in the United States. The interest rate is based on prevailing market rates at the time the line is used. As of March 31, 2022, the Company has USD$0.3 million available on the line of credit.

As of March 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	5,802	7,688	3.92% to 5.99%	March 20, 2017 to March 21, 2022	May 22, 2022 to February 21, 2027

(iii) Related party line of credit

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

11 Lease liabilities

The Company enters into leases in order to secure office and warehouse space. The Company has also entered into leases for the financing of shredding vehicles. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the balance sheet as a right-of-use ("ROU") asset and a lease liability.

Lease Liability	**Number of ROU assets leased**	**Range of remaining term**	**Range of interest rates**	**Lease balance as of March 31, 2022**
Office and warehouse building	16	June 2022 to March 2028	6.00%	2,944
Shredding vehicles	7	October 2022 to June 2026	5.95% to 6.00%	478
Total				**3,422**

The total lease payments made during the three months ended March 31, 2022 were $361 (March 31, 2021 - $256).

(Unaudited, expressed in thousands of Canadian dollars)

12 Capital stock

a) Authorized

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

b) Issued and fully paid

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

	Common stock		Warrants		Total	
	Number	$	Number	$	Number	$
Balance March 31, 2022	90,631,755	44,397	—	—	90,631,755	44,397
Balance December 31, 2021	89,996,855	43,942	594,900	196	90,591,755	44,138

c) Weighted average number of common shares

The basic weighted average number of common shares outstanding for the three months ended March 31, 2022 was 90,504,277 (three months ended March 31, 2021 – 78,881,831). The diluted weighted average number of common shares outstanding for the three months ended March 31, 2022 was 90,994,255 (three months ended March 31, 2021 – 79,626,365).

d) Warrants

The Company issued 2,002,150 warrants on January 23, 2017 as part of a private placement. Each warrant is exercisable into one common share of the Company at a price of $0.36 per common share for a period of five years and expired on January 23, 2022. The warrants have been classified as equity instruments. The fair value of the warrants were determined using the Black-Scholes option pricing model. There were 584,900 warrants exercised and 10,000 warrants expired during the three months ended March 31, 2022 (three months ended March 31, 2021- 51,000 warrants exercised and nil expired).

(Unaudited, expressed in thousands of Canadian dollars)

e) Stock options

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

	2022		2021	
	Number of options	**Weighted average exercise price $**	**Number of options**	**Weighted average exercise price $**
Outstanding – opening	2,225,909	0.62	1,954,317	0.60
Granted	388,451	0.87	8,650	0.74
Exercised	(50,000)	0.51	—	—
Outstanding – closing	2,564,360	0.66	1,962,967	0.60

The fair value of the 388,451 stock options issued during the three months ended March 31, 2022 totaled $167. The fair value of the options was calculated using the Black-Scholes model using a risk-free interest rate of 1.39% - 2.46%, volatility of 55% to 57%, expected life of 5 years and a 0% dividend yield.

For the three months ended March 31, 2022 stock compensation expense was $66 (for the three months ended March 31, 2021 – $16).

13 Revenue

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

	2022	2021
	$	$
Shredding services	8,755	5,664
Sale of paper products	2,297	622
Royalties and license fees	444	418
Scanning services	648	287
Electronic waste services	297	231
Growth Fund contributions	55	59
Franchise fees	21	32
Total revenue	12,517	7,313

(Unaudited, expressed in thousands of Canadian dollars)

14 Corporate location expenses

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

	2022	2021
	$	$
Shredding vehicle and related expenses	1,536	1,008
Acquisition costs	128	51
Employee wages expense	3,655	2,280
Employee benefit expense	813	437
Office and administration expense	935	626
Total corporate operating expenses	7,067	4,402

15 General and administrative expenses

The break-down of general and administrative expenses of the Company for the three months ended March 31, 2022 and 2021 is as follows:

	2022	2021
	$	$
Employee wages and benefits expense	664	443
Share-based compensation	66	16
Professional fees	125	76
Acquisition costs	22	12
Technology	155	108
Growth Fund expenses (note 3)	151	73
Other	201	129
Total general and administrative expenses	1,384	857

Compensation of key management

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

	2022	2021
	$	$
Wages and benefits	283	297
Share-based compensation	54	13
Total compensation of key management	337	310

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

16 Government assistance

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

The Company also qualified for and received $28 under the Federal Government of Canada’s Canadian Emergency Wage Subsidy program (“CEWS Program”) for the comparative period from January 1, 2021 to March 31, 2021. The amounts received under the CEWS Program were recorded as government assistance in the comparative statement of comprehensive income.

17 Income taxes

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

Income before income taxes for the three months ended March 31, 2022 and 2021 was $788 and $942, respectively. Income tax expense for the three months ended March 31, 2022 was $515 (three months ended March 31, 2021- income tax recovery of $15), for an effective tax rate of 65% (three months ended March 31, 2021- (2%)). The higher effective tax rate for the three months ended March 31, 2022 was primarily due to the impact of foreign exchange movements on intercompany balances between Redishred and its subsidiaries. The lower effective tax rate for the three months ended March 31, 2021, was primarily due to $1,292 in non-taxable, forgivable loan funding received by the Company under the U.S. Paycheck Protection Program (see Note 16).

18 Financial instruments and fair values

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

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

Fair values

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

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

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

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

There were no transfers between levels of the fair value hierarchy during the three months ended March 31, 2022 and 2021.

Interest rate risk

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

- Operating line of credit: This financial instrument is subject to interest rate cash flow risk as interest is charged on this facility at a variable rate of prime plus 1.00% per annum.

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

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

(Unaudited, expressed in thousands of Canadian dollars)

An interest rate sensitivity that assumes a reasonable increase or decrease in interest rates with all other variables held constant, would not have a significant impact on the interest expense the Company recognized during the three months ended March 31, 2022 and 2021.

Credit risk

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

Receivables related to corporate operations

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

	2022	2021
	$	$
Past due but not impaired		
60 to 90 days	153	207
91 days to 180 days	126	129

The accounts receivables related to corporate operations are exposed to credit risk from the possibility that customers may experience financial difficulty. As at March 31, 2022 and December 31, 2021, no customer accounted for more than 10% of the accounts receivable balance. For the three months ended March 31, 2022 and 2021, no customer accounted for more than 10% of the Company's revenue in this category. As at March 31, 2022, 2.6% of accounts receivable, net of allowance of doubtful accounts, in this category were over 90 days old (December 31, 2021 – 3%). As at March 31, 2022, the Company recorded an allowance for credit losses from receivables of $44 related to corporate operations (December 31, 2021 - $45).

The maximum exposure to credit risk is the carrying amount of each class of financial assets. Collection of receivables remain a priority for the Company and management's assessment is collectability remains highly probable.

Receivables related to franchising and licensing

The accounts receivable from franchisees are exposed to credit risk from the possibility that franchisees may experience financial difficulty. The Company mitigates the risk of credit loss by limiting its exposure to any one franchisee. Credit assessments are conducted with respect to all new franchisees. In addition, the receivable balances are monitored on an ongoing basis. As of March 31, 2022, six (6) franchisees accounted for 50% of the accounts receivable balance related to franchising and licensing (December 31, 2021 - 6 franchisees accounted for 53%). For the three months ended March 31, 2022, three (3) franchisees accounted for 27% of the Company's revenues related to franchising and licensing (three months ended March, 31, 2021 - 3 franchisees accounted for 24%). As at March 31, 2022 and December 31, 2021, there was no accounts receivable from franchisees over 90 days old.

(Unaudited, expressed in thousands of Canadian dollars)

Foreign exchange risk

The Company has significant assets denominated in USD dollars which are revalued at the exchange rate at the date of the statement of financial position. The Company has revenues and costs that are denominated in USD dollars; this dependency on the USD dollar causes foreign exchange gains when the Canadian dollar depreciates versus the USD dollar. This revaluation results in unrealized foreign exchange gains or losses. During the three months ended March 31, 2022, the Company recorded a foreign exchange loss of $750 (three months ended March 31, 2021 – loss of $509).

Exchange rates utilized (USD to CAD):

As at,	**March 31, 2022**	**December 31, 2021**
	$	**$**
Close rate	1.25	1.27
For the three months ended,	**March 31, 2022**	**March 31, 2021**
	$	**$**
Average rate	1.27	1.27

Liquidity risk

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

Based on overall cash generation capacity and overall financial position, management believes the Company will be able to meet financial obligations as they come due. The current liabilities of $11,016 at March 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 $16,244 as at March 31, 2022 (December 31, 2021 - $15,301), including cash and cash equivalents of $9,350 (December 31, 2021 - $9,660).

(Unaudited, expressed in thousands of Canadian dollars)

Principal	**Less than 3 months**	**3 months to 1 year**	**1 - 5 years**	**Over 5 years**
	$	**$**	**$**	**$**
Accounts payable and accrued liabilities	2,373	363	166	-
Long-term debt	1,065	3,635	18,552	2,358
Contingent consideration	469	1,508	1,990	-
Lease liabilities	363	977	1,864	218

Interest	**Less than 3 months**	**3 months to 1 year**	**1 - 5 years**	**Over 5 years**
	$	**$**	**$**	**$**
Long-term debt	233	622	1,603	87
Lease liabilities	49	115	222	7

Total principal and interest	**Less than 3 months**	**3 months to 1 year**	**1 - 5 years**	**Over 5 years**
	$	**$**	**$**	**$**
Accounts payable and accrued liabilities	2,373	363	166	-
Long-term debt	1,298	4,257	20,155	2,445
Contingent consideration	469	1,508	1,990	-
Lease liabilities	412	1,092	2,086	225

19 Capital management

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

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

The Company has credit facilities with a banking institution which provides an operating line of credit and a non-revolving term loan. The Company's bank credit facilities contain financial covenants that require the Company to maintain certain financial ratios and meet certain financial thresholds. Refer to note 10 for the financial covenants.

20 Segment reporting

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

(Unaudited, expressed in thousands of Canadian dollars)

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

March 31, 2022	**Franchising and licensing**	**Corporate locations**	**Corporate**	**Total**
	$	**$**	**$**	**$**
ASSETS				
Current assets				
Cash and cash equivalents	415	2,790	6,145	9,350
Cash attributable to the Growth Fund	178	–	–	178
Trade and other receivables	157	5,311	419	5,887
Prepaid expenses	125	425	139	689
Income taxes receivable	140	–	–	140
Total current assets	1,015	8,526	6,703	16,244
Non-current assets				
Tangible assets	3	17,039	116	17,158
Intangible assets	229	21,002	207	21,438
Goodwill	–	22,445	–	22,445
Deferred tax asset	–	–	967	967
Total assets	1,247	69,012	7,993	78,252
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	103	2,007	626	2,736
Deferred revenue	81	29		110
Income taxes payable	–	86	67	153
Current portion of long-term debt	–	1,681	3,019	4,700
Lease liabilities	–	1,266	74	1,340
Contingent consideration	–	1,977	–	1,977
Total current liabilities	184	7,046	3,786	11,016
Non-current liabilities				
Accounts payable and accrued liabilities	–	166	–	166
Long-term debt	–	4,123	16,787	20,910
Deferred revenue	77	–	–	77
Lease liabilities	–	2,043	39	2,082
Contingent consideration	–	1,990	–	1,990
Deferred tax liability	62	1,061	–	1,123
Total liabilities	323	16,429	20,612	37,364

(Unaudited, expressed in thousands of Canadian dollars)

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
Notes receivable from franchisees	88	–	–	88
Total current assets	439	6,114	8,748	15,301
Non-current assets				
Tangible assets	3	18,137	131	18,271
Intangible assets	187	21,749	217	22,153
Goodwill	–	22,655	–	22,655
Deferred tax asset	–	–	954	954
Total assets	629	68,655	10,050	79,334
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	185	1,925	1,037	3,147
Deferred revenue	–	98	–	98
Current portion of long-term debt	–	35	32	67
Notes payable	–	1,693	2,997	4,690
Lease liabilities	–	1,410	58	1,468
Contingent consideration	–	1,854	–	1,854
Total current liabilities	185	7,015	4,124	11,324
Non-current liabilities				
Accounts payable and accrued liabilities	–	200	–	200
Long-term debt	–	4,441	17,426	21,867
Deferred revenue	–	123	–	123
Lease liabilities	–	2,228	73	2,301
Contingent consideration	–	2,494	–	2,494
Deferred tax liability	32	633	–	665
Total liabilities	217	17,134	21,623	38,974

(Unaudited, expressed in thousands of Canadian dollars)

Geographic information

	March 31, 2022	December 31, 2021
Canada	**$**	**$**
Tangible assets	116	131
Intangible assets	207	217
United States		
Tangible assets	17,042	18,140
Intangible assets	21,231	21,936
Goodwill	22,445	22,655
Total		
Tangible assets	17,158	18,271
Intangible assets	21,438	22,153
Goodwill	22,445	22,655

Revenue

All revenues were attributed to the United States.

(Unaudited, expressed in thousands of Canadian dollars)

Net income (loss) by operating segment

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

	For the three months ended March 31, 2022			
	Franchising and licensing	**Corporate locations**	**Corporate**	**Total**
	$	**$**	**$**	**$**
Revenue	521	11,996	–	12,517
Direct costs	–	(7,067)	–	(7,067)
Depreciation – tangible assets	–	(1,311)	(23)	(1,334)
General and administrative expense	(429)	(251)	(704)	(1,384)
Total expenses	(429)	(8,629)	(727)	(9,785)
Operating income (loss)	92	3,367	(727)	2,732
Interest expense	–	(216)	(167)	(383)
Amortization – intangible assets	(23)	(746)	(10)	(779)
Remeasurement of contingent	–	(39)	–	(39)
Foreign exchange gain loss	–		(750)	(750)
Gain on disposal of tangible assets	–	7	–	7
Income (loss) before income taxes	69	2,373	(1,654)	788
Income tax expense	(31)	(443)	(41)	(515)
Net income (loss)	38	1,930	(1,695)	273

(Unaudited, expressed in thousands of Canadian dollars)

	For the three months ended March 31, 2021			
	Franchising and licensing	**Corporate locations**	**Corporate**	**Total**
	$	**$**	**$**	**$**
Revenue	509	6,804	–	7,313
Direct costs	–	(4,402)	–	(4,402)
Depreciation – tangible assets	–	(1,008)	(25)	(1,033)
General and administrative expense	(275)	(456)	(126)	(857)
Total expenses	(275)	(5,866)	(151)	(6,292)
Operating income (loss)	234	938	(151)	1,021
Interest expense	–	(252)	–	(252)
Interest income	3	–	1	4
Government assistance	–	1,292	28	1,320
Amortization – intangible assets	(15)	(615)	(12)	(642)
Foreign exchange loss	–	–	(509)	(509)
Income (loss) before income taxes	222	1,363	(643)	942
Income tax recovery (expense)	(27)	(3)	45	15
Net income (loss)	195	1,360	(598)	957

21 Related party balances and transactions

A Director of the Company is the owner of the Tampa Bay, Florida Proshred franchise. There is an accounts receivable balance of $6 due from this franchise as at March 31, 2022 (December 31, 2021 - $4). During the three months ended March 31, 2022, the Company earned royalties, franchise and service fees of $46 (March 31, 2021 - $44) from this franchise.