RediShred Capital Corp.

Consolidated Financial Statements

December 31, 2023 and 2022

(expressed in thousands of Canadian dollars)

April 29, 2024

Management's Responsibility for the Financial Statements

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

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

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

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

(signed) "*Jeffrey Hasham*"

Chief Executive Officer

Mississauga, Ontario

(signed) "*Harjit Brar*"

Chief Financial Officer

Mississauga, Ontario

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of RediShred Capital Corp.

Opinion

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

- the consolidated statements of financial position as at December 31, 2023, December 31, 2022 and January 1, 2022
- the consolidated statements of comprehensive income for the years ended December 31, 2023 and December 31, 2022
- the consolidated statements of changes in equity for the years ended December 31, 2023 and December 31, 2022
- the consolidated statements of cash flows for the years ended December 31, 2023 and December 31, 2022
- and notes to the consolidated financial statements, including a summary of material accounting policy information

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2023, December 31, 2022, and January 1, 2022, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2023 and December 31, 2022 in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

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

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

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

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the financial statements, which indicates that as at December 31, 2023, the Entity had current liabilities of $33,386 thousand which exceeded current assets of $15,033 thousand.

As stated in Note 2 in the financial statements, these events or conditions, along with other matters as set forth in Note 2 in the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Entity's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

Emphasis of Matter – Comparative information

We draw attention to Note 25 in the financial statements, which explains that certain comparative information presented:

- for the year ended December 31, 2022 has been restated.
- as at January 1, 2022 has been derived from the financial statements for the year ended December 31, 2021 which have been restated (not presented herein).

Note 25 explains the reason for the restatement and also explains the adjustments that were applied to restate certain comparative information.

Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2023. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the "***Material Uncertainty related to Going Concern***" section of the auditor's report, we have determined the matters described below to be the key audit matters to be communicated in our auditor's report.

Evaluation of the impairment assessment for goodwill

Description of the matter

We draw attention to Notes 3, 4(i) and 11 to the financial statements. The goodwill balance is $29,001 thousand. The Entity performs goodwill impairment testing annually or whenever an indicator of impairment exists. The carrying amount of a cash-generating unit is compared to its recoverable amount, which is the higher of its value in use and fair value less costs of disposal. In determining the recoverable amount of a cash-generating unit, the Entity's significant assumptions include projected sales growth rates and operating margins, discount rates and terminal growth rates.

Why the matter is a key audit matter

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

How the matter was addressed in the audit

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

For a selection of cash-generating units:

- We assessed the Entity's ability to accurately forecast by comparing the Entity's projected sales growth rates and operating margins used in the prior year impairment test to actual results
- We compared the Entity's projected sales growth rates and operating margins to historical results. We took into account changes in conditions and events affecting each cash-generating unit to assess the adjustments made, or lack of adjustments made, in arriving at the projected assumptions.

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

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

KPMG

Evaluation of acquisition-date fair value of customer relationships

Description of the matter

We draw attention to Notes 3, 4(iii) and 7 to the financial statements. The Entity acquired the assets of the ProShred Baltimore business from its franchisee on September 5, 2023. As a result of the acquisition, the Entity recorded customer relationships at the acquisition-date fair value of $2,147 thousand. In determining the acquisition-date fair value of the customer relationships, the Entity's significant assumptions include projected sales from acquired customers, operating margins, forecasted attrition rate and discount rate.

Why the matter is a key audit matter

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

How the matter was addressed in the audit

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

- We assessed the Entity's ability to accurately forecast by comparing the Entity's projected sales from acquired customers and operating margins used for prior year acquisition-date fair values of customer relationships to actual results
- We compared the Entity's projected sales from acquired customers and operating margins to historical results of ProShred Baltimore and the Entity's other corporate locations. We took into account changes in conditions and events to assess the adjustments made, or lack of adjustments made, in arriving at projected sales from acquired customers and operating margins
- We compared the Entity's forecasted attrition rate to the forecasted attrition rates for customer relationships of past acquisitions.

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

Other Information

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

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

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

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

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

We have nothing to report in this regard.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

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

Vaughan, Canada

April 29, 2024

RediShred Capital Corp.

Consolidated Statements of Financial Position

As at December 31, 2023 and 2022, and January 1, 2022

(In thousands of Canadian dollars)

	December 31, 2023	December 31, 2022	January 1, 2022
	$	$	$
		(Restated- Note 25)	*(Restated- Note 25)*
Assets			
Current assets			
Cash and cash equivalents	3,611	6,696	9,660
Cash attributable to the Growth Fund (note 5)	159	223	188
Trade and other receivables (note 6)	9,135	8,778	4,894
Prepaid expenses and other assets	1,666	574	471
Income taxes receivable	462	431	88
Total current assets	15,033	16,702	15,301
Non-current assets			
Tangible assets (note 8)	24,740	24,746	18,271
Intangible assets (note 9)	24,949	26,903	22,153
Goodwill (note 10)	29,001	28,385	22,655
Deferred tax asset (note 20)	1,308	1,075	954
Total non-current assets	79,998	81,109	64,033
Total assets	95,031	97,811	79,334
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	5,348	4,452	3,147
Deferred revenue	115	130	98
Income taxes payable	45	64	67
Current portion of long-term debt (note 13)	23,079	25,656	22,116
Lease liabilities (note 14)	1,573	1,501	1,468
Contingent consideration (note 12)	3,226	3,708	1,854
Total current liabilities	33,386	35,511	28,750
Non-current liabilities			
Accounts payable and accrued liabilities	–	61	200
Long-term debt (note 13)	7,382	6,156	4,441
Deferred revenue	31	54	123
Lease liabilities (note 14)	3,909	4,760	2,301
Contingent consideration (note 12)	320	1,760	2,494
Deferred tax liability (note 20)	2,872	2,228	665
Total non-current liabilities	14,514	15,019	10,224
Total liabilities	47,900	50,530	38,974
Shareholders' equity			
Capital stock (note 16)	45,268	44,966	44,138
Contributed surplus	1,529	1,240	1,229
Accumulated foreign currency translation loss	(612)	(400)	(608)
Retained earnings	946	1,475	(4,399)
	47,131	47,281	40,360
Total liabilities and shareholders' equity	95,031	97,811	79,334

Basis of presentation, Commitments and Subsequent events (refer to notes 2, 26 and 27, respectively)

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

Approved on behalf of the Board of Directors

(signed) "*Phillip H. Gaunce*" Director

(signed) "*Brad Foster*" Director

RediShred Capital Corp.

Consolidated Statements of Comprehensive Income
For the years ended December 31, 2023 and 2022
(In thousands of Canadian dollars, except per share amounts)

	2023 $	2022 $
Revenue (note 17)	65,934	57,226
Corporate locations expenses (note 18)	(41,222)	(34,763)
Depreciation – tangible assets (note 8)	(7,709)	(6,219)
General and administrative expenses (note 19)	(9,307)	(7,145)
Total expenses	(58,238)	(48,127)
Operating income	7,696	9,099
Interest expense	(2,509)	(1,904)
Interest income	14	47
Amortization – intangible assets (note 9)	(4,108)	(3,373)
Remeasurement of contingent consideration (note 12)	399	122
Foreign exchange gain (loss)	(1,400)	3,382
Gain on disposal of tangible assets	154	158
Other income	206	95
Income before income taxes	452	7,626
Income tax expense	(981)	(1,752)
Net income (loss) for the year	(529)	5,874
Foreign currency translation income (loss)	(212)	208
Comprehensive income (loss) for the year	(741)	6,082
Net income (loss) per share (note 16)		
Basic	(0.03)	0.32
Diluted	(0.03)	0.32
Weighted average number of common shares outstanding – basic (note 16)	18,292,219	18,200,572
Weighted average number of common shares outstanding – diluted (note 16)	18,292,219	18,247,501

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

RediShred Capital Corp.

Consolidated Statements of Changes in Equity

For the years ended December 31, 2023 and 2022
(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 year	–	–	–	5,874	5,874
Foreign currency translation income	–	–	208	–	208
Stock-based compensation (note 16)	–	302	–	–	302
Exercise of options and warrants (note 16)	828	(291)	–	–	537
Balance – December 31, 2022	44,966	1,240	(400)	1,475	47,281
Balance – January 1, 2023	44,966	1,240	(400)	1,475	47,281
Net loss for the year	–	–	–	(529)	(529)
Foreign currency translation loss	–	–	(212)	–	(212)
Stock-based compensation (note 16)	–	424	–	–	424
Exercise of options (note 16)	302	(135)	–	–	167
Balance – December 31, 2023	45,268	1,529	(612)	946	47,131

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

RediShred Capital Corp.

Consolidated Statements of Cash Flows
For the years ended December 31, 2023 and 2022
(In thousands of Canadian dollars)

Cash provided by (used in)	2023 $	2022 $
Operating activities		
Net income (loss) for the year	(529)	5,874
Items not affecting cash		
Depreciation of tangible assets and amortization of intangible assets (notes 8 and 9)	11,817	9,592
Stock-based compensation	424	302
Unrealized foreign currency loss (gain)	1,558	(3,353)
Interest expense, net of interest income	2,495	1,857
Remeasurement of contingent consideration (note 12)	(399)	(122)
Income tax expense	981	1,752
Gain on disposal of tangible assets	(154)	(158)
	16,193	15,744
Net change in non-cash working capital balances		
Increase in trade and other receivables	(265)	(2,993)
Increase in prepaid expenses	(1,121)	(134)
Increase in accounts payable and accrued liabilities	716	925
Decrease in deferred revenue	(42)	(29)
Income taxes paid	(633)	(679)
Interest paid	(2,079)	(1,294)
Interest received	14	47
Net cash provided by operations	12,783	11,587
Financing activities		
Borrowings from long-term debt	6,171	9,242
Repayments of long-term debt	(7,343)	(4,536)
Proceeds from exercise of options and warrants	167	537
Repayment of lease liabilities (note 14)	(1,497)	(1,686)
Contingent consideration paid (note 12)	(2,539)	(1,417)
Net cash provided by/(used in) financing activities	(5,041)	2,140
Investing activities		
Amount paid for acquisitions, net of cash acquired (note 7)	(4,953)	(11,555)
Decrease in cash held by Growth Fund (note 5)	64	(35)
Purchase of tangible and intangible assets (notes 8 and 9)	(6,205)	(5,640)
Proceeds from disposal of tangible assets	408	369
Net cash used in investing activities	(10,686)	(16,861)
Effect of foreign exchange rate changes on cash	(141)	170
Net change in cash for the year	(3,085)	(2,964)
Cash – Beginning of the year	6,696	9,660
Cash – End of the year	3,611	6,696

The accompanying notes are an integral part of these consolidated 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 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 sixteen corporate locations, as of December 31, 2023.

2 Basis of presentation

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

These consolidated financial statements comprise the financial statements of Redishred and its subsidiaries as of December 31, 2023. Together, Redishred and its subsidiaries are referred to as the "Company."

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

The consolidated financial statements of the Company for the year ended December 31, 2023 were authorized for issuance in accordance with a resolution of the board of directors of the Company on April 29, 2024.

Going concern

The application of the going concern basis assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business as they come due into the foreseeable future. As of December 31, 2023, the Company had current liabilities of $33,386 which exceeded current assets of $15,033. Current liabilities included the Company's bank facilities of $20,218.

The Company's bank facilities are demand facilities which are callable by the bank at any time at its discretion. In the event that the bank exercises this right to demand repayment prior to the maturity date, the Company would not have the necessary liquidity to repay amounts owing as these are in excess of the Company's available financial assets. In such an event, the Company would then have to look to alternative sources of capital, including alternative credit arrangements or equity funding, neither of which are guaranteed. As such, there is a material uncertainty related to these events and conditions that may cast significant doubt on the Company's ability to continue as a going concern.

These consolidated financial statements do not reflect adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that would be necessary should the Company be unable to continue as a going concern. Such adjustments to the carrying value of assets and liabilities, the reported expenses and their classifications, if required, may be material.

3 Material accounting policies

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

Basis of measurement

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

Basis of consolidation

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

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

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

Segment reporting

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

Foreign currency translation

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

The financial statements of subsidiaries that have a functional currency different from that of Redishred Capital Corp. ("foreign operations") are translated into Canadian dollars as follows: assets and liabilities

- at the closing rate at the date of the statements of financial position, and income and expenses - at the average rate of the period (as this is considered a reasonable approximation of actual rates prevailing at the transaction dates). All resulting changes are recognized in other comprehensive income (loss) as foreign currency translation adjustments.

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

Cash and cash equivalents

The Company's cash balances are held in bank accounts in Canada and the United States, which the Company has full access to. Refer to note 23 for cash and cash equivalent balances by operating segment.

Financial instruments

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

i) Financial assets at amortized cost

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

ii) Financial liabilities at amortized cost

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

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

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

Impairment of financial assets

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

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

(i) significant financial difficulty of the customer or borrower;

(ii) a breach of contract, such as delinquencies in interest or principal repayments; and

(iii) if it becomes probable that the borrower will enter bankruptcy or other financial reorganization.

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

Tangible assets and depreciation

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

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

Computer equipment	2-5 years
Furniture and fixtures	3-5 years
Bins and shredding containers	5 years
Shredding vehicles – chassis	3-10 years
Shredding vehicles – box	3-10 years
Bailing equipment	5-7 years
Right-of-use (“ROU”) assets	Shorter of lease term or useful life
Vehicles	3-5 years
Leasehold Improvements	Shorter of lease term or useful life

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

Intangible assets and amortization and goodwill

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

The estimated useful lives of these assets are as follows:

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

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

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

Impairment of non-financial assets

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

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

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

Income tax

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

(i) Current income tax

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

(ii) Deferred income taxes

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

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

Revenue recognition

(i) Franchising and licensing business

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

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

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

(iii) Corporate operations – electronic waste services

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

(iv) Corporate operations – scanning services

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

Share-based payments

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

Business combinations

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

Earnings per share

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

Leases

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

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

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

Initial application of amended accounting standards

Amendments to IAS 1 and IFRS Practice Statement 2

In February 2021, the IASB issued amendments to IAS 1 'Presentation of Financial Statements' and IFRS Practice Statement 2 'Making Materiality Judgements.' These amendments require reporting entities to disclose their material accounting policies rather than significant accounting policies. Guidance is provided to help reporting entities apply the concept of materiality to accounting policy disclosures. The amendments are effective for annual periods beginning on or after January 1, 2023. The Company adopted these amendments for the year ended December 31, 2023, which did not materially affect its financial disclosure.

Amendment to IAS 8

In February 2021, the IASB issued amendments to IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors.' The amendments include a definition of accounting estimates to help entities differentiate between changes in accounting policies from changes in accounting estimates. This will help reporting entities correctly identify an accounting estimate or accounting policy change and ensure the changes are properly accounted for. The amendments are effective for annual periods beginning on or after January 1, 2023. The Company adopted these amendments for the year ended December 31, 2023, which did not materially affect its financial statements.

Amendment to IAS 12

In May 2021, the IASB issued an amendment to IAS 12, 'Income taxes.' The amendment clarifies that companies are required to recognize deferred taxes on transactions where both assets and liabilities are recognized, such as with leases and asset retirement obligations. The amendment is effective for annual periods beginning on or after January 1, 2023. The Company adopted these amendments for the year ended December 31, 2023, which did not materially affect its financial statements.

Accounting standards and amendments issued but not yet effective

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

Amendments to IAS 1

In October 2022, the IASB issued amendments to IAS 1, which specify that covenants whose compliance is assessed after the reporting date do not affect the classification of debt as current or non-current at the reporting date. Instead, the amendments require disclosure of information about these covenants in the notes to the financial statements. The amendments are effective for annual reporting periods beginning on or after January 1, 2024, although earlier application is permitted. The Company is currently assessing the impact of these amendments, but it does not expect that the Company's financial disclosure will be materially affected by their adoption.

Amendments to IAS 7 and IFRS 7

In May 2023, the IASB issued Supplier Finance Arrangements, which amended IAS 7, Statement of Cash Flows and IFRS 7, Financial Instruments: Disclosures, and requires additional quantitative and qualitative disclosure about supplier finance arrangements. The amendments are effective for annual reporting periods beginning on or after January 1, 2024, although earlier application is permitted. The Company is currently assessing the impact of these amendments, but it does not expect that the Company's financial disclosure will be materially affected by their adoption.

4 Critical accounting estimates and judgements

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

i) Impairment

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

ii) Deferred income taxes

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

This assessment requires the exercise of judgement on the part of management with respect to, among other things, benefits that could be realized from available tax strategies and future taxable income, as well as other positive and negative factors. The recorded amount of total deferred tax assets and liabilities could be materially affected if changes in current tax regulations are enacted. Refer to note 20 for estimates and assumptions used.

(In thousands of Canadian dollars)

iii) Business combinations

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

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

5 Growth fund

The Company manages a Growth Fund established to collect and administer funds contributed for use in regional and national advertising programs and amongst other things, initiatives designed to increase sales and enhance general public recognition, acceptance and use of the Proshred System. The fund contributions are segregated, designated for a specific purpose and the Company acts, in substance, as an agent with regard to these contributions. Growth Fund contributions are required to be made by both franchised and Company owned and operated locations and are based on the annual level of revenue from each location. The Growth Fund contributions from the Company owned locations have been eliminated on consolidation.

The Growth Fund related contributions and expenses for the years ended December 31, 2023 and 2022, as well as cash balances as at December 31, 2023 and December 31, 2022 are as follows:

	2023	**2022**
	$	**$**
Growth Fund revenue	273	231
Growth Fund expenses	(582)	(540)
Growth Fund net loss	(309)	(309)

As at,	**December 31, 2023**	**December 31, 2022**
	$	**$**
Cash attributable to the Growth Fund	159	223

(In thousands of Canadian dollars)

6 Trade and other receivables

Trade receivables include receivables from franchisees and shredding, recycling, electronic waste and scanning customers. Other receivables include amounts related to the receivables from the sale of trucks and Harmonized Sales Tax ("HST") refunds. The net trade and other receivables as at December 31, 2023 and December 31, 2022 are as follows:

	December 31, 2023	December 31, 2022
	$	$
Trade receivables – corporate locations	8,887	8,516
Trade receivables – franchising and licensing	303	188
Total trade receivables	9,190	8,704
Other receivables	266	401
Less: Allowance for doubtful accounts	(321)	(327)
Trade and other receivables, net	9,135	8,778

7 Acquisitions

The Company completed the following acquisitions during the year ended December 31, 2023:

1. On August 31, 2023, the Company acquired the assets of Oho and Associates, Inc. ("Security Shredding"), a New Jersey based shredding business; and

2. On September 5, 2023, the Company acquired the assets of the Proshred Baltimore business from its franchisee.

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

The purchase price for these acquisitions 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 these acquisitions.

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

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

(In thousands of Canadian dollars)

During the year ended December 31, 2023	**Proshred Baltimore***	**Security Shredding***	**Total**
	$	**$**	**$**
Exchange rate used	1.36	1.35	
Assets Acquired			
Net Working capital	109	—	109
Tangible assets	1,100	415	1,515
Customer relationships	2,147	594	2,741
Goodwill	1,226	91	1,317
	4,582	1,100	5,682
Consideration Given			
Cash	3,871	1,082	4,953
Net working capital settlement	(25)	—	(25)
Contingent consideration	736	18	754
	4,582	1,100	5,682
Acquisition costs (expensed in statement of comprehensive income)	75	31	106

*The Company updated its initial provisional purchase price allocation for Proshred Baltimore and Security Shredding for adjustments to the initial fair value estimate of assets acquired and consideration given.

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	1,032	121	4,549	6,009
Re-acquired franchise rights	—	—	—	471	471
Goodwill	117	362	119	3,561	4,159
	462	1,973	264	11,217	13,916
Consideration Given					
Cash	349	1,328	187	9,691	11,555
Net working capital settlement	—	—	—	(146)	(146)
Contingent consideration	113	645	77	1,081	1,916
Lease liabilities assumed	—	—	—	591	591
	462	1,973	264	11,217	13,916
Acquisition costs (expensed in statement of comprehensive income)	21	71	13	96	201

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

- Security Shredding acquisition: There is contingent consideration payable, based upon the achievement of certain revenue targets during the twelve-month period following the date of acquisition.

(In thousands of Canadian dollars)

- Proshred Baltimore acquisition: There is contingent consideration payable, based upon the achievement of certain revenue targets during the twenty- four month period following the date of acquisition.

Included in the consolidated financial results of the Company for the year ended December 31, 2023, was revenue and net income from acquisitions of $994 and $9, respectively.

The pro forma consolidated results of the Company for the year ended December 31, 2023, if the acquisitions had been closed on January 1, 2023, would result in estimated revenue of $67,922 (compared to reported revenue of $65,934) and an estimated net loss of $442 (compared to a reported net loss of $577). In preparing the pro forma results, revenue and costs have been included as if the business was acquired on January 1, 2023 and intercompany transactions had been eliminated. This information is not necessarily indicative of the results of the Company that would have occurred had the acquisitions actually been made at the beginning of the period presented or indicative of the future results of the Company.

8 Tangible assets

			December 31, 2023			**December 31, 2022**
	Cost	Accumulated depreciation	**Net carrying value**	Cost	Accumulated depreciation	**Net carrying value**
	$	$	**$**	$	$	**$**
Computer equipment	758	(600)	**158**	661	(443)	**218**
Furniture & fixtures	257	(235)	**22**	248	(218)	**30**
Bins & shredding containers	4,846	(3,221)	**1,625**	4,410	(2,388)	**2,022**
Shredding vehicles - chassis	11,278	(5,227)	**6,051**	9,400	(3,837)	**5,563**
Shredding vehicles - box	20,953	(9,983)	**10,970**	17,628	(7,492)	**10,136**
Vehicles	291	(206)	**85**	245	(198)	**47**
Baling equipment	673	(304)	**369**	685	(226)	**459**
ROU Office and Warehouse	9,889	(5,398)	**4,491**	9,314	(3,773)	**5,541**
ROU Truck leases	1,917	(1,229)	**688**	1,910	(1,180)	**730**
Leasehold Improvements	354	(73)	**281**	-	-	**-**
Total tangible assets	51,216	(26,476)	**24,740**	44,501	(19,755)	**24,746**

	December 31, 2022						**December 31, 2023**
	Net carrying value	Additions	Acquisitions	Depreciation	Disposition of Assets	Foreign exchange	**Net carrying value**
	$	$	$	$		$	**$**
Computer equipment	218	108	-	(166)	-	(2)	**158**
Furniture & fixtures	30	13	-	(21)	-	-	**22**
Bins & shredding containers	2,022	526	115	(923)	(74)	(41)	**1,625**
Shredding vehicles - chassis	5,563	1,932	421	(1,657)	(59)	(149)	**6,051**
Shredding vehicles - box	10,136	3,187	979	(2,952)	(121)	(259)	**10,970**
Vehicles	47	52	-	(14)	-	-	**85**
Baling equipment	459	4	-	(85)	-	(9)	**369**
ROU Office and Warehouse	5,541	793	-	(1,741)	-	(102)	**4,491**
ROU Truck leases	730	53	-	(76)	-	(19)	**688**
Leasehold Improvements	-	355	-	(74)	-	-	**281**
Total tangible assets	24,746	7,023	1,515	(7,709)	(254)	(581)	**24,740**

(In thousands of Canadian dollars)

	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**

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

9 Intangible assets

			December 31, 2023			**December 31, 2022**
	Cost	Accumulated amortization	**Net carrying value**	Cost	Accumulated amortization	**Net carrying value**
	$	$	**$**	$	$	**$**
Computer software	1,278	(859)	**419**	1,273	(571)	**702**
Re-acquired franchise rights	1,634	(1,267)	**367**	1,673	(1,079)	**594**
Trademarks & intellectual property	46	(15)	**31**	46	(10)	**36**
Customer relationships	37,837	(13,705)	**24,132**	36,012	(10,441)	**25,571**
Total intangible assets	40,795	(15,846)	**24,949**	39,004	(12,101)	**26,903**

	December 31, 2022					**December 31, 2023**
	Net carrying value	Additions	Acquisitions	Amortization	Foreign exchange	**Net carrying value**
	$	$	$	$	$	**$**
Computer software	702	28	-	(303)	(8)	**419**
Re-acquired franchise rights	594	-	-	(217)	(10)	**367**
Trademarks & intellectual property	36	-	-	(5)	-	**31**
Customer relationships	25,571	-	2,741	(3,583)	(597)	**24,132**
Total intangible assets	26,903	28	2,741	(4,108)	(615)	**24,949**

	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**

(In thousands of Canadian dollars)

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

10 Goodwill

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

	December 31, 2023	December 31, 2022
	$	$
Opening balance	28,385	22,655
Acquisitions	1,317	4,154
Foreign Currency Translation	(701)	1,576
Closing balance	29,001	28,385

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

11 Impairment of goodwill and long-lived assets

The Company performs an impairment test of long-lived assets when there is an indication of impairment, which includes indicators such as when actual sales are significantly less than budgeted, profits are significantly less than prior years' profits and when significant events and circumstances indicate that the carrying amount may not be recoverable. There were no indicators of impairment of the Company's long-lived assets during the year ended December 31, 2023 or December 31, 2022 to warrant an analysis to be performed. Goodwill is tested for impairment at least annually.

The Company performed its annual test for goodwill impairment as at December 31, 2023 in accordance with its policy described in note 3. The Company compared the recoverable amount of the assets included in the CGUs of the corporate locations that have goodwill to their respective carrying amounts.

The carrying value of goodwill of each CGU as at December 31, 2023 and 2022 is as follows:

Cash Generating Unit	2023	2022
	$	$
Upper New York	292	299
Milwaukee	851	872
New York City & North New Jersey	4,849	4,877
Kansas City	2,826	2,894
Chicago	6,965	7,126
Connecticut	3,788	3,879
Springfield	2,988	3,060
Richmond	273	280
Atlanta	1,527	1,564
Philadelphia	3,448	3,534
Baltimore	1,194	–
Total Goodwill	29,001	28,385

(In thousands of Canadian dollars)

The recoverable amount of each CGU has been determined based on fair value less costs of disposal. The fair value less costs of disposal calculation uses cash flow projections based on financial budgets approved by management.

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

i. The use of an after-tax discount rate of 18%.

ii. A five-year and terminal period cash flow was used with projected sales growth rates ranging from 5% to 10% and a terminal growth rate of 2%. Projected sales growth rates were determined based on the Company's internal budget and considered past experience.

iii. Budgeted-operating margins, which were similarly determined based on the Company's internal budget and considering operating margins achieved in the prior year period. Management believes the operating margins are reasonably achievable.

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

For the year ended December 31, 2023, the recoverable amount of all of the Company's CGU's was at or exceeded their carrying amount. The Company performed a break-even analysis on the significant assumptions in the fair value less costs of disposal calculations. For the Company's Atlanta CGU, changes in key assumptions, including if the after-tax discount rate was one hundred (100) basis points higher, or the operating margins or sales growth rates, including terminal growth rate, were one hundred fifty (150) basis points lower, would result in the carrying value of this CGU exceeding its recoverable amount.

12 Contingent consideration

The Company has recorded contingent consideration liabilities as part of the businesses acquired. The contingent consideration liabilities are paid to the vendors if certain financial results are achieved. During the year ended December 31, 2023, the Company recorded a remeasurement gain on contingent consideration of $399. The fair value of contingent consideration is calculated based on the expected payout, discounted.

As of December 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 September 4, 2023	USD$0 to USD$5,696	CAD$3,226 USD$2,439	CAD$320 USD$242	January 1, 2024 to June 1, 2027

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

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

(In thousands of Canadian dollars)

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

13 Long-term debt

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

	December 31, 2023	December 31, 2022
	$	$
		(Restated- Note 25)
Bank facilities (i)	20,808	23,527
Less: transaction costs	(590)	(322)
Net bank facilities	20,218	23,205
Truck loans (ii)	10,243	8,607
Total long-term debt	30,461	31,812
Less: current portion	(23,079)	(25,656)
	7,382	6,156

(i) Bank facilities

As at December 31, 2023, the Company has the following secured senior credit facilities:

1. A demand operating line of credit of CAD$1 million;
2. A demand non-revolving re-advanceable term loan acquisition facility in the amount of CAD$40 million (advances can be taken in either USD or CAD equivalent, at the Company's discretion); and
3. A demand revolving re-advanceable interest only acquisition facility in the amount of CAD$6 million to fund acquisitions up to USD$1,500 (advances can be taken in either USD or CAD equivalent, at the Company's discretion). The principal amount of any advance made under this facility is required to be repaid in full on or prior to twelve months from the date of such advance, by way of an advance under the Company's term loan acquisition facility noted above.

Advances under the bank facilities include a maturity date, depending on the individual facility. However, the Company's bank facilities are demand facilities which are callable by the bank at any time at its discretion. As such, the amounts drawn under the bank facilities are presented as current liabilities.

(In thousands of Canadian dollars)

As at December 31, 2023, the Company has borrowed the following amounts on the demand non-revolving term loan acquisition facility:

Month of Advance	Initial Amount	Interest per annum	Amortization period***	December 31, 2023 balance	December 31, 2022 balance
	$			$	$
May, 2019	6,003	3.50%	72 months	2,612	3,477
November, 2019	6,664	3.50%	84 months	3,374	4,319
March, 2020	2,688	2.99%	84 months	1,514	1,891
December, 2020	2,290	3.33%	84 months	1,368	1,700
August, 2021	854	3.69%	84 months	593	708
December, 2021	6,290	6.52%	84 months	5,226	6,083
November, 2022*	5,400	7.47%	84 months	4,735	5,349
September, 2023**	1,412	7.83%	84 months	1,386	—
Total				**20,808**	**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.*

***Loan bears interest at the fixed rate of interest of 7.83% for a term of thirty-six (36) months from the date of origination of September 5, 2023.*

**** Amortization period disclosed is according to the respective maturity dates on the basis repayment is not demanded by the bank earlier.*

Principal repayments as at December 31, 2023, stated in Canadian dollars, and according to the respective maturity dates on the basis loan repayment is not demanded by the bank earlier, are as follows:

	2024	2025	2026	2027	2028	2029 & Thereafter
	$	$	$	$	$	$
Principal repayments	7,315	7,391	7,439	4,573	3,038	1,295

Principal repayments have been translated at the closing rate at December 31, 2023 using an exchange rate of USD$1.00 = CAD$1.32.

As at December 31, 2023, the Company has $1.0 million available on its demand operating line of credit, $19.2 million available on its demand non-revolving re-advanceable term loan, and $6.0 million available on its demand revolving re-advanceable interest only acquisition facility.

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 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, of 1.00:1 through the quarter ended June 30, 2024 and 1.15:1 thereafter;

(In thousands of Canadian dollars)

2. A maximum senior funded debt to EBITDA ratio of 3.50:1 which is defined as total senior debt divided by EBITDA; and

3. A maximum total funded debt to EBITDA ratio of 4.00:1 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.

In November of 2023, the Company's bank credit facilities were amended as follows:

1. The amount available to borrow under the demand non-revolving re-advanceable term loan acquisition facility was increased by $14 million;

2. A demand revolving re-advanceable interest only acquisition facility in the amount of CAD$6 million was added; and

3. The minimum fixed charge coverage ratio was updated to reflect that repayments of lease liabilities were now included in the definition of fixed charges under this financial covenant. The definition of total funded debt, under the total funded debt to EBITDA financial covenant, was updated to include lease liabilities, with the maximum ratio for this financial covenant updated to reflect this. The maximum senior debt to EBITDA financial covenant ratio was also updated to reflect these changes.

These amendments to the bank credit facilities were considered non-substantive changes under IFRS 9, Financial Instruments, and as such, did not require the extinguishment of the existing liability and recognition of a new liability.

As at December 31, 2023, the Company was in compliance with its banking covenants.

(ii) Truck loans

In July 2023, the Company established a new USD$3.5 million non-revolving line of credit for the purchase of shredding vehicles. The interest rate on this facility is based on prevailing market rates at the time the line is used. As at December 31, 2023, the Company had USD$2.0 million available on this line of credit.

Also refer to the 'Subsequent events note' for the new truck loan facility that was established by the Company with this lender subsequent to December 31, 2023.

As of December 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	10,243	12,961	3.92% to 8.54%	May, 2018 to December, 2023	May, 2024 to December, 2028

(In thousands of Canadian dollars)

14 Lease liabilities

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

Lease Liability	Number of ROU assets leased	Range of remaining term	Range of interest rates	Lease balance as of December 31, 2023
				$
Office and warehouse building	17	August 2024 to September 2030	4.75% to 8.25%	5,299
Shredding vehicles	4	August 2025 to January 2027	5.95% to 7.00%	183
Total				**5,482**

The total lease payments for the year ended December 31, 2023 were $1,497 (December 31, 2022 - $1,686) of which the total office and warehouse lease payments were $1,412 (December 31, 2022 – $1,347) and the total truck lease payments were $85 (December 31, 2022 - $339).

The movement in the lease liabilities for the years ended December 31, 2023 and 2022 was as follows:

	2023	2022
	$	$
Opening Balance, January 1	6,261	3,769
Acquisitions	-	591
Additions	626	3,307
Disposals	-	(57)
Interest expense	397	260
Interest paid	(397)	(260)
Lease payments	(1,497)	(1,686)
Foreign exchange	92	337
Closing balance, December 31	5,482	6,261
Less: current portion	1,573	1,501
Long-term portion	3,909	4,760

(In thousands of Canadian dollars)

The following table outlines the total contractual undiscounted minimum lease payments due as at December 31, 2023:

	Within 1 year	2-5 years	Over 5 years	Total
	$	$	$	$
Lease payments	1,873	4,119	229	6,221
Finance charges	(300)	(422)	(17)	(739)
Lease liabilities	1,573	3,697	212	5,482

Lease payments not recognized as a liability

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

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

For the years ended December 31,	2023	2022
	$	$
Short-term leases	183	157
Variable lease payments	321	226
Total	504	383

15 Changes in liabilities arising from financing activities

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

	Contingent Consideration	Long-term debt	Total
	$	$	$
Balance as of December 31, 2022	5,468	31,812	37,280
Cash flows:			
Borrowings	–	6,171	6,171
Payments	(2,539)	(7,343)	(9,882)
Non cash:			
Additions through acquisitions	753	–	753
Interest Accretion	359	–	359
Remeasurement	(399)	–	(399)
Foreign exchange	(96)	(179)	(275)
Balance as of December 31, 2023	3,546	30,461	34,007

(In thousands of Canadian dollars)

16 Capital stock

a) Authorized

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

b) Issued and fully paid

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

	Common stock	
	Number	**$**
Balance December 31, 2023	18,303,072	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 figures presented in these consolidated financial statements, including comparative figures, for common shares, warrants, and options, and for basic and diluted net income per share amounts have been adjusted to reflect this share consolidation.

c) Weighted average number of common shares

The basic weighted average number of common shares outstanding for the years ended December 31, 2023 and December 31, 2022 was 18,292,219 and 18,200,572, respectively. The diluted weighted average number of common shares outstanding for the years ended December 31, 2023 and December 31, 2022, was 18,292,219 and 18,247,501, respectively. For the year ended December 31, 2023, all stock options were excluded from the calculation of the diluted weighted average number of common shares outstanding, as their inclusion was anti-dilutive on the diluted net loss per share.

d) Warrants

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

e) Stock options

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

i) From time to time, the Company designates eligible participants to whom options will be granted and the number of shares to be optioned to each;

(In thousands of Canadian dollars)

ii) Eligible participants are persons who are directors, officers, employees and advisors of the Company;

iii) Options to purchase shares are non-transferable and are exercisable for a period of up to five years from the date of grant;

iv) Shares to be optioned shall not exceed ten percent of the issued and outstanding common shares of the Company;

v) The option price for the shares is determined at the time of granting of the option but cannot be less than the fair market value of the shares at the time the option is granted less any applicable discount permitted by the Toronto Venture Exchange; and

vi) The term during which any option granted may be exercised is determined by the Company at the time the option is granted but may not exceed the maximum period permitted by the Toronto Venture Exchange.

The following table summarizes the movements in the Company's stock options during the years ended December 31, 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	3.12
Granted	343,215	3.78	272,161	4.18
Exercised	(61,000)	2.75	(127,515)	2.56
Expired and forfeited	(19,130)	3.51	(15,640)	3.53
Outstanding – closing	837,273	3.83	574,188	3.74

During the year ended December 31, 2023, 61,000 stock options were exercised and common shares issued for total gross proceeds of $167 (for the year ended December 31, 2022, 127,515 stock options exercised for total gross proceeds of $327).

The fair value of the 343,215 stock options issued during the year ended December 31, 2023 totaled $640. The fair value of the options was calculated using the Black-Scholes model using a risk-free interest rate of 2.92% to 3.91%, volatility of 52% to 53%, expected life of 5 years and a 0% dividend yield.

For the year ended December 31, 2023 stock compensation expense was $424 (for the year ended December 31, 2022 – $302).

(In thousands of Canadian dollars)

The following table summarizes the stock options outstanding as at December 31, 2023 and 2022:

	2023			2022		
Exercise price $	**Number of options outstanding**	**Weighted average remaining contractual life**	**Options exercisable**	**Number of options outstanding**	**Weighted average remaining contractual life**	**Options exercisable**
$2.50 to $3.00	22,855	3.33	22,855	71,000	0.49	71,000
$3.01 to $3.50	115,962	1.08	99,242	122,493	1.52	97,413
$3.51 to $4.00	389,329	3.91	60,869	68,168	2.76	49,753
$4.01 to $4.50	309,127	2.96	136,074	312,527	3.96	76,565
	837,273		319,040	574,188		294,731

17 Revenue

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

	2023	2022
	$	$
Paper shredding services	48,818	38,640
Sale of paper products	9,433	11,650
Royalties and license fees	1,839	1,895
Scanning services	2,625	2,360
Electronic waste and product shredding services	2,855	2,371
Growth Fund contributions	273	231
Franchise fees	91	79
Total revenue	65,934	57,226

18 Corporate location expenses

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

	2023	2022
	$	$
Shredding vehicle and related expenses	11,575	9,295
Acquisition costs	597	853
Employee wages expense	19,319	16,635
Employee benefits expense	4,037	3,228
Office and administration expense	5,694	4,752
Total corporate operating expenses	41,222	34,763

(In thousands of Canadian dollars)

19 General and administrative expenses

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

	2023	2022
	$	$
Employee wages and benefits expense	3,770	2,867
Share-based compensation	424	302
Professional fees	1,131	920
Acquisition costs	214	247
Technology	1,194	670
Growth Fund expenses (note 5)	582	540
Other	1,992	1,599
Total general and administrative expenses	9,307	7,145

Compensation of key management

Included in employee wages and benefits and share-based compensation expense for the years ended December 31, 2023 and 2022 is key management personnel compensation, which is as follows:

	2023	2022
	$	$
Wages and benefits	1,546	1,035
Share-based compensation	279	224
Total	1,825	1,259

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.

20 Income taxes

Reconciliation of total tax recovery

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

(In thousands of Canadian dollars)

	2023	2022
	$	$
Net income before income taxes	452	7,626
Statutory income tax rate	26.50%	26.50%
Expected income tax recovery expense on above rates	120	2,021
Withholding tax	156	149
Non-taxable and non-deductible expenses	332	(205)
Change in benefit of future tax assets not recognized	205	(448)
Prior year taxes	194	74
Effect of foreign tax rates	22	34
Other items	(48)	127
Income tax expense	981	1,752

The enacted tax rate in Canada is 26.50% (2022 - 26.50%) and in the United States is 27.17% (2022 – 27.17%). These rates have been applied in the tax provision calculation. The effective tax rate for the years ended December 31, 2023 and 2022 was 217% and 23%, respectively. The difference in the effective tax rate, as compared to the statutory tax rates of Redishred and its subsidiaries, for the year ended December 31, 2023 was primarily due to the impact of foreign exchange movements on intercompany balances between Redishred and its subsidiaries, and non-deductible expenses, including share-based compensation.

	2023	2022
	$	$
Provision for income taxes is comprised of:		
Current income taxes	570	310
Deferred income taxes	411	1,442
	981	1,752

Deferred tax

The net deferred income tax (liability) asset is as follows as at December 31, 2023 and 2022:

	2023	2022
	$	$
Deferred income tax asset	1,308	1,075
Deferred income tax liability	2,872	2,228
Net deferred income tax (liability) asset	(1,564)	(1,153)

The components of the net deferred income tax (liability) asset as at December 31, 2023 and 2022 are as follows:

	2023	2022
	$	$
Taxable temporary differences on property and equipment and intangibles	(7,378)	(7,847)
Non-capital losses	3,924	4,642
Other	2,131	2,088
Benefit not recognized	(241)	(36)
	(1,564)	(1,153)

(In thousands of Canadian dollars)

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

	2023	2022
	$	$
Balance, beginning of the year	(1,153)	289
Recognized in income	(411)	(1,442)
Balance, end of the year	(1,564)	(1,153)

The Company has incurred Canadian non-capital losses of $3,659 that can be carried forward to reduce taxes payable in Canada. The losses expire at various times commencing December 31, 2035. The Company has incurred U.S. non-capital losses of $10,949 that can be carried forward to reduce taxes payable in the U.S. The losses expire at various times commencing December 31, 2024.

The Company has recorded deferred tax assets of $3,924 as at December 31, 2023 (2022- $4,642), pertaining to operating loss carryforwards based on management's financial projections and the relevant tax legislation in Canada and the United States.

21 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 $29,314, compared to a carrying value of $30,461, based on the current interest rates that would be charged on this financial instrument as at December 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).

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.

(In thousands of Canadian dollars)

There were no transfers between levels of the fair value hierarchy during the years ended December 31, 2023 and December 31, 2022.

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

December 31, 2023	**Financial Assets**	**Other Financial Liabilities**	**Total Carrying Amount**	**Fair Value**
	$	**$**	**$**	**$**
Cash and cash equivalents	3,611	–	3,611	3,611
Cash attributable to the Growth Fund	159	–	159	159
Trade and other receivables	9,135	–	9,135	9,135
Total financial assets	**12,905**	–	**12,905**	**12,905**
Accounts payable and accrued liabilities	–	5,348	5,348	5,348
Long-term debt	–	30,461	30,461	29,587
Contingent consideration	–	3,546	3,546	3,546
Total financial liabilities	–	**39,355**	**39,355**	**38,481**

December 31, 2022	**Financial Assets**	**Other Financial Liabilities**	**Total Carrying Amount**	**Fair Value**
	$	**$**	**$**	**$**
Cash and cash equivalents	6,696	–	6,696	6,696
Cash attributable to Growth Fund	223	–	223	223
Accounts receivable	8,778	–	8,778	8,778
Total financial assets	**15,697**	–	**15,697**	**15,697**
Accounts payable and accrued liabilities	–	4,513	4,513	4,513
Long-term debt	–	31,812	31,812	30,510
Contingent consideration	–	5,468	5,468	5,468
Total financial liabilities	**–**	**41,793**	**41,793**	**40,491**

Interest rate risk

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

- Demand 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.
- Demand 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 3.50% to 7.83% per annum.

(In thousands of Canadian dollars)

- Truck loans and leases: These financial instruments are subject to interest rate fair value risk as their fair values will fluctuate as a result of changes in market interest rates, as interest on these financial instruments is generally fixed ranging from 3.92% to 8.54% per annum.

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

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

	2023	2022
	$	$
Past due but not impaired		
60 to 90 days	672	700
Greater than 90 days	921	784

The accounts receivables related to corporate operations are exposed to credit risk from the possibility that customers may experience financial difficulty. As at December 31, 2023 and December 31, 2022, no customer accounted for more than 10% of the accounts receivable balance. For the year ended December 31, 2023 and 2022, no customer accounted for more than 10% of the Company's revenue in this category. As at December 31, 2023, 11% of accounts receivable, net of allowance of doubtful accounts, in this category were over 90 days old (December 31, 2022 – 10%). As at December 31, 2023, the Company has an allowance for credit losses from receivables of $321 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 December 31, 2023, 6 franchisees accounted for 60% of the accounts receivable balance related to franchising and licensing (December 31, 2022 - 6 franchises accounted for 57%). For the year ended December 31, 2023, 3 franchisees accounted for 27% of the Company's revenues related to franchising and licensing (December 31, 2022 - 3 franchisees accounted for 26%). As of December 31, 2023, there was no accounts receivable related to franchising and licensing that were over 90 days old (December 31, 2022 – nil).

(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 year ended December 31, 2023, the Company recorded a foreign exchange loss of $1,400 (December 31, 2022 – gain of $3,382). Based on revenues and expenses denominated in USD and translated to CAD, a 5% increase or decrease in exchange rates would impact the Company's net earnings by approximately $133 (December 31, 2022 - $252).

Exchange rates utilized (USD to CAD):

	December 31, 2023	December 31, 2022
	$	$
Close rate	1.32	1.35
Average rate	1.35	1.30

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 and financial covenants under the bank credit facilities. Continued compliance with the financial covenants under the bank credit facilities is dependent on the Company achieving its forecasts. 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. The Company may defer capital expenditures and reduce discretionary spending to ensure compliance with the financial covenants and if necessary, seek waivers, subject to lender approval.

Based on overall cash generation capacity and overall financial position, the Company believes that it has sufficient available liquidity to meet its minimum obligations as they come due and to comply with financial covenants as required under its bank credit facilities for a period of at least twelve months from December 31, 2023. This assessment is based on the assumption the bank facilities are not called. The Company has current liabilities of $33,386 at December 31, 2023 (December 31, 2022 - $35,511), including long-term debt under the Company's bank facilities which has been classified as current as this is due on demand at any time should the bank call these loans in advance of the respective maturity date. Amounts owing under the Company's bank facilities are otherwise repayable based on the applicable loan repayment schedule for the respective borrowing. The Company has current assets of $15,033 as at December 31, 2023 (December 31, 2022 - $16,702), including cash and cash equivalents of $3,611 (December 31, 2022 - $6,696).

(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	5,287	61	-	-
Long-term debt*	2,202	5,366	21,664	1,230
Contingent consideration	2,173	1,053	320	-
Lease liabilities	406	1,167	3,697	212

Interest	**Less than 3 months**	**3 months to 1 year**	**1 - 5 years**	**Over 5 years**
	$	**$**	**$**	**$**
Long-term debt*	434	1,158	2,666	56
Lease liabilities	84	216	422	17

Total principal and interest	**Less than 3 months**	**3 months to 1 year**	**1 - 5 years**	**Over 5 years**
	$	**$**	**$**	**$**
Accounts payable and accrued liabilities	5,287	61	-	-
Long-term debt*	2,636	6,524	24,330	1,286
Contingent consideration	2,173	1,053	320	-
Lease liabilities	490	1,383	4,119	229

** Repayments of principal and interest on long-term debt are based on the respective maturity dates on the basis repayment is not demanded by the bank earlier.*

22 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 a demand operating line of credit, a demand non-revolving re-advanceable term loan acquisition facility, and a demand revolving re-advanceable interest only acquisition 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 13.

23 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).

(In thousands of Canadian dollars)

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

December 31, 2023	**Franchising and licensing**	**Corporate locations**	**Corporate**	**Total**
	$	**$**	**$**	**$**
ASSETS				
Current assets				
Cash and cash equivalents	360	2,775	476	3,611
Cash attributable to the Growth Fund	159	–	–	159
Trade and other receivables	303	8,701	131	9,135
Prepaid expenses and other assets	301	1,292	73	1,666
Income taxes receivable	52	410	–	462
Total current assets	1,175	13,178	680	15,033
Non-current assets				
Tangible assets	36	24,019	685	24,740
Intangible assets	508	24,302	139	24,949
Goodwill	–	29,001	–	29,001
Deferred tax asset	–	–	1,308	1,308
Total assets	1,719	90,500	2,812	95,031
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	897	2,690	1,761	5,348
Deferred revenue	54	61	–	115
Income taxes payable	1	(1)	45	45
Current portion of long-term debt	–	2,861	20,218	23,079
Lease liabilities	–	1,454	119	1,573
Contingent consideration	–	3,226	–	3,226
Total current liabilities	952	10,291	22,143	33,386
Non-current liabilities				
Long-term debt	–	7,382	–	7,382
Deferred revenue	–	31	–	31
Lease liabilities	–	3,284	625	3,909
Contingent consideration	–	320	–	320
Deferred tax liability	(4)	2,876	–	2,872
Total liabilities	948	24,184	22,768	47,900

(In thousands of Canadian dollars)

December 31, 2022	**Franchising and licensing**	**Corporate locations**	**Corporate**	**Total**
	$	**$**	**$**	**$**
ASSETS			*(Note 25- Restated)*	*(Note 25- Restated)*
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	0	–	64
Current portion of long-term debt	–	2,452	23,204	25,656
Lease liabilities	–	1,484	17	1,501
Contingent consideration	–	3,708	–	3,708
Total current liabilities	969	10,354	24,188	35,511
Non-current liabilities				
Accounts payable and accrued liabilities	–	61	–	61
Long-term debt	–	6,156	–	6,156
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

(In thousands of Canadian dollars)

Geographic information

	December 31, 2023	December 31, 2022
Canada	**$**	**$**
Tangible assets	685	541
Intangible assets	139	177
United States		
Tangible assets	24,055	24,205
Intangible assets	24,810	26,726
Goodwill	29,001	28,385
Total		
Tangible assets	24,740	24,746
Intangible assets	24,949	26,903
Goodwill	29,001	28,385

Revenue

All revenues were attributed to the United States.

(In thousands of Canadian dollars)

Net income (loss) by operating segment

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

	For the year ended December 31, 2023			
	Franchising and licensing	Corporate locations	Corporate	Total
	$	$	$	$
Revenue	2,203	63,731	–	65,934
Corporate location expenses	–	(41,222)	–	(41,222)
Depreciation – tangible assets	(27)	(7,493)	(189)	(7,709)
General and administrative expense	(2,001)	(2,147)	(5,159)	(9,307)
Total expenses	(2,028)	(50,862)	(5,348)	(58,238)
Operating income (loss)	175	12,869	(5,348)	7,696
Interest expense	–	(1,265)	(1,244)	(2,509)
Interest income	–	–	14	14
Amortization – intangible assets	(117)	(3,952)	(39)	(4,108)
Remeasurement of contingent consideration	–	399	–	399
Foreign exchange loss	–	–	(1,400)	(1,400)
Gain on disposal of tangible assets	–	154	–	154
Other Income	100	106	–	206
Income (loss) before income taxes	158	8,311	(8,017)	452
Income tax recovery (expense)	46	168	(1,195)	(981)
Net income (loss)	204	8,479	(9,212)	(529)

(In thousands of Canadian dollars)

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

24 Related party balances and transactions

A Director of the Company is the owner of the Tampa Bay, Florida Proshred franchise. There is an accounts receivable balance of $5 due from this franchise as at December 31, 2023 (December 31, 2022 - $5). During the year ended December 31, 2023, the Company earned royalties, franchise and service fees of $188 (December 31, 2022 - $183) from this franchise.

25 Prior period restatement

The Company previously was classifying amounts owing under its bank credit facilities as current or non-current long-term debt based on the applicable maturity date for the given advance under these facilities. As these facilities permit the bank to demand repayment at any time at its discretion in advance of the maturity date, the Company has corrected for this error and restated the entire amount owing under these facilities as current liabilities.

(In thousands of Canadian dollars)

The Company has restated its consolidated statements of financial positions as follows:

	December 31, 2022			January 1, 2022		
	Reported	Adjustment	Restated	Reported	Adjustment	Restated
	$	$	$	$	$	$
Current portion of long-term debt	6,839	18,817	25,656	4,690	17,426	22,116
Long-term debt	24,973	(18,817)	6,156	21,867	(17,426)	4,441

26 Commitments

In December, 2023, the Company entered into a five-year lease agreement for a new office space in New York with an expected commencement date of April 1, 2024. As the lease has not commenced, a right-of-use asset and lease liability for this lease has not been recognized on the consolidated statements of financial position. Annual rent for this new office space upon lease commencement is $161 for the first year and it increases thereafter by three and a half percent (3.5%) per year.

27 Subsequent events

In January 2024, the Company established a new USD$4.0 million non-revolving line of credit for the purchase of shredding vehicles. The interest rate on this facility is based on prevailing market rates at the time the line is used.

In January 2024, the Company acquired the assets of MDK Recycling LLC (“MDK”), a Michigan-based company offering paper and hard drive shredding, product destruction, paper recycling, and scanning services. Purchase consideration paid included USD$500 paid on closing of this acquisition and contingent consideration payable, based on revenue, over three years with a maximum earn-out of USD$300.