

RediShred Capital Corp.

Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2023 and 2022

(Unaudited- Prepared by Management)

(Expressed in thousands of Canadian dollars)

RediShred Capital Corp.

Condensed Consolidated Interim Statements of Financial Position

As at March 31, 2023 and December 31, 2022

(expressed in Canadian dollars)

	2023	2022
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	6,331	6,696
Cash attributable to the Growth Fund (note 3)	213	223
Trade and other receivables (note 4)	8,973	8,778
Prepaid expenses	676	574
Income taxes receivable	260	431
Total current assets	<u>16,453</u>	<u>16,702</u>
Non-current assets		
Tangible assets (note 6)	24,271	24,746
Intangible assets (note 7)	25,875	26,903
Goodwill (note 8)	28,362	28,385
Deferred tax asset (note 16)	1,179	1,075
Total non-current assets	<u>79,687</u>	<u>81,109</u>
Total assets	<u>96,140</u>	<u>97,811</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	4,073	4,452
Deferred revenue	114	130
Income taxes payable	115	64
Current portion of long-term debt (note 10)	6,632	6,839
Lease liabilities (note 11)	1,528	1,501
Contingent consideration (note 9)	3,811	3,708
Total current liabilities	<u>16,273</u>	<u>16,694</u>
Non-current liabilities		
Accounts payable and accrued liabilities	37	61
Long-term debt (note 10)	23,831	24,973
Deferred revenue	45	54
Lease liabilities (note 11)	4,564	4,760
Contingent consideration (note 9)	611	1,760
Deferred tax liability (note 16)	2,516	2,228
Total non-current liabilities	<u>31,604</u>	<u>33,836</u>
Total liabilities	<u>47,877</u>	<u>50,530</u>
Shareholders' equity		
Capital stock (note 12)	45,268	44,966
Contributed surplus	1,187	1,240
Accumulated foreign currency translation loss	(402)	(400)
Retained earnings	2,210	1,475
	<u>48,263</u>	<u>47,281</u>
Total liabilities and shareholders' equity	<u>96,140</u>	<u>97,811</u>

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, 2023 and 2022

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

	2023	2022
	\$	\$
Revenue (note 13)	16,996	12,517
Corporate locations expenses (note 14)	(10,348)	(7,067)
Depreciation – tangible assets (note 6)	(1,876)	(1,334)
General and administrative expenses (note 15)	(1,911)	(1,384)
Total expenses	(14,135)	(9,785)
Operating income	2,861	2,732
Interest expense	(642)	(383)
Interest income	9	–
Amortization – intangible assets (note 7)	(1,016)	(779)
Remeasurement of contingent consideration (note 9)	(2)	(39)
Foreign exchange loss	(70)	(750)
Gain on disposal of tangible assets	–	7
Income before income taxes	1,140	788
Income tax expense	(405)	(515)
Net income for the period	735	273
Foreign currency translation loss	(2)	(47)
Comprehensive income for the period	733	226
Net income per share (note 12)		
Basic	0.04	0.02
Diluted	0.04	0.02
Weighted average number of common shares outstanding – basic (note 12)	18,258,116	18,100,855
Weighted average number of common shares outstanding – diluted (note 12)	18,279,598	18,198,851

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RediShred Capital Corp.

Condensed Consolidated Interim Statements of Changes in Equity

For the three months ended March 31, 2023 and 2022

(Unaudited, expressed in thousands of Canadian dollars)

	Capital Stock and warrants	Contributed Surplus	Accumulated foreign currency translation loss	Retained earnings (deficit)	Total Shareholders' Equity
	\$	\$	\$	\$	\$
Balance – January 1, 2022	44,138	1,229	(608)	(4,399)	40,360
Net income for the period	–	–	–	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
Balance – January 1, 2023	44,966	1,240	(400)	1,475	47,281
Net income for the period	–	–	–	735	735
Foreign currency translation loss	–	–	(2)	–	(2)
Stock-based compensation (note 12)	–	82	–	–	82
Exercise of options (note 12)	302	(135)	–	–	167
Balance – March 31, 2023	45,268	1,187	(402)	2,210	48,263

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, 2023 and 2022

(Unaudited, expressed in thousands of Canadian dollars)

Cash provided by (used in)	2023	2022
	\$	\$
Operating activities		
Net income for the period	735	273
Items not affecting cash		
Depreciation of tangible assets and amortization of intangible assets (notes 6 and 7)	2,892	2,113
Stock-based compensation	82	66
Unrealized foreign currency loss (gain)	59	744
Interest expense, net of interest income	633	383
Remeasurement of contingent consideration (note 9)	2	39
Income tax expense	405	515
Gain on disposal of tangible assets	—	(7)
	<u>4,808</u>	<u>4,126</u>
Net change in non-cash working capital balances		
Increase in trade and other receivables	(164)	(1,049)
Increase in prepaid expenses	(101)	(224)
Decrease in accounts payable and accrued liabilities	(323)	(445)
Decrease in deferred revenue	(24)	(11)
Income taxes paid	(5)	(42)
Interest paid	(580)	(282)
Interest received	9	—
Net cash provided by operations	<u>3,620</u>	<u>2,073</u>
Financing activities		
Borrowings from long-term debt	638	186
Repayments of long-term debt	(2,008)	(1,064)
Proceeds from exercise of options and warrants	167	236
Repayment of lease liabilities (note 11)	(385)	(361)
Contingent consideration paid (note 9)	(1,156)	(560)
Net cash used in financing activities	<u>(2,744)</u>	<u>(1,563)</u>
Investing activities		
Amount paid for acquisitions, net of cash acquired (note 5)	—	(349)
Decrease (increase) in cash held by Growth Fund (note 3)	10	10
Purchase of tangible and intangible assets (notes 6 and 7)	(1,225)	(571)
Proceeds from disposal of tangible assets	—	119
Net cash used in investing activities	<u>(1,215)</u>	<u>(791)</u>
Effect of foreign exchange rate changes on cash	<u>(26)</u>	<u>(29)</u>
Net change in cash for the period	<u>(365)</u>	<u>(310)</u>
Cash – Beginning of the period	<u>6,696</u>	<u>9,660</u>
Cash – End of the period	<u>6,331</u>	<u>9,350</u>

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

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Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2023 and 2022

(Unaudited, expressed in thousands of 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 March 31, 2023.

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, 2022, 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, 2023. 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, 2022, 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 condensed consolidated interim financial statements of the Company for the three months ended March 31, 2023 were authorized for issuance in accordance with a resolution of the Board of Directors on May 25, 2023.

RediShred Capital Corp.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2023 and 2022

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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, 2023 and 2022, as well as cash balances as at March 31, 2023 and December 31, 2022 are as follows:

	<u>March 31, 2023</u>	<u>March 31, 2022</u>
	\$	\$
Growth Fund revenue	69	55
Growth Fund expenses	(149)	(151)
Growth Fund net loss	<u>(80)</u>	<u>(96)</u>

As at,	<u>March 31, 2023</u>	<u>December 31, 2022</u>
	\$	\$
Cash attributable to the Growth Fund	213	223

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, 2023 and December 31, 2022 are as follows:

	<u>March 31, 2023</u>	<u>December 31, 2022</u>
	\$	\$
Trade receivables – corporate locations	8,594	8,516
Trade receivables – franchising and licensing	202	188
Total trade receivables	<u>8,796</u>	<u>8,704</u>
Other receivables	504	401
Less: Allowance for doubtful accounts	(327)	(327)
Trade and other receivables, net	<u>8,973</u>	<u>8,778</u>

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5 Acquisitions

The Company did not complete any acquisitions during the three months ended March 31, 2023.

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.

For all of the acquisitions that the Company completed during the year ended December 31, 2022, the goodwill recognized was 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, 2022:

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
	<u>462</u>	<u>1,973</u>	<u>264</u>	<u>11,217</u>	<u>13,916</u>
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
	<u>462</u>	<u>1,973</u>	<u>264</u>	<u>11,217</u>	<u>13,916</u>
Acquisition costs (expensed in statement of comprehensive income)	21	71	13	96	201

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6 Tangible assets

	March 31, 2023			December 31, 2022		
	Cost	Accumulated depreciation	Net carrying value	Cost	Accumulated depreciation	Net carrying value
	\$	\$	\$	\$	\$	\$
Computer equipment	685	(483)	202	661	(443)	218
Furniture & fixtures	250	(224)	26	248	(218)	30
Bins & shredding containers	4,569	(2,608)	1,961	4,410	(2,388)	2,022
Shredding vehicles - chassis	9,656	(4,231)	5,425	9,400	(3,837)	5,563
Shredding vehicles - box	18,068	(8,163)	9,905	17,628	(7,492)	10,136
Vehicles	245	(199)	46	245	(198)	47
Baling equipment	684	(247)	437	685	(226)	459
ROU Office and Warehouse	9,459	(4,256)	5,203	9,314	(3,773)	5,541
ROU Truck leases	1,960	(1,201)	759	1,910	(1,180)	730
Leasehold Improvements	313	(6)	307	-	-	-
Total tangible assets	45,889	(21,618)	24,271	44,501	(19,755)	24,746

	December 31, 2022				March 31, 2023		
	Net carrying value	Additions	Acquisitions	Depreciation	Disposition of Assets	Foreign exchange	Net carrying value
	\$	\$	\$	\$	\$	\$	\$
Computer equipment	218	23	-	(40)	-	1	202
Furniture & fixtures	30	3	-	(7)	-	-	26
Bins & shredding containers	2,022	163	-	(221)	-	(3)	1,961
Shredding vehicles - chassis	5,563	245	-	(396)	-	13	5,425
Shredding vehicles - box	10,136	460	-	(675)	-	(16)	9,905
Vehicles	47	-	-	(3)	-	2	46
Baling equipment	459	-	-	(21)	-	(1)	437
ROU Office and Warehouse	5,541	152	-	(485)	-	(5)	5,203
ROU Truck leases	730	52	-	(22)	-	(1)	759
Leasehold Improvements	-	313	-	(6)	-	-	307
Total tangible assets	24,746	1,411	-	(1,876)	-	(10)	24,271

	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

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The foreign exchange adjustment is a result of the translation of foreign operation tangible assets in US dollars to Canadian dollars at March 31, 2023 and December 31, 2022, and is included in other comprehensive income.

7 Intangible assets

	March 31, 2023			December 31, 2022		
	Cost	Accumulated amortization	Net carrying value	Cost	Accumulated amortization	Net carrying value
	\$	\$	\$	\$	\$	\$
Computer software	1,291	(641)	650	1,273	(571)	702
Re-acquired franchise rights	1,672	(1,133)	539	1,673	(1,079)	594
Trademarks & intellectual property	46	(11)	35	46	(10)	36
Customer relationships	35,983	(11,332)	24,651	36,012	(10,441)	25,571
Total intangible assets	38,992	(13,117)	25,875	39,004	(12,101)	26,903

	December 31, 2022				March 31, 2023	
	Net carrying value	Additions	Acquisitions	Amortization	Foreign exchange	Net carrying value
	\$	\$	\$	\$	\$	\$
Computer software	702	18	-	(70)	-	650
Re-acquired franchise rights	594	-	-	(54)	(1)	539
Trademarks & intellectual property	36	-	-	(1)	-	35
Customer relationships	25,571	-	-	(891)	(29)	24,651
Total intangible assets	26,903	18	-	(1,016)	(30)	25,875

	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

The foreign exchange adjustment is a result of the translation of foreign operation intangible assets in US dollars to Canadian dollars at March 31, 2023 and December 31, 2022, and is included in other comprehensive income.

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(Unaudited, expressed in thousands of Canadian dollars)

8 Goodwill

The goodwill as at March 31, 2023 and December 31, 2022 is as follows:

	March 31, 2023	December 31, 2022
	\$	\$
Opening balance	28,385	22,655
Acquisitions	—	4,159
Foreign Currency Translation	(23)	1,571
Closing balance	28,362	28,385

The foreign exchange adjustment is a result of the translation of goodwill in US dollars to Canadian dollars at March 31, 2023 and December 31, 2022, and is included in other comprehensive income.

9 Contingent consideration

The Company has recorded contingent consideration liabilities as part of the purchase consideration for acquisitions completed. The contingent consideration liabilities are paid to the vendors if certain financial results are achieved. During the three months ended March 31, 2023, the Company recorded a remeasurement loss on contingent consideration of \$2. The fair value of contingent consideration is calculated based on the expected payout, discounted.

As at March 31, 2023, 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\$5,144	CAD\$3,811 USD\$2,816	CAD\$611 USD\$449	April 1, 2023 to June 1, 2027

The change in contingent consideration was as follows:

	March 31, 2023
	\$
Opening balance, January 1	5,468
Payments	(1,156)
Interest accretion	110
Remeasurement	2
Foreign exchange	(2)
Closing balance, March 31	4,422

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10 Long-term debt

As at March 31, 2023 and December 31, 2022 long-term debt is comprised of the following:

	March 31, 2023	December 31, 2022
	\$	\$
Bank facilities (i)	22,178	23,527
Less: transaction costs	(345)	(322)
Net bank facilities	21,833	23,205
Truck loans (ii)	8,630	8,607
Total long-term debt	30,463	31,812
Less: current portion	(6,632)	(6,839)
	23,831	24,973

(i) Bank facilities

As at March 31, 2023, 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 March 31, 2023 and December 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, 2023 balance	December 31, 2022 balance
	\$				\$
May, 2019	6,003	3.50%	60 months	3,192	3,477
November, 2019	6,664	3.50%	84 months	4,007	4,319
March, 2020	2,688	2.99%	84 months	1,766	1,891
December, 2020	2,290	3.33%	84 months	1,591	1,700
August, 2021	854	3.69%	84 months	670	708
December, 2021	6,290	6.52%	84 months	5,803	6,083
November, 2022*	5,400	7.47%	84 months	5,149	5,349
Total				22,178	23,527

*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 March 31, 2023, the Company has \$1.0 million available on its operating line of credit and \$3.8 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:

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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;

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

As of March 31, 2023, 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 March 31, 2023, the Company had USD\$1.5 million available on this line of credit.

As of March 31, 2023, 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	8,630	11,053	3.92% to 8.37%	May 3, 2018 to January 15, 2023	July 3, 2023 to February 1, 2028

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, 2023
				\$
Office and warehouse building	17	September 2023 to September 2030	4.75% to 8.00%	5,841
Shredding vehicles	5	September 2023 to January 2027	5.95% to 7.00%	251
Total				6,092

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The total lease payments made during the three months ended March 31, 2023 were \$385 (March 31, 2022 - \$361).

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	
	Number	\$
Balance March 31, 2023	18,304,872	45,268
Balance December 31, 2022	18,243,872	44,966

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 comparative figures presented in these consolidated financial statements 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 three months ended March 31, 2023 was 18,258,116 (three months ended March 31, 2022 – 18,100,855). The diluted weighted average number of common shares outstanding for the three months ended March 31, 2023 was 18,279,598 (three months ended March 31, 2022 – 18,198,851).

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 no warrants outstanding during the three months ended March 31, 2023 (116,980 exercised and 2,000 expired – three months ended March 31, 2022).

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e) Stock options

The following table summarizes the movements in the Company's stock options during the three months ended March 31, 2023 and 2022:

	2023		2022	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Outstanding – opening	574,188	3.74	445,182	3.10
Granted	80,235	3.85	77,690	4.35
Exercised	<u>(61,000)</u>	2.75	<u>(10,000)</u>	2.55
Outstanding – closing	<u>593,423</u>	3.86	<u>512,872</u>	3.30

The fair value of the 80,235 stock options issued during the three months ended March 31, 2023 totaled \$151. The fair value of the options was calculated using the Black-Scholes model using a risk-free interest rate of 2.92% to 3.05%, volatility of 53%, expected life of 5 years and a 0% dividend yield.

For the three months ended March 31, 2023 stock compensation expense was \$82 (for the three months ended March 31, 2022 – \$66).

13 Revenue

The break-down of revenue earned by the Company for the three months ended March 31, 2023 and 2022 is as follows:

	2023	2022 ⁽¹⁾
	\$	\$
Paper shredding services	12,028	8,449
Sale of paper products	3,292	2,297
Royalties and license fees	490	444
Scanning services	382	648
Electronic waste and product shredding services	716	603
Growth Fund contributions	70	55
Franchise fees	18	21
Total revenue	<u>16,996</u>	<u>12,517</u>

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

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14 Corporate location expenses

The break-down of corporate location expenses of the Company for the three months ended March 31, 2023 and 2022 is as follows:

	2023	2022
	\$	\$
Shredding vehicle and related expenses	2,939	1,536
Acquisition costs	351	128
Employee wages expense	4,807	3,655
Employee benefits expense	998	813
Office and administration expense	1,253	935
Total corporate operating expenses	10,348	7,067

15 General and administrative expenses

The break-down of general and administrative expenses of the Company for the three months ended March 31, 2023 and 2022 is as follows:

	2023	2022
	\$	\$
Employee wages and benefits expense	834	664
Share-based compensation	82	66
Professional fees	222	125
Acquisition costs	12	22
Technology	189	155
Growth Fund expenses (note 3)	149	151
Other	423	201
Total general and administrative expenses	1,911	1,384

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, 2023 and 2022:

	2023	2022
	\$	\$
Wages and benefits	284	283
Share-based compensation	52	54
Total compensation of key management	336	337

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

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16 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 incurred U.S. non-capital losses that can be carried forward to reduce taxes payable in the U.S. The losses expire at various times commencing December 31, 2023.

Income before income taxes for the three months ended March 31, 2023 was \$1,140 (three months ended March 31, 2022- \$788). Income tax expense for the three months ended March 31, 2023 was \$405 (three months ended March 31, 2022- \$515). The effective tax rate for the three months ended March 31, 2023 and 2022 was 36% and 65%, respectively. The effective tax rate for the three months ended March 31, 2023 was higher than statutory rates due to non-deductible items for tax purposes. 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.

17 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 fair value of the Company's long-term debt is \$29,321, compared to a carrying value of \$30,463, based on the current interest rates that would be charged on this financial instrument as at March 31, 2023.

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).

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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, 2023 and 2022.

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 three months ended March 31, 2023.

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, 2023 and December 31, 2022 is as follows:

	<u>2023</u>	<u>2022</u>
	\$	\$
Past due but not impaired		
60 to 90 days	311	700
91 days to 180 days	946	784

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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, 2023 and December 31, 2022, no customer accounted for more than 10% of the accounts receivable balance. For the three months ended March 31, 2023 and 2022, no customer accounted for more than 10% of the Company's revenue in this category. As at March 31, 2023, 12% of accounts receivable, net of allowance of doubtful accounts, in this category were over 90 days old (December 31, 2022 – 10%). As at March 31, 2023, the Company recorded an allowance for credit losses from receivables of \$327 related to corporate operations (December 31, 2022 - \$327).

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, 2023, six (6) franchisees accounted for 51% of the accounts receivable balance related to franchising and licensing (December 31, 2022 - 6 franchisees accounted for 57%). For the three months ended March 31, 2023, three (3) franchisees accounted for 26% of the Company's revenues related to franchising and licensing (three months ended March 31, 2022 - 3 franchisees accounted for 27%). As at March 31, 2023 and December 31, 2022, there was no accounts receivable from franchisees over 90 days old.

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, 2023, the Company recorded a foreign exchange loss of \$70 (three months ended March 31, 2022 – loss of \$750).

Exchange rates utilized (USD to CAD):

As at,	March 31, 2023	December 31, 2022
	\$	\$
Close rate	1.35	1.35
For the three months ended,	March 31, 2023	March 31, 2022
	\$	\$
Average rate	1.35	1.27

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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 \$16,273 at March 31, 2023 (December 31, 2022 - \$16,694), are due to be settled within one year from the date of the statement of financial position. The Company has current assets of \$16,453 as at March 31, 2023 (December 31, 2022 - \$16,702), including cash and cash equivalents of \$6,331 (December 31, 2022 - \$6,696).

Principal	Less than 3	3 months to 1	1 - 5 years	Over 5 years
	months	year		
	\$	\$	\$	\$
Accounts payable and accrued liabilities	3,966	107	37	-
Long-term debt	1,652	4,980	21,525	2,305
Contingent consideration	1,049	2,762	611	-
Lease liabilities	374	1,154	4,328	236

Interest	Less than 3	3 months to 1	1 - 5 years	Over 5 years
	months	year		
	\$	\$	\$	\$
Long-term debt	394	1,055	2,684	114
Lease liabilities	98	258	594	33

Total principal and interest	Less than 3	3 months to 1	1 - 5 years	Over 5 years
	months	year		
	\$	\$	\$	\$
Accounts payable and accrued liabilities	3,966	107	37	-
Long-term debt	2,047	6,035	24,209	2,419
Contingent consideration	1,049	2,762	611	-
Lease liabilities	472	1,412	4,922	269

18 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.

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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 facility. The Company's bank credit facilities contain financial covenants that require the Company to maintain certain financial ratios and meet certain financial thresholds, as detailed in note 10.

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19 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:

March 31, 2023	Franchising and licensing	Corporate locations	Corporate	Total
	\$	\$	\$	\$
ASSETS				
Current assets				
Cash and cash equivalents	668	5,447	216	6,331
Cash attributable to the Growth Fund	213	–	–	213
Trade and other receivables	202	8,443	328	8,973
Prepaid expenses	98	572	6	676
Income taxes receivable	–	260	–	260
Total current assets	1,181	14,722	550	16,453
Non-current assets				
Tangible assets	30	23,462	779	24,271
Intangible assets	789	24,919	167	25,875
Goodwill	–	28,362	–	28,362
Deferred tax asset	–	–	1,179	1,179
Total assets	2,000	91,465	2,675	96,140
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	713	2,367	993	4,073
Deferred revenue	64	50	–	114
Income taxes payable	77	–	38	115
Current portion of long-term debt	–	2,539	4,093	6,632
Lease liabilities	–	1,485	43	1,528
Contingent consideration	–	3,811	–	3,811
Total current liabilities	854	10,252	5,167	16,273
Non-current liabilities				
Accounts payable and accrued liabilities	–	37	–	37
Long-term debt	–	6,092	17,739	23,831
Deferred revenue	–	45	–	45
Lease liabilities	–	3,897	667	4,564
Contingent consideration	–	611	–	611
Deferred tax liability	91	2,425	–	2,516
Total liabilities	945	23,358	23,574	47,877

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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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Geographic information

	<u>March 31, 2023</u>	<u>December 31, 2022</u>
Canada	\$	\$
Tangible assets	779	541
Intangible assets	167	177
United States		
Tangible assets	23,492	24,205
Intangible assets	25,708	26,726
Goodwill	28,362	28,385
Total		
Tangible assets	24,271	24,746
Intangible assets	25,875	26,903
Goodwill	28,362	28,385

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 three months ended March 31, 2023			Total \$
	Franchising and licensing \$	Corporate locations \$	Corporate \$	
Revenue	578	16,418	–	16,996
Corporate location expenses	–	(10,348)	–	(10,348)
Depreciation – tangible assets	(5)	(1,804)	(67)	(1,876)
General and administrative expense	(509)	(391)	(1,011)	(1,911)
Total expenses	(514)	(12,543)	(1,078)	(14,135)
Operating income (loss)	64	3,875	(1,078)	2,861
Interest expense	–	(319)	(323)	(642)
Interest income	–	–	9	9
Amortization – intangible assets	(26)	(980)	(10)	(1,016)
Remeasurement of contingent consideration	–	(2)	–	(2)
Foreign exchange loss	–	–	(70)	(70)
Gain on disposal of tangible assets	–	–	–	–
Other Income	–	–	–	–
Income (loss) before income taxes	38	2,574	(1,472)	1,140
Income tax recovery (expense)	(26)	(454)	75	(405)
Net income (loss)	12	2,120	(1,397)	735

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	For the three months ended March 31, 2022			
	Franchising and licensing	Corporate locations	Corporate	Total
	\$	\$	\$	\$
Revenue	521	11,996	–	12,517
Corporate location expenses	–	(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 consideration	–	(39)	–	(39)
Foreign exchange 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

20 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, 2023 (December 31, 2022 - \$5). During the three months ended March 31, 2023, the Company earned royalties, franchise and service fees of \$48 (March 31, 2022 - \$46) from this franchise.