

RediShred Capital Corp.

Consolidated Interim Financial Statements

March 31, 2018 and 2017

(Unaudited – Prepared by Management)

(expressed in Canadian dollars)

May 30, 2018

In accordance with National Instrument 51-102, released by the Canadian Securities Administrators, the Corporation discloses that its auditors have not reviewed the unaudited consolidated interim financial statements for the period ended March 31, 2018.

RediShred Capital Corp.

Consolidated Statements of Financial Position

As at March 31, 2018 and December 31, 2017

(expressed in Canadian dollars)

	March 31, 2018	December 31, 2017
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	2,390,526	2,245,533
Cash attributable to the Advertising Fund (note 3)	158,925	193,776
Trade and other receivables (note 4)	1,222,126	972,987
Prepaid expenses	271,592	160,791
Notes receivable from franchisees	73,235	84,988
	<u>4,116,404</u>	<u>3,658,075</u>
Non-current assets		
Notes receivable from franchisees	11,949	19,238
Equipment (note 5)	3,665,724	3,772,234
Intangible assets (note 6)	1,762,638	1,878,120
Goodwill (note 7)	1,765,604	1,720,437
Deferred tax asset (note 15)	541,535	457,728
	<u>7,747,450</u>	<u>7,847,757</u>
Total assets	<u>11,863,854</u>	<u>11,505,832</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	1,019,699	913,594
Current income taxes payable	-	51,193
Current portion of long-term debt (note 10)	1,140,325	1,114,882
Current portion of notes payable (note 8)	114,547	122,357
Current portion of contingent consideration (note 9)	39,710	44,790
	<u>2,314,281</u>	<u>2,246,816</u>
Non-current liabilities		
Long-term debt (note 10)	2,285,103	2,522,261
Long-term notes payable (note 8)	6,724	26,206
Contingent consideration (note 9)	18,334	20,105
	<u>2,310,161</u>	<u>2,568,572</u>
Total liabilities	<u>4,624,442</u>	<u>4,815,388</u>
Shareholders' Equity		
Capital stock (note 11)	14,067,211	14,062,379
Contributed surplus	785,703	647,283
Accumulated other comprehensive loss	(822,737)	(747,323)
Deficit	(6,790,765)	(7,271,895)
	<u>7,239,412</u>	<u>6,690,444</u>
Total liabilities and shareholders' equity	<u>11,863,854</u>	<u>11,505,832</u>
Commitments (note 16)		

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

RediShred Capital Corp.

Consolidated Statements of Comprehensive Income

For the three months ended March 31, 2018 and 2017

(expressed in Canadian dollars)

	2018	2017
	\$	\$
Revenue (note 12)	3,015,867	2,634,451
Corporate operating locations expenses (note 13)	(1,483,806)	(1,251,903)
Selling, general and administrative expenses (note 11(d) and 14)	(752,774)	(575,050)
Income before depreciation	779,287	807,480
Depreciation – tangible assets	(247,511)	(187,828)
Operating income	531,776	619,652
Interest expense	(65,460)	(120,284)
Interest income	1,192	2,311
Income before the following	467,508	501,679
Amortization – intangible assets	(160,723)	(230,924)
Foreign exchange gain	152,586	119,717
Income before income taxes	459,371	390,472
Income tax recovery (expense) (note 15)	21,759	(3,602)
Net income for the period	481,130	386,870
Foreign currency translation loss	(75,414)	(237,957)
Comprehensive income for the period	405,716	148,913
Net income per share		
Basic and diluted	0.010	0.003
Weighted average number of common shares outstanding – basic	47,511,014	42,260,482
Weighted average number of common shares outstanding – diluted	48,462,228	42,808,460

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

RediShred Capital Corp.

Consolidated Statements of Changes in Equity

For the three months ended March 31, 2018 and 2017

(expressed in Canadian dollars)

	Capital stock and warrants \$ (note 11)	Contributed surplus \$	Accumulated other comprehensive loss \$	Deficit \$	Total shareholders' equity \$
Balance – January 1, 2017	8,590,995	512,518	(496,250)	(8,088,745)	518,518
Net income for the period	–	–	–	386,870	386,870
Foreign currency translation loss	–	–	(237,957)	–	<u>(237,957)</u>
Comprehensive income for the period					148,913
Issue of shares	4,520,645	(50,779)	–	–	4,469,866
Issue of warrants	670,793	–	–	–	670,793
Stock-based compensation	–	479	–	–	479
Balance – March 31, 2017	<u>13,782,433</u>	<u>462,218</u>	<u>(734,207)</u>	<u>(7,701,875)</u>	<u>5,808,569</u>
Balance – January 1, 2018	14,062,379	647,283	(747,323)	(7,271,895)	6,690,444
Net income for the period	–	–	–	481,130	481,130
Foreign currency translation loss	–	–	(75,414)	–	<u>(75,414)</u>
Comprehensive income for the period					405,716
Issue of shares (note 11)	4,832	(2,332)	–	–	2,500
Stock-based compensation (note 11)	–	140,752	–	–	140,752
Balance – March 31, 2018	<u>14,067,211</u>	<u>785,703</u>	<u>(822,737)</u>	<u>(6,790,765)</u>	<u>7,239,412</u>

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

RediShred Capital Corp.

Consolidated Statements of Cash Flows

For the three months ended March 31, 2018 and 2017

(expressed in Canadian dollars)

	2018	2017
	\$	\$
Cash provided by (used in)		
Operating activities		
Net income for the period	481,130	322,206
Items not affecting cash		
Amortization of tangible and intangible assets	408,483	483,413
Stock-based compensation	140,752	479
Unrealized foreign currency gain	(285,189)	(4,963)
Income tax recovery	(83,354)	(18,494)
	<u>661,822</u>	<u>782,641</u>
Net change in non-cash working capital balances		
(Increase) in trade receivables	(208,343)	(141,396)
(Increase) in prepaid expenses	(106,227)	(71,738)
Increase in accounts payable and accrued liabilities	79,568	174,504
(Decrease) in income taxes payable	(43,622)	-
	<u>383,198</u>	<u>744,011</u>
Financing activities		
Borrowings from long-term debt	-	69,796
Repayment of long-term debt	(259,511)	(3,944,139)
Issuance of capital stock (net of fees)	2,500	4,788,465
Repayment of notes receivable from franchisees	21,357	22,672
Repayment of notes payable	(31,193)	(10,827)
Payment of contingent considerations	(8,818)	-
	<u>(275,665)</u>	<u>925,967</u>
Investing activities		
Acquisitions	-	(1,084,264)
Cash held by advertising fund	39,165	139,196
Purchase of capital assets	(47,605)	(479,681)
Proceeds from disposal of capital assets	-	328,363
	<u>(8,440)</u>	<u>(1,096,386)</u>
Effect of foreign exchange rate changes on cash	<u>45,900</u>	<u>(2,241)</u>
Net change in cash for the period	144,993	571,351
Cash – Beginning of period	<u>2,245,533</u>	<u>1,011,443</u>
Cash – End of period	<u>2,390,526</u>	<u>1,582,794</u>

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

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

March 31, 2018

(expressed in Canadian dollars)

1 Corporate information and nature of operations

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

Redishred manages and operates the Proshred brand and business platform (“system”) in the United States and internationally. Redishred operates the Proshred system under three business models, (1) franchising in the United States, (2) via direct ownership of shredding trucks and facilities in seven locations in the United States as of March 31, 2018 and, (3) licensing internationally.

2 Basis of presentation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) applicable to the preparation of interim financial statements, including IAS 34, *Interim Financial Reporting*. The consolidated financial statements should be read in conjunction with the most recently issued Annual Report of Redishred for the year ended December 31, 2017, which includes information necessary or useful to understanding the Company’s business and financial statement presentation. These interim consolidated financial statements comprise the financial statements of Redishred and its subsidiaries as at March 31, 2018. Together, Redishred and its subsidiaries are referred to as “the Company.”

The Company’s significant accounting policies were presented as Note 3 to the Audited Consolidated Financial Statements for the year ended December 31, 2017 and have been consistently applied in the preparation of these consolidated financial statements. The results reported in these consolidated financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year. Certain prior period amounts have been reclassified to conform to the current period’s presentation.

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

The interim consolidated financial statements of the Company for the three months ended March 31, 2018 were authorized for issue in accordance with a resolution of the Directors on May 29, 2018.

3 Advertising fund

The Company manages an advertising fund (the “Ad 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. Contributions to the Ad Fund are required to be made from both franchised and Company owned and operated locations and are based on a level of sales of each location’s revenue. In accordance with *IAS 18 – Revenue*, the revenue and expenses of the Ad Fund are recorded net in the Company’s statements of comprehensive income because the contributions to the Ad Fund are segregated, designated for a specific purpose, and the Company acts, in substance, as an agent with regard to these contributions. As at March 31, 2018, the cash attributable to the Ad Fund amounted to \$158,925 (December 31, 2017 - \$193,776).

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

March 31, 2018

(expressed in Canadian dollars)

4 Trade and other receivables

Trade receivables include receivables from franchisees and shredding and recycling customers. Other receivables include receivables related to HST refunds. The trade and other receivables as at March 31, 2018 and December 31, 2017 are as follows:

	March 31, 2018	December 31, 2017
	\$	\$
Trade receivables	1,023,915	972,987
Other receivables	200,430	–
Less: Allowance for doubtful accounts	(2,219)	–
Trade receivables – net	<u>1,222,126</u>	<u>972,987</u>

5 Equipment

Cost	Computer equipment	Furniture & fixtures	Bins & shredding containers	Shredding vehicles - chassis	Shredding vehicles – box	Vehicles	Total
	\$	\$	\$	\$	\$	\$	\$
As at January 1, 2017	206,455	106,935	560,763	1,194,219	2,890,634	78,453	5,037,459
Additions	44,901	40,284	71,033	258,590	723,099	24,446	1,162,353
Sale of assets	(219)	(343)	–	(70,212)	(178,490)	–	(249,264)
Acquisitions	3,325	3,325	83,339	227,656	447,574	13,300	778,519
Foreign exchange	(5,446)	(1,457)	(36,307)	(100,836)	(241,251)	(4,673)	(389,970)
As at December 31, 2017	<u>249,016</u>	<u>148,744</u>	<u>678,828</u>	<u>1,509,417</u>	<u>3,641,566</u>	<u>111,526</u>	<u>6,339,097</u>
Additions	13,340	5,761	22,029	6,125	–	–	47,255
Foreign exchange	3,145	827	18,033	42,328	100,077	2,966	167,376
As at March 31, 2018	<u>265,501</u>	<u>155,332</u>	<u>718,890</u>	<u>1,557,870</u>	<u>3,741,643</u>	<u>114,492</u>	<u>6,553,728</u>
Accumulated depreciation	Computer equipment	Furniture & fixtures	Bins & shredding containers	Shredding vehicles - chassis	Shredding vehicles - box	Vehicles	Total
	\$	\$	\$	\$	\$	\$	\$
As at January 1, 2017	170,128	92,033	351,158	310,950	821,346	69,297	1,814,912
Depreciation	39,825	13,953	94,168	234,065	545,109	19,107	946,227
Sale of assets	–	–	–	(21,987)	(51,278)	–	(73,265)
Foreign exchange	(3,627)	(868)	(22,929)	(26,415)	(63,527)	(3,645)	(121,011)
As at December 31, 2017	<u>206,326</u>	<u>105,118</u>	<u>422,397</u>	<u>496,613</u>	<u>1,251,650</u>	<u>84,759</u>	<u>2,566,863</u>
Depreciation	6,719	4,268	26,257	61,040	149,137	4,890	252,311
Foreign exchange	2,087	458	11,300	15,738	37,340	1,907	68,830
As at March 31, 2018	<u>215,132</u>	<u>109,844</u>	<u>459,954</u>	<u>573,391</u>	<u>1,438,127</u>	<u>91,556</u>	<u>2,888,004</u>
Net book value							
As at December 31, 2017	<u>36,327</u>	<u>14,902</u>	<u>209,605</u>	<u>883,269</u>	<u>2,069,288</u>	<u>9,156</u>	<u>3,222,547</u>
As at March 31, 2018	<u>50,369</u>	<u>45,488</u>	<u>258,936</u>	<u>984,479</u>	<u>2,303,516</u>	<u>22,936</u>	<u>3,665,724</u>

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

March 31, 2018

(expressed in Canadian dollars)

5 Equipment (continued)

The foreign exchange adjustment is a result of the translation of corporate equipment from US dollar functional currency in the acquiring company to Canadian presentation dollars at March 31, 2018 and December 31, 2017.

6 Intangible assets

Cost	Franchise agreements	Proshred system	Trademarks and	Re-acquired franchise rights	Customer relationships	Total
			intellectual property			
	\$	\$	\$	\$	\$	\$
As at January 1, 2017	3,119,639	978,000	1,672,500	1,272,879	2,738,080	9,781,098
Acquisitions	–	–	–	45,661	598,500	644,161
Removal of original franchise agreement	(220,759)	–	–	–	–	(220,759)
Foreign exchange	(248,352)	–	–	(83,718)	(207,612)	(539,682)
As at December 31, 2017	2,650,528	978,000	1,672,500	1,234,822	3,128,968	9,664,818
Foreign exchange	294,773	–	–	32,417	82,801	409,991
As at March 31, 2018	2,945,301	978,000	1,672,500	1,267,239	3,211,769	10,074,809

Accumulated amortization	Franchise agreements	Proshred system	Trademarks and	Re-acquired franchise rights	Customer relationships	Total
			intellectual property			
	\$	\$	\$	\$	\$	\$
As at January 1, 2017	2,782,612	863,891	1,477,365	1,174,277	1,108,274	7,406,419
Amortization	187,035	97,800	167,244	131,269	295,602	878,950
Removal of original franchise agreement	(196,505)	–	–	–	–	(196,505)
Foreign exchange	(156,852)	–	–	(74,950)	(70,364)	(302,166)
As at December 31, 2017	2,616,290	961,691	1,644,609	1,230,596	1,333,512	7,786,698
Amortization	32,584	16,309	27,891	3,686	80,275	160,745
Foreign exchange	296,427	–	–	32,957	35,344	364,728
As at March 31, 2018	2,945,301	978,000	1,672,500	1,267,239	1,449,131	8,312,171

Net book value

As at December 31, 2017	34,238	16,309	27,891	4,226	1,795,456	1,878,120
As at March 31, 2018	–	–	–	–	1,762,638	1,762,637

The foreign exchange adjustment is a result of the translation of foreign operation intangible assets in US dollars to Canadian dollars at March 31, 2018 and December 31, 2017. Amortization of intangible assets for the period is included in the statement of comprehensive income. The Company's franchise agreements, customer lists and re-acquired franchise rights are attributed to the Company's franchises and corporately owned locations in the US.

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Notes to Condensed Consolidated Financial Statements

March 31, 2018

(expressed in Canadian dollars)

7 Goodwill

The following table presents goodwill as at March 31, 2018 and December 31, 2017:

	March 31, 2018	December 31, 2017
	\$	\$
Opening balance	1,720,437	1,837,398
Foreign currency translation	45,167	(116,961)
Closing balance	1,765,604	1,720,437

8 Notes payable

As at March 31, 2018, notes payable is comprised of:

Origination	Initial amount	Payment ⁽¹⁾	Interest per annum	Note value	Maturity
December 31, 2015	US\$100,000	US\$2,997	5.00%	CAD\$33,913 US\$26,289	December 5, 2018
March 31, 2017	US\$125,000	US\$5,208	0.00%	CAD\$87,358 US\$67,708	April 1, 2019

9 Contingent consideration

The Company recorded a contingent consideration liability as part of the purchase price in the Buffalo and North Virginia acquisitions conducted in 2017. The contingent consideration liability related to the North Virginia acquisition will be paid if incremental government contract sales are earned over a period of 48 months from the acquisition date. The contingent consideration liability related to the Buffalo acquisition will be paid if certain sales levels from the customers purchased are achieved over a 12 month period from the date of acquisition.

10 Long-term debt

As at March 31, 2018 and December 31, 2017 long-term debt is comprised of:

	March 31, 2018	December 31, 2017
	\$	\$
Bank indebtedness	1,739,177	1,839,515
Less: deferred financing charges	(140,765)	(148,887)
Net bank indebtedness (i)	1,598,412	1,690,628
Truck loans (ii)	1,535,775	1,628,831
Finance lease liability (iii)	291,241	317,684
Total long-term debt	3,425,428	3,637,143
Less: current portion	(1,140,325)	(1,114,882)
Total long-term debt	2,285,103	2,522,261

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

March 31, 2018

(expressed in Canadian dollars)

10 Long-term debt (continued)

(i) Bank indebtedness

The Company has the following secured senior credit facilities:

1. An operating demand loan of \$1 million bearing interest at prime rate plus 1.7% and;
2. A non-revolving term loan in the amount of \$3 million with an amortization of 60 months from the date of drawdown, bearing interest at prime rate plus 2.5%.

As at March 31, 2018, Bank of Montreal has advanced \$2 million on the non-revolving term loan, of which the current balance is \$1,739,177 at March 31, 2018. The Company has not received an advance on the operating demand loan as at March 31, 2018.

Borrowings under the operating line of credit are limited by standard borrowing base calculations based on accounts receivable, which are typical of such bank credit facilities. \$250,000 of the operating line of credit is permanently available.

The credit facilities are secured by a general security agreement 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. In particular, the facility contains covenants that require the Company to maintain the following:

1. A minimum fixed charge coverage ratio of 1.25:1 which is defined as earnings before interest, taxes, depreciation and amortization ("EBITDA") less cash taxes and unfunded capital expenditures to total principal and interest repayments;
2. A maximum senior funded debt to EBITDA ratio of 2.25:1 which is defined as total senior debt divided by EBITDA;
3. A maximum total funded debt to EBITDA ratio of 2.50:1 which is defined as total debt to EBITDA;
4. Capital expenditures are not to exceed \$1 million in any fiscal year; and
5. Unfunded capital expenditures are not to exceed \$250,000 in any fiscal year.

The ratio covenants are measured at the end of each quarter on a trailing 12 month basis. As at March 31, 2018, the Company was in compliance with all of the banking covenants.

The Company has also established a \$1 million USD line of credit for the purchase of shredding vehicles with BMO Harris Bank in the United States. The line of credit is open for one year, until October 2018 when an annual credit review is completed. The interest rate is based on prevailing market rates at the time the line is used.

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

March 31, 2018

(expressed in Canadian dollars)

10 Long-term debt (continued)

(ii) Truck loans

The loans noted below are secured by shredding vehicles. The information presented is as of March 31, 2018:

Origination	Initial amount	Payment ⁽¹⁾	Interest per annum	Asset carrying value	Loan value	Maturity
October 24, 2013	US\$187,950	US\$3,731	7.00%	CAD\$110,677	CAD\$32,902 US\$25,506	October 24, 2018
June 23, 2015	US\$229,039	US\$4,520	6.75%	CAD\$214,900	CAD\$145,486 US\$112,780	June 23, 2020
July 22, 2015	US\$300,000	US\$7,283	7.50%	CAD\$236,764	CAD\$142,495 US\$110,461	July 22, 2019
December 22, 2015	US\$80,000	US\$2,480	7.50%	CAD\$4,559	CAD\$27,916 US\$21,640	December 5, 2018
July 5, 2016	US\$176,546	US\$3,904	6.40%	CAD\$190,342	CAD\$139,104 US\$107,832	September 5, 2020
September 5, 2016	US\$381,572	US\$7,392	5.95%	CAD\$525,709	CAD\$352,412 US\$273,188	August 5, 2021
March 22, 2017	US\$170,581	US\$3,282	5.71%	CAD\$307,060	CAD\$180,970 US\$140,287	March 22, 2022
May 3, 2017	US\$230,956	US\$4,465	5.99%	CAD\$285,135	CAD\$254,331 US\$197,156	May 5, 2022
May 4, 2017	US\$236,456	US\$4,549	5.71%	CAD\$292,013	CAD\$260,160 US\$201,624	May 4, 2022

(1) Blended monthly payments of principal and interest.

(iii) Finance lease liability

The finance leases noted below are secured by shredding vehicles. The information presented is as of March 31, 2018:

Origination	Initial amount	Payment ⁽¹⁾	Interest per annum	Asset carrying value	Loan value	Residual ⁽²⁾	Maturity
November 15, 2013	US\$137,035	US\$2,296	7.95%	CAD\$99,226	CAD\$66,312 US\$51,404	US\$37,680	December 20, 2018
July 17, 2014	US\$226,432	US\$3,861	7.62%	CAD\$174,254	CAD\$134,191 US\$104,024	US\$50,610	August 20, 2019
December 22, 2015	US\$170,000	US\$4,364	6.75%	CAD\$60,593	CAD\$90,738 US\$70,340	US\$34,000	January 5, 2019

(1) Blended monthly payments of principal and interest.

(2) The loan value includes the residual value.

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March 31, 2018

(expressed in Canadian dollars)

10 Long-term debt (continued)

(iii) *Finance lease liability* (continued)

Future minimum finance lease payments at March 31, 2018, stated in Canadian dollars, were as follows:

	2018	2019	Total
	\$	\$	\$
Lease payments	167,836	144,019	311,855
Finance charges	(16,246)	(4,368)	(20,614)
Net present values	151,590	139,651	291,241

At March 31, 2018, the future minimum lease payments have been translated at the closing exchange rate of USD\$1.00 = CAD\$1.29.

(iv) *Related party line of credit*

The Company has a related party line of credit facility for a maximum amount of \$2.0 million. The line of credit facility matures on July 16, 2022 and bears interest at a fixed rate of 10% per annum. The line of credit is secured by a second in priority general security agreement over the Company's assets. As at March 31, 2018, the facility has not been drawn upon. (Refer to note 20).

11 Capital stock

a) Authorized

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

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

b) Issued and fully paid

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

	Common stock		Warrants		Total	
	Number	\$	Number	\$	Number	\$
Balance March 31, 2018	47,527,587	13,456,696	1,652,150	610,515	49,179,737	14,067,211
Balance December 31, 2017	47,502,587	13,451,864	1,652,150	610,515	49,154,737	14,062,379

c) Weighted average common shares

The basic weighted average number of common shares outstanding for the three months ended March 31, 2018, was 47,511,014 (December 31, 2017 – 46,017,909). The diluted weighted average number of common shares outstanding for the three months ended March 31, 2018, was 48,462,228 (December 31, 2017 – 47,089,982).

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Notes to Condensed Consolidated Financial Statements

March 31, 2018

(expressed in Canadian dollars)

11 Capital stock (continued)

d) Stock options

At March 31, 2018, the Company has 1,474,000 options outstanding (December 31, 2017 – 1,194,000) and a weighted average exercise price of \$0.42 (December 31, 2017 - \$0.39). In the first three months of 2018, 25,000 stock options were exercised (for the three months ended March 31, 2017 – 1,125,000). There were 305,000 stock options granted during the three months ended March 31, 2018 (for the three months ended March 31, 2017 – nil). For the three months ended March 31, 2018, the net stock compensation charge, after adjusting for stock option forfeitures, amounted to \$140,752 (for the three months ended March 31, 2017 – \$479).

e) Warrants

The Company issued 1,802,150 warrants on January 23, 2017 as part of the private placement. Each warrant is exercisable into one Common Share at a price of \$0.36 per Common Share for a period of five years and expire on January 23, 2022. The warrants have been classified as equity instruments. The fair values of the warrants were determined using the Black-Scholes option pricing model. There were no warrants exercised during the three months ended March 31, 2018. There are 1,652,150 warrants outstanding as of March 31, 2018.

12 Revenue

The revenue earned by the Company is broken down as follows:

	<u>2018</u>	<u>2017</u>
	\$	\$
Royalties	509,414	528,328
Shredding services	2,120,174	1,749,991
Sale of paper products	386,279	356,132
Total revenue	<u>3,015,867</u>	<u>2,634,451</u>

13 Corporate operating locations expenses by nature

The corporate operating locations expenses of the Company are broken down as follows:

	<u>2018</u>	<u>2017</u>
	\$	\$
Shredding vehicle and related expenses	340,017	300,944
Employee wages expense	713,908	607,042
Employee benefit expense	146,627	116,170
Office and administration expense	283,254	227,747
Total corporate operating expenses	<u>1,483,806</u>	<u>1,251,903</u>

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

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14 Selling, general and administrative expenses by nature

The selling, general and administrative expenses of the Company are broken down as follows:

	<u>2018</u>	<u>2017</u>
	\$	\$
Employee wages and benefits	328,974	289,130
Share-based compensation	140,752	479
Professional fees	52,422	58,597
Travel	51,743	37,014
Technology	70,327	98,095
Rent and office expense	34,924	40,865
Selling and development	40,316	27,620
Other expenses	33,316	23,270
Total selling, general and administrative expenses	<u>752,774</u>	<u>575,070</u>

Compensation of key management

Included in employee wages and benefits and share-based compensation expense above is key management personnel compensation as follows:

	<u>2018</u>	<u>2017</u>
	\$	\$
Wages and benefits	210,647	164,031
Share-based compensation	139,089	414
Total	<u>349,736</u>	<u>164,445</u>

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

15 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 through December 31, 2035. The Company has incurred US non-capital losses that can be carried forward to reduce taxes payable in the US. The losses expire at various times through December 31, 2036.

	<u>2018</u>	<u>2017</u>
	\$	\$
Provision for (recovery of) income taxes is comprised of:		
Current income taxes	61,595	22,096
Deferred income taxes	(83,354)	(18,494)
	<u>(21,759)</u>	<u>3,602</u>

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

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16 Commitments

The Company has the following office lease commitments:

Albany, New York	Expires March 31, 2019
North Virginia, Virginia	Expires August 31, 2019
Milwaukee, Wisconsin	Expires August 31, 2020
Ft. Lauderdale, Florida	Expires August 31, 2020
Syracuse, New York	Expires September 30, 2020
Charlotte, North Carolina	Expires April 30, 2021
New York, New York	Expires June 30, 2022
Mississauga, Ontario	Expires September 30, 2023

Certain contracts include renewal options for various periods of time. For the three months ended March 31, 2018, the Company incurred \$105,917 (three months ended March 31, 2017 - \$92,554) in lease payments as an expense included in 'selling, general and administrative expenses' and 'corporate operating expenses.'

Non-cancellable operating lease rentals are payable as follows:

	\$
Less than 1 year	486,148
Between 1 and 5 years	1,148,180
Total	<u>1,634,328</u>

17 Financial instruments and fair values

The Company has financial assets that consist of: cash and cash equivalents, cash attributable to the Advertising Fund, trade receivables and notes receivable from franchisees. The Company's financial liabilities include accounts payable and accrued liabilities, notes payable and long-term debt.

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.

Interest rate risk

The Company's cash is subject to interest rate risk, as it earns interest at prevailing and fluctuating market rates. The Company has fixed rates on notes receivable from franchisees ranging from 4.25% to 5.25% per annum. The Company also has a variable interest rate of prime plus 2.50% per annum on its Bank of Montreal term loan and prime plus 1.70% per annum on its Bank of Montreal line of credit. The Company's line of credit facility with a related party has a fixed interest rate of 10% per annum. The truck loans have fixed interest rates ranging from 5.71% to 7.95% per annum. These financial instruments are subject to interest rate fair value risk, as their fair values will fluctuate as a result of changes in market rates.

Credit risk

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

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

March 31, 2018

(expressed in Canadian dollars)

17 Financial instruments and fair values (continued)

Credit risk (continued)

Receivables related to franchising and licensing

The accounts and notes 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 and existing franchisees. In addition, the receivable balances are monitored on an ongoing basis. As of March 31, 2018, 6 franchisees accounted for 54% of the accounts receivable and notes receivable balance related to franchising and licensing (December 31, 2017 - 6 franchises accounted for 59%). For the three months ended March 31, 2018, 3 franchisees accounted for 17% of the Company's revenues related to franchising and licensing (December 31, 2017 - 3 franchisees accounted for 18%). As of March 31, 2018, there were no accounts and notes receivable outstanding over 90 days (December 31, 2017 – nil).

Receivables related to corporate operations

The accounts receivable are exposed to credit risk from the possibility that customers may experience financial difficulty. At March 31, 2018, no customer accounted for more than 10% of the accounts receivable balance. For the three months ended March 31, 2018 and 2017, no customer accounted for more than 10% of the revenue related to corporate operations. As of March 31, 2018, 7% of accounts receivable related to corporate operations were over 90 days (December 31, 2017 – 6%). As at March 31, 2018, the Company has recorded an allowance for credit losses of \$2,280 (December 31, 2017 - \$2,219). The Company does not have any reason to believe it will not collect all remaining balances.

Foreign exchange risk

The Company has revenues and costs that are denominated in US dollars; this dependency on the US dollar causes foreign exchange gains when the Canadian dollar depreciates versus the US dollar. The Company has significant dollar value assets denominated in US dollars which are revalued at the exchange rate at the date of the statement of financial position, which results in unrealized foreign exchange gains or losses. During the three months ended March 31, 2018, the Company recorded a foreign exchange gain of \$152,586 (during the three months ended March 31, 2017 – income of \$119,717). Exchange rates utilized (USD to CDN):

As at,	March 31, 2018	December 31, 2017
	\$	\$
Close rate	1.29	1.26
For the three months ended,	March 31, 2018	March 31, 2017
	\$	\$
Average rate	1.27	1.32

RediShred Capital Corp.

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17 Financial instruments and fair values (continued)

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 at all times. 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 monitors its cash balances and cash flows generated from operations to meet requirements.

Based on overall cash generation capacity and overall financial position, while there can be no assurance, management believes the Company will be able to meet financial obligations as they come due. The current liabilities of \$2,314,281 at March 31, 2018 (December 31, 2017 - \$2,246,816), are due to be settled within one year from the date of the statement of financial position. The Company has current assets of \$4,116,404 at March 31, 2018 (December 31, 2017 - \$3,658,075) including a cash balance of \$2,390,526 (December 31, 2017 - 2,245,533).

Principal	Less than 3 months \$	3 months to 1 year \$	2 – 5 years \$	Over 5 years \$
Accounts payable and accrued liabilities	949,849	69,849	—	—
Notes payable	31,331	83,207	6,733	—
Long-term debt	273,488	866,989	2,425,880	—
Contingent consideration	8,553	31,157	18,334	—

Interest	Less than 3 months \$	3 months to 1 year \$	2 – 5 years \$	Over 5 years \$
Notes payable	424	459	—	—
Long-term debt	54,043	136,718	219,919	—

Total principal and interest	Less than 3 months \$	3 months to 1 year \$	2 – 5 years \$	Over 5 years \$
Accounts payable and accrued liabilities	949,849	69,849	—	—
Notes payable	31,755	83,666	6,733	—
Long-term debt	327,531	1,003,707	2,645,799	—
Contingent consideration	8,553	31,157	18,334	—

Fair value of financial instruments

The carrying value amounts of many of the Company's financial instruments, including cash, trade receivables, accounts payables and accrued liabilities, which are all carried at amortized cost, approximate their fair value due primarily to the short-term maturity of the related instruments. The fair value estimates of the Company's notes receivable from franchisees are made as at a specific point in time based on estimates using present value or other valuation techniques. The carrying value of the Company's notes payable and long-term debt approximates fair value as the rates are similar to rates currently available to the Company.

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

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17 Financial instruments and fair values (continued)

These valuation techniques involve uncertainties and are affected by the assumptions used and the judgments made regarding risk characteristics of various financial instruments, discount rates, estimate of future cash flows, future expected loss experience and other factors. The carrying value of the Company's notes receivable from franchisees at March 31, 2018, amounted to \$85,184 (December 31, 2017 - \$104,226) with fair value estimated to be \$95,177 (December 31, 2017 - \$103,075), respectively.

18 Capital management

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

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 overhead).

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

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19 Segment reporting (continued)

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

	Franchising and licensing	Corporate locations	Corporate Overhead	Total
	March 31, 2018	March 31, 2018	March 31, 2018	March 31, 2018
	\$	\$	\$	\$
ASSETS				
Current assets				
Cash and cash equivalents	272,366	1,527,531	590,629	2,390,526
Cash attributable to the Ad Fund	158,925	—	—	158,925
Trade and other receivables	167,085	852,537	202,504	1,222,126
Prepaid expenses	25,336	162,628	83,628	271,592
Notes receivable from franchisees	73,235	—	—	73,235
Total current assets	696,947	2,542,696	876,761	4,116,404
Non-current assets				
Notes receivable from franchisees	11,949	—	—	11,949
Equipment	11,271	3,615,755	38,698	3,665,724
Intangible assets	—	1,762,638	—	1,762,638
Goodwill	—	1,765,604	—	1,765,604
Deferred tax asset	—	—	541,535	541,535
Total assets	720,167	9,686,693	1,456,994	11,863,854
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	282,515	171,058	556,126	1,009,699
Current portion of notes payable	—	114,547	—	114,547
Current portion of long-term debt	—	1,140,325	—	1,140,325
Current portion of contingent consideration	—	39,710	—	39,710
Total current liabilities	282,515	1,465,640	566,126	2,314,281
Non-current liabilities				
Long-term debt	—	2,285,103	—	2,285,103
Long-term note payable	—	6,724	—	6,724
Long-term contingent consideration	—	18,334	—	18,334
Total liabilities	282,515	3,775,801	566,126	4,624,442

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

March 31, 2018

(expressed in Canadian dollars)

19 Segment reporting (continued)

	Franchising and licensing	Corporate locations	Corporate overhead	Total
	December 31, 2017	December 31, 2017	December 31, 2017	December 31, 2017
	\$	\$	\$	\$
ASSETS				
Current assets				
Cash and cash equivalents	280,332	1,049,663	915,538	2,245,533
Cash attributable to the Ad Fund	193,776	—	—	193,776
Trade receivables	138,312	773,641	61,034	972,987
Prepaid expenses	14,636	131,392	14,763	160,791
Notes receivable from franchisees	84,988	—	—	84,988
Total current assets	712,044	1,954,696	991,335	3,658,075
Non-current assets				
Notes receivable from franchisees	19,238	—	—	19,238
Equipment	11,944	3,728,543	31,747	3,772,234
Intangible assets	34,238	1,799,674	44,208	1,878,120
Goodwill	—	1,720,437	—	1,720,437
Deferred tax asset	—	—	457,728	457,728
Total assets	777,464	9,203,350	1,525,018	11,505,832
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	320,888	202,481	390,225	913,594
Current income taxes payable	—	—	51,193	51,193
Current portion of contingent consideration	—	44,790	—	44,790
Current portion of notes payable	—	122,357	—	122,357
Current portion of long-term debt	—	1,114,882	—	1,114,882
Total current liabilities	320,888	1,484,510	441,418	2,246,816
Non-current liabilities				
Long-term debt	—	2,522,261	—	2,522,261
Contingent consideration	—	20,105	—	20,105
Note payable	—	26,206	—	26,206
Total liabilities	320,888	4,053,082	441,418	4,815,388

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

March 31, 2018

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19 Segment reporting (continued)

Geographic information

	March 31, 2018	December 31, 2017
Canada	\$	\$
Tangible assets	38,698	31,747
Intangible assets	–	44,208
United States		
Notes receivable from franchisees	85,184	104,226
Tangible assets	3,627,026	3,740,487
Intangible assets	1,762,638	1,833,912
Goodwill	1,765,604	1,720,437
Total		
Notes receivable from franchisees	85,184	104,226
Tangible assets	3,665,724	3,772,234
Intangible assets	1,762,638	1,878,120
Goodwill	1,765,604	1,720,437

Revenue

All revenues were attributed to the United States.

Net income by operating segment

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

	For the three months ended March 31, 2018			
	Franchising and licensing \$	Corporate locations \$	Corporate overhead \$	Total \$
Revenue	509,415	2,506,452	–	3,015,867
Direct costs	–	(1,483,806)	–	(1,483,806)
Selling, general and administrative	(260,025)	(246,973)	(245,776)	(752,774)
Depreciation and amortization	(79,605)	(324,265)	(4,364)	(408,234)
Foreign exchange gain	–	–	152,586	152,586
Interest expense	–	(65,460)	–	(65,460)
Interest income	1,192	–	–	1,192
Income tax recovery (expense)	(34,945)	(26,650)	83,354	21,759
Net income (loss)	136,032	359,298	(14,200)	481,130

RediShred Capital Corp.

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March 31, 2018

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19 Segment reporting (continued)

	For the three months ended March 31, 2017			Total \$
	Franchising and licensing \$	Corporate locations \$	Corporate overhead \$	
Revenue	528,328	2,106,123	–	2,634,451
Direct costs	–	(1,251,903)	–	(1,251,903)
Selling, general and administrative	(280,725)	(234,458)	(59,885)	(575,050)
Depreciation and amortization	(154,687)	(264,065)	–	(418,752)
Interest expense	–	(120,284)	–	(120,284)
Interest income	2,311	–	–	2,311
Foreign exchange gain	–	–	119,717	119,717
Income tax recovery (expense)	2,473	(6,075)	–	(3,602)
Net income	97,700	229,338	59,832	386,870

20 Related party balances and transactions

A Director of the Company is the owner of the Tampa Bay, Florida Proshred franchise. There is an accounts receivable balance of \$2,717 due from this franchise at March 31, 2018 (December 31, 2017 - \$nil). During the three months ended March 31, 2018, the Company earned royalties, service fees and interest income of \$35,610 (during the three months ended March 31, 2017 - \$32,865) from this franchise. Included in notes receivable from the franchisees is a three year note receivable balance of \$17,620, which has an interest rate of 5% per annum.

21 Subsequent events

On April 2, 2018, the Company acquired the assets of the Shred Con business in upstate New York for a total purchase price of \$683,700. The asset acquisition included two on-site shredding vehicles, other equipment and customer relationships. The business will be operated out of the Syracuse, NY office. The Company conducted the acquisition to increase its long-term cash flows and expand its footprint in upstate New York.

On April 16, 2018, the Company granted 300,500 stock options to key management personnel. The stock options were granted at a price of \$0.63 with a life of five years, expiring on April 15, 2023.