RediShred Capital Corp.

Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2024 and 2023

(Unaudited- Prepared by Management)

(Expressed in thousands of Canadian dollars)

RediShred Capital Corp.

Condensed Consolidated Interim Statements of Financial Position

As at March 31, 2024 and December 31, 2023

(expressed in Canadian dollars)

	2024 $	2023 $
Assets		
Current assets		
Cash and cash equivalents	1,530	3,611
Cash attributable to the Growth Fund (note 3)	251	159
Trade and other receivables (note 4)	9,113	9,135
Prepaid expenses and other assets	1,122	1,666
Income taxes receivable	390	462
Total current assets	12,406	15,033
Non-current assets		
Tangible assets (note 6)	25,873	24,740
Intangible assets (note 7)	25,080	24,949
Goodwill (note 8)	29,985	29,001
Deferred tax asset (note 16)	1,306	1,308
Total non-current assets	82,244	79,998
Total assets	94,650	95,031
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	4,072	5,348
Deferred revenue	105	115
Income taxes payable	56	45
Current portion of long-term debt (note 10)	22,239	23,079
Lease liabilities (note 11)	1,567	1,573
Contingent consideration (note 9)	1,656	3,226
Total current liabilities	29,695	33,386
Non-current liabilities		
Long-term debt (note 10)	8,504	7,382
Deferred revenue	29	31
Lease liabilities (note 11)	3,640	3,909
Contingent consideration (note 9)	538	320
Deferred tax liability (note 16)	3,049	2,872
Total non-current liabilities	15,760	14,514
Total liabilities	45,455	47,900
Shareholders' equity		
Capital stock (note 12)	45,268	45,268
Contributed surplus	1,632	1,529
Accumulated foreign currency translation loss	(437)	(612)
Retained earnings	2,732	946
	49,195	47,131
Total liabilities and shareholders' equity	94,650	95,031

Basis of presentation and Commitments (refer to notes 2 and 20, respectively)

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

Approved on behalf of the Board of Directors

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

(signed) "*Brad Foster*" Director

RediShred Capital Corp.

Condensed Consolidated Interim Statements of Comprehensive Income

For the three months ended March 31, 2024 and 2023

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

	2024 **$**	**2023** **$**
Revenue (note 13)	17,174	16,996
Corporate locations expenses (note 14)	(10,893)	(10,348)
Depreciation – tangible assets (note 6)	(1,904)	(1,876)
General and administrative expenses (note 15)	(2,274)	(1,911)
Total expenses	(15,071)	(14,135)
Operating income	2,103	2,861
Interest expense	(607)	(642)
Interest income	–	9
Amortization – intangible assets (note 7)	(1,045)	(1,016)
Remeasurement of contingent consideration (note 9)	8	(2)
Foreign exchange gain (loss)	1,588	(70)
Other income	23	–
Income before income taxes	2,070	1,140
Income tax expense	(284)	(405)
Net income for the period	1,786	735
Foreign currency translation income (loss)	175	(2)
Comprehensive income for the period	1,961	733
Net income per share (note 12)		
Basic	0.10	0.04
Diluted	0.10	0.04
Weighted average number of common shares outstanding – basic (note 12)	18,303,072	18,258,116
Weighted average number of common shares outstanding – diluted (note 12)	18,304,701	18,279,598

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

RediShred Capital Corp.

Condensed Consolidated Interim Statements of Changes in Equity

For the three months ended March 31, 2024 and 2023

(Unaudited, expressed in thousands of Canadian dollars)

	Capital Stock and warrants $	Contributed Surplus $	Accumulated foreign currency translation loss $	Retained earnings $	Total Shareholders' Equity $
Balance – January 1, 2023	44,966	1,240	(400)	1,475	47,281
Net income for the period	–	–	–	735	735
Foreign currency translation loss	–	–	(2)	–	(2)
Stock-based compensation (note 12)	–	82	–	–	82
Exercise of options and warrants (note 12)	302	(135)	–	–	167
Balance – March 31, 2023	45,268	1,187	(402)	2,210	48,263
Balance – January 1, 2024	45,268	1,529	(612)	946	47,131
Net income for the period	–	–	–	1,786	1,786
Foreign currency translation income	–	–	175	–	175
Stock-based compensation (note 12)	–	103	–	–	103
Balance – March 31, 2024	45,268	1,632	(437)	2,732	49,195

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

RediShred Capital Corp.

Condensed Consolidated Interim Statements of Cash Flows
For the three months ended March 31, 2024 and 2023
(Unaudited, expressed in thousands of Canadian dollars)

Cash provided by (used in)	2024 $	2023 $
Operating activities		
Net income for the period	1,786	735
Items not affecting cash		
Depreciation of tangible assets and amortization of intangible assets (notes 6 and 7)	2,949	2,892
Stock-based compensation	103	82
Unrealized foreign currency (gain) loss	(1,585)	59
Interest expense, net of interest income	607	633
Remeasurement of contingent consideration (note 9)	(8)	2
Income tax expense	284	405
	4,136	4,808
Net change in non-cash working capital balances		
Decrease (increase) in trade and other receivables	416	(164)
Decrease (increase) in prepaid expenses	582	(101)
Decrease in accounts payable and accrued liabilities	(1,454)	(323)
Decrease in deferred revenue	(10)	(24)
Income taxes paid	(58)	(5)
Interest paid	(547)	(580)
Interest received	–	9
Net cash provided by operations	3,065	3,620
Financing activities		
Borrowings from long-term debt	1,879	638
Repayments of long-term debt	(1,894)	(2,008)
Proceeds from exercise of options and warrants	–	167
Repayment of lease liabilities (note 10)	(414)	(385)
Contingent consideration paid (note 9)	(1,794)	(1,156)
Net cash used in financing activities	(2,223)	(2,744)
Investing activities		
Amount paid for acquisitions, net of cash acquired (note 5)	(668)	–
Decrease (increase) in cash held by Growth Fund (note 3)	(87)	10
Purchase of tangible and intangible assets (notes 6 and 7)	(2,204)	(1,225)
Net cash used in investing activities	(2,959)	(1,215)
Effect of foreign exchange rate changes on cash	36	(26)
Net change in cash for the period	(2,081)	(365)
Cash – Beginning of the period	3,611	6,696
Cash – End of the period	1,530	6,331

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

1 Corporate information and nature of operations

Redishred Capital Corp. ("Redishred" or the "Company") was incorporated under the Canada Business Corporations Act on October 18, 2006 and is domiciled in Canada. Redishred's common shares are listed for trading on the TSX Venture Exchange under the symbol "KUT". The registered address of the Company is 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 seventeen corporate shredding locations as of March 31, 2024.

2 Material accounting policies

Basis of presentation

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*. The condensed consolidated interim financial statements should be read in conjunction with the Company's most recently audited consolidated financial statements for the year ended December 31, 2023, which includes information necessary or useful to understanding the Company's business and financial statement presentation. These condensed consolidated interim financial statements comprise the financial statements of Redishred and its subsidiaries as of March 31, 2024. Together, Redishred and its subsidiaries are referred to as the "Company."

The Company's material accounting policies are included in Note 3 to the Company's audited consolidated financial statements for the year ended December 31, 2023, and have been consistently applied in the preparation of these condensed consolidated interim financial statements.

The results reported in these condensed consolidated interim financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year.

The condensed consolidated interim financial statements of the Company for the three months ended March 31, 2024 were authorized for issuance in accordance with a resolution of the Board of Directors on May 28, 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 March 31, 2024, the Company had current liabilities of $29,695 which exceeded current assets of $12,406. Current liabilities included the Company's bank facilities of $19,117.

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 condensed 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.

Basis of measurement

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

Initial application of amended accounting standards

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 adopted these amendments this year and assessed that there is no material impact on the consolidated financial statements.

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 adopted these amendments this year and assessed that there is no material impact on the consolidated financial statements.

(Unaudited, expressed in thousands of Canadian dollars)

3 Growth fund

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

The Growth Fund related contributions and expenses for the three months ended March 31, 2024 and 2023, as well as cash balances as at March 31, 2024 and December 31, 2023 are as follows:

	For the three months ended March 31,	
	2024	**2023**
	$	**$**
Growth Fund revenue	64	69
Growth Fund expenses	(146)	(149)
Growth Fund net loss	(82)	(80)

As at,	**March 31, 2024**	**December 31, 2023**
	$	**$**
Cash attributable to the Growth Fund	251	159

4 Trade and other receivables

Trade receivables include receivables from franchisees and shredding, recycling, electronic waste and scanning customers. Other receivables include amounts related to the receivables from the sale of trucks and Harmonized Sales Tax (“HST”) refunds. The net trade and other receivables as of March 31, 2024 and December 31, 2023 are as follows:

(Unaudited, expressed in thousands of Canadian dollars)

	March 31, 2024	December 31, 2023
	$	$
Trade receivables – corporate locations	8,947	8,887
Trade receivables – franchising and licensing	287	303
Total trade receivables	9,234	9,190
Other receivables	210	266
Less: Allowance for doubtful accounts	(331)	(321)
Trade and other receivables, net	9,113	9,135

5 Acquisitions

On January 2, 2024, the Company acquired the assets of MDK Recycling LLC (“MDK”), a Michigan based business that offers shredding and scanning services.

The Company determined that this acquisition met the definition of a business and accounted for the transaction as a business combination in accordance with IFRS 3, *Business Combinations.* The purchase price for the acquisition is preliminary and was allocated to the assets acquired (including all identifiable intangible assets arising from the purchase) and liabilities assumed, based on their estimated fair value at the date of acquisition. The Company translated the fair values of all assets acquired, liabilities assumed and consideration given using the exchange rate on the date of the acquisition.

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

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

During the three months ended March 31, 2024	**MDK**
	$
Exchange rate used	1.34
Assets Acquired	
Net working capital	40
Tangible assets	287
Customer relationships	433
Goodwill	217
	977
Consideration Given	
Cash	668
Contingent consideration	309
	977
Acquisition costs (expensed in statement of comprehensive income)	16

(Unaudited, expressed in thousands of Canadian dollars)

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.

For all of the acquisitions that the Company completed during the year ended December 31, 2023, the goodwill recognized was fully deductible for tax purposes.

The following table outlines the assets purchased and the consideration given on the closing date for each of the acquisitions completed during the year ended December 31, 2023:

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

(Unaudited, expressed in thousands of Canadian dollars)

6 Tangible assets

			March 31, 2024			**December 31, 2023**
	Cost	Accumulated depreciation	**Net carrying value**	Cost	Accumulated depreciation	**Net carrying value**
	$	$	**$**	$	$	**$**
Computer equipment	818	(652)	**166**	758	(600)	**158**
Furniture & fixtures	275	(245)	**30**	257	(235)	**22**
Bins & shredding containers	5,100	(3,532)	**1,568**	4,846	(3,221)	**1,625**
Shredding vehicles - chassis	12,377	(5,782)	**6,595**	11,278	(5,227)	**6,051**
Shredding vehicles - box	22,728	(10,993)	**11,735**	20,953	(9,983)	**10,970**
Vehicles	325	(218)	**107**	291	(206)	**85**
Baling equipment	867	(342)	**525**	673	(304)	**369**
ROU Office and Warehouse	10,182	(5,958)	**4,224**	9,889	(5,398)	**4,491**
ROU Truck leases	1,914	(1,260)	**654**	1,917	(1,229)	**688**
Leasehold Improvements	356	(87)	**269**	354	(73)	**281**
Total tangible assets	54,942	(29,069)	**25,873**	51,216	(26,476)	**24,740**

	December 31, 2023					**March 31, 2024**
	Net carrying value	Additions	Acquisitions	Depreciation	Foreign exchange	**Net carrying value**
	$	$	$	$	$	**$**
Computer equipment	158	20	27	(41)	2	**166**
Furniture & fixtures	22	-	13	(6)	1	**30**
Bins & shredding containers	1,625	125	-	(225)	43	**1,568**
Shredding vehicles - chassis	6,051	797	-	(415)	162	**6,595**
Shredding vehicles - box	10,970	1,171	47	(742)	289	**11,735**
Vehicles	85	-	26	(7)	3	**107**
Baling equipment	369	2	174	(30)	10	**525**
ROU Office and Warehouse	4,491	-	-	(349)	82	**4,224**
ROU Truck leases	688	1	-	(76)	41	**654**
Leasehold Improvements	281	-	-	(13)	1	**269**
Total tangible assets	24,740	2,116	287	(1,904)	634	**25,873**

	December 31, 2022						**December 31, 2023**
	Net carrying value	Additions	Acquisitions	Depreciation	Dispostion 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**

(Unaudited, expressed in thousands of Canadian dollars)

The foreign exchange adjustment is a result of the translation of foreign operation tangible assets in US dollars to Canadian dollars at March 31, 2024 and December 31, 2023, and is included in other comprehensive income.

7 Intangible assets

			March 31, 2024			**December 31, 2023**
	Cost	Accumulated amortization	**Net carrying value**	Cost	Accumulated amortization	**Net carrying value**
	$	$	**$**	$	$	**$**
Computer software	1,393	(832)	**561**	1,278	(859)	**419**
Re-acquired franchise rights	1,677	(1,329)	**348**	1,634	(1,267)	**367**
Trademarks & intellectual property	46	(16)	**30**	46	(15)	**31**
Customer relationships	39,245	(15,104)	**24,141**	37,837	(13,705)	**24,132**
Total intangible assets	42,361	(17,281)	**25,080**	40,795	(15,846)	**24,949**

	December 31, 2023					**March 31, 2024**
	Net carrying value	Additions	Acquisitions	Amortization	Foreign exchange	**Net carrying value**
	$	$	$	$	$	**$**
Computer software	419	88	-	(83)	137	**561**
Re-acquired franchise rights	367	-	-	(29)	10	**348**
Trademarks & intellectual property	31	-	-	(1)	-	**30**
Customer relationships	24,132	-	433	(932)	508	**24,141**
Total intangible assets	24,949	88	433	(1,045)	655	**25,080**

	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**

The foreign exchange adjustment is a result of the translation of foreign operation intangible assets in US dollars to Canadian dollars at March 31, 2024 and December 31, 2023, and is included in other comprehensive income.

(Unaudited, expressed in thousands of Canadian dollars)

8 Goodwill

The goodwill as at March 31, 2024 and December 31, 2023 is as follows:

	March 31, 2024	December 31, 2023
	$	$
Opening balance	29,001	28,385
Acquisitions	217	1,317
Foreign Currency Translation	767	(701)
Closing balance	29,985	29,001

The foreign exchange adjustment is a result of the translation of goodwill in US dollars to Canadian dollars at March 31, 2024 and December 31, 2023, and is included in other comprehensive income.

9 Contingent consideration

The Company has recorded contingent consideration liabilities as part of the purchase consideration for acquisitions completed. The contingent consideration liabilities are paid to the vendors if certain financial results are achieved. During the three months ended March 31, 2024, the Company recorded a remeasurement gain on contingent consideration of $8 (three months ended March 31, 2023- remeasurement loss of $2). The fair value of contingent consideration is calculated based on the expected payout, discounted.

As at March 31, 2024, the Company has the following related to contingent consideration:

Range of origination	Range of payouts	Current portion	Long-term portion	Range of maturity
May 1, 2021 to January 2, 2024	USD$0 to USD$4,665	CAD$1,656 USD$1,220	CAD$538 USD$400	April 1, 2024 to June 1, 2027

The change in contingent consideration was as follows:

	March 31, 2024	December 31, 2023
	$	$
Opening balance, January 1	3,546	5,468
Payments	(1,794)	(2,539)
Additions through acquisitions	309	754
Interest accretion	49	359
Remeasurement	(8)	(399)
Foreign exchange	92	(97)
	2,194	3,546

(Unaudited, expressed in thousands of Canadian dollars)

10 Long-term debt

As at March 31, 2024 and December 31, 2023 long-term debt is comprised of the following:

	March 31, 2024	December 31, 2023
	$	$
Bank facilities (i)	19,689	20,808
Less: transaction costs	(572)	(590)
Net bank facilities	19,117	20,218
Truck loans (ii)	11,626	10,243
Total long-term debt	30,743	30,461
Less: current portion	(22,239)	(23,079)
	8,504	7,382

(i) Bank facilities

As at March 31, 2024, 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$1.5 million (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.

As at March 31, 2024 and December 31, 2023, the Company has borrowed the following amounts under the demand non-revolving term loan facility:

Month of Advance	Initial Amount	Interest per annum	Amortization period***	March 31, 2024 balance	December 31, 2023 balance
	$			$	$
May, 2019	6,003	3.50%	72 months	2,366	2,612
November, 2019	6,664	3.50%	84 months	3,133	3,374
March, 2020	2,688	2.99%	84 months	1,419	1,514
December, 2020	2,290	3.33%	84 months	1,283	1,368
August, 2021	854	3.69%	84 months	564	593
December, 2021	6,290	6.52%	84 months	5,003	5,226
November, 2022*	5,400	7.47%	84 months	4,574	4,735
September, 2023**	1,412	7.83%	84 months	1,347	1386
Total	**31,601**			**19,689**	**20,808**

(Unaudited, expressed in thousands of Canadian dollars)

**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.*

As at March 31, 2024, the Company has $1.0 million available on its demand operating line of credit, $20.3 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;

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.

As of March 31, 2024, the Company was in compliance with its banking covenants.

(ii) Truck loans

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. As at March 31, 2024, the Company had USD$3.8 million available on this line of credit.

As of March 31, 2024, 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	11,626	13,754	3.92% to 8.71%	May, 2018 to March, 2024	May, 2024 to March 2029

(Unaudited, expressed in thousands of Canadian dollars)

11 Lease liabilities

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

Lease Liability	Number of ROU assets leased	Range of remaining term	Range of interest rates	Lease balance as of March 31, 2024
				$
Office and warehouse building	17	August 2024 to September 2030	4.75% to 8.25%	5,038
Shredding vehicles	4	August 2025 to January 2027	5.95% to 7.00%	169
Total				**5,207**

The total lease payments made during the three months ended March 31, 2024 were $414 (March 31, 2023 - $385).

12 Capital stock

a) Authorized

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

b) Issued and fully paid

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

	Common stock	
	Number	**$**
Balance March 31, 2024	18,303,072	45,268
Balance December 31, 2023	18,303,072	45,268

c) Weighted average number of common shares

The basic weighted average number of common shares outstanding for the three months ended March 31, 2024 was 18,303,072 (three months ended March 31, 2023 – 18,258,116). The diluted weighted average number of common shares outstanding for the three months ended March 31, 2024 was 18,304,701 (three months ended March 31, 2023 – 18,279,598).

(Unaudited, expressed in thousands of Canadian dollars)

d) Stock options

The following table summarizes the movements in the Company's stock options during the three months ended March 31, 2024 and 2023:

	2024		2023	
	Number of options	Weighted average exercise price $	Number of options	Weighted average exercise price $
Outstanding – opening	837,273	3.83	574,188	3.74
Granted	–	–	80,235	3.85
Exercised	–	–	(61,000)	2.75
Expired and forfeited	(8,800)	4.10	–	–
Outstanding – closing	828,473	3.83	593,423	3.86

For the three months ended March 31, 2024 stock compensation expense was $103 (for the three months ended March 31, 2023 – $82).

13 Revenue

The break-down of revenue earned by the Company for the three months ended March 31, 2024 and 2023 is as follows:

	2024	2023
	$	$
Paper shredding services	13,351	12,028
Sale of paper products	2,007	3,292
Royalties and license fees	456	490
Scanning services	562	382
Electronic waste and product shredding services	722	716
Growth Fund contributions	65	70
Franchise fees	11	18
Total revenue	17,174	16,996

(Unaudited, expressed in thousands of Canadian dollars)

14 Corporate location expenses

The break-down of corporate location expenses of the Company for the three months ended March 31, 2024 and 2023 is as follows:

	2024	2023
	$	$
Shredding vehicle and related expenses	2,999	2,939
Acquisition costs	133	351
Employee wages expense	5,138	4,807
Employee benefits expense	1,116	998
Office and administration expense	1,507	1,253
Total corporate operating expenses	10,893	10,348

15 General and administrative expenses

The break-down of general and administrative expenses of the Company for the three months ended March 31, 2024 and 2023 is as follows:

	2024	2023
	$	$
Employee wages and benefits expense	1,005	834
Share-based compensation	103	82
Professional fees	208	222
Acquisition costs	40	12
Technology	241	189
Growth Fund expenses (note 3)	146	149
Other	531	423
Total general and administrative expenses	2,274	1,911

Compensation of key management

Included in employee wages and benefits and share-based compensation expense is key management personnel compensation, which is as follows for the three months ended March 31, 2024 and 2023:

	2024	2023
	$	$
Wages and benefits	337	284
Share-based compensation	61	52
Total	398	336

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.

16 Income taxes

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

Income before income taxes for the three months ended March 31, 2024 was $2,070 (three months ended March 31, 2023- $1,140). Income tax expense for the three months ended March 31, 2024 was $284 (three months ended March 31, 2023- $405). The effective tax rate for the three months ended March 31, 2024 and 2023 was 14% and 36%, respectively. The effective tax rate for the three months ended March 31, 2024 was lower than statutory rates due to the impact of foreign exchange movements on intercompany balances between Redishred and its subsidiaries. The higher effective tax rate for the three months ended March 31, 2023 was primarily due to non-deductible expenses.

17 Financial instruments and fair values

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

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

Fair values

The carrying value amounts of many of the Company's financial instruments, including cash and cash equivalents, trade receivables, and accounts payables and accrued liabilities, which are all carried at amortized cost, approximate their fair value primarily due to their short-term maturity. The fair value of the Company's long-term debt is $29,920, compared to a carrying value of $30,743, based on the current interest rates that would be charged on this financial instrument as at March 31, 2024.

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.

(Unaudited, expressed in thousands of Canadian dollars)

There were no transfers between levels of the fair value hierarchy during the three months ended March 31, 2024 and 2023.

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 2.99% to 7.83% per annum.

- Truck loans and leases: These financial instruments are subject to interest rate fair value risk as their fair values will fluctuate as a result of changes in market interest rates, as interest on these financial instruments is generally fixed ranging from 3.92% to 8.71% per annum.

An interest rate sensitivity that assumes a reasonable increase or decrease in interest rates with all other variables held constant, would not have a significant impact on the interest expense the Company recognized during the three months ended March 31, 2024.

Credit risk

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

Receivables related to corporate operations

The aging analysis for accounts receivable past due related to corporate operations as at March 31, 2024 and December 31, 2023 is as follows:

	2024	2023
	$	$
Past due but not impaired		
60 to 90 days	394	672
91 days to 180 days	691	921

The accounts receivables related to corporate operations are exposed to credit risk from the possibility that customers may experience financial difficulty. As at March 31, 2024 and December 31, 2023, no customer accounted for more than 10% of the accounts receivable balance. For the three months ended March 31, 2024 and 2023, no customer accounted for more than 10% of the Company's revenue in this category. As at March 31, 2024, 9% of accounts receivable, net of allowance of doubtful accounts, in this category were over 90 days old (December 31, 2023 – 11%). As at March 31, 2024, the Company recorded an allowance for credit losses from receivables of $331 related to corporate operations (December 31, 2023 - $321).

(Unaudited, expressed in thousands of Canadian dollars)

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

Receivables related to franchising and licensing

The accounts receivable from franchisees are exposed to credit risk from the possibility that franchisees may experience financial difficulty. The Company mitigates the risk of credit loss by limiting its exposure to any one franchisee. Credit assessments are conducted with respect to all new franchisees. In addition, the receivable balances are monitored on an ongoing basis. As of March 31, 2024, six (6) franchisees accounted for 54% of the accounts receivable balance related to franchising and licensing (December 31, 2023 - 6 franchisees accounted for 60%). For the three months ended March 31, 2024, three (3) franchisees accounted for 28% of the Company's revenues related to franchising and licensing (three months ended March, 31, 2023 - 3 franchisees accounted for 26%). As at March 31, 2024 and December 31, 2023, there was no accounts receivable from franchisees over 90 days old.

Foreign exchange risk

The Company has significant assets denominated in USD dollars which are revalued at the exchange rate at the date of the statement of financial position. The Company has revenues and costs that are denominated in USD dollars; this dependency on the USD dollar causes foreign exchange gains when the Canadian dollar depreciates versus the USD dollar. This revaluation results in unrealized foreign exchange gains or losses. During the three months ended March 31, 2024, the Company recorded a foreign exchange gain of $1,588 (three months ended March 31, 2023 – loss of $70).

Exchange rates utilized (USD to CAD):

As at,	**March 31, 2024**	**December 31, 2023**
	$	**$**
Close rate	1.36	1.32
For the three months ended,	**March 31, 2024**	**March 31, 2023**
	$	**$**
Average rate	1.35	1.35

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 guarantee that the cash flow forecasts will be achieved. The Company could defer capital expenditures and reduce discretionary spending to ensure compliance with the financial covenants and if necessary, seek waivers, subject to lender approval.

(Unaudited, expressed in thousands of Canadian dollars)

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 March 31, 2024. This assessment is based on the assumption the bank facilities are not called. The Company has current liabilities of $29,695 at March 31, 2024 (December 31, 2023 - $33,386), 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 $12,406 as at March 31, 2024 (December 31, 2023 - $15,033), including cash and cash equivalents of $1,530 (December 31, 2023 - $3,611).

Principal	**Less than 3 months**	**3 months to 1 year**	**1 - 5 years**	**Over 5 years**
	$	**$**	**$**	**$**
Accounts payable and accrued liabilities	4,072	-	-	-
Long-term debt*	2,275	5,652	21,868	948
Contingent consideration	492	1,164	538	-
Lease liabilities	414	1,153	3,438	202

Interest	**Less than 3 months**	**3 months to 1 year**	**1 - 5 years**	**Over 5 years**
	$	**$**	**$**	**$**
Long-term debt*	451	1,194	2,625	35
Lease liabilities	80	203	371	13

Total principal and interest	**Less than 3 months**	**3 months to 1 year**	**1 - 5 years**	**Over 5 years**
	$	**$**	**$**	**$**
Accounts payable and accrued liabilities	4,072	-	-	-
Long-term debt*	2,726	6,846	24,493	983
Contingent consideration	492	1,164	538	-
Lease liabilities	494	1,356	3,809	215

** 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.*

18 Capital management

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

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 10.

(Unaudited, expressed in thousands of Canadian dollars)

19 Segment reporting

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

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

March 31, 2024	**Franchising and licensing**	**Corporate locations**	**Corporate**	**Total**
	$	**$**	**$**	**$**
ASSETS				
Current assets				
Cash and cash equivalents	81	1,177	272	1,530
Cash attributable to the Growth Fund	251	–	–	251
Trade and other receivables	287	8,725	101	9,113
Prepaid expenses and other assets	318	690	114	1,122
Income taxes receivable	74	316	–	390
Total current assets	1,011	10,908	487	12,406
Non-current assets				
Tangible assets	32	25,195	646	25,873
Intangible assets	577	24,374	129	25,080
Goodwill	–	29,985	–	29,985
Deferred tax asset	–	–	1,306	1,306
Total assets	1,620	90,462	2,568	94,650
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	483	2,452	1,137	4,072
Deferred revenue	59	46	–	105
Income taxes payable	–	–	56	56
Current portion of long-term debt	–	3,165	19,074	22,239
Lease liabilities	–	1,449	118	1,567
Contingent consideration	–	1,656	–	1,656
Total current liabilities	542	8,768	20,385	29,695
Non-current liabilities				
Long-term debt	–	8,504	–	8,504
Deferred revenue	–	29	–	29
Lease liabilities	–	3,042	598	3,640
Contingent consideration	–	538	–	538
Deferred tax liability	77	2,972	–	3,049
Total liabilities	619	23,853	20,983	45,455

(Unaudited, expressed in thousands of Canadian dollars)

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

(Unaudited, expressed in thousands of Canadian dollars)

Geographic information

	March 31, 2024	December 31, 2023
Canada	**$**	**$**
Tangible assets	646	685
Intangible assets	129	139
United States		
Tangible assets	25,227	24,055
Intangible assets	24,951	24,810
Goodwill	29,985	29,001
Total		
Tangible assets	25,873	24,740
Intangible assets	25,080	24,949
Goodwill	29,985	29,001

Revenue

All revenues were attributed to the United States.

(Unaudited, expressed in thousands of Canadian dollars)

Net income (loss) by operating segment

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

	For the three months ended March 31, 2024			
	Franchising and licensing	Corporate locations	Corporate	Total
	$	$	$	$
Revenue	532	16,642	–	17,174
Corporate location expenses	–	(10,893)	–	(10,893)
Depreciation – tangible assets	(9)	(1,855)	(40)	(1,904)
General and administrative expense	(546)	(553)	(1,175)	(2,274)
Total expenses	(555)	(13,301)	(1,215)	(15,071)
Operating income (loss)	(23)	3,341	(1,215)	2,103
Interest expense	–	(306)	(301)	(607)
Amortization – intangible assets	(36)	(999)	(10)	(1,045)
Remeasurement of contingent consideration	–	8	–	8
Foreign exchange gain	–	–	1,588	1,588
Other Income	–	23	–	23
Income (loss) before income taxes	(59)	2,067	62	2,070
Income tax recovery (expense)	(12)	(18)	(254)	(284)
Net income (loss)	(71)	2,049	(192)	1,786

(Unaudited, expressed in thousands of Canadian dollars)

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

20 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 June 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.

21 Related party balances and transactions

A Director of the Company is the owner of the Tampa Bay, Florida Proshred franchise. There is an accounts receivable balance of $5 due from this franchise as at March 31, 2024 (December 31, 2023 - $5). During the three months ended March 31, 2024, the Company earned royalties, franchise and service fees of $49 (March 31, 2023 - $48) from this franchise.